

Non-Profit Organizations Should Prioritize Governance in Board Selection Decisions—Those That Prioritize Money May Pay Too Much

Do non-profit organizations prioritize financial contributions over governance skills in board selection, and what are the effects on board effectiveness and mission success?

Non-profit organizations serve vital social missions and operate at public expense, yet their boards are often selected based on members' financial contributions rather than governance abilities. This article by Heidi Grunwald and Daniel Isaacs, published in the Fordham Journal of Corporate & Financial Law, investigates whether non-profits prioritize donors over qualified board members with diverse skills necessary for effective oversight.

A survey of 620 non-profit executives revealed that 69 percent agree financial giving influences board selection, and 81 percent say their organizations prioritize monetary contributions when recruiting board members, regardless of organization size. However, this practice negatively impacts the organization's ability to attract and retain board members with relevant experience, time, engagement, and energy, all crucial for fulfilling fiduciary duties and advancing the mission.

The authors highlight that unlike for-profit companies, non-profits lack strict regulatory governance requirements and transparency concerning board member donations. Current IRS rules do not mandate disclosure of board member contributions, enabling "pay-to-play" dynamics that can undermine governance quality.

The article argues for legal reforms requiring non-profits to disclose director contributions and certify that governance quality is the top priority in board selection. It warns that prioritizing giving over governance risks poor oversight, financial mismanagement, and mission failure, illustrated by past non-profit scandals.

The study urges non-profits to adopt governance best practices similar to those required in public companies to protect stakeholders and ensure organizational success.

MAJOR TAKEAWAYS:

- Non-profits commonly prioritize financial giving over governance skills in board selection, which weakens board effectiveness and mission success.
- Lack of donor disclosure rules enables "pay-to-play" dynamics, reducing transparency and stakeholder trust in non-profit boards.
- Legal reforms requiring contribution disclosure and governance prioritization could improve board quality and organizational oversight in non-profits.

WHO NEEDS TO KNOW:

- Non-profit Board Members
- Policymakers
- Non-profit Executives

CONTACT US:

- Daniel Isaacs, Associate Professor, Risk, Actuarial Science, Healthcare Management and Legal Studies

daniel.isaacs@temple.edu

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