A Dubious Legacy

That's what one philanthropic observer says in regard to trustee compensation. Foundations should be particularly concerned about the models they present for the future if new wealth results in many new foundations.

BY LEE DRAPER

Is it possible for foundations to remain dedicated to public benefit and charitable purposes while financially compensating their governing board members for their service? How fundamental is board volunteerism to the nonprofit sector?

Kent Allen explored diverging opinions on the deeply debated issue of trustee compensation in "Conflicted Over Compensation" [January/February]. He did an excellent job of laying out some of the arguments on both sides of the issue, but there are a number of points worthy of more discussion

The following presents the perspective that trustee compensation is in conflict with the spirit of philanthropy. It's important that foundations lead the nonprofit sector by example. Like their peers at American public charities, foundation board members should govern their institutions from a position of deep-seated investment in their organization's mission and goals, giving their time and talent as a contribution to philanthropy.

Persuasive Arguments *for* Compensation?

Here are some of the most commonly suggested reasons for needing to pay trustees They're drawn from people quoted in Allen's article, from past publications and from my discussions with colleagues.

"When it comes to talent, you've got to pay." Supporters of trustee compensation often say that people with desired levels and quality of experience won't serve without compensation But this perception is contrary to reality. An overwhelming number of foundations (nearly 74 percent) and almost every public charity in the United States are governed by boards of distinction that serve without financial compensation.

The Charles Mott Foundation (assets over $3 billion) and the David and Lucile Packard Foundation (assets over $13 billion) haven't had difficulty in recruiting trustees of stature and have never paid for board service Community foundations of all sizes do not compensate their trustees, yet they have talented and prestigious boards overseeing their grantmaking and assets. Large public charities such as Stanford University, the American Red Cross, Boy Scouts of America, Cedars-Sinai Health System in Los Angeles and the Art Institute of Chicago are led by boards composed of corporate executives, policymakers, academics and nonprofit leaders of significant reputation who serve without compensation.

There's no question that foundation boards are enriched by attracting individuals from the business sector, but that doesn't mean that these individuals will serve only if they're paid Most volunteer board members are attracted to serve, among other reasons, by the reputation of the institution, the opportunity to accomplish something meaningful or strategic for an issue they care about, and the chance to network with other accomplished board members and professionals.

"Being a foundation trustee is a huge time commitment, often involving oversight of a large and complex organization." Board members of foundations and public charities have similar responsibilities of attendance at board meetings, service on committees, and legal and financial oversight of their institutions. However, boards of public charities and community foundations are frequently asked to commit even more than significant amounts of time without compensation. These institutions often require board members to *give* a financial contribution and to *get* money by fundraising, using their expertise and networks—thus, the adage: "Give, Get, or Get Off the Board." The National Center for Nonprofit Boards advocates these crucial functions for healthy nonprofit boards.

Foundations and public charities alike can be exceedingly large and complicated. Public charities do not compensate no matter their size, complexity or sophistication. Such trustees serve their large organization's charitable mission without diverting funds to themselves from patient services,

constituents, audiences and students.

Interestingly, the vast majority of smaller, unstaffed foundations have trustees that often make very extensive time commitments (they assume the direct responsibility of proposal review and advisor oversight) and do not receive compensation.

"We want a diverse board." Some funders say compensation promotes the recruitment of a diverse board. If diversity means recruiting individuals who may be of lower economic status, who may not easily receive time off from paid employment, who may live at a distance from the foundation's offices, or who are younger family members with more financial demands, financial constraints are real. However, providing reimbursement of expenses is an excellent alternative method of supporting involvement.

Currently more than half of all foundations reimburse their board members for expenses related to their service (according to the Council on Foundation's *2000 Foundation Management Survey*). To ease potential financial constraints, trustees can be assured that out-of-pocket costs will be reimbursed including travel to and from meetings, meals, lodging and ground transportation, as well as registration and travel to conferences and site visits. It is humbling that 72 percent of the nation's public charities don't reimburse any board expenses, and they have significantly more pressure to demonstrate diversity of all types on their boards.

"The foundation can afford to pay trustees." Indeed a sizeable endowment affords the ability to pay trustees for service. But in so doing, are foundations maximizing charitable dollars for their intended purpose—public benefit? Trustee fees are currently legally considered a "reasonable administrative expense" and can be counted toward foundations' 5 percent minimum payout requirement for annual charitable distributions.

Trustee compensation directly lowers the amount available for grants and programs. Let's look at an example: Take a \$40 million foundation with annual expenditures of \$2 million. \$1.6 million of the payout is awarded in grants averaging \$20,000. It pays each of its 10 board members an annual stipend of \$6,000 and \$1,000 for attending bi-monthly board meetings (total annual compensation of \$12,000 per board member). At the end of the year, the foundation has given out \$120,000 of its payout, about 6 percent of the total, in the form of trustee compensation. Most importantly, if trustee compensation were not paid, the foundation could make six more grants to the nonprofits it serves.

"We want to provide financial incentives to attract individuals who sit on paying corporate boards." Most successful board members, whether serving a corporation or nonprofit, will agree that a primary factor in committing to a board is whether or not he or she fully supports the institution's mission and goals, not how much money it pays. At for-profit companies, foundations and public charities, it's imperative that board members lead their organization through aligning their own interests with its objectives.

For corporate board members, this means dedication to maximizing the corporation's profitability and creating shareholder value. Increasingly, corporations are requiring board members to hold a certain percentage of stock in the company and are compensating in the form of stock and options. For board members who often head other institutions, this financial investment encourages them to align with the corporate mission and goals and increases the incentives of oversight

For more and more public charities, board members' commitment to the agency is galvanized through their personal financial contribution and participation in fundraising. For foundations, leading by example means fostering commitment to the foundation's mission and to the core tenets of philanthropy—giving of one's time, expertise, connections and money.

While corporate boards and public charities are developing methods to increase board member commitment and performance, foundations' current methods of compensation neither provide incentives nor create or reinforce standards. The annual retainer method is given to all members, regardless of level or quality of participation and the per-meeting fee method merely rewards showing up.

"Without compensation, independent foundations can not sustain trustees' interest." Some who support trustee compensation argue that foundations have a less compelling mission than public charities. They say that community foundations have a legitimate call for volunteer trustees among people who care about the community, universities can look to alumni for volunteer leaders, and public charities have a cause or a mission for public service. But foundations are mission-driven, too. Paying trustees does little to inspire commitment if trustees do not share the foundation's fundamental values and goals.

If a foundation is having trouble sustaining trustee interest, perhaps it's time to reassess mission and priorities, do strategic planning, or cast a wider or different net in board recruitment. These interventions would be more productive in the long run than paying people to attend meetings.

Service Is a Contribution to Philanthropy

Perhaps more important than the refutations of the arguments for compensation is the compelling case for volunteer leadership of our nation's foundations. Here are the core reasons why foundation board members should serve without financial compensation.

Volunteer leadership promotes the central meaning of philanthropy. Serving without financial compensation encourages board members to discover the deepest values of philanthropy. Volunteer leaders find many ways of verbalizing their similar rewards: giving back, service to others, charity, generosity, civic-mindedness, helping those less fortunate, and finding meaning in life, to name a few. Fundamentally, uncompensated service is about altruism, the subordination of self-interest for public benefit.

Foundations should stimulate the motivations of philanthropy and volunteerism, not promote service on boards as a new "income stream" for personal gain. The more enthusiasm, commitment, knowledge, compassion and sense of meaning that foundations can provoke in their trustees, the greater the reverberations for their missions and constituencies. They should encourage individuals to enjoy board service and seek other such opportunities in their communities.

Trustee compensation can stimulate unrealistic expectations of board participation. After one has served on a foundation board that provides from $12,000 to over $100,000 per year, will membership on a public charity board look as attractive? How will trustees respond when it is suggested that their role is to contribute funds and services rather than be paid for their expertise? Which board will an individual agree to serve on if being recruited by a boys and girls club that requests active board financial support and by a family foundation that provides compensation? Have we engendered competition and cross-purposes with the very organizations we are designed to serve?

It affirms a single standard for nonprofit governance. Since 1984, the National Charities Information Bureau (NCIB) had been one of the nation's foremost watchdog institutions investigating the efficacy of nonprofits. (It is now merging with the Council of Better Business Bureaus.) NCIB used eight basic criteria to evaluate appropriate operations. The first is:

Board—*An active and responsible governing body, holding regular meetings, whose members have no material conflict of interest and* serve without compensation. *[emphasis added]*

Foundations that compensate their trustees are choosing an alternative standard, rather than modeling the tenets of nonprofit governance that they expect of public charities. For example, here are some excerpts from several foundations' applications that are typical of the questions asked by many foundations in the course of reviewing proposals for funding:

"Please provide the amounts of

money personally pledged or paid by board and staff members."

"Do all board members serve without remuneration? If not, explain the exceptions."

"Give the number of directors making personal financial contributions to the organization in the past fiscal year..."

These are worthwhile questions to gauge nonprofit boards' commitment to the projects for which they are requesting funding and overall to the organizations they serve. However, if foundations are going to equate volunteerism and financial investment with merit, they should model it in their own institutions. As it happens, the questions above are from application guidelines of foundations that pay trustees.

Having volunteer leaders at the helm of American foundations affords an opportunity for grantmakers to understand firsthand the experiences of their public-charity peers. They can empathize with the challenges and opportunities that every nonprofit organization faces as it tries to recruit, nurture, and sustain board membership. Most importantly, it allows foundations to bridge the gulf and affirm that all institutions in the nonprofit sector are linked in common enterprise.

Board members who serve without compensation preserve resources for public benefit. Foundations should be particularly concerned about the models they present if the projected transfer of wealth in the next generation results in the establishment of many new foundations. To whom will they look for "best practices" to emulate? Larger foundations are more visible and might set the tone. In this case, however, although they constitute a distinct minority of all foundations, because more than 60 percent compensate trustees, such larger foundations could have a disproportionally negative impact on the allocation of philanthropic dollars.

Perhaps they're already having such an impact. It would be interesting to research whether trustee compensation occurs more frequently among conversion foundations and new "venture philanthropy" foundations that already feel the attraction of corporate models. If larger foundations become the standard for new philanthropy, important resources will be diverted from public benefit.

Volunteer leadership on foundation boards preserves public trust in the nonprofit sector. Allen mentioned that "some funders are resistant to making their 990-PF [informational tax returns] public, claiming that public disclosure violates the privacy of trustees." Trustee compensation must be disclosed on the 990-PF and is quickly becoming more widely available to the public, especially on the Internet.

Should foundations be worried when practices of trustee fees become publicly known? The Council on Foundations believes that "even the perception of excessive compensation can be damaging to the whole field of philanthropy." Public awareness of this practice by a minority of foundations could contribute to the erosion of trust not only in foundations, but in the nonprofit sector as a whole. It could undermine public charities' capacity to raise funds. This occurred in the past when the public learned of one institution's exorbitant executive salaries. The long-term consequences could be to increase public cynicism about the nonprofit sector overall.

For foundations, it could lead to a groundswell for regulation against what is perceived to be self-interest. This could backfire. If limits are set, they may become like the 5 percent minimum payout: the floor becomes the ceiling. As a result, the majority of foundations could end up compensating their boards.

It enables leadership by example. We have a great challenge and a tremendous opportunity to manifest the best of philanthropy and lead by example. While most of the compensated trustees serve their foundations honorably and well, trustees who serve without compensation strive for a deeper level of commitment to their institutions and to the spirit of philanthropy.

We need to reestablish the standard of foundation board members providing volunteer leadership to the nonprofit sector. We need to work to reverse policies of trustee compensation. Indeed, it is very difficult to take away compensation once it has been provided. When this topic is discussed, those foundations that compensate will have a vested interest in maintaining the status quo, but we must open this discussion and reexamine the fundamental tenets of foundation board service. All foundations need to come into conformity with the true best practices represented by the 74 percent of foundations and nearly 100 percent of American public charities whose trustees serve as volunteer leaders, without financial compensation.

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