

# Effective Board Governance for Endowments, Foundations and Not-for-Profits

InvestEd | October 2023



While the role and structure of a board is fundamental to the governance process for endowments, foundations, and not for-profit entities, we at PFM Asset Management (PFMAM) have found that many groups struggle to optimally function and move the organization forward. Drawing on over 40 years of experience working alongside institutional boards and committees, our professionals have offered the following considerations that we have found improves execution and leads to more effective governance. Whether a board has just been constituted, has recently experienced key member turnover, or is seeking to redefine objectives given strategic changes and other externalities, we hope this information will position you and your organization down the best path forward.

## 1. The Mission and Objectives Should Serve as the Guiding Light

Because organizations are often faced with a complex and at times even daunting set of investment opportunities, we believe in defining an investment thesis or philosophy to frame your goals, portfolio guidelines, and control procedures. Similarly, beginning with the mission of the board and working backward from there not only hinges the group's thinking to an appropriate macro-level perspective, but it provides the guardrails within which creative ideas, efficient solutions, and collaboration can flourish.

Consider using this framework as you design the working partnership between the board and staff, and continuously revisit the mission as you empower staff to execute, monitor ongoing developments of the organization, and adjust course as needed.

## 2. Maintain the Appropriate Perspective

The role of the board is to guide the organization at a high level, plotting strategic growth opportunities, identifying benchmarks and goals, and periodically monitoring operations to ensure progress and performance are achieved. Successful governance from this vantage point relies on the board's ability to balance the long- and short-term. Monthly or quarterly meetings don't require monthly or quarterly changes to be enacted.

The board should maintain a strategic perspective and resist the urge to get involved in tactical execution, which is the primary responsibility of the organization's staff. That said, designing processes to assess management and staff success is crucial for the board to provide timely and effective guidance.

### Seven Considerations for Effective Board Governance

1. The Mission and Objectives Should Serve as the Guiding Light
2. Maintain the Appropriate Perspective
3. The Chair Sets the Tone
4. Maximize the Value of Your External Partners
5. Thoughtful Board Composition Goes a Long Way
6. Come Prepared to Contribute and Willing to Learn
7. Partner With Staff Leadership



### 3. The Chair Sets the Tone

When it comes to the role of the board or committee chair, don't underestimate the downstream impacts of the chair setting the appropriate tone for board membership. Through the establishment of clear expectations for membership including defined roles (treasurer, secretary, etc.), revisiting these expectations periodically, and leading with a steady hand and by example, the Board Chair plays an integral role in influencing the success of the board, and in turn, the organization as a whole.

Distinguishing between setting the tone and taking on the brunt of the responsibility is critical. We've seen the latter approach leading to chair burnout, resulting in a two step forward, one step backward experience. Consider emphasizing expectations, narrowly defining your role as chair, and focusing on connecting resources to issues and opportunities rather than searching for the solutions yourself.

### 4. Maximize the Value of Your External Partners

Are your external partners supporting the areas in which you and the organization could use more expertise? We encourage clients to periodically define the current role of their third-party providers (legal counsel, investment advisors, accountants, consultants, actuaries, etc.). Compare that to the current challenges the organization is working through and begin the conversation to determine if delivery of service and subject matter expertise aligns with need.

Consider checking in with each partner regularly to ask if they offer additional services that could be of use. As competition for your business increases, you may be surprised at what additional services they are willing to offer at no additional cost. Furthermore, don't hesitate to consult them on "gray area" topics where they may be able to provide a valuable perspective. When the organization encounters new hurdles for which no obvious solution is available, consider enlisting the wisdom of your partners or look to others who can provide the requisite expertise.

### 5. Thoughtful Board Composition Goes a Long Way

Gone are the days in which every large constituent needs to be on the board, nor is board membership simply a means to attract large constituents. Each board member should represent the intersection of passion for the organization's mission and expertise not currently present on the board. Diverse backgrounds, perspectives, and areas of expertise are pivotal to ensuring the board and organization can navigate an ever-changing environment.



Maintaining a shared understanding of the role of each board member is equally important and begins with the new board member onboarding process. Orienting new members with the history of the organization, roles, and processes in place, while encouraging them to contribute new ideas and approaches, will foster an environment ripe for organizational growth. At the same time, it is also each board member’s responsibility to seek to understand their role on the board. Were you selected for your network? Your expertise in a certain area? Don’t be afraid to pose these same questions to the board during the onboarding process.

## 6. Come Prepared to Contribute and Willing to Learn

While seemingly simple and obvious, coming prepared not only allows you to add the most value to the organization, but it leads to a more effective and enjoyable experience for all. There is a noticeable difference in quality of experience between boards whose members clearly took time in between board meetings to work through their to-do list and those that took five minutes before the meeting to re-orient themselves.

Second, if you’re on a board, there’s probably a good reason for it. Your perspective is valuable and necessary to ensure the board is best representing the overall mission of the endowment or foundation. Providing that perspective to help shape board decisions is crucial, as is the willingness to see the challenge at hand through the lens of your board peers. The balance between learning from others’ unique experiences and when a difference in opinion or approach is worth bringing to the table is a refined skill that the most valuable board members possess.

**Your perspective  
is valuable and  
necessary to  
ensure the  
board is best  
representing the  
beneficiaries or  
the mission of the  
organization.**

## 7. Partner With Staff Leadership

As is the case in any organization with some level of vertical hierarchy, the design is only as good as the manufacturing and the manufacturing is only as good as the design. In this way, strong and successful boards should view staff leadership as a trusted partner, leaning on and defining roles and expectations and fluid communication for success. The board, or a taskforce/committee comprised of a subset of board and staff members, often handpick the future leadership of the organization staff.

Whether you are part of that committee or not, each board member should take it upon themselves to get to know staff leadership, giving them the chance to earn your confidence that they are capable of successfully executing. If you feel you know leadership well but still have doubts, consider this as a chance to offer guidance around ways to proactively address areas of opportunity.

**For additional information regarding this report,  
please reach out to your PFM Asset Management  
relationship manager.**

*PFM Asset Management LLC (“PFMAM”) is an investment adviser registered with the U.S. Securities and Exchange Commission and a subsidiary of U.S. Bancorp Asset Management, Inc. (“USBAM”). USBAM is a subsidiary of U.S. Bank National Association (“U.S. Bank”). U.S. Bank is a separate entity and subsidiary of U.S. Bancorp. U.S. Bank is not responsible for and does not guarantee the products, services or performance of PFMAM.*

**NOT FDIC INSURED : NO BANK GUARANTEE : MAY LOSE VALUE**