

Ask Mr Sid

Dear Mr Sid

Re: No Profit, Much Work

I am really confused. And a bit annoyed. Please help me with some guidance.

I have been a non-executive director of a listed company for a couple of years now, and I have really enjoyed the experience. The demands on my time are not great. The board follows the principle of “noses in, but fingers out”, and allows management to get on with the job and run the company. Best of all, I feel that I am pretty well paid for just attending a board meeting and a couple of committee meetings every quarter.

Recently, I was approached to join the nonprofit board of a charity for disadvantaged children. I like the idea of working to improve children's welfare. And to be frank, I was rather chuffed about this, because I took the offer to mean that my reputation as a capable director was spreading, and so I accepted the opportunity.

And then the surprises began.

Given the philanthropic nature of the organisation, I can accept that the role is unpaid, but what I had not anticipated was that I would be paying for the so-called privilege! I'm faced with lots of

expenses (travel, lunches, printing costs, and so forth), for which I would expect to be reimbursed, but I am told that nothing is reimbursable. And even worse, the organisation has asked me to donate my money to the cause!

And there's more. Contrary to the principle of “directors direct and managers manage”, I find that I am expected to roll up my sleeves and help with the day-to-day activities, as if I'm an (unpaid) staff member with unlimited time to devote. Moreover, I have the staff telling me – a board member – what to do!

In summary, I think I have made a big mistake. I like the status, schedule and remuneration that comes with being a corporate director, but little of that seems to apply to this nonprofit role. I ask myself, why should I do this? Why would anyone want to be a nonprofit director?

Mr Sid, am I being unreasonable?

Yours sincerely

Not-Cut-Out-To-Be-NP-Director

Dear Not-Cut-Out-To-Be-NP-Director

Yes, your expectations of the role of a nonprofit board member are, in my view, not reasonable.

There are distinct differences between nonprofit and for-profit organisations. Consequently, there are also differing expectations of their directors.

When directors are appointed, an important aspect is their fit with the organisation. That works both ways: for the organisation and the individual director. It should be an informed decision by each party.

As an individual director, you should always make sure that you are comfortable with the sector (in this case, the nonprofit sector and its practices) and the specific organisation (people, cause, operations, financials, etc).

Governance principles do not change

Before I get into the differences between your listed and nonprofit boards, it is important to highlight that the principles of good governance apply to both.

Two key principles are transparency and accountability. These are even more important when the nonprofit is a registered charity, as is

the case here. Charities, like listed companies, are public interest entities, and therefore subject to a slew of regulations to ensure that public confidence is maintained on every front, especially in the way money is raised and spent.

Governance environment is different

At SID, we say that the dual role of the board is to ensure the organisation's conformance and performance. This applies equally to both for-profit and nonprofit boards. But how an organisation conforms and performs differs between the two sectors due to their structural and cultural differences.

A clear difference between the two sectors is the regulatory environment. Regulations for commercial companies tend to be clearer and more comprehensive than those for nonprofits, which are more diverse and less granular.

To start, charities have to comply with the rules under their constituting legislation (e.g. Companies Act, Societies Act, Co-operatives Act) as well as the requirements of the Income Tax Act, Charities Act, Sector Administrators, and other fundraising legislation. Note that regulation of the charity sector has evolved over the years. In the past decade, these have been considerably strengthened after several charity scandals.

Compliance with these arguably more complicated and multi-faceted rules is made more difficult with the limited support available to many nonprofit organisations. While for-profit organisations have professionals – sometimes an army of lawyers and accountants – to ensure regulatory compliance, a nonprofit would count itself lucky to have even one staff dedicated for this purpose.

This lack of staff capacity is, of course, not restricted to support for regulatory compliance. It cuts across nonprofits for most corporate functions. The nature of nonprofits is to keep costs down and rely on volunteer labour, a subject I will expand on later.

Another major difference between the two sectors is how the board discharges its role of performance. For commercial companies, performance is fairly straightforward and the measures widely accepted. It often boils down to financial returns and an agreed balanced score card.

In the nonprofit sector, performance should be assessed relative to the mission of the organisation. How this, and social impact, should be measured is a nascent science fraught with theories and only emerging consensus. In the meantime, nonprofits struggle or cruise by – depending on their boards and other stakeholders – when reporting their results.

Board and volunteers

All nonprofits depend on volunteers compared to their for-profit counterparts. There are two main reasons for this: keeping costs low and engaging the community.

In line with this philosophy, board members are also volunteers. First, they usually do not

get paid to be on the board. In addition, they should also be volunteers in other areas in the organisation. Apart from the additional (free) labour provided, such volunteering helps the board member develop empathy for the work of the organisation and other volunteers and, hopefully, inspire more volunteers to contribute.

For many board members and staff, this non-governance volunteer role of board members can be confusing. Who calls the shots – the board member who directs the organisation, or the executive director or staff member who controls the function? For this reason, board members should be clear about which hat they are wearing: board member or volunteer. When they are functioning as a volunteer, they should function as other (non-board) volunteers and abide by the directions of the staff.

That said, it is common for nonprofits to have a diffused power structure, where everyone (board volunteers, other volunteers, donors and even, beneficiaries) have a say in how every little thing gets done. To the extent that you, as a board member, can set the tone and example, it would help the staff function more effectively.

Board, donors and funds

Nonprofits and charities rely on donations. Board members are expected, though not required, to help with this major source of funding. This usually means extending their pockets and their networks, as well as being volunteers, in fundraising campaigns. If you are not prepared to help out with fundraising, you should be clear about this with the charity upfront as it can be a key criterion for appointment to some charity boards.

Also, as you are starting to realise, given their limited funds and the theme of charitable giving,

some charities do not reimburse board members for out-of-pocket-expenses in board and volunteer work, even if other volunteers may be reimbursed. This is a practice that differs among charities.

The policy of not reimbursing nonprofit directors avoids potential conflict of interest. For example, should a board member be reimbursed for travel expense to go to an international conference to represent the charity? If so, it raises many other questions: Is there a need to represent the charity? Who should be the representative(s)?

Moving on

I have covered here only the essential governance aspects of a nonprofit director. Perhaps you might want to attend the “So, you want to be a non-profit director?” briefing that the SID conducts periodically.

If, after all this, you find you are unable to reconcile yourself to the expectations in the nonprofit sector, you may prefer to bow out. You need not worry about leaving a hole in the organisation. There generally is no shortage of people who want to get involved with boards in the charity sector.

One graceful way of stepping down after a short time is to donate your director fees from one of your listed companies to the charity. That way, you are using your talents (in the commercial sector) while still contributing to the charity sector.

Yours in charity



Mr Sid ■

Who is Mr Sid?



Mr Sid is a meek, mild-mannered geek who resides in the deep recesses of the reference archives of the Singapore Institute of Directors.

Burrowed among his favourite *Corporate Governance Guides for Boards in Singapore*, he relishes answering members' questions on corporate governance and directorship matters. But when the questions are too difficult, he transforms into Super SID, and flies out to his super network of boardroom *kakis* to find the answers.

Mr Sid's References (for this question)

Board Guide

Section 1.1 Introduction

Section 5.16: Rewards of Directorship

Boardroom Matters

Vol 1, Chapter 35: “Learning from NonProfits – Mission Focus” by Robert Chew

Vol 3, Chapter 7: “Becoming a NonProfit Director” by Usha Menon

SID Courses

“So, you want to be a NonProfit Director”

S-GOOD 1: Essentials of NonProfit Leadership

S-GOOD 3: Board and Management Dynamics