

# Nonprofit Leadership Goes Under a Microscope

It is a **misnomer** to think of the nonprofit sector as a homogeneous group. Nonprofits encompass an array of organizations including public charities, private foundations, membership and professional associations, museums, churches, healthcare and educational institutions. And while each subgroup has very different economic models and goals, all require solid, visionary leadership to fulfill their respective missions.

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## External Forces

Similar to leadership in the for-profit sector, nonprofit leadership is evolving in a post-Enron climate. Sarbanes-Oxley (SOX) legislation has forever changed the way publicly-held corporations operate. Yet, while nonprofit organizations are not directly impacted by the provisions of SOX, this legislation has changed the way the public perceives *all* organizations. And nonprofits are certainly not exempt from scandal. Media coverage of alleged improprieties at a number of high-profile public charities and private foundations has led to increased scrutiny of charitable organizations. This has spawned a number of state bills which have impacted the way nonprofits operate. Furthermore, the most recent report by the Panel on the Nonprofit Sector to the U.S. Senate Finance Committee, as convened by Independent Sector, will likely result in additional changes to nonprofit reporting and governance.

In addition to legislation and public perception, technology has also impacted nonprofit leadership. The Guidestar website publishes the financial and background information on all 501(c)3 organizations, as well as their Internal Revenue Service (IRS) Form 990s, furthering the argument for transparent financial reporting.

The changes described above have necessitated a need for enhanced nonprofit leadership. One small example of this is evidenced by the membership of Governance Matters (formerly the Alliance for Nonprofit Governance). This Manhattan-based organization, whose mission is to improve nonprofit board governance, has seen its membership increase dramatically in the first few years of its existence.

As a result of the increased profile given to nonprofit organizations, added burdens have been placed on the leadership of these organizations to improve compliance with new regulations and maintain sound best practices. "We believe that if a nonprofit board is a better leader, then the nonprofit will obtain better results," says Lauren Goldstein, Executive Director of Cause Effective, a nonprofit consulting firm. A case can certainly be made that the organizations (for-profit or nonprofit) with the strongest leadership are more successful overall.

## Boards and Effective Leadership

What steps should boards and management take to be effective leaders? While it may seem obvious, the board

should be a group of diverse and dedicated individuals. Too many boards are populated with friends and colleagues who simply don't challenge management to excel. These social clubs posing as boards don't possess the diverse knowledge needed to properly guide a nonprofit through its various business cycles. If your organization operates under a board system, does it consist of an attorney, an accountant, a banker, an insurance professional and other individuals with business and/or operational experience? A well-balanced board should bring all of these skill sets together.

"In the past, the mantra was 'nonprofit boards govern always and lead sometimes.' Often, their leadership was at the invitation of the executive director," comments Barbara Miller, Senior Staff Consultant at the Support Center for Nonprofit Management, a consulting organization that trains nonprofit boards to be more effective.

Today, that is no longer the case. Due to the highly competitive nature of our marketplace, the bar has been permanently raised as to the requirements and expectations for leadership. Boards, which were once cheerleaders for executive directors, now commonly challenge their leadership and management styles.

Boards are challenging themselves further through the institution of conflict of interest policies. These policies have become much more commonplace over the past decade and have helped boards to focus on leading the organization without regard for individual or business benefits. Boards are now more aware of the fiduciary duty toward the organizations they govern; they realize board service is not merely for networking purposes.

### **Relationships and Communication between Leadership and Accounting Professionals**

Leadership trends have had a dramatic impact on nonprofit accounting and audit



functions. In the mid-1990s, many clients looked to the auditor as their accounting partner. Today, that has developed into a more formalized relationship where the auditor is clearly more independent in his or her approach to an organization's management and its board of directors.

One obvious example of this has been in the communications environment between nonprofits and their auditors. Previously, only the major nonprofits had meetings with the auditors and leadership representatives, if not the entire board. Now, it is common for *all* organizations, regardless of their size, to have such meetings, and many nonprofits even have separate audit committees whose sole charter is to communicate with auditors. In the past, these meetings were almost exclusively held after the audit was completed. Today, these meetings are held both prior to and after the audit, with the audit committee becoming actively involved during the audit planning process.

Once upon a time, a nonprofit's financial statements were the sole topic of discussion between auditors and board members. Now, financial statements take a back seat to the organization's Form 990, internal-control issues as described in the management letter and discussions that may arise as a result of the SAS 99 interviews.

### **Going Forward**

The landscape of nonprofit leadership is changing at a rapid rate. Both federal and state regulations are "on the front burner." The media is taking a closer look at nonprofit stewardship. Nonprofit members and donors are becoming more educated about the organizations they support. As a result, nonprofit leaders need to be more proactive in their approach to the organizations they lead, the government legislators who regulate them, the media who watch them and the public who supports them. ■

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