Institutional Investment Management Insights

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Nonprofit board best practices and the fiduciary responsibility

A key ingredient for a nonprofit to be successful is solid board governance. This means balancing intellect, reputation, resource and access – and it also means exercising fiduciary duties. Board directors have three primary fiduciary responsibilities: duty of care, duty of loyalty and duty of impartiality. It's critical for board directors to fully understand the complexities of all aspects of governance,

Focusing on transparency
It is critical to make sure donors, stakeholders and members of the public have insight into what the organization is doing. This requires regular and planned communication.

Training the board
Provide an orientation for new board members to ensure everyone is up to speed prior to board meetings. Make sure

particularly their fiduciary duties, for the nonprofit to operate successfully.

Adhering to best practices for a board

When individuals take on a board position, they may do it out of passion for the organization or cause, so they may not understand the liability or responsibility of oversight that comes with the role. Some of the key responsibilities and best practices for the organization in building out its board include:

Creating and maintaining a diversified board
Cultivating a culture of inquiry is important in building a successful board. A group that includes different perspectives allows for exploration of different approaches and fosters diverse thoughts and opinions – which in turn benefits the organization.

Planning for sustainability
Planning doesn't just include fundraising and accounting for dollars. Planning for the sustainability of an organization means putting a succession plan into place to ensure the future success of the organization and its leadership. Creating term limits for board membership may also be important for the long-term health of an organization. The timely and planned exit and entrance of board members can help prevent complacency and spark fresh ideas.

A balancing act
Every nonprofit hopes for a strong the training includes setting clear expectations, educating on roles and relevant bylaws, and sharing the organization's guiding principles, values and mission.

What is a fiduciary relationship?

A fiduciary has a duty imposed by law to act solely for the benefit of another as to matters within the scope of the relationship.

The fiduciary standard focuses on undivided loyalty, prudence and good faith and requires that the fiduciary act in the best interests of those with whom it has that connection, such as the nonprofit's board to its organization. While the board members serve as fiduciaries for their organization, when the board itself does not possess the skills and experience to properly carry out all of its fiduciary duties, such as the management of the organization's investments, it has a fiduciary duty to seek partners who hold that specialized expertise, such as a professional investment manager.

That investment manager also serves as a fiduciary to the organization and its board.

From the perspective of the board's investment partner, being held to the fiduciary standard means it must provide to the board thoroughly researched and accurate information and recommendations. And, most importantly, partnership between staff and the board. This means creating a balance between the executive director and the board – power cannot rest with one more than another. The executive director must be in regular communication with the board but make sure to only impart meaningful information. Too much meaningless information given to a board creates noise and distracts from the mission at hand. At the same time, the board must not be intrusive or attempt to micromanage the functions of the staff and day-to-day management of the organization.

Recruiting fresh talent
Attracting and retaining talent is vital to any organization. The board is responsible for creating accurate job descriptions and responsibilities, and ensuring competitive compensation and benefit structures are in place for the organization's executive director and staff.

Being open to feedback
Regularly soliciting feedback from clients and/or the mission base can help guide the direction of the organization and ensure it continues to be focused. Feedback can also provide insights the organization may use during strategic planning.

investment advisors must prioritize their clients' best interests above incentives, commissions, or even their firm's success.

The fiduciary's role on a nonprofit board

Investment advisors can serve as a strategic partner or consultant to the board to help the board carry out its fiduciary responsibility related to investment oversight of the organization. As a strategic partner, advisors can evaluate the sustainability of the organization by helping the board craft a suitable investment policy statement, taking appropriate risks in the investment portfolio and continuously monitoring performance. Investment advisors can also partner with auditors on financial reporting.

Investment advisors can also serve as a resource for industry best practices, often going above and beyond their primary responsibilities. For example, participating in an orientation session for new board members allows them to come into their first board meeting with an understanding of how the financial portfolio works and prepared with the information needed to make educated decisions.

The UMB Investment Management team has been providing this service to our institutional clients for more than 90 years. To find out more about an investment advisor's fiduciary role and the services the team can provide, contact Brande Anderson, institutional relationship manager.

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