Should CEOs be on the Board?

And should they have voting rights?

By direction of the board, a foundation's top executive staff person (titled CEO for this discussion) manages all aspects of the organization. CEOs typically oversee the foundation's money, time and human resources and act as a liaison between the board and staff. Rather than keeping the CEO in a strictly managerial position, some boards award them a role in governance as well, offering the CEO full membership—and in some cases, voting rights—on the board.

CEOs who sit on the board hold a position of great privilege but also great responsibility. With an equal voice at the board table, CEOs can enjoy more stature and influence among board members. Yet, at times, they may feel conflicted between the two roles—caught in a constant balancing act between day-to-day operations and big-picture decision making. In a similar debate, some boards believe the CEO should be on the board to help inform their decisions; others think it gives the CEO too much power.

This board briefing will help your board consider three main questions: what are the advantages and limitations of CEOs on boards? If the CEO is on the board, should he or she have full voting rights? How do your colleagues approach this decision?

Background

The model for CEOs serving on the board started in the corporate world. Most for-profit corporations position their CEO as the chair or president of the board. Foundations that follow this model often call their top executive CEO (as opposed to executive director or foundation manager). Following such corporate practice is atypical for foundations. Survey data in the table below suggests only about 25% of foundation CEOs serve as voting board members and just a small percentage of foundations CEOs are voting board member while also serving as board chair.

	2002			2004		
Grantmaker Type	CEO is Voting Board Member	CEO is Voting Board Member & Chair	Number of Respondents	CEO is Voting Board Member	CEO is Voting Board Member & Chair	Number of Respondents
Community	8%	0%	235	10%	0%	241
Family	30%	12%	138	32%	9%	118
Independent	41%	12%	180	42%	7%	168
Public	24%	3%	63	20%	2%	54
All	24%	6%	616	25%	4%	581

Source: Council on Foundations, Foundation Management Series, Eleventh Edition, Volume I-II: Foundation Governing Boards and Administrative Expenses in Private Foundations, 2004; 2006.

Practices vary depending on foundation type. For example, community and public foundations are least likely to have CEOs who serve and vote on their board. On the other hand, family foundations are somewhat more likely to give the top staff person a vote on the board. Independent foundations are the most likely to appoint the CEO as a voting member of the board.

While it is legal for the paid CEO to serve concurrently as a voting board director or trustee of a charity, state laws differ. Foundation boards should consult their legal counsel for the laws pertaining to nonprofit governance in their region.

The Case for CEOs Serving Only as Staff

There are many models of governance, ranging from a complete separation of management and governance all the way to working boards that are responsible for everything. Many boards function somewhere between the two. Philosophies and practices differ, but for all models, a dynamic relation between the board and senior staff is a must if an organization is to function at the highest level. That said, many feel that the only way to keep a proper balance is to have the CEO serve as staff only. The following are some of the reasons cited for this practice.

Management role remains separate from governance

An effective board/CEO relationship is built on clear, well-defined roles and responsibilities. The board of directors creates the vision, direction and policies for the foundation. The CEO, as a hired employee, implements those policies according to the board's directives. Although these roles support and balance each other, they remain separate and distinct.

Governance and Management: What's the Difference?

Governance *creates the mission, purpose, direction and goals; develops policies on operations, grantmaking, fiscal oversight and investment; and oversees the strategic plan and performance of the entire organization.*

Management *implements the mission, strategic plan and board-approved policies; attains goals set by the board; supervises staff; and directs the business of the foundation.*

Often there is confusion and tension between those who work within an organization daily and those who oversee it. Just as the board should not micromanage the foundation's day-to-day operations or staff activities, the CEO should not have too much influence on the board's decisions and policies.

"Simply put, the board should govern and the CEO should manage," writes executive director Dave Edwards of the San Luis Obispo Community Foundation. "Many of the inefficiencies and misunderstandings in nonprofits occur when the roles of the board and staff become blurred and there is no clear-cut policy on who does what."

A board that keeps management and governance separate may see more participation and candor from its directors. Some discussions are appropriately held just among the board members—without the CEO. As an example, a board member may want to express a concern about a certain staff member, or perhaps two board members disagree on an issue and would prefer to discuss it without the presence of staff.

Stronger governance

It is the board's legal duty to ensure that the foundation is sound. Directors must pay careful attention to fiduciary and policy matters and serve an oversight function. However, boards may find themselves deferring to a CEO who not only understands the policy issues of the board but also knows the day-to-day workings of the foundation. The practice of voting with the CEO under the assumption that the CEO knows best can lead to a rubber-stamp board. Undue dependence upon the CEO can weaken the governance function to the point of harming the foundation.

Conflicts of interest

Potential conflicts of interest are often created when a CEO serves on the board that employs and sets the CEO's salary. Because a board of directors supervises the CEO, complexities naturally arise. Can a board realistically set work parameters or the salary considerations of one of their own?

Conflicts also may occur within the nominating process. The CEO as board member might select directors with personal loyalty to the CEO, potentially tipping the influence the CEO has over other board members.

Although both of these situations can be addressed through careful process (policies or preventative safeguards), in an age of heightened accountability, the likelihood of negative public perception still exists. Keeping the CEO squarely in the realm of staff avoids potential conflicts of interest—or the appearance of such conflicts.

Better supervision of CEO performance

The board is responsible for monitoring and evaluating the CEO's performance. If the CEO is viewed as a peer on the board, the board may not exercise its supervisory role to the extent that it should. Board members may feel awkward about evaluating the CEO, or approaching him or her with concerns about performance or operations. With the CEO in a clear role as staff, board members will feel more confident and accountable in their supervisory position.

Strained board relationships

CEOs serving on the board may alienate other board members. For instance, if a board vote is split on a critical matter, the CEO may have to cast the tie-breaking vote—thereby voting against half of the board and estranging some of the members. Stress also may occur in working boards when one board member serves as paid staff. Other unpaid volunteers may resent that the CEO, as a board member, gets paid while they do not.

What Does *Ex Officio* Mean?

Ex officio means " by virtue of position." While it is often used to signify a board member without voting privileges, in reality the person may serve with voting rights as well. Ex officio simply means that a person serves on the board as long as they remain in the specified office, without regard to term limits, nomination, election or other eligibility requirements.

The Case for CEOs Serving as Board Members

More informed decisions

CEOs have the inside perspective on *all* aspects of the foundation—its operations, community needs, programs and strategic focus. A CEO who serves on the board strengthens the decision making process. According to one foundation executive, "I attend every executive committee and board meeting and do exert quite a bit of informal authority, primarily because I am the one who works every day on the foundation."

CEO has higher credibility and authority

Board membership adds authority to a CEO's position, giving that CEO more credibility in the community. For example, community leaders will perceive a CEO/board member as a peer rather than simply "paid staff." This perception can improve relations between the community leaders and the foundation, which, in turn, helps the foundation raise its public stature.

Giving the CEO board membership also raises the CEO's stature among other board members. According to consultant Susan D. Smith, "Too many times I have seen staff truly dedicated and 'in the know' discounted and disregarded by the board." A CEO on the board changes that dynamic.

What is the Role of the CEO?

While job descriptions will vary among different foundations, typically the CEO or top staff is responsible for the following:

- *Understanding the goals of the board*
- *Determining the costs of programs*
- *Planning and coordinating meetings of the board*
- *Initiating the board's strategic planning process*
- *Securing board approval for the overall administrative costs*
- *Serving as staff liaison to the board and its committees*
- *Overseeing the foundation's operations in accordance with the board's directives*

The Case for CEOs Serving as Board Members with Voting Rights

Some foundations not only offer their CEOs board membership but also give them full voting rights on the board. They believe voting rights allows the CEO even *more* credibility and authority, creating opportunity for better board decisions. In addition to these arguments in favor of a CEO serving as a board member, there are further reasons why a board might consider giving its CEO a board vote.

CEO and board have an equal voice

Research has shown that the most effective foundations have CEOs and boards who work in equal partnership. They hold different responsibilities and they work from different perspectives, but their roles support and balance each other. Some feel that such balance is possible only if the CEO is a full voting board member.

Because directors are not intimately involved in the day-to-day operations of the foundation, they need a strong voice—and some believe, a strong vote—from the CEO to guide them.

Giving the CEO a vote on the board demonstrates the board's confidence in the CEO. One family foundation CEO said that voting on the board "gives me the ability to take equal part in our meetings, and emphasizes the important linkage of governance and management."

While it may be a conflict of interest for CEOs to serve equally on the entity that supervises them, CEOs can simply recuse themselves from such discussions at the board's discretion. Unless the issue has to do with the CEO's job, many foundations agree: There is no good reason why a CEO could not or should not serve on the board.

Board can better recruit strong CEO candidates

Foundation boards with CEOs who are voting board members are able to recruit more seasoned CEO candidates who are drawn by the added prestige and power of serving as a voting board member. In particular, this may be helpful where a foundation hopes to attract a candidate from the business sector where CEO voting is the norm.

According to Tim Siegel of Development Solutions, "Assigning a vote to the [CEO] demonstrates faith in the executive and recognizes a strong executive director model…[which will] help recruit executive candidates."

<table>
<tr><th colspan="2">CEOs as staff only</th></tr>
<tr><td>Advantages:
• Management role separate from governance role
• Fewer conflicts of interest
• Limited power of the CEO
• Stronger governance
• More supervision over CEO performance</td><td>Limitations:
• CEO may have less authority or influence
• CEO may not have the same credibility or authority with the board and community
• Boards might not recruit the same caliber of CEO candidates</td></tr>
<tr><th colspan="2">CEOs as board members</th></tr>
<tr><td>Advantages:
• CEO has higher credibility and authority with the board and community

Advantages to CEOs with Voting Rights:
• CEO and board work in partnership with an equal voice and influence
• Board can better recruit strong CEO candidates</td><td>Limitations:
• CEO roles as staff and board member blur
• May create conflicts of interest
• CEO has too much influence on board decisions
• Potential for board to rely too heavily on CEO's opinion
• Board may not adequately supervise/evaluate one of its own</td></tr>
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What Your Colleagues Say

In favor of CEOs voting on boards

"Our CEO has been a member of our board with voting rights for approximately six years. The community foundation operates very much like a business and in many ways not like a typical nonprofit. The CEO is a major part of the knowledge and decision-making of the board and is a part of all meetings."—*Linette Clausman, Director of Finance and Operations, Community Foundation of Waterloo/Cedar Falls and Northeast Iowa, Waterloo, IA*

"As executive director, family member and trustee, I vote on all grant applications except when I am on the board of the organization, in which case I recuse myself from voting. We have not had any problem with this approach and revisit it every five years when my position comes up for review, and I am a candidate for re-election. I participate in all executive sessions and all meetings except when my position is being evaluated and my salary is discussed. I leave the room and return when those decisions are made."—*Al Castle, Executive Director and Treasurer, Samuel N. and Mary Castle Foundation, Honolulu, HI*

"Our foundation was created in 1995—we are a conversion foundation that became a community foundation. Our trustees had very little knowledge about grantmaking and felt that staff and the president and CEO had enormous power to inform and educate the board. They also felt that the board should be independent of management. We have been operating in this mode since inception in 1995."—*Sheila Bugdanowitz, President and CEO, Rose Community Foundation, Denver, CO*

"When the directors are not intimately involved in the day-to-day operations of the foundation and how the foundation interacts with the grantees and the community, it limits how they can most effectively make decisions for the foundation. In some cases, I don't want [voting] responsibility. In other cases, I have the ability to influence how they do make their decisions based on my knowledge." —*Stephanie Schaffer, former Operations Manager, Weaver Family Foundation, Boulder, CO*

Against CEOs voting on boards

"In the family foundation environment, the role of staff is to lead through an advisory capacity, to strengthen the decision-making of the trustee, but not necessarily be the decisionmaker. To confuse the two is not the way to strengthen the board's leadership. It dilutes the board's ownership."—*Kerrie Blevins, Foundation Director, Patrick and Aimee Butler Family Foundation, St. Paul, MN*

"We really want to have a true separation between governance and management. My role as an employee of the board and running the day-to-day operations can get confusing when I'm voting on the board. I advocate for the staff, but it's the board's responsibility to govern that and evaluate me. It becomes more convoluted when I'm part of the voting group hiring and firing me and monitoring my performance."—*Brian Frederick, President and CEO, The Community Foundation of Greater Lorain County, Lorain, OH*

"I am quite content without a vote; it does not make me feel impotent. The board sets policy and I implement it. They leave all management issues up to me. They listen to my opinions, and the only time the board meets in executive session is to discuss my performance and compensation. I do not want the trustees to defer to me too much. I want them to ask tough questions while I work for them in service to our community. Bottom line: We should be careful not to give executives too much power." —*Elizabeth Smith, Cooper Foundation, Waco, TX*

"I worked in the for-profit industry for 30 years in energy and finance and, frankly, believe some of the problems encountered in the late 1990s and early 2000s could have been avoided if company presidents and/or CEOs were not on the board. My job is to 'execute' the will of the board of trustees, not to make policy, which is the trustees' position." —*Ron Matthews, Executive Director, Good Samaritan Foundation, Houston, TX*

In Sum, Ask Yourself

- What is the rationale for the CEO to be on your board and/or to have an equal vote?
- How does the foundation distinguish between management and governance functions?
- How well does everyone know his or her role? Has your board developed clear job descriptions for the CEO? For the board chair? For individual members? For committees?
- How important is it for your CEO to have a high level of visibility and authority in the community? Does participating on the board add substantially to that perception?
- How concerned are you about possible conflicts of interest as a result of your CEO being a board member?
- Are there sacred cows that the board avoids discussing in the presence of the CEO? Or that the CEO avoids discussing with the board? What communication practices could the board improve?
- How often does the board revisit its policy on whether the CEO serves and/or votes on the board?

– Updated in 2010.

Please note: Some of the individuals being quoted in this article have changed jobs. The titles as listed reflect the positions the individuals held when they gave their quotes.

