Ethos of TRANSPARENCY

Given a nonprofit's obligation to serve the public good, one might ask how the public, the government, and other stakeholders know that the mission is being advanced and the public interest is being served. The answer: Transparency.

There are various ways an organization can ensure transparency. It can make sure information about the organization's work and actions is clear, accurate, timely, and available. It can regularly hold a mirror up to its practices and behavior, taking a long, hard look at itself and allowing others to do so.

When the board and the organization's leaders allow others to stare into the looking glass — not just at the successes and progress, but also at the failures and setbacks — confidence and trust in the organization follow. On the heels of trust comes support.

WHAT DOES TRANSPARENCY LOOK LIKE?

Transparency begins with open communication among board members and between the board and senior staff. Frequent communication between the board chair and executive director or CEO (chief executive) is particularly important as this partnership is critical to the successful leadership of the organization. It includes basics, such as all board members having access to the same information when making decisions in addition to staff members having access to information about the organization's business (e.g., board meeting minutes, annual budgets).

Openness continues with external transparency, with being accountable to the public and outside stakeholders, such as current and potential donors, interested government parties, and also those who may receive services. This includes disclosure of general information and annual reports, as well as proactive communications of good and bad news.

Let's look at some guidelines for practicing transparency.

> *Exceptional boards promote an ethos of transparency by ensuring that donors, stakeholders, and interested members of the public have access to appropriate and accurate information regarding finances, operations, and results.*
>
> The Source: Twelve Principles of Governance That Power Exceptional Boards

Information is disseminated. Being internally transparent, a chief executive willingly and immediately shares major news, good or bad, with the board. When big changes happen at the organization, key donors and stakeholders are notified quickly. This isn't burdensome when the chief executive and board appropriately define "major" for their organization.

Information is available and up-to-date. To be externally transparent, an organization's website should list board members, staff, program descriptions, and explanations of how to volunteer and/or make donations. Additionally, an organization should post online its most recent Form 990 and audited financial statements.

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In an environment where donors, the public, and charity regulators are asking more and more questions about the effectiveness of a nonprofit organization's practices, including the work of the board, many nonprofits are choosing to go one step further. BoardSource partnered with GuideStar to create a vehicle for organizations to do just that, and launched a section of GuideStar Nonprofit Profiles titled "People & Governance" that enables organizations to share information about board orientation, composition, and performance; oversight; and ethical practices. To update your organization's GuideStar profile, visit www.guidestar.org.

Beyond these "quantifiable" indicators of transparency are two "qualitative" tactics that have less to do with documents and more to do with an organization's views about openness and honesty. Both are examples of internal transparency.

Hard questions are asked, and hard truths are spoken. Trust among those leading an organization is such that no one is intimidated when speaking out. Whistleblower policies serve as one way to protect staff and cultivate a sense of trust. Likewise, board members need to be able to share their concerns and invite other viewpoints.

Board performance is assessed regularly. BoardSource encourages boards to set aside time at the end of every board meeting to discuss whether their members' time and talent was used effectively or send a survey immediately following a meeting to address the same questions. We also recommend boards complete a formal written board self-assessment and then openly discuss the results. Some boards find it helpful to engage an external facilitator to bring in a fresh, neutral perspective and help guide the board's discussion.

ARE THERE LEGITIMATE ARGUMENTS AGAINST TRANSPARENCY?

Some nonprofit leaders do not embrace transparency with the same enthusiasm that others do. Here are a few of the arguments made against the practice.

It takes too much time. True enough. It takes real resources to gather good, thorough information and then to make the information easily digestible. But the risk of not spending time on transparency is that your stakeholders may be less likely to support your organization because they don't feel they know enough about your good work.

Many nonprofits use dashboards with an array of key indicators and metrics to monitor organizational performance. Just as with any logistical or navigational tool, dashboards can help save board members' valuable time by highlighting items that may require more detailed and thoughtful conversation.

MORE ON DASHBOARDS:

The Nonprofit Dashboard: Using Metrics to Drive Mission Success, Second Edition

10 Common Benefits of Dashboard Reporting

"Too much information" can make situations and meetings uncomfortable. While it's easy to share successes, most of us don't want to broadcast our troubles or failures. Why would any chief executive with a sense of self-preservation want to tell the board about an underperforming program, especially one that the organization is considering sunsetting based on continued lost revenue? Because the board is there to help and offer guidance on difficult issues. It's far better for the chief executive to practice the "doctrine of no surprises" because the level of trust usually goes up when leaders are open about problems. And, together, they can determine how to solve them.

Shouldn't some of what we do be confidential? Yes. There is certainly information that few, if any, outside the board need to know or even have the right to know. No one outside the board, for example, needs to know the results of a chief executive's performance review and assessments of individual board members. It's perfectly reasonable not to share operating plans and budgets with the public. Prudent judgment and input from the staff and board can help determine what data may be revealed to whom.

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> Is there a cost to being too transparent? The costs of not being transparent are greater than being too open. Without public trust, a nonprofit has little chance of thriving, let alone surviving. Simply put, trust brings needed support.

THE PLUSES OF TRANSPARENCY

While it is easy to enumerate barriers that inhibit boards and their organizations from embracing an ethos of transparency, there are many more reasons to embrace it. In addition to the core value of maintaining public trust, other benefits include the following:

Donors, board members, other stakeholders may become active partners in solving problems, thereby strengthening the organization. For example, within hours of being told about a potential and major cash-flow problem, the staff of a national organization had more than a dozen ideas for saving funds, ranging from more careful use of office supplies and reviewing travel and expenditure policies to each person taking one day off without pay every other week.

The surprise of receiving bad information is greatly diminished. When boards, staff, and donors expect to hear both good and bad news, they are better prepared to celebrate the good and respond to the bad. For example, when the chief executive takes the time to provide monthly updates to all board members on fundraising efforts — highlighting successes and also requests that are still outstanding — board members invariably volunteer to help support the organization's leaders.

Planning and developing strategy is far easier and more effective when you know what to expect, and better decisions can be made if all the facts, including pros and cons, are on the table. For example, when two nonprofits planning to share space owned by one of them met, the owner disclosed that the building had not been well maintained and substantial dollars would soon be needed to repair it — dollars that the nonprofit owner did not have. Rather than running the other way, the "tenant" worked to determine how the two organizations together could raise the necessary dollars.

As this example illustrates, transparency is key to the success of any collaboration between nonprofits. To learn more about the role strategic partnerships and restructuring can play in accelerating and amplifying an organization's mission, visit The Power of Possibility: Exploring Greater Impact through Strategic Partnerships website.

BECOMING TRANSPARENT

Transparency is not easy to achieve and certainly can't be mastered overnight. Younger, smaller, or more nimble organizations may find it easier to move toward transparency. Older, larger, more institutionalized nonprofits may believe that they have more at stake and may find change harder. Nevertheless, embracing transparency is well worth the effort. A more informed stakeholder base strengthens fundraising, partnerships, and staff and board commitment.

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What information is public knowledge?

Nonprofits are legally obligated to share the following documents with the public or their members.

- Form 990. With some exceptions, every tax-exempt nonprofit must share this form from the past three years with anyone requesting it. One easy way to meet this IRS requirement is to post the form on your nonprofit's own website or with GuideStar at www.guidestar.org.
- Form 990T. This form indicates the types of unrelated business activities your organization might be involved in.
- Forms 1023 and 1024. These forms are the tax-exemption application forms.
- Membership organizations: Specific financial documents must be made available to your members as your state laws specify. Know your state requirements if you are a membership organization.
- Organizations covered by state sunshine laws: Board meetings, meeting notices, and meeting minutes must be open or available to the public as stipulated by your state laws. Further information is available at www.rcfp.org/open-government-guide.

What information is private?

There is no obligation for nonprofits to share their planning documents that allow them to remain competitive. Confidential material that would jeopardize the reputation or integrity of an individual should remain undisclosed as well.

- Budget
- Executive session minutes
- Donors who have asked to remain anonymous — If a donor makes this request, his or her name should not be disclosed to anyone outside the senior staff and board. The list that is attached to Form 990 is not part of public disclosure.
- Private addresses of board members can remain private. It is no longer necessary to provide an address for individual board members on the Form 990. If, however, board members (or key employees) cannot be reached via the organizational address, another address must disclosed on Schedule O.
- Personnel files. Even board members should have no need to see them.
- Client and patient information. In the healthcare field, the Health and Insurance Portability and Accountability Act (HIPAA) protects medical records.

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