

# STRATEGIC DECISION-MAKING IN THE BOARD ROOM: ROLES AND RESPONSIBILITIES

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Robert Gertner

Joel F. Gemunder Professor of Strategy and Finance

John Edwardson Faculty Director

Rustandy Center for Social Sector Innovation

The University of Chicago Booth School of Business



Rustandy Center  
for Social Sector Innovation

# Boards and strategy

## Traditional board roles

- Financial oversight
- Legal compliance
- Fundraising
- Executive director - hiring, compensation, retention, succession

## Great deal of variation in role non-profit boards play in strategic planning and decision-making

- Oversight and approval of capital projects
  - Capital projects are usually buildings
  - Many strategic decision unrelated to capital budget
- Other strategic decisions
  - Program choices, target beneficiaries, geography, scale
  - Business model

# For-profit vs. non-profits for strategic governance

## For profits:

- Profit (value) maximization objective is commonly agreed upon and observable.
- Fiduciary duty to corporation/shareholders.
- Managerial expertise for strategic decision-making and managing financial aspects of strategic initiatives
- Deep engagement and industry knowledge representation on the board

## Non-profits:

- Lack of mission clarity and strategy
- Opportunities must be evaluated in the context of ambiguous mission and financial realities
- No clear equivalent to fiduciary duty

# Case study: Historical Society of Pennsylvania

**HSP has a research library, artifact collection, exhibits, club for members**

- Expanded into education programs with schools
- Lack of financial discipline – spending from endowment
- New ED tries to understand costs
- Board's lack of engagement delays appreciation of scope of problem and willingness to engage in problems

**What do you give up?**

- Mission statement unhelpful as it lacks prioritization

**How should board member view their responsibilities?**

- To whom/what do they have obligations?
- What role should personal preferences play?

# Large study of arts infrastructure projects in the US

## **SET IN STONE: Building America's New Generation of Arts Facilities, 1994-2008**, Cultural Policy Center at the University of Chicago

- Longitudinal study of museums, performing arts centers, and theaters.
- Census of all major projects, detailed interviews for 50 projects, 11 in depth field studies, 4 published case studies.
- Many projects failed to achieve programmatic objectives and/or were financial failures.

### **Board governance issues were critical determinants of success**

- Engaged financial expertise on the board essential.
- Deep partnership with management and artistic directors on linking projects to realistic programmatic mission.
- Digging deep to fund capital project often left large financial hole of operating the new facility.

**“If we build it they will come” is dangerous - unrealistic about fundraising capacity, operating revenues, and operating costs.**

# Proposed best practices

**Mission statements should provide guidance for difficult tradeoffs and decisions that might arise.**

- Flexible strategic plans to implement the mission and respond to opportunities and challenges.

**Board members should confront the relation between personal objectives and serving the organization and its mission.**

**Board members must be committed and prepared to engage deeply when major strategic issues arise.**

- Rich understanding of financial position and the economics of the organization by board and management required.
- Board and management must ensure that the organization has the skills, information, and time to engage in critical strategic decision-making.