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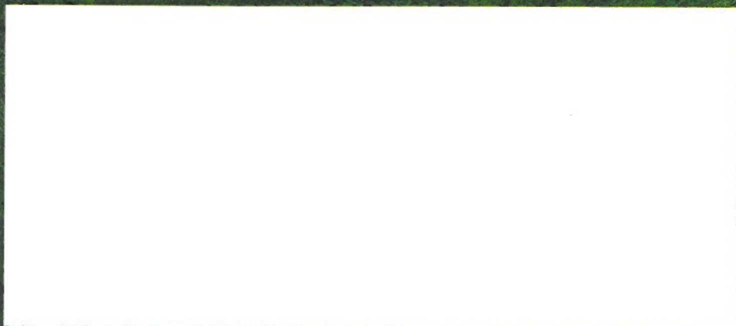

One for All and All for Nothing: Examining the Root of Boardroom Failures

BY TIM PHILLIPS

Boardroom success depends largely on the ability of a group of individuals to reach consensus on complex issues and cooperate for the greater good of the institution. Too often, however, important decisions in investment committees are hamstrung by just one person—typically aggressive, pushy, domineering and often solely focused on demonstrating his or her own knowledge at the expense of cooperation.

Few would deny the benefits of having on their team driven and committed individuals who may be more willing to take risks and keep the group moving forward. However, when allowed to run beyond the appropriate boundaries, these personalities can do more harm than good. With luck, the fallout can be limited to a few bruised egos and a difficult working environment. In less fortunate situations, it may be as damaging as poor investment decisions or the loss of essential funds.

For the success of a board, an investment committee and the individuals involved, these problems must be avoided. Turning such dominant personalities into assets is essential in creating an effective team atmosphere.

Experience has demonstrated three main types of individuals whose personalities and status can incapacitate nonprofit working groups.

1. **The Large Donor.** Investment committees in the nonprofit sector must learn to handle large-scale donors who, based on their sizable contributions, feel a sense of entitlement when it comes to important investment decisions. These individuals may have little knowledge or strategic understanding of the needs of the institution and its beneficiaries, but they may feel their role as major donors carries extra weight in deciding how funds are distributed or invested and how the organization is managed.

   It can be useful to give such donors decision-making control over a project or cause they feel sympathetic to, allowing them to feel involved without risking the integrity of the organization. They also may need to be reminded that, while their contributions and suggestions are greatly appreciated, the board or committee needs to feel as engaged as they do.

2. **The Dominant Personality.** Pushy, forceful, aggressive and domineering—the board member with the dominant modus operandi can gridlock investment teams and set off damaging personality clashes.

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Though valued for their drive, ambition and high level of commitment to the organization and its goals, these individuals' forceful behavior, lack of focus on group consensus and seeming inability to cooperate for the greater good can lead to resentment among other board members, communication breakdowns and board decisions made out of emotion rather than knowledge and cooperation.

Experts agree that such individuals are important assets to working boards across all sectors and industries, the key being that such dominant personalities should be balanced out with individuals who strive for consensus. Someone who sees great value in making sure the opinions and knowledge of all board members are integrated into the overall decision-making process can act as a counterweight to the drive and self-focus of a forceful individual who may see the importance of only his or her own opinion. This strategy equalizes power between people or factions when it otherwise may seem too disparate to reach consensus.

3. **The Outdated Investment Professional.** Lastly, investment committees must be especially wary of current or former investment professionals who advise based on outdated or limited knowledge of the investment industry. Investment pitfalls are many, and avoiding them takes the expertise of a thoroughly informed authority on investment strategy. Without this, nonprofit working groups run the serious risk of making poor investment decisions.

Particularly in the nonprofit sector, the scenarios exemplified above pose the danger of mismanagement of philanthropy funds, raising possible ethical questions that cannot be ignored. This is especially relevant in times of economic hardship when investment committees are expected to be diligent with the funds entrusted to them.

To help managers keep up with the wealth of research on philanthropy, philanthropists and fundraising, the following review provides some interesting findings.

You First: The Importance of Sequence in Gift Solicitation

BY RUSSELL N. JAMES III, J.D., PH.D., CFP

It is common practice for fundraising campaigns to begin by soliciting donors who can make very large gifts. Also, charities often report when well-known celebrities have made donations to their cause. However, do the decisions of these prestigious lead donors actually influence others to give?

Drs. Lise Vesterlund of the University of Pittsburgh and Cagri Kumru of the University of New South Wales attempted to investigate this phenomenon in the laboratory. They wanted to know if seeking contributions from "high status" individuals first would increase the total amount of giving.

To do this, their experiment first attempted to assign high or low status to participants. They did this by having participants complete a general knowledge test. After the tests were graded, half of the group members were assigned to the "high-status" star group. As part of the awards ceremony for being selected to the star group, members were called to the front, given a shiny black folder with a star and a congratulatory ribbon and applauded by all in the room. For the remaining experiment, the high-status group's members sat at the front of room underneath wall stickers with large gold stars using computers also decorated with stars. The "low-status" participants sat in the back of the room and received their instructions in plain manila folders. The goal was to create a perceived status difference between the two groups prior to the charitable-giving experiment. The participants did not know that selection to the star group was actually random.

Following this status assignment, the subjects participated in an economic sharing game. In each round one high-status person was paired with a low-status person. Each received a money grant and decided whether to keep or share it. If the person kept the money grant, he or she received $1. If the person shared the money grant, both he or she and the other person received 75 cents. The researchers rotated the partners and varied which person chose first to keep or share the money grant.

When the high-status person chose first, the average contribution of the pair was almost twice that of when the low-status person chose first. Why? First, high-status individuals were much more likely to share when asked first. High-status participants shared more than 50 percent more frequently than low-status participants when asked first. Second, high-status individuals were 50 percent more likely to be followed in their initial decision to share than were low-status individuals.

The researchers suggest a two-part mechanism behind this difference in sharing. First, low-status individuals are more interested in following high-status individuals than vice-versa. Simply put, the high-status person's decision to share has a greater influence. Second, the high-status person recognizes this influence. Consequently, he or she is more likely to contribute because his or her sharing is more likely to be reciprocated by sharing from the low-status person. This was confirmed in that high-status participants were more likely to share only when they chose first, but not when they chose second.

Ultimately, the researchers found laboratory support for the long-standing practice of fundraisers. Starting campaigns by soliciting the wealthier, more recognized and highly regarded people in the community should produce better results than soliciting in any other order.

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Creating an effective team atmosphere should be the goal of every board or investment committee.

It is important to note that some of these factors can be transformed into assets, provided they are managed strategically. The passion of a large-scale donor who feels a sense of decision-making entitlement can be a source of fresh ideas from outside of the institution. Also, highly opinionated, even contrary, board members can question the board's direction in a way that will help broaden its focus and expand its attention.

Creating an effective team atmosphere should be the goal of every board or investment committee. This is possible even in the presence of such dominant personalities. Some strategic steps include:

- Engaging an unbiased third party to facilitate meetings. A consultant will bring in a fresh perspective, help neutralize dominant players without creating tension among members and provide feedback on how interpersonal conflicts can be solved and avoided in the future. Selecting a consultant who is not afraid to ask the tough questions is crucial.
- Aligning investment values for the greater good of the foundation or endowment by providing current resources, meeting competitive goals, maintaining intergenerational equity, risk budgeting and integrating with the organization's mission.
- Providing all board members with appropriate knowledge to ensure that everyone is working off the same play sheet. Periodically taking a break from procedure to get committee members back on the same page with regard to institutional goals can be useful for any investment body, but the added factor of a dominant personality makes such an exercise crucial to ensure the health and success of the board.

Although often challenging, working successfully with dominant personalities is possible. Their presence on the board, or in the donor pool, does not have to hamstring important decisions or hinder consensus if the proper tools are utilized. The success of your organization depends on it.

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