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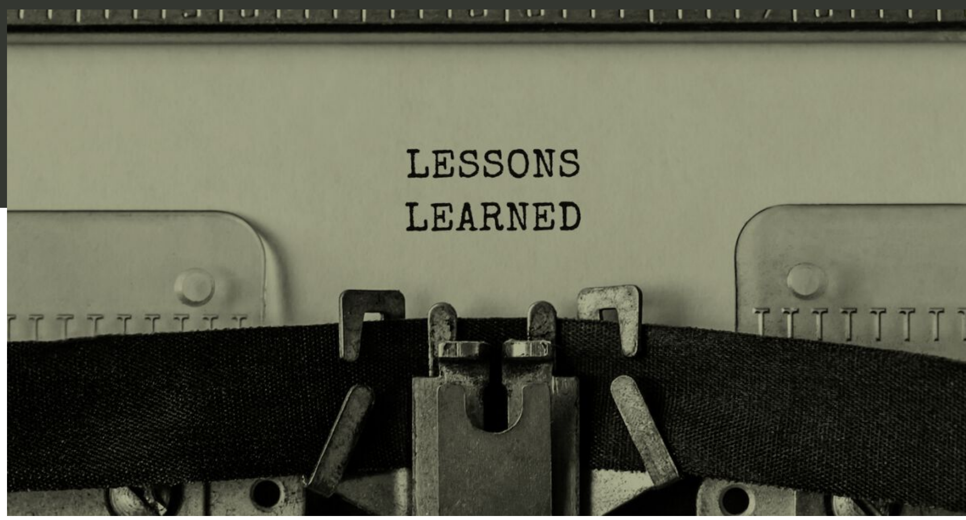
# Lessons for the Nonprofit Board from SVCF Crisis

02.14.19 | Linda J. Rosenthal, JD




"Recent events at the Silicon Valley Community Foundation (SVCF) have rocked the philanthropic community and left many wondering why things went so terribly wrong."

In April 2018, the largest community foundation in the United States (with assets of over $13 billion) imploded quite spectacularly when journalist Marc Gunther published a blockbuster expose in the Chronicle of Philanthropy. We covered this scandal in a series of posts that began with Secrets and Lies at Silicon Valley Community Foundation.

Almost immediately, the nonprofit community jumped into the fray to review, dissect, analyze, and Monday-morning-quarterback this debacle. See, for example, Scandal Erupts at Silicon Valley Community Foundation and How Big is "Too Big" For a Community Foundation?

Many of the observers focused on one aspect of the SVCF model – that is, its heavy reliance on donor-advised funds (DAFs). There has been a lively debate between supporters of the DAF format and strong critics.

Commentators have also pivoted to a broader critique of the situation at SVCF; there are critical lessons for the philanthropic community to learn.

Among the most significant evaluations is an article by Anne Wallestad, president & CEO of BoardSource, and Aaron Dorfman, president & CEO of the National Committee for Responsive Philanthropy (NCRP). *Reflections in the Wake of the Silicon Valley Community Foundation: 4 Questions for Nonprofit and Foundation Boards to Protect Their Organizations* appears in the September 2018 issue of *Responsive Philanthropy.*

The authors believe the problems at SVCF are a "cautionary tale for other boards"; specifically, "about what can go wrong, why it is important for boards to build systems and practices that create the space for staff feedback and reporting of wrongdoing, and how to take action as a board when there is a clear need to do so."

***Board Oversight Duties***

Wallestad and Dorfman emphasize they have "no inside knowledge about what the board did and did not know, what role it may have played in enabling dysfunction, or what signals it may have missed in its governing role." Nevertheless, they present a useful checklist of "4 important questions for effective CEO oversight"; that is, "four questions for reflection."

***Board Role In Protecting Staff***

The authors pose the first question: **"**Are we embracing – or avoiding – our role in protecting the safety and well-being of the staff?"

As Anne Wallestad wrote in a *Nonprofit Quarterly article* in February 2018 (pre-dating the reports of problems at SVCF):

*When it comes to the board's role in staff oversight, many like to point out that the board has exactly one employee: the chief executive. While true in many ways, this sentiment obscures the fact that the board has a very important role in providing leadership and oversight of the entire organization, including protecting one of its most important resources – its people.*

Simply put, while the CEO generally has the responsibility for managing the staff, it is ultimately the board's responsibility for oversight; "ensuring that the CEO's power doesn't go unchecked if there are issues of abuse or mistreatment."

Particularly where – as in the Silicon Valley Community Foundation case – the CEO or top staff are directly connected with (or otherwise condone, directly or impliedly) the mistreatment of employees, "board-level action may be the only recourse***."***

***Channels for Feedback***

The second of the four questions is: "Do we have appropriate channels for staff to share feedback and report issues?"

There should be policies and procedures in place to facilitate this feedback and reporting in ways that respect "the distinct roles of the board and CEO."

All nonprofits should have a carefully crafted whistleblower policy for reasons including, but not limited to, staff needing to expose issues of harm or abuse. "This should include a direct reporting line to the board so that reports related to the CEO's leadership cannot be suppressed by the CEO as well as a protocol that alerts the board of any reports made at the staff level and how they are being addressed."

Another critical safeguard is an annual review process in which the board can encourage "staff feedback about the CEO's leadership." Helpful, too, is a "board-endorsed feedback system" for situations where "identified challenges or issues" have surfaced.

The authors add a caveat that "outside these formal channels, board members should avoid inviting, listening to or sharing feedback about the CEO leadership with employees." This is a tricky, but necessary, balancing act.

***Adequate Evaluation Systems***

The third question is: "Do our evaluation systems ensure that we are reflecting on staff feedback about the CEO's leadership?"

A key feature of the typical board/CEO relationship is that the board generally has little exposure to the CEO's daily management or team leadership. Here is where the annual CEO review becomes a critical tool in the board's oversight arsenal. The authors recommend that boards consider "some combination" of (1) direct feedback from the employees who report *directly* to the CEO; (2) staff surveys; (3) "staff retention metrics"; and (4) comments and feedback on publicly available sites like Glassdoor.com.

"Boards must be thoughtful" about inviting these inputs and interpreting them. Specifically, they should tread carefully and "beware of unintended consequences" that can include creating additional negativity and bad feeling in already delicate situations. Also, the evaluation should take "context" into consideration. For instance, an organization that is experiencing financial distress may have nervous or frustrated staff members; this difficult circumstance may color the feedback.

***Signals of Problematic Leadership***

The fourth question is: "Are we observing things that could be signals of problematic leadership?"

More often than not, there are red flags that – particularly viewed in hindsight – should have caused board members' collective hair to be on fire. These warning signs include a CEO's "extreme aversion" to contact between board and staff along with any unusual "way that employees act in the CEO's presence." Also significant may be the way a CEO "talks to (or about) the team," particularly where there is a documented problem recruiting or retaining talented people.

***Conclusion***

The authors write they are reluctant in their role as outsiders – not privy to the details of what went on in the Silicon Valley Community Foundation boardroom – to assign blame in that case. They note also that, "(w)hile it's easy to blame a board when things go wrong, the signs of a potentially dysfunctional organizational culture (and the CEO's role in it) are nuanced." Even where the board does a good job, "things can still go wrong within an organization."