

## **Ethics Column July 2011 - Paying for board service?**

Q. Some of the directors of my nonprofit want to be paid a per diem for board and board committee work. Is this ethical?

A. There's been a lively online international discussion recently on this issue among governance professionals and senior staff. I know it is an active discussion topic in a number of countries, so it's likely someone in each of our organizations is thinking about it too.

The gist of the overwhelming majority of comments in Canada, UK and the USA is that nonprofit board members should *not* be paid for board service. They should be giving their time to the cause. If the nonprofit is a charity, the intensity of feeling against such payments goes up—way up. Charity directors are expected to give both time and money, not be a drain on charity resources. Seeking such payments from a charity is perceived as highly unethical. And in some jurisdictions, paying charity directors would not be legal.

If the overwhelming majority of people posting on social media sites and listserves thinks the practice is unethical, you can be assured that many of your donors and other supporters will too. They will not think such payments are a wise use of nonprofit resources, and especially not of charitable dollars. The payments will deter some donors and some volunteers from choosing your organization.

I stand with those against payment for board service at nonprofits.

### *What About Indirect Payments?*

Many board members are indirectly paid, because their employer gives them time off for board service and other volunteering. The board service may even be in their job descriptions and performance objectives, making it part of their work. No one seems to have a problem with this, except that it doesn't happen often enough. There are no other ethical concerns. In industry and trade association boards, often the only directors not being paid for board service are the self-employed ones. However, keep in mind that for many people, the time off is a fantasy because the workload isn't reduced.

Staff sitting on the board of their organization are similarly being paid for their board time. However, many bylaws and some acts prevent staff from being board members. Most governance specialists recommend strongly against having staff members on the board, even the Executive Director and even where it is legal.

### *The For-Profit Mindset*

When board members are being paid, it is most often at a professional or industry board, where people are more familiar with corporate board situations and can't see why similar work and responsibility is compensated for one type of board and not another. Sometimes the membership

objects and sometimes it doesn't; it really becomes up to the membership whether to elect different directors who will not seek per diems, or at least not unreasonable levels of per diems.

As I write this, I know of one professional association in the USA that has apparently long paid small per diems and recently greatly upped them, to the point where members have noticed and are upset. I expect the next Annual General Meeting will be contentious and there will be board changes and/or membership losses. These professionals may vote with their feet.

### *The Government Experience*

The situation is further complicated when people are familiar with the agencies, boards and commissions of provincial and federal governments, or with local government boards. Honoraria are common there though not universal. Note that there has long been a direct correlation with gender, with per diems on male-dominated boards and none on female-dominated boards. Nothing is simple!

A small percentage of government boards, usually those involving legal duties or management of very large resources, pay above honorarium levels but even those tend to be well below corporate rates. Again, however, this can lead appointees to expect per diems after accepting election to a nonprofit board. The situation should be clarified during board recruitment, not after an election.

As long as the payments are kept reasonable, I see no ethical problem with paying people to do government work. There are very good reasons for using appointees for certain services rather than civil servants. Anyway, I'm not keen on seeing governments compete with nonprofits for volunteers.

### *The Impact on Recruitment*

The debate will continue about whether paying directors helps get better qualified, more conscientious boards or greedier people who do not care about the mission. From my observations, per diems improve attendance, which may improve decision-making, but I haven't seen that they change the quality of candidates being attracted. And I suspect that average passion for the cause is decreased, which means that no matter what skills and knowledge people are recruited for, they are less likely to truly use those skills for the nonprofit. They show up for board meetings, but may do far less in between. I am generalizing of course.

Part of the problem is that an amount that may seem very desirable to a community member living in poverty may be seen as an insult to a professional, executive or business owner. Most nonprofits boards benefit from a diversity of socio-economic backgrounds (as well as many other forms of diversity). I personally would rather be deemed a pure volunteer than take a small per diem, but I get tempted when I see crown corporation per diems of \$450 or more!

Most nonprofits cannot even dream of paying such levels. Should those few that can pay skim off the most highly qualified board members? Not in my opinion; the community-based

nonprofits are often doing the most important work for the future of our communities. One compromise I've seen, that some nonprofit supporters might accept, is a relatively small per diem paid only when claimed. Some community members claim it and most business people on the board don't. Only the people who process expense forms know which ones claim.

In Australia, I understand there are more converts to the side of paying directors to attract the right skill sets. I hope some research is done on how well it works. I tend to wonder if the organizations supporting this have just been lax in their board recruitment practices. Any well-led nonprofit can have a pool of good candidates interested in board service.

#### *What About Expenses?*

All of the above comments deal with time. There are no objections to reimbursing board members for expenses, though sadly many nonprofits in Canada do not have the funds to do that. However, the board is responsible for ensuring resources, and if they have not obtained enough resources, footing their own bills may seem appropriate. But it really bothers me when the expenses are so high (such as air travel) that only those with an above average income can afford board service. Again, policies can be flexible. For example, in local organizations, consider providing public transit fares but not parking if funds are limited—the monies will go to the directors who need it most. Food at meetings may also be more important to some directors than others.

Paying board members for non-board services is a whole other topic, partly covered here in the May 2006 column. That issue needs to be revisited as legislation for not-for-profit corporations has changed.

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