

## FOCUS ON PUBLIC DUTY DISTINGUISHES PEO'S NON-PROFIT STATUS

By Andrew Tapp



As part of its ongoing review of governance-related activity, PEO would do well to consider its status as a non-profit organization, and how non-profit groups line up against their for-profit counterparts. For-profit and non-profit organizations have much in common, but there are also significant differences.

The non-profit/for-profit comparison is even more relevant for PEO in getting the most from its volunteer resources, and providing leadership training and development for members who get involved with committees and other administrative panels.

The most obvious difference between the two types of boards is their purpose: for-profit boards are responsible for making a profit, while non-profit boards are responsible for fulfilling an organization's mission.

However, there is debate over whether these goals really are exclusive. Arthur D. Collins and Sophia Shaw of Acorn Advisors, advisors for non-profit organizations, say that success for any organization—for-profit or non-profit—depends on devotion to a concrete mission. On the other hand, Espen Eckbo, professor of finance and director of the Center for Corporate Governance at Dartmouth College, believes non-profits should focus on numbers over mission and act like for-profits because "their job is the same to: maximize the pie, maximize resources." As a professional regulator, PEO is very much a mission-focused organization; all other considerations are secondary to protecting the public.

Members of for-profit and non-profit boards also have similar duties. The "duty to care" means each board member should act as a "reasonable person" in the fulfillment of their duties, and the "duty of loyalty" requires

that board members put the organization before themselves. Non-profit board members have one additional duty: the "duty of obedience" that compels them to remain supportive of the organization's mission.

For-profit and non-profit boards share other responsibilities as well. Both must select the person who will be in charge of the day-to-day operations of the organization, select capable board members, and create or commission operational plans—although non-profit board members are often more involved in creating those plans than their for-profit colleagues.

Larger differences between for-profit and non-profit boards can be seen on a structural level. While all boards will have some committees, for-profit board committees will be focused on finances and governance, while non-profits often have additional committees related to the purpose of the organization, such as PEO's Licensing and Registration committees. There is also a significant difference in the number of committees maintained by each board type. Many for-profit boards will generally have one or two committees in addition to the ones set down in that organization's founding documents—such as the *Professional Engineers Act* for PEO—while non-profit boards often have large numbers of additional committees. PEO alone has 20, in addition to its six board committees. Non-profit boards often have more members as well: for-profit boards typically have between 10 and 15 members, while non-profit boards can have up to five times that size.

While differences exist between them, both non-profit and for-profit boards are in the business of leadership and have a responsibility to ensure their organization accomplishes its goals. Both types of organizations can learn from the other. Non-profit boards tend to be better than their for-profit corporations at handling conflicts of interest, and their members are often more informed about the organization's business than the average shareholder. However, for-profit boards' smaller size leads to a greater likelihood of consensus, and a greater responsibility among individual board members.

During periods of review and evaluation, PEO should always be cognizant of what we can learn from our corporate cousins. **e**

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