

## *Chapter Six*

# **Conflicting Managerial Cultures in a Museum**

*Peter Dobkin Hall*

Meeting in emergency session with an outside consultant present, the board of trustees of the Widget Museum was discussing two letters of resignation. One was from the executive director, who cited “recent actions taken by the board’s executive committee without staff consultation.” The other was from the chair of the board of trustees, who advised members to “make financial stability a higher priority than curatorial concerns” and to pursue “additional de-accession of the widget collection” to provide the necessary funds.

## **History**

The Widget Museum was started by a group of enthusiastic amateurs: local history buffs, widget collectors, and academics with an interest in industrial history. Founded to celebrate the community’s historic contribution to the widget industry, the museum is located on one and a half acres that were the site of the nation’s pioneer widget assembly plant. The museum consists of four buildings—the office building, the manufactory, the barn, and the boarding house. The land and buildings are owned by the museum, except for the boarding house and a quarter acre surrounding it, which are leased from the Widget Company, a corporate descendant of the original assembly plant.

After a period of intense but unproductive activity under the guidance of volunteers, the organization hired a professional direc-

### Suggested Readings

- DiMaggio, P., and Powell, W. W. "The Iron Cage Revisited." In C. Milofsky (ed.), *Community Organizations. Studies in Resource Mobilization and Exchange*. New York: Oxford University Press, 1988. Original formulation of the "isomorphism hypothesis," arguing that over time, organizations within an "organizational field" tend to become more similar to each other. Important contribution to "neo-institutional" theory.
- Loseke, D. R. *The Battered Women and Shelters: The Social Construction of Wife Abuse*. Albany: State University of New York Press, 1992. Ethnographic study of a battering shelter, explaining why the gap between the shelter staff and the executive described in our case, for example, turns out to be a common pattern in shelters. Suggests that some of the pressures for collectivism existing in shelters arise from the demands of shelter work as well as from the broader ideology of the feminist movement.
- Milofsky, C. "Neighborhood-Based Organizations: A Market Analogy." In W. W. Powell (ed.), *The Nonprofit Sector: A Research Handbook*. New Haven: Yale University Press, 1987. Identifies definitional assumptions embedded in much organizational theory and explains why they do not apply to many community organizations. Proposes an alternative set of definitional assumptions that treat organizations as embedded within and subcomponents of the larger communities in which they are located.
- Rothschild, J., and Whitt, J. A. *The Cooperative Workplace. Potentials and Dilemmas of Organizational Democracy and Participation*. New York: Cambridge University Press (ASA-Rose monograph series), 1986. Best analysis available of structural experiments that might enable collectivist organizational forms to survive long-term. In context of Weberian theory, suggests why collectivism may be an evolutionary stage beyond bureaucracy. Through case examples and structural arguments suggests how collectivist organizations can resist bureaucratizing tendencies.
- Warren, R. L. "The Interorganizational Field as a Focus for Investigation." *Administrative Science Quarterly*, 1967. *S12*, 396–419. Important initial analysis of how social service organizations develop in relationship to the community and to the set of other agencies providing social services. Describes how organizational and community legitimacy are accompanied by many new expectations about services, structure, and funding access that make it difficult for an organization to retain its collectivist traditions.

tor in 1990. The governing board sank comfortably into inactivity, virtually rubber stamping staff actions and recommendations.

The situation was ideal for the new director, who proved to be an energetic entrepreneur as well as manager. Federal, state, and foundation funders were successfully tapped. Prize-winning exhibitions were mounted. Publications won national awards. The museum's education programs became an integral part of local school curricula. Attendance increased. As the museum's activities took on more variety and excellence, its financial needs increased although its staff remained small, with the executive director and his secretary the only full-time employees. Other staff included a part-time collections curator, a part-time education curator, and two part-time security guards.

Grants underwrote new programs and most of the museum's operating costs (Exhibit 6.1). But as the funding process became more competitive and funders proved less willing to underwrite indirect costs, the executive director concluded that the time had come to systematically cultivate local support, particularly from the business community.

### **Connecting with the Business Community**

From the start, the executive director acknowledged that corporate contributions would require a business-oriented presence on the board. However, being himself a trained manager, the director welcomed that perspective as an antidote to the board's long-standing passivity. It met only quarterly and had delegated most of its agenda to a small and easily mustered executive committee. The executive director hoped that new trustees drawn from the business world would gradually replace the board's deadwood and help mobilize the trustees who remained.

Finding board candidates from corporations in the city was not easy. A number of prominent business people, individuals with demonstrated records of service on other community boards, were informally sounded out about becoming museum trustees. They declined, citing overcommitment to other, usually more prestigious boards. As outlines of the city's nonprofit board hierarchy gradually became apparent, the executive director realized that, as a "stepping stone" board, the museum would have to set its sights

considerably lower. Experienced board people were much sought after and, once captured by well-established, high-visibility institutions such as the city hospital, the community foundation, the symphony, the preservation trust, and the historical society, were unlikely to want to invest their limited time on the board of a small, new, and financially insecure museum.

By the time a young executive vice president of a prospering bank came to the executive director's attention, the museum's board had reached the depths of passivity. The chair of the board had stepped down and none of his fellow trustees was willing to take his place. The executive director met informally with the prospective trustee and candidly outlined the museum's difficult situation while also hoping to appeal to his entrepreneurial instincts by speaking enthusiastically of its unrealized promise. The candidate responded with appropriate enthusiasm but set one condition on his joining the board: that he be made chair. Sensing an ally and a kindred spirit, the executive director readily agreed and, with little discussion, the choice was speedily ratified at the museum's next annual meeting.

During the following year, much as the executive director had hoped, the chair proved a catalyst for increasing the business community's interest and participation in the museum. The business presence on the board was increased with the addition of two of the new chair's colleagues. Though neither worked for the chair's firm, both had substantial and profitable ties to it. With the three businessmen voting together on the five-member executive committee, the museum began to move out of the doldrums.

A joint promotional venture was mounted, cosponsored by the chair's bank, a local magazine, and the museum, to present an annual award to an outstanding widget industry executive in the community. The award promised to bring the museum considerable attention and financial support from the region's business sector. It also promoted the interests of the award's business sponsors because, thanks to aggressive marketing, it gave both of these enterprises considerable visibility. The museum's executive director, moreover, was delighted by the venture because the Widget Industrialist of the Year Award complemented the museum's programmatic focus on the historical importance of widget manufacturing. The award winner was to be named by a committee jointly

appointed by the three sponsors, and expenses for the ceremony were to be shared by the sponsors.

The Widget Industrialist of the Year Award was a spectacular success. In its second year, nominations came in from throughout the state, the award selection committee included prestigious business people as well as management faculty from the local university, and the award received lavish advance publicity. Nevertheless, there were subtle but unmistakable signs that the tail had begun to wag the dog. Press coverage featured participating businesses but largely ignored the museum. The chair's bank reneged on its commitment to bear its share of the costs of the award ceremony, promising instead to cover any shortfall in the annual budget with a generous contribution. More seriously, during the award selection process, the chair attempted to secure a special exception for his bank when its nominations were submitted one day late.

### **The Governing Board**

Under the chair's leadership, both the executive committee and the board had begun to meet monthly, with the executive committee becoming involved in domains previously delegated to the executive director. Open conflict began to develop between the three business trustees and the executive director and intensified as the board's executive committee shifted its attention from the promotional venture to the museum's purchasing and personnel policies. The museum's accounts were shifted to the chair's bank, of which the other two businessmen were important customers. The change was made to encourage the chair's bank to make a large donation to the museum, although the museum's former bank had offered the same services at the same cost. When the museum was considering a substantial investment in office equipment, the three businessmen urged that it be obtained from the one of the trio who operated an office equipment firm. Having just sold an enormous amount of equipment to the chair's bank, the vendor was willing to make the sale to the museum at cost.

Subsequently, frustrated by the slow pace of a complex negotiation with the Widget Company over its interest in leasing the museum's office building as a Widget education center, the chair took over as the museum's spokesman. His intervention brought

the prospect of short-term financial benefits, but the proposed use of the building threatened the museum's future eligibility for historic preservation grant monies. At the same time, the executive committee overruled the executive director's decision to discharge the part-time collections curator, who also managed the museum's rental activities. The curator, though outspokenly hostile to the museum's increasingly professionalized direction, commanded the loyalty of a large group of neighborhood volunteers whose donated labor to a major profit center made them a resource well worth conserving.

*1005/143*

The executive committee finally turned its attention to the museum's nationally recognized but unprofitable public programs. In the search for profit centers, temporary exhibitions were suspended in order to free up space in the museum for rental purposes (such as weddings and corporate receptions). Programs serving the schools were suspended and education grant funds diverted to cover the shortfall resulting from the Industrialist of the Year promotion. The committee began exploring the possibility of auctioning off the museum's valuable collection of historic widgets, most of them received as gifts and bequests, and of applying the resulting revenues to the organization's operating funds.

*Annual account, '11*

As these developments were unfolding, the executive director began to mobilize the passive nonbusiness trustees to repudiate the actions of the executive committee. Arguing that a purchase of equipment without competitive bids violated the state's Non-stock Corporation Act (Exhibit 6.2) and that the suspension of public programs constituted a broad violation of the museum's commitment to funders and the community, the executive director said the board would either have to repudiate the actions of the executive committee or face serious problems of legal liability. In a meeting of the executive committee notable for its exclusion of the executive director, the committee responded by undertaking an annual review of the executive director's performance, the first such review in his four-year tenure. The committee also requested that the board ratify the executive committee's decisions to terminate one of the museum's public programs and its intention to sell a portion of the museum's collections to pay off the museum's debt of \$150,000, on which the interest and a portion of the principal were being paid annually over a ten-year period.

## Rationale for the Like-a-Business Approach

The chair and his allies did not believe that they were acting improperly. They had been invited into the museum to make it more businesslike—and they had proceeded to do so. Their central concerns were appropriately fiscal. When they joined up, they found an enterprise whose financial information system was a simple running checkbook balance. The museum did not cost out its activities and was thus incapable of projecting future expenditures. Without this information, it could neither plan pragmatically nor make effective presentations to potential business donors. With the full approval of the executive director, the businessmen had set up a financial management system that not only provided accurate month-by-month information on the museum's cash position but also enabled it to set a realistic budget and to discipline the staff to live within it. Standard business accounting methods were used rather than the fund accounting system favored by many non-profits, but no one objected to this practice since the new system was such a dramatic improvement over previous practice.

The business trustees had also pragmatically understood that "it takes money to make money." This rationale underlay the museum's transactions with the chair's bank and the computer equipment company owned by his fellow trustee. Trade-offs would lead to contributions from their companies and these, when combined with the high visibility of the Industrialist of the Year Award, would lay the groundwork for approaching other corporate donors. In a written response addressing these transactions, the executive director cited an American Association of Museums ethics handbook that questioned commercial relationships between a museum and its board members. Meanwhile, neither of the attorneys who sat on the board made reference to how this issue was treated in the state's Nonstock Corporation Act.

With the foundation laid for running the museum like a business—through its financial information system and through a series of mutually beneficial relationships with external constituencies—more extensive changes in the museum had to follow. Having accurate information about finances made little difference unless the information was used to make the museum more financially responsible by transforming its programs. Financial stability

required zero-based budgeting: each budget line would have to be justified in terms of its potential to yield revenue either through user fees or grant income. Since revenue projections did not appear likely to cover even fixed costs, steps would have to be taken to remedy the situation. The most immediate solutions appeared to lie in cutting programs that yielded no revenue, seeking additional rental income, and converting collections and other idle assets into cash. The treatment of grant funds as unrestricted assets seemed perfectly natural since the accounting system did not reflect the restrictions attached to their use.

Intervention in other aspects of the executive director's domain proceeded from a similar logic. Since the business group's concern was the museum's short-term cash position, its eligibility for historic preservation grants, as a long-term proposition, was not a salient issue when the chair intervened in the negotiation with the Widget Company. Reinstatement of the part-time collections curator who managed rentals was also motivated by an interest in maintaining cash flow.

The conflicts involving the board's chair, its executive committee, and the executive director raised fundamental questions about the Widget Museum's mission, staffing, financial procedures, and board accountability. Ultimately, the board as a whole was forced to engage these issues when the executive director's announcement of his intention to resign was followed by the resignation of the board chair.

## The Consultant

As the emergency meeting of the board appeared to be drawing to a close, the consultant was asked to comment. She recommended that the board develop a consensus about what constitutes a board's fiduciary duty of care. She advised members to review carefully the executive director's letter of resignation (Exhibit 6.3) and the board chair's letter of resignation (Exhibit 6.4). The former included word for word the chair's account of "administrative problems" and responded to each item in turn. The consultant also counseled the members to rethink what they as a board might have done over the past two years. She urged a frank exchange of opinions about the actions and philosophies of the former board

vs Royalty, ...

chair and the former executive director. With these conversations in mind, she assured them, the board would be prepared to develop a plan for dealing with the museum's present situation.

### Questions for Discussion

1. Between the chair of the board and the executive director, whose views and actions most fully embrace the fiduciary role of nonprofit trustees? At what point, if any, was the board guilty of a breach of its fiduciary role?
2. Is short-term financial stability or long-term fidelity to mission more important to the future of the museum?
3. To what extent is mission embodied in the museum's budget?
4. What changes in the museum's governance processes would avoid conflicts of this kind?
5. Write a one- to two-page paper outlining actions the board should take and a brief rationale for each.

#### **Exhibit 6.1. Widget Museum Budget 12 Months Ending August 31, 1994.**

##### Revenues

###### *Public Support*

State Grants	55,000
Widget City Foundation	27,500
Widget City Education Grant I	3,267
Widget City Education Grant II	6,050
Corporate Contributions	27,500
Memberships	5,500
Donations	2,750
Catalog Sales	1,100
Other	<u>1,100</u>
	<b>\$129,767</b>

###### *Investment Income*

Interest	4,400
Stock Income	<u>110</u>
	<b>\$4,510</b>

*Other*

Widget Sales	3,300
Rental Income	<u>14,600</u>
	\$17,900

<i>Total Revenues</i>	\$152,177
-----------------------	-----------

**Expenses***Educational Programs*

Widgets Through Time	4,400
Widgets at Work	4,400
Program #3	4,400
Lecture Series	1,100
Christmas Exhibit	1,100
City Grant I	3,267
City Grant II	<u>6,050</u>
	\$24,717

<i>Interest</i>	\$12,650
-----------------	----------

*General and Administrative Personnel*

Payroll	50,979
Social Security	3,645
Unemployment Taxes	<u>1,100</u>
	\$55,724

*Other*

Insurance	9,350
Utilities	12,248
Telephone	2,750
Office Supplies	1,650
Postage	2,200
Office Expense	1,650

Fundraising (including award)	3,300
Security	1,650
Membership Activities	2,750
Professional Fees	550
Travel	550
Dues and Fees	440
Conservation of Collection	<u>1,100</u>
	\$40,188
<i>Total Expenses</i>	\$133,279

**Exhibit 6.2. Excerpt from Connecticut General Statutes,  
Title 33, Ch. 600, Nonstock Corporations.**

**Sec. 33457. Corporate transactions with directors and others**

- (a) A contract or transaction between a corporation and a director thereof or a member of his immediate family, or between a corporation and any other corporation, firm or other organization in which a director of the corporation and members of his immediate family have an interest, shall not be voidable, and such director shall not incur any liability, merely because such director is a party thereto or because of such family relationship or interest, if
  - (1) such family relationship or such interest, if it is a substantial interest, is fully disclosed, and the contract or transaction is not unfair as to the corporation and is authorized by
    - (i) directors or other persons who have no substantial interest in such contract or transaction in such a manner as to be effective without the vote, assent or presence of the director concerned or
    - (ii) the written consent of all of the directors who have no substantial interest in such contract or transaction, whether or not such directors constitute a quorum of the board of directors; or
  - (2) such family relationship or such interest, if it is a

- substantial interest, is fully disclosed, and the contract or transaction is approved by the affirmative vote of a majority of the voting power of the directors and members entitled to vote thereon; or
- (3) the contract or transaction is not with the director or a member of his immediate family and any such interest is not substantial, subject, however, to the provisions of subsection (b) of this section; or
  - (4) the contract or transaction is fair as to the corporation.
- (d) For the purposes of this section:
- (3) any contract or transaction between a corporation and a person, corporation, firm or other organization made in the ordinary course of activities at standard prices or on terms not less favorable to the corporation than those offered by the person, corporation, firm or other organization to others shall be prima facie fair. [1959, P.A. 617, S. 39; 1961, P.A. 394, S. 30, 31; P.A. 73-382, S. 8, 12]

### **Exhibit 6.3. Resignation of Executive Director.**

The Widget Museum  
John J. Smith  
Executive Director

January 18, 1994

Board of Trustees  
Widget Museum

To the Board:

I am writing in response to a recent communication from Richard Jones, chair of the board, and will address the memorandum dated January 11, 1994, concerning "administrative problems" point by point. I will conclude with some general comments and observations.

1. "Despite the board's substantial investment in new computer equipment, the director and staff have not learned how to

use it properly for routine museum business such as mailings, budget preparation, etc.”

The executive committee and an ad hoc computer committee met on June 25, 1993, to authorize the purchase of a computer system from Computer Depot, Ralph Terry’s company. This meeting was held while I was out of town because Mr. Terry anticipated an increase in equipment prices before my return.

For good or for ill, the committee assumed the director’s role as purchasing agent for the museum, and the equipment was obtained without consultation with those who would use it. As a result, no agreement was obtained for training the staff or providing manuals. Ralph Terry did come to the museum office on a few occasions to briefly familiarize Mrs. Gates with the basic functions of the system, but this proved inadequate orientation for someone who had no prior knowledge of computers, despite her great enthusiasm for the project.

Although we repeatedly asked Ralph for manuals to accompany the software, we received none. A trustee gave Mrs. Gates some training on label processing, which we can now do in a rudimentary way, and an employee from another board member’s office instructed her in very basic bookkeeping procedures. In sum, computer equipment was purchased with no arrangement for training the personnel and with no guarantee of manuals to encourage self-study.

This situation was not the making of the director or the staff. I have spoken with several members of the board about the problem. I have requested assistance from the chair, the supplier, and members of the computer committee. The extent to which the computer is now in use is a measure of the assistance I have received.

2. “Nominations for the 1993 Industrialist of the Year Award that were submitted by the Bank of Widget City’s senior management one day late were returned by the director without consulting the bank’s representatives at the museum. This lack of sensitivity on the director’s part caused great embarrassment to me.”

The deadline for the Widget Industrialist of the Year Award nominations was Friday, October 2, 1993. Some nominations came by regular mail. Some came by express mail. Some were hand deliv-

ered. At no time was it ever assumed that nominations from the Bank of Widget City, or anywhere else, were to be given special treatment. To do so would have compromised the integrity of the award, the judges, the administrators of the award procedures, and ultimately of the sponsors themselves. When Richard demanded that I accept the bank's late nominations, I refused. I would do so again.

3. "The director has implied in conversation that Mr. Terry sold computer equipment to the museum at prices above fair market value and for his own benefit. Mr. Terry actually purchased this equipment for the museum at cost."

Comparative pricing in June of 1993 might have eliminated any questions concerning fair market value once and for all. As it is, the system is in place, the sale is complete, and the matter is closed.

4. "The director has implied in conversation that the museum's account relationship with the Bank of Widget City is not an 'arm's length' situation and that it was established for my personal benefit and control. All account relationships at the bank are in full compliance with state and federal laws. In fact, all charges on the museum's accounts have been waived as an accommodation; the bank is also a major financial supporter of the museum, having made a \$1,000 contribution as a part of the Widget City Community Foundation matching grant."

Where the museum is concerned, we enjoy the right to ask a question or uphold an opinion as long as the expression of that opinion or question does not cause injury to the institution. While an opinion concerning the museum's relationship to the Bank of Widget City, leaked to the *Widget City Herald*, would not be in the best interests of the institution no matter what individual rights justified its expression, questions concerning the museum's business relationships are always relevant to discussion between board members and staff and imply no accusation of personal advantage. As the American Association of Museums Policy Guide, *Museum Trusteeship*, points out (p. 81):

An all-too-frequent conflict of interest is represented by the board member who sells goods or services to the museum. The situation is difficult to manage at best, for, even if the institution clearly ben-

efits from the arrangement, the appearance of advantage to the trustee may cause embarrassment to both the institution and the trustee. In addition, such an arrangement, once entered into, is difficult to break without hard feelings. In effect, it often limits the museum. Every institution should maintain as much autonomy as possible in selecting and changing suppliers of goods and services, to get the best possible product at the lowest possible price. The museum's ability to demand the highest quality product can be impaired if a trustee is the supplier, for members of the board may find it difficult to exercise a supervisory role over their peers.

Compliance with state and federal banking laws has nothing to do with what is best for the museum. Neither do fee waivers or contributions, which were offered by our last bank, Widget City Trust. It is a simple matter of determining the degree of deviation from standard practice, justifying that deviation, if any, and soliciting board approval. These issues should be brought up, not to embarrass Richard Smith or Ralph Terry, or any other board member, but rather to prevent embarrassment to the institution first and foremost, and secondly to prevent potential embarrassment to Richard and Ralph.

5. "On December 17, 1987, the executive committee and the board of trustees heard for the first time that approximately \$20,000 in tax reimbursements are owed by the museum to the Widget Company.<sup>3</sup>

The tax obligation has been accruing since 1985. This situation is representative of a pattern of last-minute presentations to the board by the director that require quick decisions with incomplete information."

The board of trustees of the Widget Museum was informed of the Widget Company tax problem on at least two documented occasions:

A. At the annual meeting of November 17, 1990: "Mrs. Ireland (treasurer) reported that the tax bill has been received from the

---

<sup>3</sup>The Widget Company has asked the museum to reimburse the company for taxes paid on the land leased by the museum from the company.

Widget Company for the land around the boarding house. The amount of the bill was felt to be excessive and perhaps inappropriate for a tax-exempt organization. The problem will be investigated." Members now on the board who were present at the 1990 meeting include David Edison, David Sears, and Jean Ireland.

B. In the spring of 1992, I reported to the board that there was a tax problem concerning the land we leased from the Widget Company. Trustee John Conforte was asked to look into the question (museum minutes, April 23, 1992). Members of the present board who were at this meeting include Charles Brown, David Sears, Jean Ireland, Bill Ameche, Karl Boris, Jack Anderson, and Richard Smith, who attended as a guest.

John Conforte suggested consulting with the Widget City municipal attorney, Lillian Ambroglio, and on her advice, we first sought to have the Widget City legislative council authorize a change in the tax status of the Widget Company land so that further taxation would cease. The second part of our plan was to eventually appeal for a rebate of the taxes already paid by the Widget Company. Working with Lucien Thornburg and the municipal attorney, we were eventually successful in our attempt to implement the first stage of our strategy.

6. "The director has presented a \$2,300 'invoice' to the Bank of Widget City for its alleged share (as cosponsor) of the costs of the 1993 Widget Industrialist of the Year Award. No budget was agreed to by the bank ahead of time, and most of the expenses on the invoice relate to the opening of the "Widgets Through Time" exhibit rather than to the award. In any case, the invoice amount is six times greater than the bank's contribution for the award last year."

At a meeting of the public relations committee prior to the announcement of the 1993 Widget Industrialist of the Year competition, Richard Jones (representing the Bank of Widget City), Minott Osborne (representing *Business Digest*, and I (Widget Museum) agreed to the division of the Industrialist of the Year Award expenses as follows. *Business Digest* would pay for the food and beverages. The museum and the Bank of Widget City would divide the remaining expenses equally. No mention of a budget was ever made. None was requested. None was anticipated. We agreed

that it was an excellent idea to open “Widgets Through Time” on the same evening as the awards ceremony. The Bank of Widget City, *Business Digest*, and the museum each received one-third of the invitations. When the bill was submitted to the bank, only the invitation items related in any way to “Widgets Through Time,” and it did not include rental fees for the space. Last year’s bank expense was low because *Business Digest*, celebrating the magazine’s first anniversary, paid for the invitations as well as the food and beverages. In the future, commitments made by the bank’s representatives should be qualified in advance. And if a budget must be approved by the bank, then it too should be requested in advance.

7. “The director has interpreted the implementation of standard financial controls by the board, such as check-signing limits, as interference in museum policy and ‘lack of trust’ in his abilities.”

Check-writing controls, requiring two signatures on checks over \$1,000, were implemented almost one year ago. I have no problem with that limitation.

8. “At a luncheon meeting, the Widget Company’s chief operating officer (Mr. Minor) said that his organization wanted to lease the museum’s small office building for its Widget Education Center. The proposed arrangement would provide cash flow to the museum, take care of our tax liability, and ensure that the property is renovated and occupied by a high-quality tenant for a long period of time. Mr. Minor communicated this to the director, who failed to inform the board in sufficient detail.”

When Will Carter of the Water Authority first asked me about renting the old office building, the matter was in no way linked to the tax bill. Consequently, when I told him we needed a fair market rent, he was no longer interested. The Widget Company was at the time considering several other sites and did not anticipate spending more than three or four hundred dollars a month for rent at any location.

A few months ago, Edward Minor contacted me to say that the Widget Company was preparing to sell the boarding house and to discuss the museum’s tax liability. The two issues became linked when I invited Robert Sullivan of the Trust for Historic Preservation to my next meeting with officials of the Widget Company. At

that meeting, Mr. Sullivan expressed interest in having the trust buy the boarding house. This seemed like an excellent plan. The museum's interest in the property as part of its historic site would be protected by a restrictive covenant in the deed that guaranteed the museum the right of first refusal should the property be resold.

An agreement was in negotiation that would have added the museum's tax bill to the purchase price of the boarding house in return for which the Widget Company would have reduced the tax bill by one-third and would have absorbed finance charges on an eighteen-month delay on the turnover of the purchase price of the boarding house. This arrangement would have allowed us to keep the office building as an income-producing property at the highest rate and would have protected the boarding house by putting it into responsible hands. When I told the board about the preliminary negotiation concerning the tax bill, the matter was quickly taken out of my hands.

Richard's intervention in the Widget Company negotiations destroyed delicate arrangements that would have been brought to the board's attention for discussion or approval. If the board believes that the director is incapable of negotiating agreements concerning the site, making personnel decisions, administering the budget, or managing the museum's collection, then it should replace the director, not assign executive responsibility to its own members.

The AAM policy guide defines the role of the trustee as follows:

The trustees are ultimately responsible for the success of the museum's programs but must remain aloof from the actual execution of those programs, which is properly the responsibility of the staff under an executive or administrator. By avoiding direct involvement with operational and administrative matters, the trustees maintain the objectivity necessary for effective supervision.

How can policy be distinguished from administration? Policy always covers the general and is concerned with principles while administration is the detailed execution of those principles on a daily basis. It may require great restraint under certain circumstances, but a trustee should avoid imposing his personal administrative, esthetic, political, or social views upon the staff or interfering with the prerog-

atives at the staff level of operation. The general, structural basic aspects of management are his proper sphere.

A board member will, of course, take an interest in the museum's day-to-day operation, and he may want to confer with the museum director or senior administrative officer on various aspects of institutional management. But he should not instruct the officer to do anything, nor should he criticize any action the executive has taken. If the trustee feels that a problem in management exists, it is his duty to take it to the chair of the board, the appropriate board committee or the entire board. Directives must be issued only by the decision of the board as a collective. If they come from individual trustees, the professional competence of the director is impugned and staff initiative discouraged. [*Museum Trusteeship*, p. 9]

Professional standards should be followed because they relate to the specific conditions that are relevant to museums. Professional standards should be observed because they are based upon hard institutional experience about what works and what does not. Professional standards should be followed because they are the yardstick by which the institution is measured: by funding agencies; by other comparable institutions with whom it is necessary to cooperate on exhibitions, loans, and numerous other museum concerns; and ultimately, by the museum-going public, who can readily distinguish the innovation and excitement that comes from a museum whose staff and trustees work in unison from the occupational servitude and distrust that characterize an institution at war with itself.

My accomplishments as director of this institution leave me satisfied that my work over the years has produced an atmosphere of creativity and innovation. It is a rare privilege to look back on five years of effort and see that it was so worthwhile, so professionally exciting, so personally rewarding.

That is why it is with some regret that I announce my resignation as director of the Widget Museum effective May 15, 1994. Recent actions taken by the executive committee without staff consultation are a critical departure from past practice and undermine the position of director as it is described in the museum's job description. These actions, and others, suggest that the time

has come for a different kind of directorship and, more specifically, a different director. A new director will bring you fresh insights and ideas. Hopefully, conflicts will be more easily resolved and a cooperative spirit will prevail.

Sincerely yours,

John J. Smith  
Executive Director

#### **Exhibit 6.4. Resignation of Board Chair.**

To: Trustees of the Widget Museum  
From: Richard P. Jones, Chair  
Subject: Resignation from Museum Board  
Date: February 25, 1994

Please be advised that, owing to the time commitment required by my recent appointment as chair, president, and CEO of the Bank of Widget City, I am hereby resigning my positions as chair and trustee of the Widget Museum as well as my membership on all museum committees. I plan to continue the corporate fundraising program already underway in an unofficial capacity. We have made great strides in developing controls for the institution through a formal computerized budget process. At the present time the museum's cash position is \$92,000 (not including marketable securities), an all-time high for my two-year tenure. However, there are several unresolved financial issues of immediate concern to the board:

1. The \$21,000 tax reimbursement liability to the Widget Company, which was incurred prior to my involvement with the museum, remains outstanding. This is a breach of the museum's ground lease agreement with the company and should be remedied as quickly as possible. I have documented elsewhere my support for the company's proposal to rent the office building to the Widget Company in exchange for forgiveness of back taxes.

2. Given the \$150,000 loan owed to the Bank of Widget City, which was incurred prior to my involvement with the museum, I recommend that the board make financial stability a higher pri-

ority than curatorial concerns until the debt is substantially repaid; additional de-accession of the widget collection is an obvious source of funds for this purpose. The museum is (or at least should be) making a transition from being a widget collector's repository toward becoming an education-oriented institution devoted to the history of regional business and commerce.

3. The Widget Industrialist of the Year Award is the museum's most visible connection to the greater Widget City business community and should be continued as a part of its ongoing promotional and fundraising program.

I wish the remaining trustees well in pursuing the financial and administrative course they have chosen.

**Suggested Readings**

- Alderfer, C. P. "The Invisible Director on Corporate Boards." *Harvard Business Review*, 1986, 64(6), 38–52. Explores the dynamics of inner circles and factions on boards.
- Herzlinger, R. E., and Sherman, H. D. "Advantages of Fund Accounting in 'Nonprofits.'" *Harvard Business Review*, 1980, 58(3), 94–105. Compares and contrasts accounting methods and discusses ways in which organizational mission and goals can be built into financial information systems.
- Middleton, M. "Nonprofit Boards of Directors: Beyond the Governance Function." In W. W. Powell (ed.), *The Nonprofit Sector: A Research Handbook*. New Haven, Conn.: Yale University Press, 1987. Explores the ways in which board members span the boundaries between organizations and their social settings, bringing with them the values and viewpoints of the social, professional, and economic groups from which they were recruited.
- Moody, L. "State Statutes Governing Directors of Charitable Corporations." *University of San Francisco Law Review*, 1984, 18(3), 749–761. Examines the statutory aspects of nonprofit board governance, giving particular attention to the shift from traditional trust standards to the newer corporate standards enunciated in recent court cases and in the American Bar Association's Model Nonstock Corporation statute.
- Ullberg, A. D., and Ullberg, P. *Museum Trusteeship*. Washington, D.C.: American Association of Museums, 1981. Sets forth this industry's standards for governance structure and process.

# **Nonprofit Boards and Leadership**

Cases on Governance, Change,  
and Board-Staff Dynamics

Miriam M. Wood, Editor




Jossey-Bass Publishers • San Francisco

Copyright © 1996 by Jossey-Bass Inc., Publishers, 350 Sansome Street, San Francisco, California 94104. Copyright under International, Pan American, and Universal Copyright Conventions. All rights reserved. No part of this book may be reproduced in any form—except for brief quotation (not to exceed 1,000 words) in a review or professional work—without permission in writing from the publishers.

Substantial discounts on bulk quantities of Jossey-Bass books are available to corporations, professional associations, and other organizations. For details and discount information, contact the special sales department at Jossey-Bass Inc., Publishers.  
(415) 433-1740; Fax (800) 605-2665.

For sales outside the United States, please contact your local Simon & Schuster International Office.

 Manufactured in the United States of America on Lyons Falls Pathfinder Tradebook. This paper is acid-free and 100 percent totally chlorine-free.

#### Library of Congress Cataloging-in-Publication Data

Nonprofit boards and leadership : cases on governance, change, and board-staff dynamics / Miriam M. Wood, editor.

p. cm.—(The Jossey-Bass nonprofit sector series)

Includes bibliographical references and index.

ISBN 0-7879-0139-3

1. Nonprofit organizations—Management. 2. Corporate governance.

3. Leadership. I. Wood, Miriam Mason. II. Series.

HD62.6.N653 1996

658'.048—dc20

95-24144

FIRST EDITION

HB Printing 10 9 8 7 6 5 4 3 2 1