

About the Firm

Lancaster Pollard Investment Advisory Group, an SEC-registered investment advisor, helps nonprofit organizations create the financial means to last the life of their missions by managing *total* financial risk rather than just investment-associated risk. Lancaster Pollard Investment Advisory Group shares common ownership with Lancaster Pollard, a leading provider of investment banking and mortgage banking services for the senior living, health care, affordable housing and private education sectors.

Profiting from Good Financial Governance

Is there a bottom line benefit to good governance? Yes. Sound financial governance leads to better operating results, and better operating results enable nonprofits to continue to fulfill their mission for perpetuity.

Evidence of the Link Between Governance and Performance

The link between governance and results is most transparent in the for-profit sector because the value of good governance can be most easily measured in the stock market. To understand the effect of financial governance failures in the for-profit sector, one need only look at the recent decreases in values of Enron, Worldcom and Tyco stock and the resultant impact on employees, investors and the market.

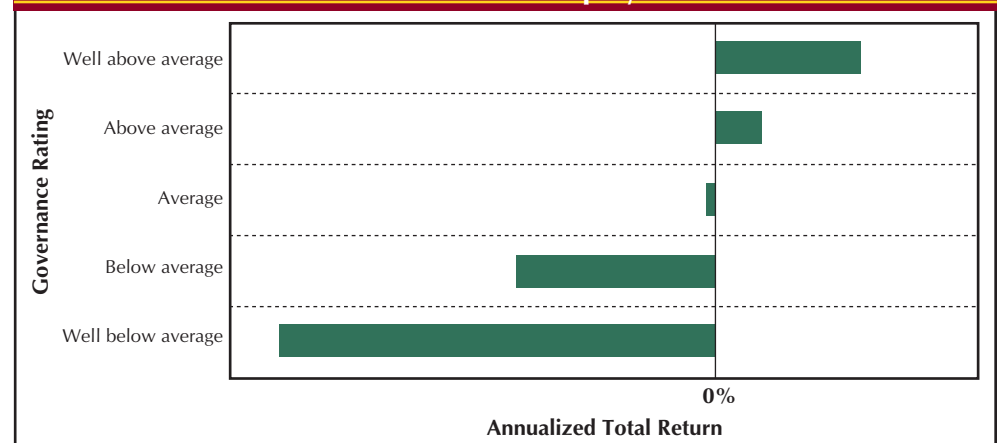
The Wall Street Journal reported on the relationship between governance ratings and stock performance in a Sept. 9, 2003, article. The article illustrated just how costly lax attitude to governance has been to stock market investors.

The chart below shows the results of the study by Governance Metrics International Inc., which was cited in the Journal article. As you can see, the better the governance rating, the better the equity performance.

The article also pointed out that good governance is not a guarantee, but it does improve an organization's chances of a favorable future.

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Good Governance = Better Equity Performance



Implications in the Nonprofit Sector

Many of the same governance issues exist in the nonprofit sector and support the idea that poor governance endangers the ability of a nonprofit organization to exist for perpetuity.

Intuitively, it makes sense. Organizations with better governance tend to focus on “doing things right” and are more apt to plan for the organization’s long-term future. These organizations have board members who are involved in understanding the business and mission, and act to support the organization for the life of the mission, rather than over short-term horizons.

As financial governance experts, we have seen how organizations that are lax in the area of governance have significantly impeded their ability to fulfill their mission and, in some cases, to survive.

Of the organizations we have studied, many that are struggling financially are missing significant pieces of the governance puzzle.

Conflict of Interest Policy: We recently came across an organization in which the chairman of the finance committee served as an investment advisor to the organization and took significant, undisclosed fees, endangering the organization’s tax-exempt status.

Investment Policy: One organization we studied lacked an investment policy and is currently facing near-certain bankruptcy.

Spending Policy: Another organization lacked a spending policy – a statement that governs how much of the endowment should be spent in any given year – and was forced to close in 2003.

Governance Checklist

Does your organization have:

- A conflict of interest policy and a requirement that board members disclose financial relationships annually?
- A financial expert who understands your accounting policies?
- A financial expert who understands your investments and funding options? (tax-exempt financing, taxable financing, leases)
- A policy of term limits, mandatory retirement age or an explicit board development group to ensure “new blood” and slots for highly effective and motivated individuals willing to serve?
- A “board profile” defining board roles as the basis for recruitment?

What can an organization do? Judging a company’s governance quality can be challenging. However, Governance Metrics rates businesses on 600 criteria ranging from auditor independence to conflicts of interest among top executives and boards. The checklist above shows important questions on fiduciary responsibility. How does your organization measure up?

To learn more about how your organization can profit from good financial governance, please contact William M. Courson at wcourson@lancasterpollard.com