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Working Paper

Governance of Nonprofit Organizations: Lessons from Mayo Clinic

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In an article on the governance of nonprofit organizations (NPOs), Dent concluded that "a remarkable consensus of experts . . . agrees that their governance is generally abysmal" (Dent, 2014 p 93). Another study concluded that "substantial percentages of boards are simply not actively engaged in various basic governance activities – and if anything, this study based on self-reports, likely understates the problem" (Ostrower, 2007) Perhaps this should not be surprising. In any organization there is an agency problem. Agency theory arises from the premise that the goals of the top executives – the agents – are not necessarily the same as the goals of the organization as defined by the principals (Fama and Jensen, 1983). The agents have operational control of the organization and will tend to make decisions that most favor themselves, even above the interests of the principals. In a for-profit organization, the owners (the shareholders in a publicly traded company) have the authority to monitor the performance of the executives and hold them accountable. In a for-profit company, the owners (the shareholders) are the controlling stakeholders. In a democratic society, the citizens are the controlling stakeholders. They have the authority to hold the government officials accountable and can vote them out. The fundamental problem in NPOs is the (frequent) lack of a controlling stakeholder, and the agency problem is particularly severe.

However, there are nonprofit organizations that have been spectacularly successful. One such organization is the Mayo Clinic. Mayo Clinic has successfully navigated numerous leadership and board transitions in its nearly 100 year existence as a nonprofit enterprise and remains, according the US News, the best hospital in the United States and one of the leading health care providers in the world. Andrew Mellon, the early 20th century banker and industrialist, would not have been surprised. As U.S. Treasury Secretary he observed

the early years of Mayo Clinic and reportedly told Will Mayo that "the Properties Association setup was the most practicable arrangement he had come across for safeguarding the purposes of a public trust" (Clapesattle 1941, p 593) Mellon modeled his Mellon Institute after it.

In this paper, we first discuss the governance problems in NPOs from both a theoretical and practical perspective. We then describe the governance structure at Mayo Clinic and explore the principles that determined the clinic's governance and the lessons that can guide other NPOs. We argue that the clinic's history reveals unusually careful thinking about the governance principles at its inception, and continued devotion to these principles even while adapting as needed over the years.

Governance Problem: Theory

Corporate governance in a for-profit company has mechanisms that tie authority to responsibility (see Figure 1). This is true for smaller companies as well as larger companies. In the smallest of companies, the single-person entrepreneur has complete authority and is held responsible in the form of the profits or losses that accrue to the entrepreneur and are the result of how that authority is exercised. In a larger company, shareholders have the authority to choose a board and are held responsible in that they receive the residual that results from the actions taken by the board. That board then has the authority to choose the CEO and provide financial oversight and (at least input on) strategic direction. The board is held responsible by shareholders. If the shareholders are content with the residual (profits) and expectations on future performance based on their

analysis of the decisions made, they may choose to keep the same board. If they are not, they have the authority to replace it. They can replace it directly by electing different board members or they can replace it by selling shares to others who will change the leadership, as happens in a takeover (Demsetz and Lehn, 1985; Clyde 1997, Shleifer and Vishny 1997). There is considerable evidence that shareholders can and do exercise their authority through direct voting of directors, investing in institutional shareholders who take on a monitoring role on behalf of diffuse shareholders, and approving acquisitions which effectively replace directors.[1] CEO's then have the authority to make strategic and hiring decisions that will determine the company's performance and profits. The CEO is held accountable by the board which has the authority to hire, fire and compensate CEOs.

In NPOs, the board still has the same authority to monitor, supervise and control the executives. But, there are significant differences when compared to a for-profit organization (see Figure 2). First, the board is not accountable to any controlling stakeholders. Instead, the board is accountable to the founding principles. An exception occurs when the NPO is funded by a single (or few) donor, who may be an individual or an institution. For example, The Gates Foundation is actively managed by Bill and Melinda Gates, and there is a significantly reduced agency problem. This is analogous to a for-profit organization that is actively managed by the owner(s) and again there is less of an agency problem. However, in the majority of NPOs there is no dominant donor, and there is no effective mechanism to hold the board accountable for achieving the organization's goals.

[1] Demsetz, Harold and Kenneth Lehn, "The Structure of Corporate Ownership: Causes and Consequences" Journal of Political Economy, 93, 1985, 1155-77; Clyde,Paul "Do Institutional Shareholders Police Management?" Managerial and Decision Economics, 18(1), 1997, 1-10; see Shleifer, Andrei and Robert Vishny, "A Survey of Corporate Governance," Journal of Finance, 52(2), 1997, 737-783 for a survey.

Second, in a for-profit organization, there is a clear metric to measure the company's performance; in NPOs there is no such clear metric. Every NPO has its own goals that may not be easily measured; or, it may have multiple goals and the weighting across these goals is ill defined. Thus, even an extremely conscientious board would find it difficult to measure the performance of the executives of the NPO.

Third, by law, the board's fundamental purpose is to hold the NPO accountable to the broader society. But the law offers little guidance beyond referring to broadly conceived 'duties of loyalty and care.' It is unclear to whom these duties are owed. NPOs often have multiple stakeholders all of whom seek to speak for the organization and its purposes. Laws only set minimum standards, but do not create an impetus for aspirational achievement. The real issue is not whether NPO boards help avoid malfeasance, but whether they actively ensure that the organization accomplishes its mission.

Governance Problem: Practice

Research on nonprofit governance identifies governance practices that are commonly used in general, and practices used by effective[2] nonprofit organizations. In terms of mechanisms for choosing board members, factors considered include whether or not the nominating committee was comprised of outside members (that was rarely adopted in practice)[3] and how actively the Chief Executive participated in board selection (a practice

[2] Robert Herman and David Renz, "Board Practices of Especially Effective and Less Effective Local Nonprofit Organizations," American Review of Public Administration 30(2) June 2000, 146-160.
[3] Walter Robbins and Gary Taylor, "Corporate Governance Practices: an Exploratory Study of the U.S. Nonprofit Healthcare Sector," American International Journal of Social Science 3(3) May 2014

adopted often in the "most effective" organizations studied).[4] However, there is very little research that explores the precise mechanism that is used to choose board members. This is understandable since surveys are looking for responses that can be generalized – questions like "The board has a nominating committee" will work while the specifics of how those committees work will not. However, the specifics are what we are interested in.

The lack of accountability to any stakeholder shows up in the way boards are chosen. In 70% of the nonprofits in the United States, the board members are chosen by the board itself.[5] Free from an external check, such board members may have little incentive to incur the costs of monitoring the managers and could even lead the organization away from its original mission.

The number of NPOs in the US has exploded from 12,000 in 1940 to 1.7 million in 2005 (which does not include most churches), according to the IRS. This has created an enormous demand for competent trustees that probably far exceeds the supply of people with experience or understanding of governance issues.[6]

Governance in NPO Healthcare institutions

All organizations – business, government, and civil society – should create value, defined as the value of outputs minus the value of inputs. Most organizations, in fact, do create value. In a business organization, this value is captured partly by shareholders and other

[4] Robert Herman and David Renz, "Board Practices of Especially Effective and Less Effective Local Nonprofit Organizations," American Review of Public Administration 30(2) June 2000, 146-160.
[5] BoardSource "Leading with Intent: A National Index of Nonprofit Board Practices" 2015.
[6] Brody, Evelyn. 'The board of nonprofit organizations: Puzzling through the gaps between law and practice.' *Fordham Law Review*, Vol. 76(2), 2007.

producers in the form of producer surplus and partly by customers in the form of consumer surplus. An NPO by its mission should serve some target stakeholders and these stakeholders should capture the value created. But, because of the weak governance, the executives and other employees can and do capture some of this value. This is the price society pays for weak governance of NPOs.

Consider the example of hospitals in the United States. Nonprofit hospitals are actually the most profitable hospitals. "The 29,000 nonprofit hospitals across the country, which are exempt from income taxes, actually end up averaging higher operating profit margins then the 1,000 for-profit hospitals."[7] Seven of top ten most profitable US hospitals are nonprofit hospitals. Nonprofit does not mean that the organization doesn't make any profits; instead it means that profits are reinvested in the hospital in the form of new facilities and equipment, high salaries and bonuses, expanding staff, offering more services, and buying out competing hospitals.

One straightforward way executives in an NPO capture value is through high compensation. There has been increasing public concern about high compensation levels for top executives in nonprofit hospitals. The total compensation (salary and bonus) for the 20 top-paid CEOs of nonprofit hospitals soared by 29.6% in 2013 compared to the previous year.[8] Perks at some nonprofit hospitals included first-class plane tickets, chauffeurs and country club memberships.[9] This does not stop with top executives. A study by the Bureau

[7] Brill, Steven. 'Bitter Pill: Why Medical Bills are Killing Us?' *Time*, April 4, 2013.
[8] Sandler, Michael. 'CEO pay soars at top not-for-profits.' Modern Healthcare. August 8, 2015. Available at: http://www.modernhealthcare.com/article/20150808/magazine/308089988 [Accessed December 9, 2016]
[9] Robinson, David. 'Investigation: top hospital execs, docs get millions.' Lohud, June 5, 2016. Available at: http://www.lohud.com/story/news/investigations/2016/06/02/new-york-hospital-payouts/85027532/ [Accessed December 9, 2016]

of Labor Statistics found that, on average, hourly workers get higher wages in nonprofit hospitals than in for-profit ones.[10] "It is often the case that the hospitals, hospital groups, and affiliated medical entities that pay the most excessive compensation also provide less charitable care than comparable institutions that pay reasonable compensation to their executives, managers, and administrators," concluded a 2014 study the office of the Attorney General of California.[11]

Another way executives in an NPO extract value is through what might be called 'plush carpets.' Some spend lavishly on facilities such as luxurious buildings and furnishing, and expensive but unnecessary equipment.

Mayo Clinic

All of this makes the performance of the Mayo Clinic over the past 100 years that much more impressive. The Clinic itself traces its roots to 1864 when William Worrall Mayo established his practice.[12] However, the nonprofit Mayo Clinic wasn't established until 1919 when WW Mayo's two sons, Will and Charlie, made a donation that effectively created the Mayo Clinic. The process for doing so, however, was not as straightforward as that sentence suggests and reflects a careful thought process that began years earlier and took on a sudden urgency in 1918 when Dr. Will became ill with what he believed might be

[10] Bureau of Labor Statistics, U.S. Department of Labor, *The Economics Daily*, Wages in for-profit and nonprofit private hospitals on the Internet at http://www.bls.gov/opub/ted/2005/jun/wk4/art05.htm (visited *December 08, 2016*).

[11] Available at: https://oag.ca.gov/system/files/initiatives/pdfs/13-0042%20(13-0042%20(Hospital%20Executive%20Compensation)).pdf [Accessed December 8, 2016]

[12] Lanier, William "Celebrating the Sesquicentennial of Mayo Clinic: 150 Years of Advances in Medical Practice, Education, Research, and Professionalism" Mayo Clinic Proceedings, 89(1), January, 2014, 1-4.

cancer. During his illness, he would go on long drives with Harry Harwick, the business mind that he had come to trust, to discuss the future of Mayo and how to ensure it continued to pursue its mission. The process also continued after 1919 with important changes taking place over the next 5 years, and continued through today albeit with less significant changes. Dr. Will, as it turned out, did not have cancer and lived until 1939, the same year Dr. Charlie died. By that time the governance structure had been tested by a successful transition that would be repeated in the years to come.

The creation of the nonprofit operation in 1919 was originally called the Mayo Properties Association. All of the equipment and buildings that had been used by the Mayo brothers and their partners was donated to the Properties Association. The Mayo Properties Association was to be directed by a "self-perpetuating board of (trustees), serving without compensation."[13] The trustees were to include a lawyer and "one competent businessman".[14] Harwick, the businessman chosen by the Mayo brothers to help establish the initial structures, later expanded the board from nine to twelve with three "public" members, thereby retaining the non-clinical expertise on the board.[15]

The stated purpose of the gift that created the Mayo Properties Association was "To aid and advance the study and investigation of human ailments and injuries, and the causes, prevention, relief and cure thereof, and the study and investigation of problems of hygiene, health and public welfare, and the promotion of medical, surgical and scientific learning, skill, education and investigation, to engage in and conduct and to aid and assist in medical

[13] P. 15, Harwick, Harry, "Forty-Four Years With the Mayo Clinic: 1908-1952" 1957.
[14] P 592, Clapesattle, Helen, *Doctors Mayo* The University of Minnesota Press, Minneapolis, 1941.
[15] Harwick, op. cit.

surgical and scientific research in the broadest sense."[16] While this passage emphasizes research and training, earlier language in the Deed of Gift and other documents indicates that the practice of medicine is included, and might even be the primary purpose of the organization.

The Mayo Clinic, which then referred to the group of doctors that rented the facility and equipment, paid rent to the Mayo Properties Association in the form of the residual from operations. The Mayo brothers made it clear that they did not want the doctors operating the clinic to benefit beyond the "reasonable compensation" they received.[17] In December of 1922, the Mayo Clinic physicians agreed to a fixed compensation. The compensation rates could be altered periodically but only with the approval of the Properties Association.

The Clinic itself was governed by a Board of Governors. The first board was comprised of the original five Mayo partners plus two other staff clinicians. Originally, there was some skepticism about the authority of the Board of Governors since there was little doubt that the decisions would still be determined by the Mayo brothers. However, over time, the Mayo brothers through their actions, made it clear that it was the Board of Governors as a group that had the final authority.[18]

The final component of the governance developed by the Mayo brothers was the committee system. The committee system had two functions: it prepared future leaders by exposing them to a variety of issues and giving them the opportunity to play leadership roles in committees, and it distributed decision making authority and responsibility to a larger

[16] P. 7, Deed of Gift from William J Mayo and Charles H Mayo to Mayo Properties Association, October 8, 1919.
[17] Deed of Gift op. cit.
[18] Harwick, op. cit.

group through a controlled process. By 1922, there was an Executive Committee charged with the supervision of all professional activities, the Faculty Organization, the Council (comprised of the Board of Governors, the Executive Committee and Chairman of the Faculty) and two standing committees: Committee on Medical Education, Research and Scientific Progress, and Committee on University Relations. Today there are about 300 committees. Employees tell stories of dreading being on a committee but learning an enormous amount from the experience.

Over the years there have been some important modifications to Mayo's governance but most of the underlying thinking remains. For instance, in 1969 the Mayo Clinic and the Mayo Property Association merged to form the Mayo Foundation. In 2010, the name was changed back to the Mayo Clinic, which unlike the previous Mayo Clinic, owns the building and equipment that it uses. However, the ruling body of today's Mayo Clinic, the Board of Trustees, continues to have the mix of internal and external members – 17 external and 14 internal – that could be found in the Mayo Property Association. It also retains a prominent role for doctors – at least one-third of the trustees must be Mayo clinicians – found in the Board of Governors.[19] The Board of Governors still exists today and all BOG members are also members of the Board of Trustees (there can also be Internal Members of the Board of Trustees who are not members of the BOG subject to the constraints mentioned above), but the Board of Governors alone has the authority to recommend all officers for Mayo Clinic and oversee operations of the clinic. The Board of Trustees has final approval authority and oversight responsibility for all Clinic leadership, strategy, operations, budgets and

[19] Amended and Restated Bylaws of Mayo Clinic, August 14, 2015.

long-term financial plans. The Board of Trustees is also responsible for conducting an annual audit.[20]

The doctors' compensation has also been modified but retains the important incentive features. Today the doctors still receive a fixed compensation, but it is now informed by national compensation surveys for the various specialties and is targeted to be competitive with other premier medical organizations but not excessive. None of the 'profit' or surplus generated by the clinic accrues to the doctors; nobody receives any bonus payments. Leadership posts are compensated with an additional stipend that is removed when the person moves out of the position.

Lessons from Mayo Clinic

Clearly Articulated Objectives

For-profits have the luxury of maximizing one objective, profits, which are also easy to measure. For proper governance in a non-profit it is necessary that the board and the executives have a good understanding of the NPO's objectives and a way to ascertain progress towards these objectives.

The Mayo brothers spent much of the initial deed for the foundation describing the history of the Clinic including a clear statement that the "Clinic has not been operated with the sole view of profit," and expressed their intention that the Clinic "may be conducted, maintained

[20] Mayo Clinic: Governance and Management Structure, August 14, 2015.

and developed" for the same purposes (that it had been historically)."[21] Those purposes were not terribly concrete at first – "the primary object of the Clinic should be service to humanity in its broadest sense"[22] – but numerous documents combine to form a basic idea and, in 1957, they were turned into a Statement of Purpose that included three main components: "To offer, to both the sick and the well, comprehensive medical care of the highest standard . . . To offer outstanding young men and women opportunities for education in clinical medicine . . . To advance and enlarge knowledge and skill in medicine and the sciences related to medicine, through research . . ."[23] The three shields of the Mayo Clinic logo are a constant reminder of this three-pronged focus.

In terms of clinical service, the Mayo Clinic today is rated number one in the United States overall. It also holds the top ranking in a number of specialties and is in the top three in most of the ranked specialties.[24] It is also highly ranked as a Research Medical School and Primary Care Medical School.[25]

Constraints for decision-making positions

Constraints on choices regarding the composition of the board and the specific responsibilities of the board relative to the executives can mitigate some of the problems related to the lack of a board's accountability. Mayo has three such constraints. First, election for board membership requires the approval of multiple groups of individuals.

[21] P 3, Deed of Gift, op. cit.
[22] Dr. W. J. Mayo as quoted on page 8 in Roesler, Robert, "Principles and People: Key Elements of Mayo" 1984.
[23] P 29, Roesler op. cit.
[24] "2016-17 Best Hospitals Honor Roll and Overview" *USNews*, August 11, 2016.
[25] "2017 Best Medical Schools" *USNews*, 2016.

The Internal Members of the Board of Trustees and all of the Board of Governors are nominated by the Board of Governors. However, the full Board of Trustees must approve them. Further, and as mentioned above, nominations by the Board of Governors for at-large positions on the Board of Governors are voted on by members of the Voting Staff who also nominate candidates to be considered for the Board of Governors. Any member of the Voting Staff can nominate a fellow member to be considered for positions on the Board of Governors. The Board then discusses the different candidates and has a series of votes to determine who will be put forward to be voted on by the entire Voting Staff. The Board of Governors is comprised of a maximum of 14 individuals, nine of whom are at-large positions (7 physician scientists, 1 administrator and 1 that can be an administrator, a physician or a scientist). Thus, an important part of the Board of Trustees and all of the Board of Governors is nominated by and voted on by the Voting Staff, most of whom are not board members, and must be approved the Board of Trustees, most of whom are not staff members.

Second, the choices are limited – the Board does not have complete flexibility. As described earlier, the bylaws state that 17 of the 31 members of the Board of Trustees are to be Public Trustees (not Mayo employees), at least one third of the Board of Trustees must be members of the Voting Staff who are also physicians of Mayo Clinic. Thus, the pool from which an important part of the ruling board is chosen has been through a rigorous hiring process and has been vetted over a multi-year probationary period by the rest of the Mayo staff. The Board of Governors has similar limitations: at least two-thirds of the members of the Board of Governors must be physicians and members of the Voting Staff. Positions are also limited by time served: Public Trustees can serve no more than three full 4-year terms.

Nothing else is specified about the selection of the Public Trustees. In practice, the Mayo leadership tracks various characteristics of its Public Trustees such as geography, vocation and gender to ensure they represent a wide variety of public interests. And, as with the first board back in 1918, they are careful to include legal and business, especially accounting, backgrounds. However, there is nothing beyond the initial requirement.

The leadership choices available to the board are also somewhat limited. The Chair, elected by the Board of Trustees, can serve no more than two 4-year terms. The President/CEO of Mayo, must be a physician and a member of the Voting Staff of Mayo Clinic for the preceding 5 years. Thus, the President will have at least 8 years of Mayo experience.

Finally, there are also constraints on the actions taken by leadership. For example, the composition of the Audit and Compliance Committee, the Investment Committee and the Governance and Nominating Committee is, in each case, completely External Trustees.[26] So the operation, strategy, etc. is taken on by the Board of Governors acting as the executive committee, but none of the members of the Board of Governors are on any of these financial oversight committees.

Decentralize power through the use of committees

The governance rules and procedures set at the highest level of the organization need go no further than establishing the authority and responsibility of the ruling board and the executives. Governance decisions beyond that could be left to the chief executive. However, some successful organizations have gone beyond that. One particularly

[26] Walter Robbins and Gary Taylor, "Corporate Governance Practices: An Exploratory Study of the U.S. Nonprofit Healthcare Sector," American International Journal of Social Science, 3 (3), May 2014.

noteworthy example was a contemporary of the Mayo Brothers. Alfred Sloan, arguably the father of the modern corporation, was developing his own governance structures at General Motors in the same 1915-1925 timeframe that the Mayo Brothers were working on theirs; and his would have at least as much impact as the Mayo brothers. It is therefore notable that both Sloan and the Mayo brothers both relied heavily on a committee structure.

Sloan's organizational and governance structure kept authority for operations with the divisions and, in particular, with the individual in charge of each division. He believed that committees should deal with policy issues but execution had to be the responsibility of an individual. The committee structure enabled him to maintain the autonomy of the divisions while combining the knowledge of all of the divisions and the relevant corporate offices thereby informing the decisions to be made at the division level.

The Mayo brothers also viewed committees as an integral part of the governance of the organization despite initial skepticism among staff members. The committees at Mayo began with an executive committee and quickly spread. In 1922, there were two standing committees: the Committee on Medical Education, Research and Scientific Progress and the Committee on University Relations. That grew into the approximately 300 that exist today. From the beginning, one of the primary purposes of the committees was the development of future leadership, but that was never the sole reason. Committees played an important practical role of disseminating many of the duties. As Harry Harwick put it, "To the individual, committee work provides an opportunity to learn more of the operation of the Clinic as a whole, allows him to add his voice to this operation and, perhaps most important

of all, serves as a proving ground for positions of even greater responsibility." The committees have "a real and significant authority" and "(p)erhaps the greatest single contribution of any committee is finding the most generally satisfactory answer to problems."[27] In sum, the Mayo brothers used committees in much the way Sloan did: they were formed to tap into a broad range of experiences and they had real authority in the governance of the organization.

Remove decision makers' incentive to profit from decisions

All organizations have revenues and costs and the two rarely equate. Thus, whether a for-profit or a nonprofit, a residual is to be expected and someone has the authority to determine what happens to that residual. In a for-profit, the incentive of a decision maker (the shareholder who decides board membership) is aligned with the objective of the organization (maximize residuals). In a nonprofit, the residual doesn't go away and the decisions made by those with authority affect how large it is and what happens to it. If those in authority stand to benefit from the residual directly, they have an incentive to make decisions in their own interest – not the organization's interest. If that incentive is eliminated, the decision makers are more likely to pursue the organization's goals.

Mayo accomplishes this in an unusual but apparently effective way. Since most key decision makers at Mayo are drawn from the Voting Staff, we can focus on the incentives of the Voting Staff. Mayo doesn't have merit-based compensation; there are no bonuses or merit-based salary changes. This has been true since 1922 and from that time, the governance structure was explicitly designed to take away the possibility that physicians

[27] Harwick, op. cit. p 23.

would profit from the clinic: "To prevent the Clinic at some future date from raising the salaries of its staff to eat up the gross income and reduce the rental, thus defeating the purpose of the arrangement, the contract stipulated that all Clinic salaries must be approved by the Properties Association."[28] As a result, there is no direct incentive to increase the profits because the staff doesn't benefit financially from changes in the financial performance of Mayo Clinic beyond ensuring its solvency (and thus, the Clinic's ability to pay staff's fixed salary). When the Mayo Properties Association was first formed, the salary could be changed, but only by the approval of the Board of Trustees. In practice today, no one affiliated with the organization has any impact on it – it is a function of national averages for that clinical group. The Mayo Clinic: Governance and Management Structure gives the Board of Governors authority over salary structure, subject to the approval of the Board of Trustees. However, in practice, they adopt the practice of setting a physician group's salary at the 75th percentile of the national average for that group of doctors.

Put the Residual to Organizational Goals

The fixed salary may eliminate decision makers' ability to use the residual to profit them personally, but it doesn't eliminate their ability to benefit from the profit. On-the-job consumption in the form of 'plush carpets' or corporate jets can also benefit decision makers at the expense of the goals of the organization. So the governance must also create the incentive to use the residual to pursue the organizational goals. There are two ways to increase the alignment between the incentives of the individual decision makers and the

[28] Pp 593-4, Clapesattle op. cit.

organizational goals: one can structure contracts that give decision makers the appropriate incentives or one can ensure anyone in a decision-making position has incentives that are already aligned with those of the organization. Mayo uses the latter approach.

Mayo's organizational goals are threefold: best institute for clinical care, best medical research institute and best medical training institute. Mayo Clinic therefore wants decision makers whose personal incentives align with those of the institution: best at care, research and training; thus the emphasis on physicians in the governance as described above.

However, just because the decision maker is a doctor, it doesn't mean that that particular doctor is going to have personal goals that coincide with the organization's goals. The hiring process that determines the pool of doctors from which the leadership is drawn is thus important here as well. The result of this hiring process is that the decision makers are chosen from a group of individuals that has been carefully vetted to align with Mayo's values. That, in turn, means that decisions about the residual are more likely to be consistent with the goals of the Clinic. Doctors who value the opportunity to work in Mayo teams on clinical matters, and also value either research or training have been deliberately selected. Pursuing their own interest, they will make decisions that are consistent with the organization's goals.

This approach has its costs. Mayo Clinic will not always get the best doctor, the most creative researcher or the best teacher. They are sacrificing that in return for a staff, and thus future leaders, that will make decisions consistent with the goals of the Clinic.

Conclusions

The growth of non-profits in the US is, as mentioned earlier, significant. However, that arguably understates the importance they are playing in the world. As the amount of money and number of organizations in low and middle income countries has grown, the importance of non-profits in these economies can be disproportionately large. Indeed, that is the motivation for our interest in the topic. Unfortunately, there are no widely accepted and applied principles to establishing effective governance practices in non-profits. In this context, it is hard to think of a better example to follow than Mayo Clinic.

The basic ideas that come out of a careful analysis of Mayo are straightforward: clearly established objectives; constraints on the choice of board members and on the role of specific board members and executives; constraints on decision makers' use of the residual; and effective use of committees. However, few of these lessons are regularly incorporated in the development of governance structures as the non-profit is established. These lessons have already guided some of our work in healthcare in low-income countries. Perhaps the most important lesson from Mayo is that decisions about governance deserve careful attention, a significant amount of time and an expectation that you won't get it right the first time. Conversations over a long drive can be very productive.

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Figure 1


For-profit governance
A: To choose the Board of Directors
R: Right to residual
Shareholders
Board of Directors
A: To choose the Senior Leadership
R: Voted on by the shareholders
Management
A: To make decisions that necessary to operate the company
R: Chosen and evaluated by the Board

Figure 2


Not-for-profit governance
Board of Directors
A: To choose the Senior Leadership
R: ??????
Management
A: To make decisions that necessary to operate the company
R: Chosen and evaluated by the Board