

Paul Clyde  
Aneel Karnani

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## Note on the Governance of Nonprofit Organizations: Lessons from Mayo Clinic

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 to the US News and World Report, the best hospital in the United States and one of the leading health care providers in the world.<sup>i</sup> Andrew Mellon, the early 20<sup>th</sup> century banker and industrialist, would not have been surprised. As US 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 note, we first discuss the governance problems in NPOs from both a theoretical and practical perspective. We then describe the governance structure at Mayo Clinic based on a review of documents,

i <https://health.usnews.com/best-hospitals> (accessed on November 29, 2018).

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