Governing Effectiveness of Nonprofit Boards: A Systematic Review of Research Conducted in the Past Decade

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Outline

- **Research rationale**

- **Research objectives**

- **Methodology**

- **Results**

- **Discussion**

Research rationale

- **Challenges**
  - Growing public expectation on nonprofit accountability (Kim 2005, Ebrahim, 2010)
  - Global economic downturn, exacerbated sociopolitical problems and tension, and ensuing resource shortage and tremendous shifts in policies and funding allocation (Smith, 2010)

- **Calling for better self-regulation and civic agency of nonprofits**
  - Nonprofit boards play a critical leadership role in nonprofit self-regulation and responding to challenges from changing environments (Bies, 2010)
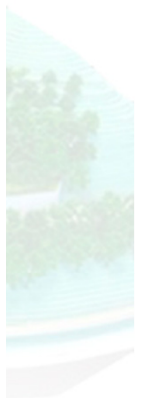
Public governance scholarship

- **How to "explain" & "regulate" nonprofit behaviors?**

- **Accountability** (Stone & Ostrower, 2007; Herman & Renz, 1997, 2008)
  - Accountable for what
  - Accountable to whom

- **Locus of accountability**
  - Nonprofit organizations

- **Governance mechanisms**
  - Self-regulation
    - **Boards at the organization level**
    - Networks
  - Government regulation
  - Market competition
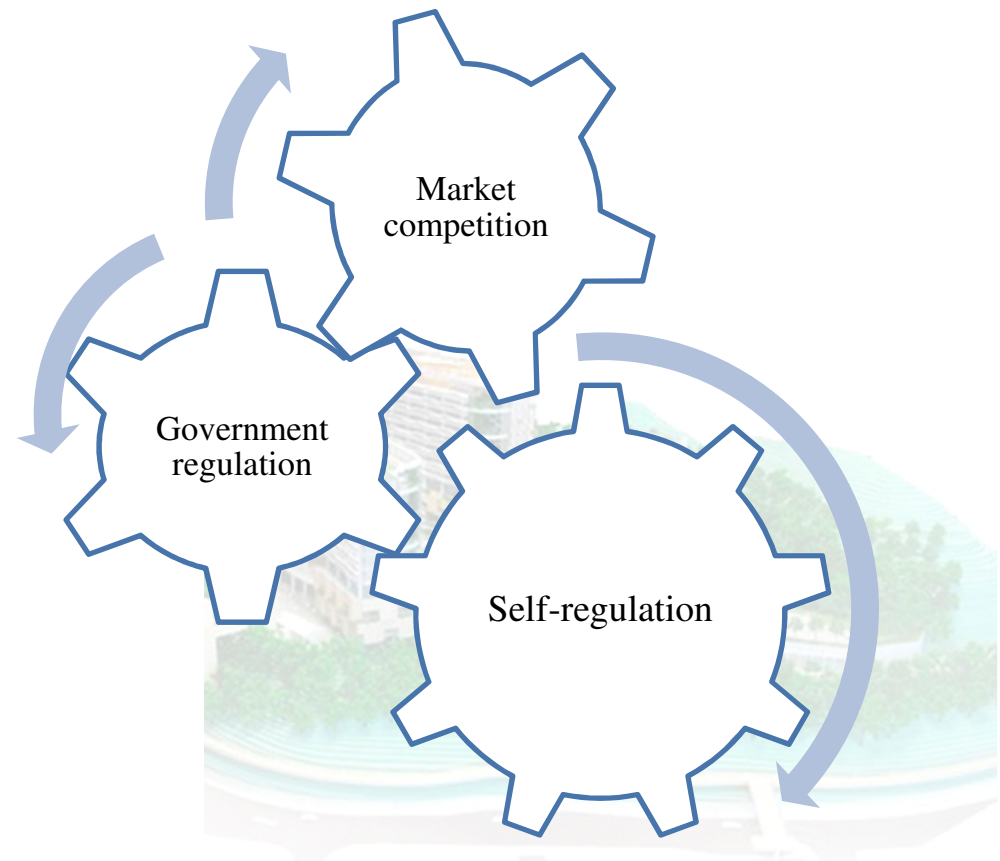
Research objectives

- To take stock of **what we know** about the governing effectiveness of nonprofit boards, **how we know** it, and **identify missing links** in the literature that inform future research.

- Specifically,
  - To identify genres of research questions on nonprofit boards
  - To synthesize findings in terms of each genre of research questions
  - To discuss theoretical conflicts and knowledge gaps and inconsistencies

Methodology

A **Systematic Review** approach

– In response to the call for methodological rigor of reviews of the management literature (Tranfield, Denyer, & Smart, 2003)

- uses an explicit algorithm, as opposed to a heuristic, to perform a search and critical appraisal of the literature.

- Employs a transparent and reproducible procedure

Procedure

- Formulate search strategies

- Coding

- Synthesizing

- Reporting

Formulating search strategies

- Topic=((nonprofit$ OR "not-for-profit" OR "non-for-profit" OR "non-profit$" OR "non-governmental" OR nongovernmental OR NGO$ OR NPO$ OR "voluntary organi?ation$" OR "charitable organi?ation$" OR charit*)) AND Topic=((board$ OR "executive committee$" OR "management committee$")) AND Topic=((effectiveness OR performance OR accountabilit* OR accountable))

- Refined by: Document Types=(ARTICLE) AND Languages=(ENGLISH)
- Timespan=2002-06-30 - 2012-06-30. Databases=SCI-EXPANDED, SSCI, A&HCI, CPCI-S, CPCI-SSH.

- Lemmatization=On
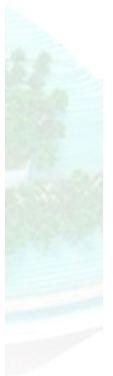
Sampling

120 • Initial sample of articles excluding **8** articles of which the full-text could not be found

112 • Excluding **7** articles of which research questions were totally unrelated

105 • Excluding **15** articles which were theoretical articles

90 • Excluding **7** articles of which research questions were CSR or Corporate philanthropy related

83 • Excluding **18** articles of which research questions were only related to either boards, organizational performance or public governance

65 • The final sample of systematic review

Two-stage coding framework

- **1st stage: to extract relevant info from each article**
  - Research questions;
  - Theoretical rationale;
  - Hypotheses (if any);
  - Country, industry;
  - Research methods, sampling methods and period, data sources;
  - Independent variables, dependent variables, control variables;
  - Unit of analysis, data analysis methods;
  - Results and implications
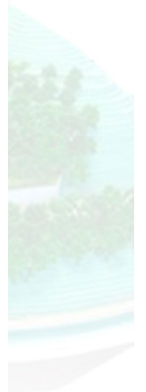
Two-stage coding framework

- **2nd stage: to synthesize results**
  - Classify research questions
  - Sort findings in terms of dependent variables of research questions
  - Identify inconsistencies

Results

- **How do we know?**
  - Research types in terms of methodology
- **What do we know?**
  - Research question types
  - Findings in terms of DVs of each type of research questions
- **Inconsistencies**

Research types

- Among the 65 articles, there were
  - 11 articles using **qualitative research methods** (e.g., case studies, interviews);
  - 54 using **quantitative research methods** (e.g., surveys, data mining, experiments).

- The majority of quantitative studies are **cross-sectional**, we suggest that readers treat the relationships reported here as **correlational rather than causal**.

Research questions concerning governing effectiveness of nonprofit boards

- 51% of studies examined **board variability in predicting organizational output measures**

- 49% of studies examined **variability in board practices**

Board variability in predicting organizational output measures

– 30.3% used a subjective measure of overall performance (e.g., satisfaction)

– **44% used financial health measures** (efficiency ratios, operating budget growth)

– **30.3% used service delivery measures** (e.g., service quality, number of users, number of programs)

– 3 studies examined the representation and advocacy role of nonprofits

Board variability in predicting organizational output measures

Financial health

- strategic planning and positioning,
- stakeholder engagement / public relations,
- fund raising,
- transparent financial oversight,
- board training,
- a good boardroom culture,
- board structural factors (e.g., a bigger board, donor representation on the board, women CEOs).

Service delivery

- strategic priority on service and related written performance expectations on CEOs,
- community stakeholder engagement in strategic planning,
- clear service objectives and quality standards,
- participative decision-making and shared understanding of related strategies and standards,
- transparent program evaluation and reporting,
- board structural factors (e.g., expertise in services, a standing committee for service quality oversight, regular board meetings on related issues, board independence and community stakeholder representation on boards).

Inconsistencies

- **Board independence**
- **Community stakeholder representation on the board**

Variability in board practices

- 53.1% used judgment of overall board performance

- **"Best" board practices**

  - 31.3% financial oversight,
  - 3 studies examined program evaluation and quality control,
  - 21.9% CEO performance evaluation,
  - 21.9% adopting recommended practices of Sarbanes–Oxley Act,

  - 31.3% strategic planning and safeguarding missions,
  - 5 studies examined fund raising,
  - 3 studies examined public relations,
  - 28.1% board members and top management team engagement.

Overall board performance

- Mainly consistent with judgment of overall organizational performance

- **Besides**
  - Role ambiguity perceived by board members
  - Labor division in the boardroom (i.e., board—staff, among board members)
  - Working experiences as a board member (e.g., tenure, number of directorship)

Factors conducive to "best" board practices

- **Financial oversight**
  - board independence, donor representation on the board, a bigger board, expertise diversity among board members and a good boardroom culture
- **Program evaluation and quality control**
  - board members having expertise in provided services
- **CEO performance evaluation**
  - clear goals and standards, more involvement of stakeholders, more experienced board members and a good boardroom culture
- **Boards adopting recommended practices of Sarbanes–Oxley Act**
  - bigger organization size, programs diversity and funding independence

Factors conducive to "best" board practices

- **Strategic planning and safeguarding missions**
  - stakeholder engagement, transparent and balanced decision-making processes, establishing strategy-aligned standing committees and a good boardroom culture
- **Fund raising**
  - clear visions and missions, strategic positioning, a bigger board
- **Public relations or gaining stakeholder support**
  - a bigger and more independent board with good chairperson leadership
- **Boards and/or TMT engagement / human capital**
  - having a good boardroom culture, particularly chairperson, shared visions and missions, information sharing and mutual trust, and establishing professional governance process with clear labor division, role definition and balanced decision-making processes

Inconsistencies

- Financial oversight: Community stakeholder representation on the board
- CEO performance evaluation: remuneration for board members
- Adopting recommended practices: gov funding dependence
- Strategic planning: board independence and minority-group representation on the board
- Board human capital: board size

Discussion

- Research questions: **two governance logics** underlie the **two different approaches to researching** governing effectiveness of nonprofit boards

Descriptive approach

- board variability in predicting organizational output measures

Normative approach

- variability in **"best"** board practices such as those of Sarbanes-Oxley Act.
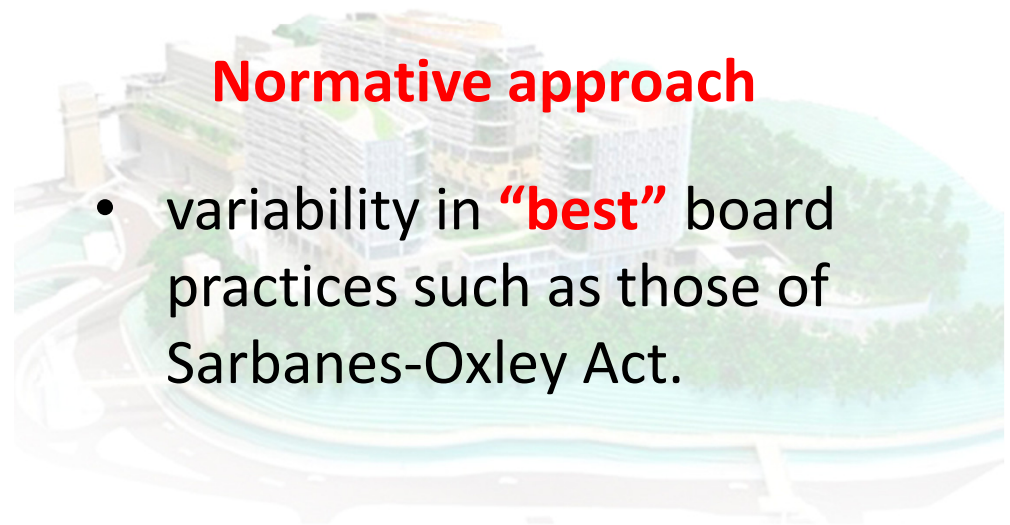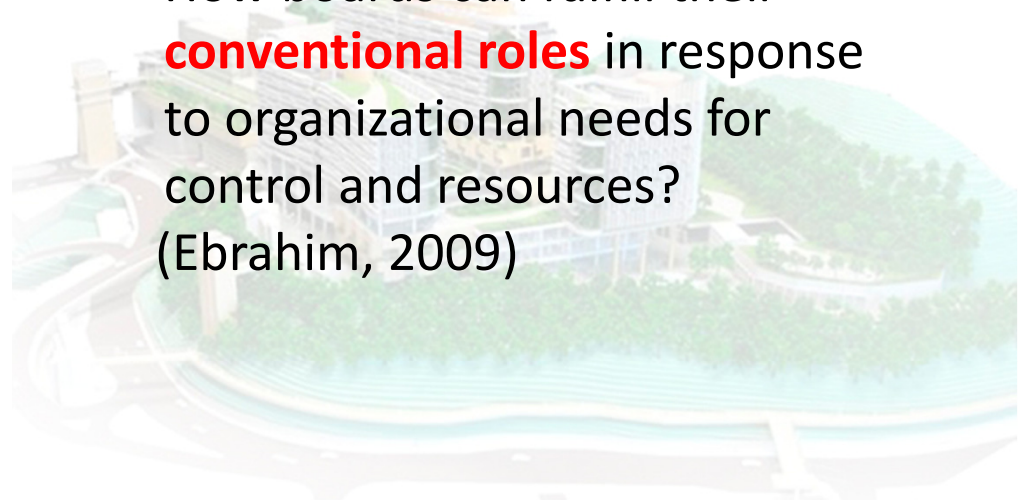
Discussion (Cont.)
Locus of nonprofit accountability

Descriptive approach

- nonprofit accountability lies on the organizational level

- How boards can be more effective in making nonprofits more accountable in response to stakeholders' demands?

- In line with public governance approaches to nonprofit accountability
  (Stone & Ostrower, 2007)

Normative approach

- nonprofit accountability lies on the board level

- How boards can fulfill their **conventional roles** in response to organizational needs for control and resources?
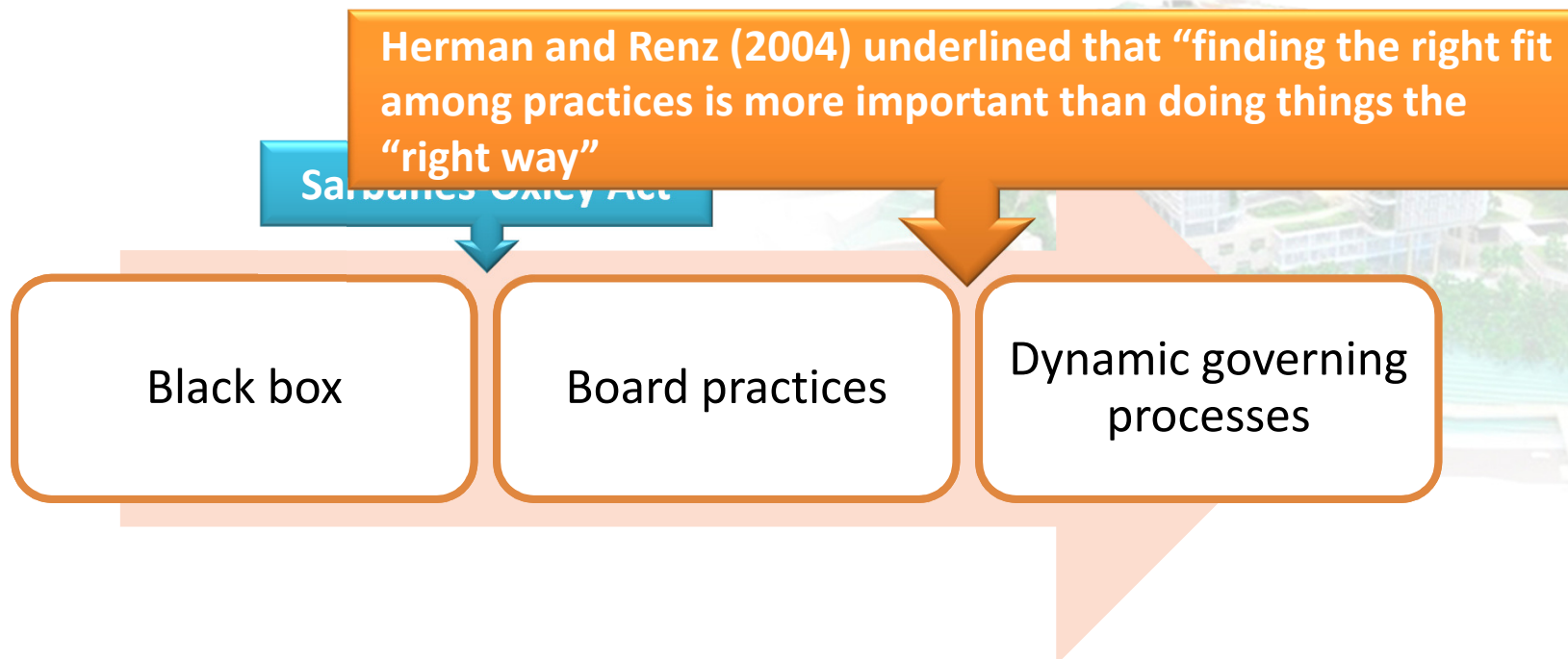 (Ebrahim, 2009)

Discussion (Cont.)

- **Two types of research questions are not mutually exclusive**
  - The normative approach to governing effectiveness of nonprofit boards is premised on traditional functions of boards (i.e., best practices from for-profit sector)
  - Nonprofit organizations have more roles than for-profit organizations do in the society

- **Calling for a holistic picture of governing effectiveness of nonprofit boards and nonprofit accountability**

Discussion (Cont.)

- There has not been much change in the nature of research questions over the past ten years;

- **The development took place in the scope of factors** researchers chose to explain governing effectiveness of nonprofit boards

Herman and Renz (2004) underlined that "finding the right fit among practices is more important than doing things the "right way"

Sarbanes-Oxley Act

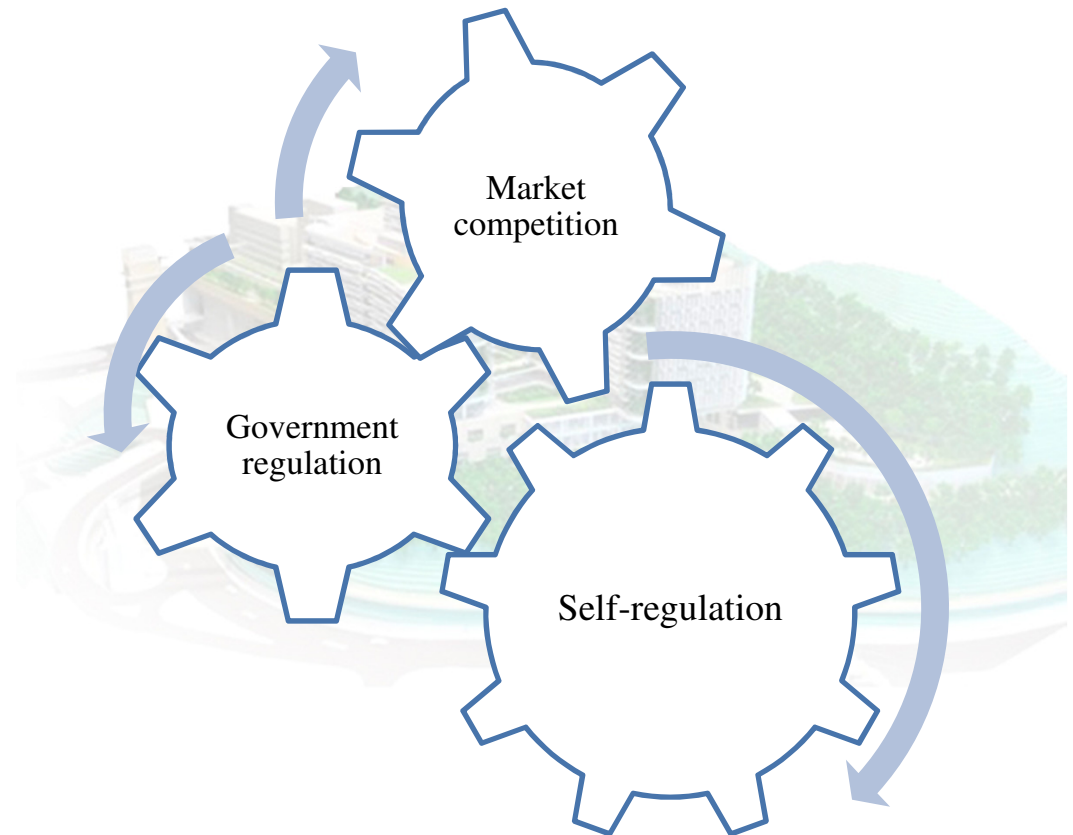| Black box | Board practices | Dynamic governing processes |

Discussion (Cont.)

- **Dynamic processes** of board governance
  - Externally: institutional theories, resource dependence theory
  - Internally: agency theory, stewardship theory, team theories and shared leadership theory

- Given the limited explanatory power of task-related board practices, we call for more research on **internal processes of board governance**:
  - board as a team (Brown, 2005; Fredette & Bradshaw, 2012; Nicholson et al., 2012),
  - shared leadership in the board room (Pearce & Conger, 2003).

Discussion (Cont.)

- More research on the **governing disposition of nonprofit boards** is needed.

  – Compliant (if government regulation were strong)

  – Adaptive (if market competition were strong and government regulation is weak)

  – Professional (if both were weak)

Thank You!

Q & A

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