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**Governing Effectiveness of Nonprofit Boards:  
A Systematic Review of Research in the Past 10 Years**

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## **ABSTRACT**

The global economic downturn and ensuing challenges to the nonprofit sector in recent years call for more accountability and better board governance. Using a systematic review approach, we attempt to take stock of research on governing effectiveness of nonprofit boards of the past 10 years. The databases used in the study were those included in the ISI Web of Knowledge—SCI-EXPANDED, SSCI, A&HCI, CPCI-S, CPCI-SSH. Search terms were nonprofits, boards and effectiveness and their derivatives. 120 peer-reviewed journal articles were reviewed and coded. Findings were synthesized and reported in terms of research questions. Inconsistencies in the findings were identified. Implications of a holistic review of nonprofit accountability and more research on internal team process in the boardroom are drawn.

Over the past decade, the nonprofit sector has been confronted with growing demands, oftentimes competing, from government regulators, taxpayers and philanthropists for accountability such as service quality, transparency and efficiency of resource allocation and social impact (Kim, 2005; Ebrahim, 2010). Additionally, global economic recession exacerbates social problems and tensions, leading to not only resource shortage but also tremendous shifts in policy and funding (Smith, 2010). How can nonprofits maintain viability and be held accountable at the same time? This poses a big challenge to nonprofit governance. Boards of directors play a critical role in nonprofit governance. Boards are not only entrusted with the responsibility of nonprofits' performance but also the key gatekeeper of public resources. Therefore, a strategic question for nonprofits is how boards can be effective in ensuring nonprofits being accountable in the face of aforementioned challenges?

Public governance scholarship is trying to keep up with the fast changing social-economic and political environments. To explain nonprofits behaviors and effectiveness, various "governance theories" have been proposed, examined and criticized (Miller-Millesen, 2003). In this heated debate of the robustness of governance theories in different policy domains (e.g., health care, education and research, arts and culture), governing effectiveness of nonprofit boards has become a central topic in the literature of public governance. However, there is a lack of a holistic understanding of the literature and what factors might be contributing to inconsistencies of findings.

Accordingly, we attempt to review studies of the past ten years on governing effectiveness of nonprofit boards, using a systematic review approach. We hope this review can facilitate our understandings of underlying mechanisms of board effectiveness in relation to nonprofit accountability.

### **Nonprofit Accountability and Board Governing Effectiveness**

Discussion of accountability usually boils down to two basic questions: "accountable for what" and "accountable to whom" (Stone & Ostrower, 2007). These two questions are inseparable. Specifically, organizations should be held accountable for their behaviors and performance which are required or expected by stakeholders to whom nonprofits are accountable to (Herman & Renz, 1997, 2008). In the nonprofit sector, there are many stakeholder constituencies, such as service users, government regulators, donors, and they all have same but different expectations on nonprofits "same" refers to same ultimate humanistic goals; "different" means different priorities and strategies.

Among the many roles of nonprofits expected by multiple stakeholder constituencies, one

role is particularly prominent—service delivery. In a relatively short history of third sector development, nonprofits gradually take on a role which is complementary to government, filling gaps in public services. As social-economic problems grow more complicated, the implementation of policy should have enough variation to cater to different situations (Stone & Sandfort, 2009). Nonprofits are expected to contribute more beyond merely delivering services, for example, to advocate interests of service users or communities, to provide feedback on the effectiveness of policies (Stone & Ostrower, 2007). In addition, recognizing vibrant forces on the supply side of the nonprofit sector, Frumkin (2002, p 21) emphasized that “nonprofit organizations have a logic that is far more complex than a simple response” to demands resulted from government and market failures. He maintained that nonprofits also serve as a vehicle for social entrepreneurship and active citizenship (e.g., giving and volunteering).

In light of the multifaceted nature of nonprofit accountability, government regulation and market competition might not be sufficient, which calls for self-regulation (Bies, 2010). Boards of directors are an important force of nonprofit self-regulation. Their governing effectiveness is a critical factor of nonprofit accountability.

## **Research Objectives**

The purpose of this paper is to deliver a systematic review of the literature on this topic in order to make the following contribution. We provide the first comprehensive review on governing effectiveness of nonprofit boards. Thus, this paper is an attempt to systematically chart out, the theoretical conflicts, knowledge gaps and inconsistencies that exist in research on governing effectiveness of nonprofit boards in the past ten years. Based on the identification of these knowledge gaps and inconsistencies in the current state of the literature, we suggest promising paths for future research on governing effectiveness of nonprofit boards.

## **METHODOLOGY**

### **Rationale of Choosing Systematic Review as a Methodology**

In response to the call for methodological rigor of reviews of the management literature (Tranfield, Denyer, & Smart, 2003), we undertook a systematic review approach to evaluating the contribution of a given body of literature. A systematic review uses an explicit algorithm, as opposed to a heuristic, to perform a search and critical appraisal of the literature. Systematic reviews improve the quality of the review process and outcome by employing a

transparent and reproducible procedure (Tranfield, Denyer, & Smart, 2003).

## **Data Collection**

### *Procedure*

We followed Tranfield et al. (2003) three stage procedure: planning, execution, and reporting. During the planning stage, we defined the objectives of the research and identified the key data source. We chose to limit our sources to peer-reviewed journals. The ISI Web of Knowledge's databases, including SCI-EXPANDED, SSCI, A&HCI, CPCI-S, CPCI-SSH, were chosen to be the databases of record. We limited our search to studies published in the past 10 years in the databases at the time of the research from 2002-06-30 to 2012-06-30.

### *Formulating Search Strategies*

The second stage of our systematic review process, execution, consists of four steps: (1) identifying initial selection criteria –search terms; (2) coding; (3) classification and typology of the results; (4) synthesis. The search terms that we identified were 'nonprofit', 'board', 'effectiveness' and their derivatives. The derivatives for nonprofit included nonprofit\$, not-for-profit, non-for-profit, non-profit\$, non-governmental, nongovernmental, NGO\$, NPO\$, voluntary organi?ation\$, charitable organi?ation\$ or charit\*. The derivatives of boards were board\$, executive committee\$ or management committee\$. The derivatives of effectiveness were effectiveness, performance, accountabilit\* or accountable. The asterisk (\*) represents any group of characters, including no character. The question mark (?) represents any single character. The dollar sign (\$) represents zero or one character. Articles of which title, abstract and author keywords containing above search terms and derivatives were included.

### *Inclusion and Exclusion Criteria of Papers*

The inclusion criteria were determined in terms of language, article types and research questions. The articles included in the search were all in English. Book chapters and conference proceeding papers were excluded. This resulted in an initial sample of 120 articles. There were 8 articles of which no full text could be found. Since we wanted to synthesize research findings, only empirical studies were included. 15 theoretical articles were excluded accordingly.

We then examined research questions of each article which had to be related to nonprofit accountability and boards. 7 articles had totally unrelated research questions. 7 articles which discussed corporate philanthropy and corporate social responsibilities (CSR) were excluded. We also excluded another 18 articles which reported findings related to only boards (i.e.,

within boards conflicts) or organizational performance (e.g., program output, program impact), or public governance. Findings of remaining 65 articles were synthesized and reported.

## **Data Analysis**

### *Coding Framework and Data Synthesis*

Articles were coded at two stages. The coding framework used in the first stage was to extract information regarding research questions/objectives, theoretical basis /stance, hypotheses (if quantitative studies and case studies), country, industry, research methods, independent variables, dependent variables, control (confounding) variables, sampling methods and period, data sources, unit of analysis (organization, board members, CEOs, service users), data analysis methods, results and implications. At the second stage, we synthesized results by looking at typology of research questions and patterns of research findings in relation to governing effectiveness of nonprofit boards.

### *Raters*

The investigators coded the 120 papers independently after a pilot coding exercise which was to ensure coding consistency. Papers were ordered from “newest” (i.e., published later) to “oldest” (i.e., published earlier). One investigator coded the odd-numbered ones while the other coded the even-numbered ones. One investigator had a professional background (a Ph.D. degree) in accounting and the other investigator had a professional background (a Ph.D. degree) in organizational behavior. Inconsistencies in coding were discussed with a professor in public administration until consensus was reached.

### *Finding Reporting*

First, we present a brief summary of research types in terms of methodology. Second, we classify research questions or foci of the past 10 years concerning governing effectiveness of nonprofit boards. Third, in terms of each type of research questions, we describe findings and identify inconsistencies. Third, we discuss missing links which might explain the variations of findings.

## **RESULTS**

### **Descriptive Results (%) of Research Types in Terms of Methodology**

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

experiments). Since the majority of quantitative studies are cross-sectional, we suggest that readers treat the relationships reported here as correlational rather than causal. Although some studies used archived panel data to test hypotheses, the data were treated as cross-sectional data.

### **Descriptive Results (%) of Types of Research Questions / Foci in Relation to Governing Effectiveness of Nonprofit Boards over the Past 10 Years**

In the past ten years, research questions concerns governing effectiveness of nonprofit boards can be categorized to two major types: how to explain organizational performance variability and how to explain board functioning variability. Half of reviewed studies (51%) asked research questions of the former type, attempting to establish links between board practices and nonprofit performance (e.g., financial efficiency ratios, number of users). The other half of studies (49%) focused on nonprofit boards of which practices were examined on normative logics of effective governance (e.g., effective internal controls). In the following two sections, findings are presented respectively in terms of each type of research questions.

### **Linking Board Functioning with Nonprofit Performance**

Among the 33 articles which incorporated measures on the organizational level in evaluating governing effectiveness of nonprofit boards, objective measures of organizational output (e.g., number of service users and programs), financial health and stakeholder representation, as well as subjective measures (e.g., satisfaction) of overall organizational performance and service quality were used. As to antecedents of nonprofit performance, a series of board-related factors were tested with other regulatory factors (e.g., competition) and institutional influences (e.g., ownership types) being controlled.

We sorted findings with regard to each kind of organizational indicators. The most often used kind of organizational indicators were financial measures, including efficiency ratios (e.g., allocative efficiency, administrative efficiency) and operating budget growth. The popularity of financial efficiency ratios illustrates the nature of nonprofits. 44% of 33 articles used financial measures in evaluating board governing effectiveness. The board-related factors contributing to nonprofit financial health were strategic planning and positioning, stakeholder engagement, public relations, fund raising, transparent financial oversight, board training, a good boardroom culture (e.g., chairperson leadership, shared visions and missions, information sharing, mutual trust, balanced decision-making processes), and board structural factors (e.g., a bigger board, donor representation on the board, women CEOs).

These board practices were to enforce financial efficiency to support current programs and to ensure sufficient financial resources for service expansion. Interestingly, some studies (3 studies) revealed that board independence and community stakeholder representation on the board would undermine financial health. All of the three studies were conducted on foundations or microfinance organizations.

Another popular kind of organizational output measures was service delivery. 30.3% of the 33 studies adopted service quality, number of service users or clients, number of programs or program variety as indicators of nonprofit governing effectiveness. The systematic review shows that strategic priority on service and related written performance expectations on CEOs/EDs/MDs, 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). Half of studies incorporating service-related output measures were conducted in health care industries.

It is worth noting that, for microfinance institutions, board independence and community stakeholder representation on the board were positively related to number of clients, on the one hand, and negatively associated with financial health, on the other hand. This suggests board members might be oblivious to risks entailed by low-credit clients in order to pursue social goals (e.g. outreach). In addition, the CEO-Chairperson duality was also found to be positively related to number of clients. It also suggests risk taking behaviors of management staff in microfinance institutions where one of major income sources is interest, fee and commission from loans. Therefore, it is important that nonprofit microfinance institutions are aware of risks entailed by CEO-Chairperson duality and particularly, board independence in spite of it being a normative practice among nonprofits. Nonprofits boards must strive for a balance between social goals and financial health in achieving sustainable development.

Not widely used as it might have been, the representation and advocacy role of nonprofits was examined in 3 studies (out of 33 studies). The findings show that democratic board nomination modes and low government funding dependence contributed to the representational capability of nonprofits. More research is needed to describe nonprofit representation behaviors. Last but not least, many studies (30.3% of 33 studies) also used a subjective measure (e.g., satisfaction) of overall organizational performance to judge nonprofit board governing effectiveness. Board practices associated with overall performance are consistent with the ones aforementioned.



## **Examining Board Functioning against Normative Logics of Board Governance**

After presenting findings associated with organizational output measures of nonprofit, we turned to the second kind of studies of which governing effectiveness was evaluated by how well boards adopt certain practices. Among the 32 articles, in addition to a subjective measure of overall board performance, eight “best” practices appeared in the research over the past ten years. They are financial oversight, program evaluation and quality control, CEO performance evaluation, adopting recommended practices of Sarbanes–Oxley Act, strategic planning and safeguarding missions, fund raising, public relations and board members and top management team engagement.

These 32 studies examined a variety of factors which might contribute to board practices. We sorted findings and present them respectively in terms of each kind of practices. For overall board performance, 17 articles used it as a measure of governing effectiveness of nonprofit boards. The factors positively associated with this indicator were mainly consistent with those related to the judgment of overall organizational performance of nonprofits.

However, there were three factors accounting for additional variance of the judgment of overall board performance. They were role ambiguity as board members, labor division in the boardroom and working experiences as a board member (e.g., tenure, number of directorships). Specifically, overall board performance was usually judged by board members (including chairpersons) and/or CEOs. Accordingly, perceived role ambiguity by board members is likely to cloud their judgment of overall board performance. Clear labor division in the boardroom, not only between board members and CEOs but also among board members, were found to be conducive to board functioning regardless of free-riding behaviors in bigger boards. As to working experiences as a board member, the more board working experience a person had, the better the person would know board tasks and the more confident the person would feel in performing these tasks. This suggests a need for board training and good planning of nonprofit board governance.

As to financial oversight, board independence, donor representation on the board, a bigger board, expertise diversity among board members and a good boardroom culture (e.g., information sharing, trust) were identified by 31.25% of 32 studies to be conducive to this board function. Two studies revealed a potential risk for boards’ efficient financial oversight post by community stakeholder representation on the board—a similar risk for financial health of nonprofits. With regard to program evaluation and quality control examined by 3 studies, we found that it was critical that board members having expertise in provided

services after controlling for funding dependence and program diversity.

For CEO performance evaluation examined by 7 studies (out of 32), findings reveal that boards performed this task better when there were clear goals and standards, more involvement of stakeholders, more experienced board members and a good boardroom culture (e.g., information sharing, mutual trust). In addition, remuneration for board members, though a controversial practice, was found to have inconsistent effects on CEO performance management. One study indicated a positive effect on a premise that paid board members are more motivated to regulate management behaviors, while the other one maintained that paid board members might indulge the management to pursue financial goals. More research is needed in this area.

Regarding boards adopting recommended practices of Sarbanes–Oxley Act investigated in 7 studies, we found that bigger organization size, programs diversity and funding independence were major factors. However, it was also revealed that “public” nonprofits which were more dependent on government funding or had politicians sit on the board might be less likely to adopt recommended practices. This implies a bigger institutional pressure for “private” nonprofits which are more independent from government to gain legitimacy in public opinions.

The other four practices are less regulation-oriented and more service-oriented. First, 31.25% of 32 studies examined the strategic planning function of nonprofit boards and suggested that stakeholder engagement, transparent and balanced decision-making processes, establishing strategy-aligned standing committees and a good boardroom culture (e.g., collective vision, information sharing, and mutual trust) might be beneficial. There were also inconsistent findings regarding board independence and minority-group representation on the board. The negative relations between board independence and board strategic functioning were more likely to be found among foundations and microfinance institutions where independent board members might be more concerned about achieving social goals. Minority-group representation on the board might be helpful in understanding the needs of communities, particularly for those with a significant population of minority groups. On the other hand, as indicated by these studies, it might also increase the chance of intragroup conflicts in decision-making processes because of diverse values of board members. This again calls for the cultivation of a good boardroom culture.

Second, 5 studies looked at the fund raising function of nonprofit boards and found that clear visions and missions, strategic positioning, a bigger board were positively associated with better fund raising performance. Third, only a few studies (3) examined boards’ functioning

in terms of public relations or gaining stakeholder support. It was found that a bigger and more independent board with good chairperson leadership was more likely to have better public relations or stakeholder support. Last but not least, board member and/or top management team engagement was also regarded in 28.1% of 32 studies as an indicator of governing effectiveness of nonprofit boards. Most findings pointed to the importance of having a good boardroom culture, particularly chairperson leadership (e.g., value relationships), 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. Moreover, an experienced board member (e.g., long tenure, multiple directorships, having expertise) is also more likely to show work engagement. It is interesting to note that board size does not necessarily mean a bigger human capital. One study found that the bigger the board size, the more likely board members to show free-riding behaviors.

## **DISCUSSION**

In this systematic review, the present study attempts to characterize research findings of governing effectiveness of nonprofit boards. Unlike government regulation and market competition, boards of directors can be an active force of governance of the nonprofit sector. Due to the global economic downturn in recent years and growing complexity of sociopolitical environments, the leadership of nonprofit boards plays a critical role not only in the partnership with government, filling gaps of public services but also in partnerships with other civil society organizations, driving self-governance of civil society.

### **Two Types of Research Questions**

We identified two types of research questions concerning the governing effectiveness of nonprofit boards. These two types of research questions were based on two different premises of what governing effectiveness is. One type linked board governing effectiveness with good organizational output measures, whereas the other type considered board governing effectiveness compliance with a range of recommended practices such as those by Sarbanes–Oxley Act. It would be a descriptive approach if studies used the former governance logic. For studies which were based on the latter premise, it would be a normative approach that they adopted to examining governing effectiveness of nonprofit boards.

These two different approaches might lead to different loci of nonprofit accountability. For the descriptive and the normative approaches, the locus of nonprofit accountability is on the organizational level and the board level respectively. In other words, for the descriptive type

of research, people were interested in how boards can be more effective in making nonprofits more accountable in response to stakeholder's demands such as better services, wider outreach and higher financial efficiency. This is also in line with public governance approaches to nonprofit accountability (Stone & Ostrower, 2007). Regarding the normative type of research, nonprofit boards were held accountable and people were interested in how boards can fulfill their conventional roles in response to organizational needs for control and resources (Ebrahim, 2009). Actually, these two questions are not mutually exclusive. Just as for-profit organizations have the need to survive, nonprofits have similar needs for control and resources but not only to survive but also to achieve their missions. Therefore, we contend that nonprofit boards have wider roles than for-profit boards. Through sorting these concepts, we hope to identify the missing links that enable us to see a holistic picture, rather than a fragmented one, of the body of research on governing effectiveness of nonprofit boards.

### **Development of Knowledge Concerning Governing Effectiveness of Nonprofit Boards**

The systematic review shows that there has not been much change in the natures of research questions over the past ten years. The development took place in the scope of factors researchers choose to explain governing effectiveness of nonprofits boards, from structural characteristics of boards, task oriented board practices, to relation-oriented board practices.

Specifically speaking, before the Sarbanes–Oxley Act was enacted in 2002, the governance logics of nonprofit boards were still intuitive and under the strong influence of agency theory developed in the private sector. As shown by many studies in 2002 and 2003, the governing effectiveness of nonprofit boards was still determined by how much variance of organization performance was accounted for by managerial pay differences (Hallock, 2002; Eldenburg, Krishnan, 2003). After the launch of Sarbanes–Oxley Act, the enhanced standards of corporate accountability, responsibility and financial reporting transparency have been an impetus to policy makers to consider whether nonprofits should be subject to similar types of governance requirements (Alexander, Young, Weiner, & Hearld, 2008; Iyer & Watkins, 2008). Accordingly, there was a significant increase of studies on nonprofit board practices. Descriptive studies were conducted to document nonprofit board practices and correlation studies were done to explain variability in board behaviors and nonprofit output measures. Board governance of nonprofit was no longer a black box.

As indicated in the review, various normative board practices (e.g., board independence) were tested in different nonprofit industries such as health care, culture and arts, microfinance, foundations and so on. Researchers found that adoption of normative board practices could

not consistently predict organizational performance, which calls for a closer examination of possible confounding variables. Herman and Renz (2004) also underlined that “finding the right fit among practices is more important than doing things the “right way”. Researchers turned their attention to the dynamic processes of board governance. The examination of governing effectiveness of nonprofit boards was expected to take into account interactions between board members and external networks as well as interactions within the boardroom.

With regard to the former kind of board behaviors, three theories were often used by studies. Institutional theories were employed to explain board compliant behaviors (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Resource dependence theory was proposed to explain boundary spanning behaviors of nonprofit board members (Pfeffer & Salancik, 1978). Stakeholder theory was used to underline boards’ role to represent stakeholders’ interests (Herman & Renz, 1997).

For dynamic processes within the boardroom, stewardship theory, as an adaptation of agency theory to the nonprofit setting, was put forward to highlight boards’ fiduciary role in advising and guiding the management to achieve organizational missions (Fama & Jensen, 1983; Jensen & Meckling, 1976; Vandewaerde, Voordeckers, Lambrechts, & Bammens, 2011). More importantly, a good board room culture, clear labor division and roles, balanced participative decision-making style were revealed to be critical prerequisites for board members’ engagement and governing effectiveness of nonprofit boards. This sheds light on the imperative need for a stronger collaboration and a shared leadership among board members and CEO as a team to ensure good organizational performance of nonprofits (Brown, 2005; Fredette & Bradshaw, 2012). Pearce and Conger (2003) defined shared leadership as “a dynamic, interactive influence process among individuals in groups for which the objective is to lead one another to the achievement of group or organizational goals or both”. Individuals in the team that are endowed with the greatest potential to satisfy team needs in a given situation should embrace the leadership role at that time. More research on internal team processes of boards is needed (Nicholson, Newton & McGregor-Lowndes, 2012).

## **CONCLUSION**

In this study, we attempted to review the past-ten year research of governing effectiveness of nonprofit boards. It appears that there were two major types of research questions with different premises on the definition of governing effectiveness. The descriptive and normative approaches to governing effectiveness of nonprofits also led to the confusion of who should be held accountable—locus of accountability. An expansion of board roles or functions in response to a broader accountability of nonprofits relative to traditional roles developed for

for-profit organizations was identified to unite the two schools of opinions and provide a holistic picture of nonprofit board roles. In addition, the review on factors contributing to the functioning of boards suggests that it is imperative to develop research on shared leadership within the boardroom.

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