Exploring the Association Between Board and Organizational Performance in Nonprofit Organizations

William A. Brown

Note: *This study investigated six dimensions of effective board performance, as suggested by Chait, Holland, and Taylor (1991), in relation to three theoretical explanations (agency theory, resource dependency theory, and group/decision process theory) of how board governance activities potentially influence organizational performance. Survey research findings revealed that strategic contributions from the board are more robust in organizations with higher financial performance. In addition, organizations that are judged to be higher performing also reported having high-performing boards across all dimensions. In particular, the interpersonal dimension provided a unique explanation of judgments of organizational performance.*

Extensive research and practice in nonprofit governance is based on the premise that well-performing boards coincide with well-performing organizations. Herman and Renz (2000) recognized that effective boards improve organizational performance, although the mechanisms of that change are not yet understood. The empirical assessment of both board and organizational performance has been challenging, making accurate understanding of these concepts difficult. Herman, Renz, and Heimovics (1997, p. 374) state that "the major challenge in the study of board effectiveness is the lack of criteria for defining and measuring board effectiveness. The elusiveness of board effectiveness is further aggravated by the elusiveness of organizational effectiveness for nonprofit organizations." Existing research has found significant relationships between board and organizational effectiveness, but much work remains to be done to establish the nature and causal direction of these relationships (Herman and Renz, 1999; Stone and Cutcher-Gershenfeld, 2001).

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Existing understanding of nonprofit board performance has tended to be practitioner based, that is, atheoretical and anecdotal. Ostrower and Stone (forthcoming, p. 39) contend that "the development and application of additional, theoretically grounded perspectives to the analysis and interpretation of the data" will extend our understanding of the relationship between board and organizational performance.

This study reviewed three theoretical explanations of why board performance should have an impact on organizational performance in relation to the six dimensions of effective board performance proposed by Chait, Holland, and Taylor (1991). The association between board and organizational performance was explored through a survey of two hundred nonprofit organizations. The theoretical discussion and empirical testing extend previous understanding of the association between board and organizational performance by finding support for each theoretical model.

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Organizational Performance

The challenges of understanding nonprofit organizational performance have been addressed in more detail by Herman and Renz (1999) and Forbes (1998). There are several significant limitations to measuring performance in nonprofits. For one, nonprofit status itself limits the accuracy of relying strictly on financial performance indicators. Furthermore, the ambiguous nature of goals held by nonprofits mitigates universal criteria. Consequently, there is no easy answer to understanding performance; rather, each method provides one perspective on performance. Herman and Renz (1997) suggested that performance in nonprofit organizations is socially constructed and that any determination of performance is influenced by whom you ask. Similarly, Ostrower and Stone (forthcoming) contend that assessments of performance must move beyond relying solely on perceptions of executives. Consequently, the assessment of nonprofit organizational performance is achieved by developing a reasonable set of criteria and having various knowledgeable individuals provide their perceptions on an organization's accomplishments. Such questions would cover areas related to mission or goal accomplishment and constituent benefits. This was basically the strategy that Nobbie and Brudney (2003) used to assess goal attainment in organizations that had implemented policy governance practices. Limitations of this strategy are that multiple perceptions can be contradictory and reflect respondent bias.

The alternative is to rely on financial performance indicators. Ritchie and Kolodinsky (2003) reviewed several financial performance measures for nonprofits and suggest three financial ratios as viable performance indicators for nonprofits: fundraising efficiency, public support, and fiscal performance. A review of the studies presented in this article also finds multiple assessment strategies. For instance, Green and Griesinger (1996) used researcher judgments, accreditation records, and judgments of executives and board members in sixteen nonprofit organizations. Herman and Renz (1997) used judgments of multiple constituents on sixty-four nonprofit organizations. Jackson and Holland (1998) used total revenue, annual operating budget, and financial reserves as measures of financial performance. Olson (2000) used total revenue and gift income. Measures of budget size or revenue are problematic because they reflect the bias that larger organizations are more successful, which may not necessarily be accurate. Larger organizations do tend to have more formalized board practices (such as job descriptions) and tend to have larger boards (Cornforth and Simpson, 2002), which may contribute to more effective board practices. No one measure of organizational performance in nonprofit organizations effectively captures the concept entirely, but using various measures and perceptions from different constituents begins to address these limitations. This is revealed in the next section, which reviews how different measures are used to demonstrate the relationship between board and organizational performance.

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Board Performance and Organizational Performance

Several theoretical perspectives help explain how and why boards might influence organizational performance. Agency theory is the most prominent theoretical explanation for how boards contribute to improving organizational performance in the corporate governance literature (Dalton, Daily, Certo, and Roengpitya, 2003; Dalton, Daily, Ellstrand, and Johnson, 1998; Miller 2002; Olson, 2000). There is a growing recognition that agency theory, however, falls short of adequately capturing all the implications for how corporate and nonprofit governance benefits organizations. To enhance the understanding of how boards can improve organizational performance, Hillman and Dalziel (2003) recommended including the principles of resource dependence theory. Miller-Millesen (2003) similarly recognized both agency theory and resource dependency theory as fundamental to understanding nonprofit board performance. In addition, Miller-Millesen recognized institutional theory as potentially informative for understanding nonprofit governance. Hillman and Dalziel conceptualized resource dependence theory as encapsulating many of the benefits recognized by Miller-Millesen in explaining institutional theory, such as providing legitimacy to the organization. Consequently, this article will not address institutional theory, but rather suggests that group and decision process theories may be instructive for understanding how board performance can influence organizational performance (Quinn and Rohrbaugh, 1983; Seashore, 1983). Group and decision process theories recognize the importance of understanding social processes that guide behavior on boards. This has implicitly guided much of the work on nonprofit board governance, which has looked at which behaviors on the board are suggestive of leading to effectiveness (Green and Griesinger, 1996). Decision process theories have received less attention among corporate governance scholars, although it is increasingly recognized that addressing these issues might better explain board and organizational performance (van Ees, van der Laan, and Postma, 2004).

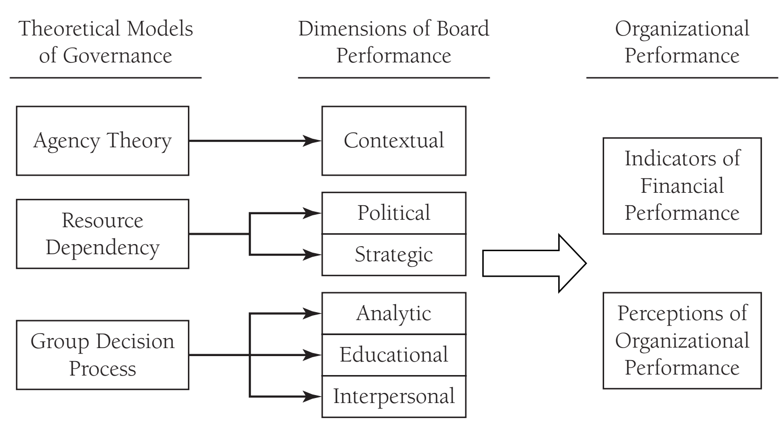
Miller-Millesen (2003) provided an excellent synthesis of the major board functions and how they relate to the theoretical rationales of board performance. The work of Chait, Holland, and Taylor (1991), which used an inductive approach to identify six competencies of effective boards—contextual, educational, interpersonal, analytical, political, and strategic—has not been reviewed in relation to the prominent theoretical perspectives to consider how and why these dimensions might contribute to organizational performance. This article will contribute to understanding the association between governance and organizational performance by exploring the six board competencies that Chait, Holland, and Taylor (1991) suggested in relation to three significant theoretical frameworks of nonprofit governance and then test those assumptions on a sample of nonprofit organizations to determine the extent to which the dimensions of board performance are related to indicators of organizational performance (see Figure 1).

Group and decision process theories recognize the importance of understanding social processes that guide behavior on boards.

Agency Theory

In the corporate governance literature, agency theory is by far the framework most frequently used to link board performance to organizational performance (Daily, Dalton, and Cannella, 2003). Agency theory posits a conflict relationship between the board and the executives. It is the board's duty to monitor the self-interested behavior of executives (that is, management) to ensure stockholder (the owners') interests. In principle, the theory suggests that as board member interests are aligned with those of stockholders, they will be

Figure 1. Relationship Between Models of Governance, Board Performance, and Organizational Performance



more vigilant in the monitoring tasks. This is accomplished by providing incentives to board members (such as stock ownership) and by distancing board members from management (for example, by limiting insiders). Insiders are typically those with significant ties to management, such as former or current executives of the organization (Fama and Jenson, 1983).

Empirical support for the association between boards that uphold the high standards of monitoring practices and improved organizational performance is mixed (Hillman and Dalziel, 2003). Olson (2000) investigated governance and financial performance at independent nonprofit colleges and proposed that increased board size, longer average tenure, and extensive business background of board members are factors that strengthen the board's ability to monitor (larger board size), be less influenced by managerial directive (longer tenure), and hold the expertise needed for difficult financial decisions (more business background). Total revenue and gift income were the two financial measures used. Olson concluded that decision control facilitated by tenure and expertise did have a positive influence on financial performance. Increased board size and its association with increased gift income suggest support for agency theory and also a resource dependency model that implies that more board members bring more resources. In another study exploring agency theory principles in nonprofits, Callen, Klein, and Tinkelman (2003) found a positive association between major donors on the board and indicators of organizational efficiency. This finding supported the contention of Fama and Jenson (1983) that major donors perform a monitoring function that is motivated by their "investment" in the organization. They potentially become advocates to ensure organizational efficiency because they are financially committed to the organization.

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Other research with nonprofit boards has shown an association between monitoring activities and various conceptions of performance. For instance, Green and Griesinger (1996) found that financial management activities and the monitoring of programs and services had some of the strongest correlations to measures of organizational performance. Herman and Renz (1997) found that boards with a specific process for evaluating the CEO's performance were more likely to be present in effective organizations. In general, however, work with agency theory has provided mixed results on the association between board performance and indicators of organizational performance, and its applicability to nonprofits has been debated (Miller, 2002). A meta-analysis provided no conclusive support for the major contentions of agency theory in corporate governance (Dalton, Daily, Certo, and Roengpitya, 2003; Dalton, Daily, Ellstrand, and Johnson, 1998). Two conclusions drawn from this extensive work with agency theory is to augment the model with additional theoretical explanations such as resource dependency theory (Hillman and Dalziel, 2003) and to consider more process indicators of board performance (Daily, Dalton, and Cannella 2003), both of which will be discussed in the next section.

In nonprofit organizations, agency theory propositions might be explained by adherence to mission or purpose. Legally, nonprofit boards are responsible to fulfill a duty of obedience, which essentially means that the directors are responsible to ensure that the organization fulfils its public responsibility as reflected in its organizational mission (Sasso, 2003). They should not allow the organization to engage in activities outside their bylaws or statutes, and consequently oversight is not just financial but reflects the need of the board to ensure that the organization does not inadvertently move from the social rationale for its existence. The board provides direction, but it also recognizes the historical precedence of the organization and its reason for being. Within the work of Chait, Holland, and Taylor (1991), the contextual dimension reflects the board's monitoring function. This dimension recognizes the importance of honoring historical precedence and mission direction of the organization. The board is expected to understand the professional context of the organization's operating environment and use the capabilities in the organization, including philosophical values. Therefore, boards serve a monitoring and accountability function by actively linking decision making to organizational mission. The contextual dimension reflects one aspect of the monitoring functions proposed by agency theory and a unique function for nonprofits.

In addition to performing monitoring and control functions, the board is adding value by bringing resources.

Resource Dependency Theory

Resource dependency theory suggests that boards function as a resource for organizations (Pfeffer and Salancik, 1978). Hillman and Dalziel (2003) proposed an integrated perspective that acknowledges limitations in agency theory and that boards function as resource catalysts for organizations by providing linkages to necessary resources, for instance, providing legitimacy, advice and council, links to other organizations, and assistance in acquiring resources. Hillman and Dalziel (2003) discussed the concept of board capital, which combines human capital (expertise, experience, and reputation) and relational capital (networks and linkages to external constituencies). Resource dependency perspectives investigate, for instance, how board members provide connections to influential funders (private and public), bring technical competencies (financial or legal, for example) to an organization, and provide strategic direction for the organization. In addition to performing monitoring and control functions, the board is adding value by bringing resources.

Bielefeld (1992) and others (Adams and Perlmutter, 1995) recognized the role of the board of directors in cultivating and maintaining multiple fund development strategies and posited that engagement in those activities should be related to improved performance. Green and Griesinger (1996) found that boards that engaged in resource-related activities, such as involvement in fundraising and making personal financial contributions, were more likely to be associated with measures of improved organizational performance. Similarly, Herman and Renz (2000) found that expectations of giving and soliciting funds by board members were present in boards of the more effective organizations when compared to less effective organizations. Provan (1980) looked at the power board's ability to attract scarce resources and its ability to acquire funds. Board power included board prestige, which was operationalized as the percentage of members listed in the social registry and living in high-income areas, and board linkage, which was measured by links with other human service agencies and links with other United Way boards. Board power was a predictor of the ability to attract large amounts of money during any one period but unrelated to the ability to increase resources over time (Provan, 1980). Similarly, Herman and Renz (2000, p. 157) found that "especially effective nonprofits do have more prestigious boards."

In relation to the characteristics proposed by Chait, Holland, and Taylor (1991), the political dimension recognizes the fundamental importance of the board's connection to the community. This dimension recognizes that the board must maintain and establish relationships with key constituencies and be a vocal advocate for the organization. These relationships should bring financial resources by expanding contacts with donors as well as public relations benefits by having the board function as boundary spanners into the community. High-visibility boards could bring a sense of legitimacy to the organization by working with or representing key stakeholders.

It is the ability to guide long-term direction that is potentially the most significant asset boards can bring to an organization.

Furthermore, a growing stream of research recognizes the strategic contribution that boards can provide to an organization (Bradshaw, Murray, and Wolpin, 1992; Green and Griesinger, 1996; Ingley and Van der Walt, 2001; Siciliano, 1997; Stone and Cutcher-Gershenfeld, 2001). It is the ability to guide long-term direction that is potentially the most significant asset boards can bring to an organization. Green and Griesinger (1996) found that strategic planning was more likely to be present in effective organizations. This is consistent with Bradshaw, Murray, and Wolpin (1992), Siciliano (1997), and Herman, Renz, and Heimovics (1997), who found that engagement in strategic planning activities significantly relates to performance judgments. Cornforth (2001) recognized that planning processes are assumed to result in effective strategic direction, and it is the guidance resulting from planning that reflects contributions of the board. According to Chait, Holland, and Taylor (1991, p. 95), the strategic dimension recognizes "a board's ability to envision and shape institutional direction" and that effective boards "sharpen institutional priorities and ensure a strategic approach to the organization's future." The third theoretical explanation relates to internal group processes, such as how boards make decisions and how board members interact.

Group/Decision Process Models

Group/decision process theories are primarily concerned with how information is managed and channeled (Quinn and Rohrbaugh, 1983; Seashore, 1983), how decisions are made, and how group members interact (Zander, 1994). The rationale is that as correct procedures and processes are fulfilled, the board will operate better and as a result will add value to the organization. The association with organizational performance is more tenuous because internal board procedures are more likely to be associated with board performance, and its association to various organizational performance measures has been less consistent (Brown, 2002). Implicitly and explicitly, decision process models have guided much of the current understanding of nonprofit board performance (Green and Griesinger, 1996). Three areas capture the preponderance of work that reflects an adherence to group/decision process theory: diversity and board composition studies, board development practices (such as training), and group dynamics (such as interpersonal relations).

Siciliano (1996) found that increased board member occupational diversity led to greater organizational performance with regard to social performance and fundraising.

Several studies of board composition suggest that increased board member diversity relates to organizational performance by providing boards with new insights and perspectives. Diversity could also be conceptualized within the resource dependency perspective by considering how bringing multiple individuals into a group brings additional resources, but here diversity is conceptualized as a group dynamic that is potentially beneficial. The contradiction is that increasingly diverse boards may lead to conflict and lack of consensus—hence, the importance of considering how diversity fosters or inhibits effective group processes. Siciliano (1996) found that increased board member occupational diversity led to greater organizational performance with regard to social performance and fundraising. In corporate governance literature, Erhardt, Werbel, and Shrader (2003) investigated board diversity and firm financial performance across several industries (manufacturing, financial service, and transportation and utilities) and found, after controlling for industry, that increased board diversity (gender and ethnic) does account for an organization's financial performance (return on investments and return on assets).

The analytical dimension recognizes the value of increased insights and perspectives and suggests that the board's "capacity to dissect complex problems and draw on multiple perspectives" is fundamental to effective performance (Chait, Holland, and Taylor, 1991, p. 59). This dimension is not necessarily based on diversity of composition, but the premise suggests that effectively led boards benefit from the multiplicity of voices, which is inherent in the argument for increased diversity. This dimension suggests that effective decision-making practices, such as considering both sides of an issue, are critical to effective board performance (Zander, 1994).

Of nearly equal importance in the nonprofit governance literature are board development functions. More effective boards are those that take care of some of their own needs, especially as they relate to training and membership roles. Herman and Renz (2000) found that boards that engaged in self-evaluations were more likely to be present in higher-performing organizations. Herman, Renz, and Heimovics (1997) found that the use of a board development committee, board self-evaluation of their performance, and assignment to a specific office or role for every board member was associated with CEOs' judgments of organizational performance. Green and Griesinger (1996) found that engagement in board development activities was associated with executives' perceptions of organizational performance.

This is related to the educational dimension, which observes that "effective boards take the necessary steps to ensure that trustees are well informed" and that boards "create opportunities for trustee (board member) education . . . seek feedback on their performance," and reflect on the board's mistakes (Chait, Holland, and Taylor, 1991, p. 26). These activities reflect a board that knows its roles, ensures new members are fully oriented, and actively seeks feedback on its performance. That information is used to make changes to procedures and structures to address weaknesses that contributed to poor decisions.

Finally, a relatively unexplored aspect of board behavior relates to the interpersonal dynamics within board meetings.

Finally, a relatively unexplored aspect of board behavior relates to the interpersonal dynamics within board meetings. As defined by Chait, Holland, and Taylor (1991, p. 42), the interpersonal dimension addresses "the board *as a group*. . . . Effective boards: (1) create a sense of inclusiveness; (2) set goals for themselves; and (3) groom members for leadership." Surprisingly, little research has specifically tried to investigate the governing board as a group in this manner, especially in relation to organizational performance indicators. Zander (1993, 1994) suggested that boards must address basic group processes to ensure the ability to optimize the talents of board members. Similarly, Bainbridge (2002) reviews group decision-making literature and concludes that several board practices (for example, formal agenda setting) help boards perform their functions more effectively. However, studies that explicitly link group dynamics of the board to organizational performance do not exist.

Research Questions

Agency theory, resource dependency theory, and group/decision process theory provide suggestions for how boards should operate, who should be included, and how the board should be structured. Boards that align with these principles should positively influence organizational performance. The six dimensions of board performance developed by Chait, Holland, and Taylor (1996) do not capture all permutations of structure and character suggested by the theories, but as the literature review revealed, they are a reasonable framework to explore associations between board and organizational performance. Organizational attributes, however, can influence the extent to which these dimensions are implemented and the extent to which organizations achieve optimal performance. Consequently, research question 1 seeks to determine if board and organizational attributes, such as size and structure, influence indicators of performance (for example, financial and board). Second, based on the argument that well-performing boards should coexist with well-performing organizations, research question 2 seeks to determine if there is a positive correlation between the six dimensions of board performance and the various measures of organizational performance. Furthermore, different theoretical proponents might suggest that certain functions, such as monitoring, are more salient than others to influence performance. Consequently, research question 3 seeks to determine which, if any, dimension is most likely to account for organizational performance indicators, thereby highlighting particularly relevant aspects of board performance as they relate to organizational performance. This results in the following three research questions (RQ):

RQ1: Are organizational and board attributes associated with board and organizational performance?
RQ2: Are the six dimensions of board performance correlated with organizational performance?
RQ3: Which dimensions of board performance are most likely to account for organizational performance?

Methods

Survey data from nonprofit executives and board members were collected in two geographical regions: greater Los Angeles and the Phoenix metropolitan area. The Phoenix metropolitan sample was drawn from a list maintained by a regional support center; the Los Angeles sample was drawn from the Los Angeles division of a multistate executive training program. A total of 538 organizations were invited to participate in the study. Executives were sent two surveys and instructed to complete one and to pass the second on to a board member. A reminder postcard was sent one week subsequent to the initial mailing, and a second instrument was sent to all nonrespondents ten days after the postcard. Postage-paid return envelopes were provided with each survey. A total of 304 (102 from Los Angeles and 202 from Phoenix) usable responses were received from 121 board members (22 percent response rate) and 183 executives (34 percent response rate) representing 202 organizations (38 percent organizational response rate). In 100 of those organizations, both the executive and board member responded. Supplemental financial information (IRS Form 990) was available on 169 organizations. Eighty-six organizations had responses from executives, board members, and financial data. Subsequent analysis will use various aspects of the sample to maximize analytical power.

The sample consisted of predominantly human service organizations ($n = 127$, 63 percent) according to the level 3 National Taxonomy of Exempt Entities (NTEE) classification system. The next most populous category was health care organizations (not hospitals; $n = 30$, 15 percent) followed by public benefit organizations ($n = 16$, 8 percent). The remaining 29 (14 percent) organizations were scattered across five other categories, including the arts ($n = 12$), foundations ($n = 5$), and education ($n = 7$). Although nonresponse bias is a concern, it is recognized that this is a convenience sample with inherent limitations on generalizability. The Phoenix and Los Angeles data sets were not significantly different in the types of organizations participating (chi square = 9.0, $df = 6$, p = n.s.), their size (as determined by number of staff), age, and number of board members. The organizations in the Phoenix sample were slightly more affluent, with larger average assets ($t = -2.17$, $df = 167$, $p < .05$) and revenues ($t = -2.30$, $df = 167$, $p < .05$). Board performance was measured with a slightly modified (some questions were removed to accommodate space limitations on the survey instrument) Board Self-Assessment Questionnaire (BSAQ; Jackson and Holland, 1998). Thirty-seven items assessed the six dimensions of effective boards. All scales demonstrated sound reliability, and a factor analysis confirmed the existence of a single factor within each dimension. In general, board members tended to rank board performance slightly higher than executives did. Consequently, analysis was conducted for each type of respondent (executives and board members; see Table 1). This is consistent with Green and Griesinger (1996) and Herman and Renz (1997), who found that different stakeholders provide different perspectives on performance; consequently, the associations between measures of board and organizational performance are often contingent on respondent.

In general, board members tended to rank board performance slightly higher than executives did.

Perceived organizational performance was assessed using a five-item scale drawn from the work of Herman and Renz (1997) and modified for this study (see the appendix for a complete list of questions). Responses were indicated on a five-point scale, with 5 being a high level of success and 1 being a low level of success. There was not a significant difference between board member and executive responses ($t = -1.31$, $df = 297$, $p = .19$). Alpha coefficient for the five items was .82. A factor analysis confirmed the existence of a single factor accounting for 59 percent of the variance.

Financial measures were available for 169 of the 202 organizations in the sample and were drawn from 990 Forms for the previous fiscal period. Several calculations were used in analysis and were drawn from the work of Ritchie and Kolodinsky (2003), Greenlee and Bukovinsky (1998), and Siciliano (1996). Financial performance was calculated by dividing total revenue (Form 990, line 12) by total expenses (Form 990, line 17). A measure of public support was calculated by dividing total contributions (Form 990, line 1d) by total revenue (Form 990, line 12). Fundraising efficiency was calculated by

Table 1. Board Self-Assessment Questionnaire: Comparison of Executive and Board Member Responses

		All Respondents (N = 304)				*Board Members (N = 121)*			*Executives (N = 183)*		
	Items	*Alpha*	*Mean*	*SD*	*t (df = 302)*	*Alpha*	*Mean*	*SD*	*Alpha*	*Mean*	*SD*
Overall	37	.95	2.97	.42	2.14*	.95	3.03	.42	.95	2.93	.42
Contextual	6	.78	3.22	.49	0.72	.79	3.25	.50	.77	3.21	.48
Analytical	7	.73	2.97	.41	2.52*	.71	3.05	.40	.73	2.93	.41
Educational	6	.76	2.67	.52	2.11*	.74	2.74	.52	.77	2.62	.52
Interpersonal	6	.77	2.96	.48	1.34	.77	3.00	.49	.77	2.93	.48
Political	6	.79	2.96	.49	1.75	.82	3.02	.53	.75	2.92	.47
Strategic	6	.85	3.03	.57	2.54*	.82	3.16	.52	.86	2.97	.58

*$p < .05$.

dividing total revenue (line 12) by fundraising expense (line 44d). In addition, net revenue (line 18, calculated by subtracting total expenses [line 17] from total revenue [line 12]) was used as another measure of financial performance.

Descriptive information about the organization and the board was also collected. This included board size and frequency of board meetings, which agency theory suggests reflects the capabilities of the board to perform the monitoring function: larger boards that meet more often are more capable of monitoring executive behavior (Olson, 2000). In addition, resource dependency theory suggests that larger boards might be more adept at supplying necessary resources. Organizational information included organizational age, staff size, and annual budget as reported by respondents within seven categorical options (1 = less than $250,000 to 7 = over $10 million).

The frequency of board meetings is not associated with any measure of board performance.

Results

Results are discussed in relation to the proposed research questions.

RQ1: Are Organizational and Board Attributes Associated with Board and Organizational Performance?

Some attributes of the board were related to board performance measures. Board size (number of board members) was not correlated to overall board performance ($r = .13$, $p = .06$), but larger boards were judged to be more contextual ($r = .19$, $p = .008$; $n = 194$) and more strategic ($r = .17$, $p = .02$; $n = 194$). This reflects the propositions of agency and resource dependency theory, which respectively suggest that larger boards are more adept at performing the monitoring function and providing resources (strategic direction). The frequency of board meetings is not associated with any measure of board performance.

Some organizational attributes were associated with effective board performance. There was a positive association between organizations with more staff and overall board performance ($r = .18$, $p = .02$, $n = 188$). Specifically, these boards were more contextual ($r = .16$, $p = .03$, $n = 188$), educational ($r = .15$, $p = .04$, $n = 188$), interpersonal ($r = .16$, $p = .03$, $n = 188$), and strategic ($r = .22$, $p = .002$, $n = 188$). An analysis of variance across budget categories revealed that in general, organizations with larger budgets reported higher levels of performance on the strategic dimension ($f = 3.09$, $df = 6{,}186$, $p = .007$). Organizations that reported the highest performance were actually those in the second largest budget category, but all organizations with budgets over $2 million reported scores of over 3.15, while organizations with budgets less than $2 million reported performance scores no higher than 2.94 on the strategic dimension. There was no other association between organizational size (budget or staff) and other board performance measures.

An analysis of board and organizational attributes revealed that there was no association with perceived organizational performance. However, organizations that have more staff showed improved financial performance ($r = .23$, $p = .004$, $n = 158$). Larger and older organizations tended to operate at a net surplus (staff, $r = .18$, $p = .03$, $n = 158$ and age $r = .28$, $p = .000$, $n = 162$). The only board attribute that demonstrated any association with outcome performance measures was board size, which revealed that larger boards were less efficient in reported fundraising expenses ($r = -.21$, $p = .04$, $n = 95$).

RQ2: Are the Six Dimensions of Board Performance Correlated with Organizational Performance?

Perceived organizational performance was positively associated with overall board performance.

The correlation between board performance and financial performance indicators is discussed first (see Table 2). The tendency of an organization to operate at a net financial surplus was positively correlated with overall board performance ($r = .17$, $p = .008$, $n = 254$). In addition, two dimensions, reflecting decision process theory, were positively associated with the tendency of an organization to operate at a net surplus: the analytic dimension ($r = .12$, $p = .05$, $n = 254$) and the interpersonal dimension ($r = .15$, $p = .02$, $n = 254$). Similarly, two dimensions associated with resource dependency theory were positively correlated with net revenue: the political dimension ($r = .17$, $p = .006$, $n = 254$) and the strategic dimension ($r = .20$, $p = .001$, $n = 254$). Higher financial performance was positively correlated with the tendency of a board to engage in strategic activities ($r = .14$, $p = .03$, $n = 254$). No other financial indicators were correlated with board performance.

Perceived organizational performance was positively associated with overall board performance ($r = .50$, $p = .000$, $n = 299$) and all the subdimensions (see Table 3). To control for potential

Table 2. Correlations Between Board Performance and Indicators of Financial Performance

Board Performance	*Public Support (N = 254)*	*Fiscal Performance (N = 254)*	*Fundraising Efficiency (N = 149)*	*Net Revenue (N = 254)*
Overall	−.08	.05	−.06	.17**
Contextual	−.05	.01	−.11	.11
Analytical	−.07	.03	−.02	.12*
Educational	−.08	−.03	−.03	.09
Interpersonal	−.09	.07	−.02	.15*
Political	−.04	.02	−.08	.17**
Strategic	−.05	.14*	−.03	.20**

*$p < .05$.
**$p < .01$.
***$p < .001$.

Table 3. Correlation Between Board Performance and Perceptions of Organizational Performance

	Perceptions of Organizational Performance		
Board Performance[a]	*All Respondents (N = 299)*	*Executives (N = 100)*	*Board Members (N = 100)*
Overall	.50***	.19	.32***
Contextual	.45***	.23*	.28**
Analytical	.47***	.21*	.34***
Educational	.35***	.07	.23*
Interpersonal	.40***	.05	.35***
Political	.44***	.16	.17
Strategic	.48***	.28*	.30**

[a]Executive judgments of board performance were compared to board member perceptions of organizational performance and vice versa.

*$p < .05$.
**$p < .01$.
***$p < .001$.

respondent bias, executive judgments of organizational performance were correlated with board member judgments of board performance, and vice versa (that is, board member judgments of organizational performance were correlated with executive judgments of board performance). Three dimensions of board performance were correlated to perceptions of organizational performance in all analyses. In support of agency theory, the contextual dimension was associated with perceptions of organizational performance. In support of resource dependency theory, the strategic dimension was positively correlated with perceptions of organizational performance, and finally in support of group decision process theory, the analytical dimension was positively correlated with perceptions of organizational performance as revealed in the cross-respondent analysis.

RQ3: What Aspects of Board Performance Are Most Significant to Account for Organizational Performance?

Based on the above analysis, multiple dimensions of board performance were associated with perceptions of organizational performance and net revenue. A stepwise regression analysis was used to determine which aspects of board performance provided a unique explanation of organizational performance. Prior analysis revealed that organizational size and age were significantly correlated with net revenue, so size and age were entered in step 1 of the regression analysis, and then in step 2, all dimensions of board performance were entered. Results indicated that together, size and age accounted for 8 percent ($f = 6.62$, $df = 2,153$, $p = .002$) of the variance in net revenue, and no aspects of board performance accounted for a significant amount of variance beyond organizational size and age.

Next, a stepwise regression analysis was conducted on perceptions of organizational performance. The analysis was done across respondents so that executive perceptions of outcome performance were analyzed against board member judgments of board performance and vice versa. Since no organizational or board attributes were associated with perceptions of outcome performance, no control variables were entered. To account for variance in board member perceptions of outcome performance, all six dimensions of board performance, as reported by executives, were entered in a stepwise regression (see Table 4). Only the interpersonal dimension accounted for a significant amount of variance in board member perceptions of outcome performance ($r^2 = .12, f = 13.05, df = 1{,}95, p = .000$). The analysis was repeated for executive perceptions of outcome performance. In this instance, both the strategic ($r^2 = .08, f = 8.16, df = 1{,}98, p = .005$) and the interpersonal dimension ($r^2 = .07, f = 5.85, df = 1{,}97, p = .017$) accounted for a significant amount of variance in outcome performance.

Discussion and Conclusions

Three theoretical perspectives (agency theory, resource dependency theory, and group/decision process theory) provided the framework to consider how board performance might affect organizational performance. The challenges of assessing both board and organizational performance in nonprofit organizations cannot be minimized. A combination of objective and subjective organizational performance measures, linking the six dimensions of board performance suggested by

Table 4. Stepwise Regression on Perceptions of Outcome Performance

	Board Members				*Executives*			
Board Performance[a]	*Beta*[b]	*T*	ΔR^2	ΔF	*Beta*[b]	*T*	ΔR^2	ΔF
Contextual	.05				.15			
Analytical	.18				−.001			
Educational	−.03				−.12			
Interpersonal	.35	3.61***	.12	13.05***	−.34	−2.42**	.05	5.85***
Political	−.23				.005			
Strategic	.10				.53	3.76***	.08	8.16***
	$R^2 = .12, F(1{,}95) = 13.05, p = .000$				$R^2 = .42, F(5{,}147) = 21.59, p = .000$			

[a]Executive judgments of board performance were compared to board member perceptions of organizational performance and vice versa.
[b]Standardized beta.
*$p < .05$.
**$p < .01$.
***$p < .001$.

Chait, Holland, and Taylor (1991) to three theoretical perspectives, and obtaining responses from executives and board members, provided a reasonable assessment of both (see Figure 1). Analysis found support for all three theoretical perspectives, with a consistent theme that strategic contributions of the board are identified as one of the most salient features associated with organizational performance.

Analysis was conducted to determine the extent to which organizational and board characteristics accounted for performance. Organizational size was the most significant factor associated with measures of performance. Larger organizations tended to report better-performing boards and were more likely to exhibit better financial performance. It was not established that the boards caused the potential success illustrated by larger budgets. It may be that larger budgets allow organizations to attend to board needs and thereby provide the mechanisms (for example, staff time, training) to strengthen board performance or that larger organizations attract more effective board members. Consequently, the importance of controlling for organizational size was validated and used in further analysis. Organizational or board attributes, however, were not related to executive or board member perceptions of organizational performance.

Strategic contributions of the board are identified as one of the most salient features associated with organizational performance.

Support for each theoretical perspective was revealed in the analysis. Agency theory, which posits the board as an adversary of management and protector of stakeholder interests, is the most widely used theoretical model to explain corporate governance, but its applicability to nonprofits has been questioned. This study suggested that agency theory is not only monitoring ethical and financial behavior, as it is typically conceptualized, but for nonprofits, it is also the board's role to ensure adherence to mission, values, and the organization's social rationale for being. This was reflected in the contextual dimension, which was positively correlated with perceptions of organizational performance. The implication is that boards that recognized and understood the organization's historical purposes and operating context were more likely to exist in organizations that were perceived by both executives and board members as operating effectively.

Strategic boards develop plans to enact priorities and consistently monitor the implementation of priorities into action.

Resource dependency theory suggests that boards should bring resources to an organization, and consequently those resources will strengthen the organization's performance. Several types of resources are recognized in the literature (legitimacy and money, for example), and this study investigated the extent to which boards provided strategic guidance and fostered external connections. Specifically, the strategic dimension reflected the board's attention to "matters of significant magnitude" (Chait, Holland, and Taylor, 1991, p. 95). Strategic boards develop plans to enact priorities and consistently monitor the implementation of priorities into action. Analysis revealed the strongest support for the strategic contributions of the board, which were associated with better financial performance, the tendency of an organization to operate at a net surplus, and perceptions of optimal organizational performance. Furthermore, using a regression analysis, strategic contributions from the board accounted for executive perceptions of organizational performance. This supports the proposition that better-performing organizations tend to have boards that provide strategic guidance. Also reflective of the resource dependency perspective was a positive association between the extent to which the board fosters and nurtures external relationships and the tendency of an organization to operate at a net financial surplus.

Decision/group process theory proposes that effective group processes foster a context that allows the board to function more effectively, and when the group functions more effectively, the organization benefits from better decisions. Three dimensions of board performance were related to effective group processes: educational, analytical, and interpersonal. The analytical dimension, which recognizes that boards should deconstruct and debate important issues, was correlated with net revenue and perceptions of organizational performance as reported by both executives and board members. The interpersonal dimension addresses the extent to which the board fosters collegial group processes and strong interpersonal relationships among board members. As reported by Chait, Holland, and Taylor (1991), when board members reflected on effective meetings, they often commented on how effectively the board coalesced to form a dynamic and cohesive group. The interpersonal aspect of board performance was positively correlated with organizations operating at a net financial surplus, and through a regression analysis, the interpersonal dimension accounted for perceptions of performance as reported by both executives and board members.

Before considering research and managerial implications, a discussion of limitations is in order. The sample was a reasonably heterogeneous group of predominantly human service nonprofits from two regional areas, but the sample was not randomly derived. Consequently, the findings could reflect bias toward organizations in large metropolitan areas or other anomalies present in the group researched. Similarly, the limitation of cross-sectional studies constrains our confidence in how consistent and long-lasting these effects might be. In addition, other measures of board performance or effectiveness might provide different results. However, the study established the BSAQ as an empirically grounded tool to assess board performance, and linking the six dimensions to theoretical models of governance suggests several implications for managers and researchers.

For nonprofit managers, each theoretical perspective provides valuable guidance to ascertain what areas are associated with improving the board's performance and, in principle, organizational performance. The BSAQ similarly provides a valid mechanism to assess performance and suggests areas for improvement. Each dimension has implications to strengthen organizational governance, but this research suggests that the interpersonal and strategic dimensions are potentially some of the most significant. Strategic contributions from the board are perhaps the most widely recognized and often recommended feature of effective board leadership (Carver, 1990). This study found that it was also a distinguishing feature in higher-performing organizations. Similarly, the interpersonal dimension, which has been less consistently recognized as a fundamental feature in effective governance, was also found in organizations that were judged to be more effective. It is potentially an area of less prominence in the practitioner literature than, say, the monitoring function, but this study suggests that time spent building an effective board as a team is not wasted.

This study suggests that time spent building an effective board as a team is not wasted.

Implications for researchers are related to each theoretical perspective. In relation to agency theory, nonprofit researchers are justified to consider how the board fulfills its duty of obedience: monitoring the social purposes of the organization. This extends previous conceptions of agency theory that almost universally consider financial monitoring as the supreme function of governing boards. Adherence to social purposes does not, however, necessarily generate financial returns that are readily apparent, so assessments of nonprofit performance must continue to consider attitudes and perceptions of multiple constituents. This was revealed in the study, which showed only limited associations between board performance and indicators of financial performance. Financial performance was correlated only with the strategic dimension, which potentially signifies the viability of this dimension, especially since it was also significantly related to perceptions of performance. A feature of strategic leadership that deserves further study is the clarification and differentiation of strategic planning processes as distinct from strategic direction and follow-through. Implicitly it is believed that planning processes foster effective leadership, but a distinction between the different aspects of strategic leadership might help to further explain variation in organizational performance. Finally, this study validates that understanding group decision processes in boards is a potentially fruitful endeavor. Zander (1993) suggested this, and extensive research on decision making and groups could potentially inform research on the group dynamics of nonprofit boards.

William A. Brown is assistant professor in the School of Community Resources and Development, Center for Nonprofit Leadership and Management, at Arizona State University in Tempe, Arizona.

Appendix: Perceived Organizational Performance Questions

How successful, during the last year, was your organization to meet these goals?	*Level of Success* *High*				*Low*
1. The majority of clients (customers) served experienced marked improvements as a result of services provided.	5	4	3	2	1
2. The number of programs and services offered has increased during the last year.	5	4	3	2	1
3. The quality of services offered has improved.	5	4	3	2	1
4. Generally clients and consumers are satisfied with the services provided.	5	4	3	2	1
5. Overall how successful has the organization been in meeting its goals or objectives?	5	4	3	2	1

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