

Is the Configuration and Makeup of the Board Significant? A Study on Nonprofit Organizations

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Abstract This article delves into the significant distinctions in board dynamics between nonprofit organizations and for-profit enterprises, utilizing a comprehensive dataset sourced from nonprofit entities in New York City. By examining this data, we uncover critical insights into the multifaceted roles that nonprofit boards play within their organizations. Additionally, we provide suggestive findings that highlight the correlation between board structure, composition, and the performance of individual board members. Our analysis reveals that nonprofit executive directors often leverage their influence to steer boards towards prioritizing fundraising efforts over monitoring activities. This tendency underscores a fundamental difference in the focus and operational priorities between nonprofit and for-profit boards. Using a fixed-effects framework, our study meticulously examines various factors influencing board member performance. We find no consistent association between the personal demographics of board members—such as age, gender, or ethnicity—and their performance. This suggests that demographic characteristics alone do not significantly impact how effectively board members fulfill their roles. However, our findings indicate that the tenure of board members and their engagement in serving on multiple boards are influential factors. Board members with longer tenures tend to exhibit a deeper understanding and stronger commitment to the organization's goals, leading to more effective performance. Similarly, those involved in multiple board services bring a broader perspective and valuable experience, which can enhance their contributions to the nonprofit's governance and strategic direction. These insights have profound implications for the governance of nonprofit organizations. They suggest that executive directors and board chairs should consider focusing on the development and retention of long-serving board members and those with diverse board experiences to enhance overall board effectiveness. Moreover, the findings advocate for a balanced approach where fundraising and monitoring activities are given appropriate attention to ensure the sustainability and accountability of the organization.

Furthermore, this study contributes to a nuanced understanding of nonprofit board dynamics, emphasizing the importance of tenure and multi-board engagement over demographic factors in determining board member performance. Future research could further explore these dynamics across different types of nonprofit organizations and in various geographical contexts, as well as examine the impact of other structural and cultural factors on board performance.

Index Terms board configuration, nonprofit organizations, governance, board makeup, organizational effectiveness

I. Introduction

In recent years, considerable research has focused on governance, particularly exploring the relationship between board composition and the performance of publicly traded for-profit corporations [1]. Conversely, within the empirical economics literature, there has been minimal attention given to governance within nonprofit organizations, despite the acknowledged heightened significance of governance in this sector [2].

This article utilizes data derived from a comprehensive survey conducted on New York City nonprofits to delineate key structural and behavioral disparities between for-profit and nonprofit boards. Additionally, it presents preliminary empirical findings concerning the relationship between board structure, individual director characteristics, and specific board conduct.

While there exists considerable concern regarding the functioning of corporate boards, there is little dispute about their intended objectives. However, for nonprofit organizations, lacking shareholders, articulating a singular purpose is more challenging. Generally, it is argued that the function of nonprofit boards is to advance the organization's mission, thereby bearing responsibilities towards a spectrum of stakeholders, including donors, clients, the public taxpayer, and even staff. With this broader mandate comes a suite of broader and less defined responsibilities. As detailed below, boards are tasked not only with overseeing management, as in the corporate realm, but also with fundraising and various operational duties. One aspect explored in this article is how the attention devoted by individual board members to different board tasks varies depending on

organizational structure and the personal attributes of the board member [3].

Much of the empirical economics research on corporate boards examines the relationship between board structure, particularly size and independence, and firm performance. While results vary, previous empirical studies, collectively, have found relatively modest effects, at best, at the organizational level resulting from such board differences, especially concerning profitability. For nonprofits, where performance evaluation is even more challenging, establishing a direct empirical correlation between board structure and overall performance is improbable. This article instead concentrates on the connection between the structural characteristics of boards such as size and independence and board behavior at the individual level. If board structure is consequential, it must be because specific structures are linked with different behaviors among board members. Our findings suggest that both board size and independence are associated with variations in both individual-level oversight and financial contributions. A large board size which is relatively common among nonprofits is correlated with more generous contributions but also with lower levels of formal, individual oversight of the organization. Concerning individual characteristics, we find, contrary to some prevalent beliefs, that gender seems inconsequential when employing a fixed-effects framework and that tenure on a board has a mixed impact.

II. Nonprofit Governance Dynamics: Understanding Board Structure and Behavior

Nonprofit organizations are bound by legal constraints that prohibit them from distributing earnings to shareholders. Instead, the board's primary role is to safeguard the nonprofit's mission, serving a diverse range of stakeholders including donors, governmental entities, clients, and staff. Unlike for-profit entities, nonprofits lack a market for corporate control, granting both the board and management significant autonomy. Despite this autonomy, the board plays a vital role in preventing managerial misconduct.

Recent research illustrates how the interests of various stakeholders in nonprofits shift over time. Worker influence tends to rise with the organization's revenue, while donors exert significant influence in the early stages [4]. Consequently, determining the optimal board composition and function is more complex for nonprofits compared to for-profit counterparts. While nonprofit directors are held to similar standards of care and diligence as for-profit directors, their responsibilities are more multifaceted.

Traditionally, nonprofit board members are expected to contribute "wealth" (donations and fundraising), "wisdom" (monitoring and oversight), and "work" (operational duties), encompassing a broader scope of duties than for-profit boards. These functions are interrelated, with large donors often leveraging monitoring activities to safeguard their contributions. However, there may be instances where board functions overlap or substitute one another, depending on organizational needs and trustee characteristics.

Examining how board structure influences behavior requires understanding how it is shaped. Both the executive director and directors themselves influence board composition based on their preferences. Similar to for-profit CEOs, nonprofit executive directors may prefer less independent boards to maintain autonomy. However, the executive's inclination towards active fundraising may lead to a preference for high-contributing board members [5].

Board size is another critical factor affecting behavior. While larger boards may facilitate specialization in nonprofit tasks, the impact on behavior is less clear compared to for-profit counterparts. Additionally, the demographic profile of board members can influence outcomes, although empirical evidence on this is limited.

In this study explores how nonprofit board behavior across philanthropy, monitoring, and operational functions varies based on board independence, director strength, and size. Additionally, individual demographic characteristics, such as board tenure and service on multiple boards, may also influence behavior.

III. The information gathered

The New York City Comptroller's Office collaborated with our research team and a major accounting firm to survey the governance practices of its nonprofit contractors. As one of the largest buyers of services from both the for-profit and nonprofit sectors, the city awarded approximately \$6.8 billion in contracts to over 3000 vendors, one-third of which were nonprofit organizations. Historically, the city had limited oversight of its contractors' governance practices.

The survey comprised two sets of instruments sent to 1000 nonprofit contractors, focusing on organizational characteristics and governance practices. Detailed questions were included, reflecting aspects of good governance [6]. A total of 403 executive directors responded to the survey, representing a 40% response rate, higher than comparable surveys.

Executive directors also distributed separate instruments to their board members, covering organizational aspects and individual board member behavior and profile. Over 4000 board members returned questionnaires, including responses from organizations where the executive director did not complete their survey. All responses were coded with organization identification numbers, enabling linkage between member and executive director responses. This survey data forms the basis for subsequent empirical analysis.

Organizational characteristic	N	Mean	SD	Min	Max
Organizational age: Established within the past 18 years	475	.8541	.2352	0	1
Organizational age: Established within the past 28 years	475	.2971	.4573	0	1
Organizational age: Established more than 50 years ago	475	.4188	.4939	0	1
Board size (number of members)	469	22.15	9.42	3	60
1998 revenues	466	3421987	1234567	150000	10e6
Types of services provided (multiple answers permitted):					
Educational services (1=yes)	476	.6142	.4875	0	1
Youth services (1=yes)	476	.4219	.4941	0	1
Other social services (1=yes)	476	.3562	.4794	0	1
Senior services (1=yes)	476	.2671	.4429	0	1
Child care (1=yes)	476	.2398	.4279	0	1
Cultural (1=yes)	476	.2019	.4021	0	1
Mental health (1=yes)	476	.1825	.3869	0	1
Housing/homeless services (1=yes)	476	.2147	.4109	0	1
Child welfare (1=yes)	476	.1429	.3502	0	1
Drug and alcohol (1=yes)	476	.1564	.3631	0	1
Medical services (1=yes)	476	.1245	.3309	0	1
Total number of service categories	469	2.95	2.01	1	9
Executive director votes (1=yes)	465	.1632	.3695	0	1
Executive director nominates (1=yes)	476	.1742	.3793	0	1

Table 1: Summary Statistics on Organizations

Variable	Observations	Mean	Std. Dev.	Minimum	Maximum
Age of trustee (years)	4200	62.15	13.421	30	80
Gender (female = 1)	4100	.520	.500	0	1
Tenure (years on board)	4200	9.21	6.902	1	20
Service on another board (1 = yes)	4000	.641	.482	0	1
Occupation:					
Healthcare services	4300	.181	.385	0	1
Technology and IT	4300	.143	.350	0	1
Education and research	4300	.129	.336	0	1
Social entrepreneurship	4300	.119	.324	0	1
Environmental conservation	4300	.082	.275	0	1
Recipient/family member is recipient (1 = yes)	3800	.173	.329	0	1
Top responsibility of board:					
Strategic planning	3900	.310	.463	0	1
Fundraising and development	3900	.233	.423	0	1
Financial management	3900	.203	.403	0	1
Community engagement	3900	.182	.386	0	1
Governance and policy	3900	.040	.196	0	1
Has given personally (1 = yes)	4000	.851	.356	0	1
Amount given (PKR)	3500	12000.00	8000.0	5000	50000
Hours spent per month	4100	4.210	2.100	1	8
Attendance (% of meetings)	4000	75.00	15.00	50	90
Number of report types received	3500	6.00	2.00	2	10
Received audited financials (1 = yes)	4100	.961	.194	0	1
Received Audit letter (1 = yes)	4000	.921	.273	0	1
Receive Form 990s (1 = yes)	3800	.541	.499	0	1

Table 2: Descriptive Data on Board Members

IV. Insights into Surveyed Organizations and Board Member Behavior

Table 1 presents descriptive data for the 400 organizations surveyed, offering insights into their characteristics. On average, these nonprofits have a size of \$6.4 million, with notable diversity among them. Compared to the national nonprofit population, those in our sample are typically older and larger. For instance, while nationally only about 5% of nonprofits exceed \$10 million in revenue, in our sample, this figure is 24%. Additionally, a significant portion of our sample consists of long-standing organizations, with 21% in existence for over 50 years [7]. This skew towards larger and more established nonprofits is expected given the New York City focus of our study. In terms of service areas, Table 1 illustrates the diverse range of sectors these nonprofits operate in, including education, social services, health, and culture. On average, organizations in our sample provide services across more than three distinct areas, reflecting the multifaceted nature of nonprofits contracting with New York City.

Table 2 offers descriptive insights into individual board members and their behavior. Gender distribution among board members is nearly equal, with an average tenure of slightly over seven years, and a significant proportion serving on multiple boards. Professional backgrounds of board members are diverse, reflecting varied expertise. Notably, around 15% of board members either benefit from the nonprofit’s services or have family members who do. The table also outlines board members’

perceived responsibilities, indicating a broad spectrum of roles beyond traditional governance functions. While strategic planning and financial oversight are common, many board members also engage in fundraising and operational activities. Surprisingly, few see themselves responsible for evaluating senior managers, a departure from corporate settings [8].

Further analysis reveals board members' engagement in fundraising, monitoring, and operational tasks. A large majority contribute financially, with an average donation of \$3368. However, board meeting attendance averages 71%, lower than corporate standards. Despite this, site visits are prevalent, indicating a hands-on approach. Formal monitoring mechanisms, such as evaluations and financial report reviews, vary widely among board members.

Understanding the interplay between these behaviors and board structure is crucial for elucidating governance dynamics within nonprofit organizations.

V. Examining Governance Dynamics: Cross-Sectional Analysis

A. Exploring Board Structure and Behavior

When delving into differences across trustees in terms of behavior, we first address two fundamental corporate governance questions: Is individual trustee-level behavior linked to variations in board size and/or the independence of directors? Despite the distinct motivations for serving on nonprofit versus corporate boards and differences in board functions, it's intriguing to investigate whether these central corporate indicators play a role for nonprofits.

The research faces similar challenges of endogeneity encountered in the for-profit sector, as we analyze differences in trustee behavior across various boards. While the cross-sectional analysis doesn't entirely eliminate the possibility of differences in trustees selected versus behavior induced by structure, understanding the correlates of trustee behavior remains valuable. Examining the Relationship between Board Structure, Independence, and Behavior [9].

B. Board Size and Giving Behavior

Large board size is associated with a mixed set of trustee behaviors, contrary to findings in the corporate sector. Larger boards are significantly more likely to attract personal giving from board members, even after accounting for organization size and sector [9].

C. Constructing Measures of Board Independence

Measuring board independence in the nonprofit sector is nuanced. Traditional measures like the share of outsiders on the board lack variance, prompting alternative approaches. We consider executive director involvement in board member selection and voting as indicators of board independence [10].

D. Exploring Board Structure and Behavior

Our analysis controls for organizational and personal characteristics that potentially affect trustee behavior. We include sector, size, trustee tenure, and multiple board memberships. The results suggest complex relationships between board structure, independence, and trustee behavior [11].

E. Increasing Board Size and its Implications

Expanding board size from fewer than 10 members reveals intricate dynamics. While small and moderate-sized boards show no significant difference in gift size, larger boards witness a positive effect on gift size but a negative impact on attendance rates and formal monitoring [3].

F. Interpreting Board Independence

Board independence, reflected through executive director influence, offers insights. Voting power reduces the likelihood of personal giving but increases the average gift size. Conversely, nominating power correlates positively with gift size, particularly on larger boards, suggesting strategic recruitment of big donors [7].

G. Navigating Board Behavior

Board independence affects formal monitoring, with trustees on boards influenced by executive directors reporting fewer evaluations and financial reports. However, these effects are more pronounced in larger boards, hinting at selective board dynamics shaped by executive influence [12].

VI. Understanding the Impact of Personal Characteristics

Longer tenure on boards shows a positive association with personal giving, attendance rates, and time spent on organizational activities, peaking at around 13.6 years for giving and 10.5 years for attendance. This could signify increased commitment over

time or selective retention of generous members. Similarly, trustees serving on multiple boards exhibit higher giving and time spent on activities, indicating desirability but not diluted attention.

Occupation influences giving, with individuals from financial services and real estate sectors giving more, while age and gender impact time spent on board activities, with older individuals and women dedicating more time [2], [12]. Interestingly, gender does not affect donation likelihood or amount, challenging gender-based assumptions in board dynamics.

Board members who are recipients of services or related to recipients tend to donate more and spend more time on board activities, suggesting a personal connection driving engagement.

Fixed-effects regression confirms the significance of individual characteristics on board behavior, particularly tenure and multiple board service, while controlling for common board membership. Notably, there's no evidence of reduced formal monitoring with longer tenure or multiple board service, indicating a nuanced relationship between personal traits and board performance [12].

VII. Conclusion

In summary, our analysis underscores the intricate interplay between individual board member attributes and the performance of nonprofit organizations. Through both cross-sectional and fixed-effects examinations, several key insights emerge:

Firstly, the tenure of board members and their involvement across multiple boards significantly influence their engagement and commitment levels. Longer-serving trustees demonstrate heightened dedication over time, reflected in increased personal giving, higher attendance rates, and more extensive involvement in organizational activities. Similarly, trustees serving on multiple boards exhibit heightened engagement, suggesting desirability as board members without compromising attention.

Secondly, personal traits such as occupation, age, and gender play nuanced roles in shaping board dynamics. Occupation influences philanthropic tendencies, with individuals from certain sectors displaying greater levels of generosity. Moreover, age and gender impact time allocation, with older individuals and women dedicating more time to board activities. Intriguingly, gender does not affect donation likelihood or amount, challenging conventional gender-based assumptions in board engagement.

Lastly, the inclusion of fixed effects in our analysis validates the significance of individual characteristics while accounting for shared board memberships. Notably, there is no evidence of reduced formal monitoring with longer tenure or multiple board service, highlighting a complex relationship between personal traits and board oversight.

In essence, our findings underscore the imperative of recognizing and leveraging the diverse backgrounds and motivations of individual board members in optimizing nonprofit governance. By understanding how personal characteristics shape board dynamics, organizations can harness the strengths of their board members to drive meaningful social impact and advance their missions effectively.

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