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The Role of the Board of Directors in Building Successful Nonprofit Organizations

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Abstract

The effectiveness of nonprofit organizations is dependent on strong board leadership. This paper lays the foundation for new theories that will help build stronger organizations. Given the importance of nonprofit organizations in today's economy, it is imperative that we do everything we can to increase their effectiveness..

Keywords: Nonprofit, Board of Directors, Life-Cycle

Nonprofit organizations are extremely important to the US economy and as such should be more closely examined. They are a major force. Close to 1 million organizations, employing about 11% of the US workforce hold nonprofit status. They are critical to many important functions in our society including healthcare, education, the arts, and social services. They produce one-fifth of all American research and development and most of society's capital that is not produced by on-the-job training (Malani, Philipson, & David 2003). Drucker (1990) suggests that nonprofit organizations are central to the quality of American life, central to citizenship, and indeed carry the values of American Society and of the American tradition. Drucker emphasizes that nonprofits provide something very different from business or government. Given the importance of these organizations, it is imperative to understand how to maximize their effectiveness to ensure that they have the greatest possible impact on our society.

What is a nonprofit? They are institutions as varied as hospitals, educational institutions, and social services providers. However, even with their varied visions and services, common elements do tie them together. Salamon and Anheier (1992) offer five features which must be present for a firm to be considered a nonprofit: First, it must be formally institutionalized. In the US, that means it is incorporated. Second, it must be private and separate from the government. The organizations neither are a part of the government nor controlled by a board dominated by government officials. Third, the organizations are non-profit distributing. They do not return surplus revenues to owners or directors. Fourth, the organizations are self-governing. They control their activities with their own internal procedures and governance. Fifth, they involve some degree of voluntary participation, either in the provision of services or in governance.

Nonprofits are managed by a board of directors. Nonprofit boards are self perpetuating and not accountable to shareholders. They are rarely subject to elections or takeovers. Board members cannot sell or transfer their control rights, so they do not own an asset of value that is tied to the organization's success.

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There is no legal rule requiring boards to act as custodians of the interest of past donors. The law constrains itself to vaguely worded requirements about a nonprofit's mission (Glaeser 2003).

Measuring the performance of a nonprofit organization offers a challenge over measuring traditional businesses. Businesses in the US are measured by the bottom line, profitability (Katz &Kahn 1978). Nonprofits lack the guidance the market provides for profit corporations (Herzlinger 1999). They operate in a muted market, making it difficult to judge their worth (Carver 1997). Nonprofits operate with money as a means to provide a service, not as an end in itself (Mason, 1984). Often volunteers help provide services and perform critical functions. Compensated employees often accept less than market wages because they are participating for altruistic reasons or in an organization with a mission in which they believe (Mason 1996). This ambiguity, mission versus profit, makes it difficult to assess board performance. A McKinsey survey of executives and directors of nonprofits found that only 17% of the respondents felt that their organization was as effective as possible (Jensen & Kilpatrick 2004).

The ability to establish and define a mission is critical for organizational performance and leadership (Drucker, 1990). Churches, schools, and voluntary organizations cite mission as an important element of success. The mission is the focal point in an organization (Scott, 2000; p. 108). Since defining the mission is the responsibility of the board of directors, they must develop policies that translate into mission guidelines, facilitating the implementation and fulfillment of the mission. Setting the mission and policies, the board acts to determine services (Carver, 1997) and is important if one hopes to implement their social mission (Lipinski et. al. 2013). Thus, an effective board with well-defined, measurable goals is critical to the success of a nonprofit organization. It is also critical to effective decision making (Potter et. al. 2010).

Like every organization, a nonprofit goes through a life cycle. Kimberly (1979) conducted the first longitudinal study of the creation and development of a nonprofit organization, looking at the creation and development of a medical school. The goal of Kimberly's study was to look at the leadership of nonprofits and the challenges they faced, particularly how they managed environmental uncertainty. This study reinforced the theory that organizations go through a developmental process. Kimberly's study demonstrated that the characteristics which make an organization initially successful were not compatible with the long term requirements needed to successfully sustain the organization. Initially there was a high tolerance for ambiguity. However, over time, organizational guidelines and policies were required to continue to move ahead successfully and leadership was required to devote more time to administrative tasks. Because of these changes, Kimberly concluded that organizations go through an organizational life cycle.

Quinn and Cameron (1983) proposed a five stage model (birth, growth, maturity, revival, and decline) as the framework for their organizational life cycle research. Their focus was on how organizations progressed in relation to information processing and decision making. Their finding was that successful organizations moved through the life cycle stages and acquired more information processing and decision making processes as they developed. Based on the prior work of Quinn and Cameron (1983) and others (Miller & Friesen, 1984), Lester, Parnell, and Carraher (2003) developed and empirically tested a twenty-item scale for a five stage model of organizational life cycle. Results supported the five stage model, as well as challenged the deterministic perspective of the life cycle of organizations posited by some early researchers (Hannan & Freeman, 1984). One interesting finding from Lester and collegues' (2003) study was that information processing sophistication emerged as the leading indicator of life cycle stage.

In 1984, Mintzberg proposed a life cycle model that emphasized the shifting of power distribution in the form of coalitions within and around organizations. He added that as organizations develop "their power systems tend to become more diffuse, more complex, more ambiguous, and at some point, less functional, even though, ironically, more stable" (1984: p.221). Early in the life of an organization, the power is very centralized. As it develops and becomes more responsive to its environment, an organization reaches the mature stage where internal corruption becomes prevalent. This may lead an organization into decline.

Smith, Mitchell, and summer (1985) hypothesized that management priorities differ at different stages of the organization's life cycle. Their study used a three-stage model looking at inception, growth, and maturity. Supporting Mintzberg (1984), they found that management becomes more political as an organization matures and managers become more interested in maintaining structural relationships within the organization.

Organizational Effectiveness

Druker (1974) suggests that efficiency and effectiveness are doing things right. Efficiency is an input-output ratio or comparison. Assessing efficiency is an attempt to capture an organization's ability to process resources in the most efficient manner (Ostroff & Schmidt, 1993).

Effectiveness on the other hand, encompasses aspects of efficiency but also recognizes broader concepts such as the importance of resource acquisition and the judgment of stakeholders. The challenge to being effective is in determining the "right" things, how to accomplish those tasks, and how to measure if these right things have been accomplished.

There is little consensus on how to operationalize the concept of organizational effectiveness (eg. Cameron & Whetten 1983; Cameron, 1986; Quinn & Rohrbaugh, 1983). In his seminal 1986 article, Cameron concludes that effectiveness is a paradox. No one can excel at all elements of effectiveness. Similarly, Quinn and Rohrbaugh (1983) believe organizations simultaneously pursue four types of effectiveness, but it is impossible for organizations to accomplish all four types simultaneously. This research in the 1980s pursued a general model of effectiveness. They did not look at how different types of organizations pursued different conceptions of effectiveness. The 1990s saw several studies emerge which concentrated on effectiveness in nonprofit organizations. A large study conducted by the Independent Sector (Knaufy, Berger, & Gray 1991) identified qualities of highly effective nonprofit organizations. Independent Sector is a national leadership forum working to encourage philanthropy, volunteering, and citizens' action. Their study which included focus groups with nonprofit leaders, a survey of over 900 nonprofit CEOs, and in-depth profiles of ten exceptional nonprofit organizations proposed four qualities as distinctive of excellent nonprofit organizations:

1) A mission focus
2) Strong financial development programs
3) Effective leadership
4) A dynamic board

Forbes (1998) provided a comprehensive review of effectiveness research in nonprofit organizations. Forbes identified four major approaches to assessing organizational effectiveness:

1) Goal attainment
2) System resources
3) Reputation (legitimacy)
4) A negotiated process between organizational actors and environments

The fourth approach recognizes that nonprofits answer to a socially constructed nature of organizational effectiveness and understands that effectiveness is based on the perceptions of constituents (Herman & Renz 1998). These works suggest that boards should be tuned into environmental measures of effectiveness (impressions) and pursuing goals that reinforce the impression of effectiveness are the best strategy to measure the effectiveness of nonprofit organizations.

Dimensions of Effectiveness

Reviewing the literature on nonprofit effectiveness, four dimensions of effectiveness are identified. First, effectiveness has been conceptualized as outcome results: the actual product, service, or deliverable. (Campbell, 1977). Second is how organizations secure or maintain legitimacy in a political environment (Scott, 1995). Third, effectiveness has been measured by how well an organization can obtain what it needs from its environment (Pfeffer,1973), and fourth is executive (board) leadership. Key director leadership behaviors include a mission orientation (Sheehan 1996), well-defined management strategies (Mason, 1996), and management effectively interfacing with a board of directors (Herman & Heimovics, 1991).

Outcome Results

Outcome results have been identified as the most important dimension of effectiveness (Drucker, 1990). As previously, mentioned, nonprofit organizations must have a clear mission with measurable objectives to be effective. In a mission driven culture, organizational results and the impression held by outsiders regarding the effectiveness of an organization, are fundamental to securing grants, donations, and service (volunteers). Unfortunately, it can be difficult for nonprofits to identify measures that accurately reflect the results of their efforts. It is even more difficult assess when trying to set up comparisons between two organizations. The next section looks at the theory behind two models of effectiveness, goal and constituency-based models.

Goal and Constituency models of effectiveness

Goal-based models assume that organizations are rational systems and behavior consists of actions performed by purposeful actors in order to achieve desired ends. Measurement of goal performance consists of specifying goals and then determining to what extent the goals were obtained. Typical measures include the quantity of goods or services produced and the efficiency with which the goods or services were produced (D'Aunno, 1992, Murray & Tassie, 1994). The goal model assumes that owners (stockholders) and management determine organizational goals (Seashore, 1983).

The Multiple constituency perspective broadens that framework to include both internal and external stakeholders, thus expanding the understanding of the organization and its effectiveness. Achieving organizational objectives is still critical, but the model recognizes that the determination of effectiveness depends on who is asked. Constituency based models find that an organization is effective if it satisfies the interest of the most critical stakeholders (D'Aunno, 1992; Njoh 1994).

Mission as a measurable

Organizations rarely use their established goals and mission as the determinant of their effectiveness (Herman, Renz & Heimovics, 1997). Two researchers, Sheehan (1996) and Billis (1995) have found that managers usually rely on procedural measures rather than outcome results to assess effectiveness. One reason identified for this disconnect is because outcome measures are difficult to identify due to the ambiguity they entail. Another reason is that most organizations serve multiple constituencies with special purposes and vested interests. As such, there tends to be a disconnection between the measures on which managers focus and the critical overall mission as defined by the board.

Assessing outcomes results

An inter-organizational assessment of outcome results is a matter of conducting program evaluations that assess program intentions. Internally, this program evaluation often includes assessments of customer (or client) satisfaction and changes in behavior. Inter-organizationally, however, this assessment is more difficult. There are a variety of assessment methodologies, and companies pursue different program strategies. Organizations could provide internal program evaluations that may facilitate a comparison, but this strategy requires a certain amount of congruity between organizations.

In a study of sixteen nonprofit organizations, Green & Griesinger (1997) used a goal-based model to assess the inter-organizational effectiveness. They used three sources of information: Ranking of accreditation reports by practitioners, ranking by government officials, and ranking by one of the researchers. The study's methodology measured goal accomplishment and gave an account of the comprehensiveness of the services provided.

Goal accomplishment is difficult to determine because of the lack of free market indicators (e.g. profits and stock prices) used to measure the effectiveness of for profit organizations. Simply assessing an organizational mission is not a satisfactory substitute due to its amorphous intentions. Often assessments rely on consumer satisfaction and judgments of program efficacy. Invariably, studies of inter-organizational success have relied on judgments of outcome success. Senior management, staff, and other interested constituents can provide the judgments, but outside objective information would help support those claims.

Nevertheless, nonprofits will benefit greatly by clearly specifying their mission and goals and assessing how well they perform against those goals. The board of directors should be instrumental in designing and structuring a mission that accurately reflects the core objectives of the organization (Knauft, Berger, & Gray, 1991) and striving to identify measurable goals that reliably assess the achievement of that mission.

Perceptions of legitimacy

Numerous factors contribute to non-profit organizations' sensitivity to perceptions of legitimacy (Bigelow, Stone, & Arndt, 1996). Nonprofits face a muted market (Carver, 1997) and operate in a political environment. As such, an assessment of legitimacy performs a critical function in the allocation of resources. Thus, traditional models of effectiveness fall short of capturing the subtleties of the environment and the role of reputation or legitimacy in explaining an organization's existence.

Institutional Theory

Institutional Theory considers cultural elements like symbols, cognitive systems, and normative beliefs when examining organizational structure and development rather than market forces, resource availability, or information flows (Scott, 1995). In organizations where technology is precise and the outcomes are clear, organizations are more likely to submit to market forces and traditional explanations of structure and performance. Conversely, in organizations where technology and outcomes are less clear, such as most nonprofits, the organizations are less likely to submit to market forces because consumers find it difficult to determine quality, especially when the goods or services are provided at reduced cost or free of charge. As such, nonprofits rely on image and established process structures to gain legitimacy and resources (Billis, 1995; D'Aunno, 1992).

Controlling perceptions of legitimacy

Institutional Theory is based on a social constructionist perspective. What people believe to be "good" influences their judgment of organizational effectiveness (Herman & Renz, 1995). For example, nonprofits often rely on affiliation with an established group (church, university, or professional accreditation) to establish their legitimacy. Such recognition lays a foundation for continued support of the organization. Often these related organizations are not able to determine outcome results and must rely on the institution to make their assessments. (What is "good" service?). Institutional Theory helps to explain why some nonprofits continue to exist, even if they are not providing optimal results for society. Survival becomes dependent on a positive public image and impressions of legitimacy.

Assessing organizational legitimacy

Given the subjective nature of organizational legitimacy, it is necessary to investigate multiple judgments of organizational performance. Herman & Renz (1999) surveyed the organizational stakeholders of 64 nonprofit organizations in one community.

The stakeholders included funders, regional directors, and executives in similar organizations. The rank ordering of these stakeholders provides a valuable perspective on organizational image in the community compared with other organizations. Recent studies confirm that funders are urging nonprofits to prove that they are effective (Jensen & Kilpatrick, 2004).

Financial Resource Acquisition

The ability to obtain the necessary resources is a key determinant of organizational effectiveness. It helps explain why one organization grows while another barely survives. Knauft, Berger, & Gray (1991) identified fundraising as one of the four distinguishing traits exhibited by excellent nonprofit organizations. Nonprofits face unique challenges in the marketplace. Unlike traditional firms who use market forces to attract capital and secure funds, most nonprofits must compete for alternative sources of funds.

System Resource Models of Effectiveness

System resource models of effectiveness are based on the premise that an organization should be judged effective if it can obtain its needed resources from the environment (Katz & Kahn, 1978). The connection between resource acquisition and goal performance is often difficult to track through an organization (Grusky, 1995). Nevertheless, it is important to understand how resource acquisition strategies might, and to what degrees do, impact organizational operations and performance. This understanding includes not only cash, but also other resources such as volunteers and tangible resources that are given to the organization.

Resource Development

Nonprofits use a multitude of sources to obtain the financial resources required to operate. Fees for service, membership dues, donations, foundation grants, and government contracts and grants are all possible sources. Adams & Perlmutter (1995) identified the importance of cultivating and maintaining multiple fund development strategies and discussed the role of organizational leaders, including the board of directors, in such tactics. In soliciting and sourcing additional funds, it is important to keep these efforts congruent with the overall mission of the organization. Pursuing funds that require activities that are tangential to the mission of the organization divert it from its mission and can distract the organization from its ability to carry out its mission.

The pursuit of funding must relate to the core competencies of the organization (Hamel & Prahalad, 1994). It is important to keep both the acquisition of resources and the mission in balance. Resource acquisition is indicative of effective organizations if they are able to attract funding from multiple sources and that funding supports the goals and mission of the organization. The number one thing that constrains the growth of nonprofit organizations is capital structure and profitability (Jegers, 2003) As such, two factors are investigated: the number of funding sources used by an organization and the tendency of organizations to focus on its development strategies. It is important to look at how leadership affects both of these actions.

Board Leadership

Strong executive director leadership addresses many of the operational challenges faced by a nonprofit. For example, the board is responsible for establishing the mission and checking to ensure it is being met. Knauft, Berger & Gray, 1991, empirically demonstrate that executive leadership is critical to optimal performance. The four properties of executive leadership include: expressive orientation, mission orientation, board orientation, and the use of volunteers.

Process models of effectiveness

Several models of effectiveness consider the internal function of an organization as an integral element of effectiveness (Quinn & Rohrbaugh 1983; Seashore 1983). Alchian & Demsetz (1972) stress the importance of monitoring systems to guarantee that employees are doing what they are paid to do.

These models are primarily concerned with how information is managed and channeled, the human resource structures, leadership roles, and organizational strategy. For nonprofits, it is particularly important to define clearly what each stakeholder is responsible for (paid and volunteer) and for organizations to fulfill their missions (Speckbacher, 2003). Process models generally conclude that an organization is effective if the internal structures and processes are efficient and functioning smoothly (Cameron, 1986). Such processes are fundamental to improving performance.

Leadership Behaviors

The literature suggests several leadership strategies, traits, and characteristics as being representative of leaders (Lawler, 1992; Yukl, 1994). This research emphasizes strategies that are particularly appropriate for nonprofit organizations. In reference to the environmental constraints and operational challenges discussed earlier, four areas have been identified as reflecting excellence in nonprofit leaders. First, the leaders set the tone for the management and motivation of staff. Second is the leader's ability to maintain and communicate the mission focus. Third, leaders of nonprofit organizations are responsible for negotiating a relationship with the board, and fourth is the effective use of volunteers by the organization. (Mason, 1996; Pearce,1993; Knauft, Berger & Gray, 1991; Drucker, 1990). In a study of hospital CEOs, Preyra & Pink (2001) found that when organizations had multidimensional objectives, managers, and boards ran into agency problems.

Orientations

Expressive orientation – Mason (1996) and Pearce (1993) discuss the human resource challenges faced by nonprofit organizations. In leading these organizations, non-authoritarian strategies are needed if one is guiding a loosely coupled organization. Mason suggests that such leaders and managers must recognize the expressive motivation of individuals in the organization. Expressive behavior is action for direct rather than indirect gratification. However, most management systems studied in business research emphasize financial compensation (indirect gratification) as the primary motivator (Pearce, 1993). Mason (1996) suggests that leaders use participant management strategies like incorporating individuals in the planning and goal setting process. This encourages participants to buy into the goals of the organization because they have a vested interested in meeting the goals that they helped establish.

Mission orientation – A mission orientation is another strategy that has been viewed as being appropriate for managing a nonprofit. The mission sets an agenda that helps loosely connected programs come together and helps guide decision-making (Garner, 1989). Effectiveness starts with clarity of purpose. However, in the previously mentioned McKinsey study, less than 50% of directors could summarize the mission of the organization on whose board they serve Hansen & Kilpatrick (2004). This finding indicates that this critical piece of the puzzle is often overlooked. A mission orientation is often identified as the optimal objective-based management tool for nonprofit organizations attempting to improve their effectiveness (Garner, 1989; Drucker, 1990; Mason, 1996; Sheehan, 1996). Leaders who represent and communicate the values of the organization in all contexts embody a mission orientation.

Thus, the mission is used to guide decision-making, motivate participants, and entice funders (Knauft, Berger & Gray, 1991). Board orientation – It is important that the executive director establishes a strong relationship with the board and ensure that the board performs its role. Further, the board must adequately assess the performance of the executive director. The board plays a crucial role in the perception of effectiveness of an organization. It is important to recognize that the executive director is instrumental in negotiating the board's role (Herman & Heimovics 1991).

Knauft, Berger, & Gray (1991) identified a positive relationship between the board and executive director as indicative of top nonprofit organizations. When the board performs long range planning and stays away from day-to-day operations, executive directors are able to set the tone for a positive dynamic relationship with the board. Kearns (1995) suggests that a deep analysis of board and staff perceptions may clarify their respective expectations regarding roles, behaviors, and priorities. Such a relationship makes for a trusted two-way power sharing that allows both to perform effectively.

Volunteer orientation – Leadership is assessed in a nonprofit leader's ability to effectively organize and utilize volunteers as they are a critical resource of most nonprofit organizations. When assessing the performance of leadership, one must consider how well this critical task is handled (Mason, 1996).

These orientations outline four critical aspects of nonprofit organizations and suggest a contingency approach to effectiveness. Research suggests that organization demographics, especially age and size might account for perceptions of effectiveness. Herman & Renz (1995) found that organization size, measured by budget size, and age were positively related to procedural measures of organizational effectiveness. Board performance also influences the effectiveness of organizations. The board of directors can influence resource acquisition (fund raising), conceptions of legitimacy (political associations), leadership behavior, and consistent policy implementation.

Nonprofit Boards of Directors

Optimal board performance can be conceptualized in a number of ways. Irrespective of organizational differences, certain responsibilities must be fulfilled by all boards. Literature suggests two ways to conceptualize the performance of nonprofit boards of directors. Ingram (1996) suggests that the board must fulfill specific responsibilities. Green (1995) also suggested a set of responsibilities that lead to effective boards. Both researchers have several items that overlap. These items are discussed in the following section.

Alternatively, Holland (1996) proposes six additional general characteristics of optimal board behavior. The more closely a board acts with regard to these characteristics, the better a board will function. The behavior of the board is associated with organizational effectiveness.

Responsibilities of the Board of Directors

1) Determine the organizational mission and setting policies.

The board is responsible to define the scope and purpose of the organization. The mission should spell out what the organization does, why, and whom it serves. This mission serves as a guide to all planning and decision-making which helps set priorities (Ingram, 1996). As has been stated, the establishment of a mission is critical to guiding organizational performance and hence assessing the organization's effectiveness.

2) Strategic Planning

The board enables the staff to translate the mission and policies into goals and objectives via planning (Ingram, 1996). The executive director and staff should assume primary responsibility in working through the details of the plan, but the board should provide oversight. During the process, the board should ask probing questions, challenge the operationalization of the mission, and generally assist in developing a clear plan. This process focuses the attention on how the organization should be using its time and energy (Jansen & Kilpatrick, 2004). Organizations using a formal approach to planning have higher levels of performance (Sicilano, 1997). Bradshaw, Murray, & Wolpin (1992) also found a positive relationship between formal planning and the perception of organizational performance. Their findings suggest that planning is the most important function of the board and is associated with the perception of organizational effectiveness. Green (1995) also found that boards which were more involved with both short and long term planning were judged to be more effective.

3) Oversee and evaluate programs

Nonprofits operate with limited resources and often unlimited demands. As such, Boards must assume responsibility for ensuring that programs and services are aligned with the organizational mission and that the programs help to accomplish the planned objectives. Program oversight must be balanced by fiscal responsibility. Green (1995) found a positive association with board oversight and organizational effectiveness.

4) Selecting and supporting the executive director.

Selecting the executive director is one of the most impactful actions a board can take. The board must define this important position and associated responsibilities. Further, it is important the board supports the executive director, including providing him/her with regular feedback and evaluations. Herman & Heimovics (1991) found that executive directors who were more engaged with their boards were perceived to perform better. Similarly, Boards too were perceived to function better with more engagement with the executive director.

5) Ensuring adequate resources

The board is responsible for ensuring that adequate resources are available. Boards set fund raising goals and assist the staff in its fund raising objectives. Board members often influence potential donors and provide connections to other revenue sources. Many organizations even require board members to donate financial resources to the organization. Provan (1980) studied nonprofit boards and found that prestigious boards with extensive linkages to the community were most effective in raising funds for their organizations.

6) Fiscal oversight

Boards must also ensure proper oversight of organizational resources, including managing the budget. This is a major policy decision as it sets in place the organization's services and programs. Additionally, the board must oversee an annual audit to ensure that adequate fiscal controls are in place.

7) Public relations

Board members serve as a link between the organization and public constituents. Communicating the organization's achievements is an important function of the board. Herman & Renz (1997) found that public judgment of board performance was associated with the overall effectiveness of the organization. The board can clearly influence the public image of the organization. Johnson (1997) states that board members of mature organizations provide legitimacy in the eye of the public and with stakeholders. Many directors are selected to ensure the public that the organization is socially conscious and has the interest of the public in mind.

8) Ensuring ethical and legal integrity

The board must take responsibility to ensure legal and ethical compliance. This is critical to ensuring that the reputation of the organization is maintained in the public's mind.

9) Board Development

As new members are recruited, boards are responsible for orienting their new members. They must take responsibility for ensuring their own development. Green & Griesinger (1996) surveyed nonprofit CEOs and found that boards that handled development activities more thoroughly were judged to be more effective. Many suggest that "new blood" is critical to keeping a board vibrant and in touch with its environment. Jensen & Kilpatrick (2004) discuss the merits of term limits in aiding the process of adding new blood.

Holland (cite?) identifies six characteristics, or traits, that are present in effective boards. He shies away from identifying specific responsibilities such as Green & Ingram (cite?). The traits that Holland identifies include: contextual, educational, interpersonal, analytical, political, and strategic. Jackson & Holland (1998) developed a Board Self-Assessment Questionnaire to assess each characteristic. They found that the existence of each of the six characteristics makes a difference in organizational effectiveness. **Board Composition**

There have been two major streams of research on board diversity, one stream looks at types of individuals, the other, and looks at minority participation. Research on top management decision-making teams suggests that heterogeneous groups are more productive (Michael & Hambrick, 1992).

They also tend to develop more creative solutions to problems (Bantel & Jackson, 1989). Siciliano (1996) found that when nonprofit boards diversified their membership, the boards were perceived to have higher levels of organizational legitimacy and had better fundraising results. However, interestingly, greater gender diversity led to lower levels of fundraising success.

Heterogeneous groups do suffer from lower levels of interpersonal relationships, reduced communication, and higher levels of turnover. Diverse boards must be prepared to address conflict and work on group cohesion. Zander (1993) suggests that boards pay attention to group processes to get the most out of board members. Heterogeneity in itself must be managed. Carver & Carver (1997) caution boards against tokenism and look beyond surface differences. In discussing the needs for his board, Bill McGlaughlin confides that he was reliant on outside consultants for handling people issues. To strengthen his board, he recruited Mike Peel, a senior HR executive to help round out his team. Similarly, Blue Cross Blue Shield of Massachusetts recruited Helen Drinan, an HR executive with Caritas Christi Health Care, the Sebastopol Rotary Education Foundation recruited Shirley Ward, a Retired HR VP with the Bank of America, and White Plains Hospital recruited Bruce Carswell a Sr. VP of HR with GTE (Grossman, 2004). Williams & O'Reilly (1998) conclude that teams made up of members with a variety of functional skills will perform at a higher level than teams lacking that diversity. Fletcher (1997) points out that increased awareness and sensitivity to diversity issues were critical to successful increases in board diversity. One would expect that increased diversity and successful integration of new members will increase board performance.

Building a Strong Team

Boards are made up of groups of individuals and like any group, they succeed and fail based on the collective actions of the entire group. Progress toward understanding group composition has been slow and sporadic. No general theory guides the work of researchers (Moreland, Levine, & Wingert, 1996). However, numerous frameworks have been developed to help find the characteristics of strong groups and many of these characteristics can be applied to boards of directors. One such example is the work of Hurst, Rush & White (1989) on creative top management teams. Their contention includes a consideration of cognitive types in forming management teams as a way to facilitate creative thinking. By including types that are intuitive, feeling, thinking, and sensing, teams escape the traps of groupthink or total homogeneity. Cognitive preferences are not the only important criterion for selection to the team, but an array of different cognitive or Jungian types expand a team's capabilities beyond the too often relied on strategic, linear focus. Hurst, Rush, & White (1989) are quick to point out that different cognitive types require a combination of integrating mechanisms (Lawrence & Lorsch, 1969) to be successful.

Different roles are defined and carried out by the individuals making up a group. For instance, when looking at a board, a chairperson must generate an atmosphere where insightful members feel free to share their beliefs without fear of retribution (Moreland & Levine 1992) and additional tasks must be carried out by other members such as fiscal oversight, compensation review, etc. Peak performance of the group relies on each member handling their job, maintaining a commitment to overall success of the organization, and helping to form a cohesive group.

Zander (1994) provides two outlines of what it takes to build a strong group. The first outline deals with the actions of individuals, who *desire* group success, they:

- Encourage colleagues to work hard on the group's task.
- Reveal their readiness to aid the group.
- Help the group do well.
- Are aware of how well their own and comparable units are doing.
- compete ardently with rival bodies
- feel proud of the group when it achieves success

He also developed an outline of what it takes to *encourage* group success:

- Stress pride in the group
- Arrange group goals and work methods so that the group succeeds
- Set clear and realistic goals
- Make sure each member is aware that his contribution to the group is useful
- Emphasize team work
- Change unrealistic goals
- Help the group overcome obstacles to success
- Stress communication about improving performance and eliminating boredom.

Ancoa & Caldwell (1997) suggest four mechanisms that help teams ensure that all roles are carried out and information is shared among group members. Such action expands the boundaries of the group and makes it more effective.

- First, teams can bring in experts to expand the knowledge of the group
- Second, teams can shift their composition over the life cycle of the organization.
- Third, some members can pick up additional part-time tasks
- Fourth, decision-making roles could be differentiated. In difficult situations, either the team could be expanded, or decisions could be left to the experts in that area.

Heterogeneity creates challenges for groups. As such, a team benefits by creating an identity (Louis & Yan, 1999). Too much cohesion leads to groupthink, but one must ensure that teams are tightly enough bound to create a desire to endure through hardships and strive to accomplish the mission (Ancona & Caldwell, 2004).

Research Propositions

Bringing together the three areas of research that we have outlined presents the opportunity to explore several research questions. Answers to these questions will help boards build stronger teams and develop appropriate benchmarks to ensure their actions are helping their organizations achieve their goals. The propositions that we put forward may be studied via case studies and questionnaires. In order to measure the factors outlined,, the performance of the board and their nonprofit organizations must be established. To do this, we recommend using the methods used by McKinsey in their 2004 study.

Propositions:

Proposition 1 – Board Member Composition

What are the most important elements of diversification? Diversification of skills, diversification of backgrounds, and/or cognitive types?

1.1) The effectiveness of heterogeneity moves along a continuum from least effective to most effective forms of diversification. The progression moves from functional diversity to social diversity to a blend of functional and social diversity.

Will a lack of success cause boards to become defensive and focus on recruiting individuals who "think like they do?"

1.2) The boards of unsuccessful nonprofit organizations will have a tendency to recruit homogenous board members.

How are new members recruited? Is there a formal process?

1.3) Boards who follow a written policy on the recruitment of new members with be both functionally and socially diverse.

Proposition 2- Life Cycle

2.1) in the early stages of a nonprofit, the recruitment of new board members will focus on individuals who can provide the organization with tangible resources.

2.2) while organizations are in their growth stage, their boards will become more functionally diverse.

2.3) as organizations mature, diversity of board members (both functional and social) will decrease.

2.4) as organizations mature, the boards will become more dependent on outside experts to fill gaps in functional capability rather than recruit new members

2.5) Boards in a "turn around" will have a harder time recruiting new members than will newly established boards.

Proposition 3 – Team Building

3.1) Organizations that impose term limits on board members will have memberships that are more heterogeneous.

3.2) Organizations who have developed internal funding sources will be more likely to dismiss ineffective board members.

3.3) Boards with lower public profiles will have fewer "personality problems" and will reach consensus more easily.

3.4) Organizations that conduct team building exercises will be more committed to the mission, regardless of the heterogeneity of the board membership.

Conclusion

This paper proposes a number of areas for exploration. For nonprofits to be studied more effectively, one critical element must be developed to empirically move forward. It has been difficult to measure the effectiveness of nonprofit organizations. Several researchers have attempted to develop measures, but little consensus has emerged in the literature. With a lack of market measure (e.g. stock market valuation that are used to measure for profit organizations), the focus must be on factors such as how well an organization fulfills its mission and how favorable society perceives the work of that organization. A baseline must be found to allow for comparison. Once this baseline is established, how the board members can operate as a more effective team and help drive greater success in nonprofit organizations can be empirically studied. By helping make nonprofits more efficient and effective, society and the economy as a whole will benefit.

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