Yale SCHOOL *of* MANAGEMENT

Working Paper Series PM
Politics of Management

"Does the Structure and Composition of the Board Matter? The Case of Nonprofit Organizations"

Sharon M. Oster, *Yale School of Management* and
Katherine M. O'Regan, *New York University*

Working Paper # 04

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Does the Structure and Composition of the Board Matter?: The Case of Nonprofit Organizations

Katherine O'Regan (Wagner School, NYU)
Sharon M. Oster (Yale School of Management)

Abstract: This paper presents empirical results of the effects of board structure and composition on individual board level performance using data from New York City nonprofits. The results support a model of executive behavior in which the nonprofit executive uses his or her power to push boards towards fundraising in place of monitoring activity. Using a fixed effect framework, we also find no systematic relationship between board personal demographics and performance.

*The data used on this paper were collected with the help of New York Comptroller's office. Helpful comments were provided by Ray Fair, and seminar participants at Yale School of Management and the New York University Wagner School.

In the last few years, there has been considerable work in the area of governance, focusing principally on the relationship between board composition and the performance of for-profit, publicly traded corporations. Much of the empirical economics literature concentrates on two measures of board structure, size and independence, as it looks for impacts on either overall firm profitability or particular firm behaviors, such as the likelihood that a poorly-performing CEO will be terminated. While there is certainly variation in results, prior empirical work taken as a whole has found rather modest effects at best at the organizational level from such board differences. (Bhagat and Black,1999 ; Hermalin and Weisbach, 2000). Particularly when one uses measures of overall firm performance, the independent effect of board actions may well be difficult to separate out. For this reason, a number of researchers—both in economics and in the management area—have suggested that one might better focus on the mapping between board structure and composition and particular board actions, rather than on aggregate performance (Hermalin and Weisbach, 2000; Pettigrew, 1992). This paper follows on these lines.

In particular, we examine the effects of board structure as well as individual director characteristics on specific board behaviors by using a rich new data set on nonprofit organizations. If board structure matters, it must be because particular structures induce different behaviors on the part of board members. Using our data, we are able to examine in relatively fine, micro detail, the way in which individual board member behavior is influenced by board structure, the strength of the chief executive of the organization, and individual demographics.

In the empirical economics literature in particular, there has been rather little attention to governance among nonprofits, though it is well known that within this sector, governance has a heightened role (see, for example, Fama and Jensen, 1983; Hansmann, 1980; Ben-Ner and Van Hoomissen,1994). As it turns out, the broader role that the board plays for the nonprofit organization makes it especially suitable for this empirical work. Moreover, while our results are clearly derived from the nonprofit sector, we believe there are more general lessons for corporate governance as well.

The Role and Function of the Board

There is a long and distinguished literature in economics on the separation of ownership and control in the modern corporation. Within this context, the board is typically seen as a partial response to the agency problems attendant on this arrangement. When shareholders are unable to sufficiently incentivize managers to act in their interests via compensation or employment contracts, the board of directors can play a role in protecting those interests. In the nonprofit context, in which there are no shareholders as a consequence of the nondistribution requirement in the tax law, the board is intended to embody the mission of the nonprofit, protecting the range of constituents, including donors, the state and even clients. In the absence of strong take-over markets and clear metrics for success, the board's role in curbing managerial abuses may well be quite large.

In either the nonprofit or the for-profit world, however, it has long been recognized that the board is at best an imperfect solution to the agency problem. Boards, after all, have their own incentive issues. While, as Fama and Jensen (1983) have pointed out, board members seek to protect their own reputations for rigor and thoroughness, they also have considerable incentives to either slack off or get along with the managers running an organization. (Holmstrom, 1999). In this setting, both the structure of the board and even some of the individual characteristics of board members may have an effect on their incentives and ability to perform their role.

Among for-profit organizations, it is generally argued that the central function of a board is to monitor senior staff on behalf of the shareholders. The nonprofit board, by contrast, is generally thought to have three functions: monitoring—as with the for-profit, contributing financially to the organization, and volunteering for the organization.[1] For this reason, the questions surrounding board effectiveness in the nonprofit sector have more dimensions than we see in the corporate discussion. We are interested in not only how active the board is—the classic corporate question—but whether board members are differentially active in one or another of their three functions and what determines that differential.

In thinking about the ways in which board structure influences effectiveness, it is useful to begin by thinking about how board structure comes about in the first place. Following Hermalin and Weisback (1998), we assume that at any point in time the structure and composition of the board reflects the preferences of both the board itself and the chief executive of the organization. In looking at the corporation, Hermalin and Weisback (1998) model the board composition and structure as the result of a bargaining game between a CEO and an extant board. The CEO in this game prefers a less active, less independent board, since for a given ability level, the independence of the board increases the likelihood that the CEO will be replaced. Board members have a more complicated set of preferences. Board members derive some disutility from the work of active monitoring, and this disutility is higher for inside directors than outsiders. On the

[1] These three functions are often summarized in the pragmatic board literature as the Three W's: Wealth, Wisdom and Work.

active monitoring, and this disutility is higher for inside directors than outsiders. On the other hand, board members also gain from the information generated by this monitoring since it allows them to identify and terminate incompetent CEO's, increasing both the value of their stock ownership and their overall reputations for diligence. The fact that the trade-off is different for inside and outside board members is one of the reasons that in 2002, following the spate of corporate accounting debacles, the Securities and Exchange Commission instituted new rules requiring publicly traded companies to have majority independent board members. The bargaining model, however, shows how difficult it is to effect true independence, for in the CEO-Board bargaining setting, active boards emerge under the regime of weak CEO's running struggling companies. Thus, we find it is weaker (though possibly improving) firms which have the more independent boards, and we would expect to find stronger CEO's with weaker boards. Modeling the board in this way also makes clear the endogeneity problems inherent in the empirical work that tries to explain firm profitability by governance–enhancing structural features of a board. (Bhagat and Black, 1999; Hermalin and Weisbach, 2000).

There are several adaptations one might make to this model in thinking about the nonprofit board. Like the corporate CEO, nonprofit Executive Directors are also likely to favor less controlling, less independent boards. Indeed, a common complaint in the nonprofit sector involves "meddling" board members. Thus, in this sector as well, we should expect to see a relation between strong executive leaders and weaker, less independent boards. But, in the nonprofit sector, there is an additional wrinkle. We noted earlier that nonprofit boards have multiple tasks in addition to their monitoring role. For at least one of these tasks—contributing funds—the strong Executive Director clearly favors a very active board, since activity in this dimension increases the perceived productivity of the executive. Thus, in bargaining over the board composition, the Executive Director is likely to tilt in favor of high-giving individuals, rather than trustees who are active in other ways. Thus, in the setting of nonprofits, we would expect strong directors to be associated with boards that engage in less monitoring, but higher fund raising efforts. The Director's preferences over board time are less clear, since board work time can be both productivity –enhancing for the director and meddlesome. There is some evidence in other settings that time spent by a board member is positively correlated with board diligence. (Forbes and Milliken, 1999). Of course there may be an additional trade off for the chief executive, since to get the greater philanthropy, nonprofit leaders may have to put up with board members who engage in more monitoring.

An additional feature of the board over which there is likely to be bargaining and which may well matter for board performance is board size. Indeed, the empirical work on corporate governance has focused on independence and size as the two structural features of the board of interest. In the corporate setting, Jensen (1993) suggests that agency problems increase with size; as we suggested earlier, there has been some evidence suggesting a negative relationship between board size and firm performance. As boards increase in size, it is generally argued that free rider problems increase as they do in any team setting, and board effectiveness declines. For this element of board structure, however, the preferences of the executive leader are less clear. Would the executive prefer a small, more vigilant board, or a larger, less vigilant, but perhaps less manageable board? The empirical evidence, without modeling the process, does find that, however the size of the board is determined, larger boards perform worse than smaller. Yermack (1996) finds that large board size has a significant, though small, negative effect on a company's Tobin's q, one measure of firm value, a result that has been replicated in a sample of Finnish firms. (Mikkelson et al, 1997).

There is a similar complexity in modeling the effect of large size on nonprofit board performance. Because the nonprofit board has a broader set of tasks than the for-profit, we normally expect those boards to be larger (Oster, 1995). It may also be that within the nonprofit sector, larger size allows a board to engage more in specialized division of labor across the various tasks required of a board. In the most practical sense, large nonprofits can afford to have a few, hands-off, but wealthy individuals on their boards and/or government officials , while smaller nonprofits seek more well-rounded contributors. If this is the case, then the nonprofit might well find that the agency losses of large size are compensated for by gains from specialization. Of course, the corporate board also gains specialization with size, but more focused attention in the corporate setting to monitoring makes those specialization gains less salient. In any case, the direction of the effect of size on board performance is less clear in the nonprofit sector.

A final set of board characteristics that emerge from the interplay of the existing board and the chief executive and potentially affect the way in which that board carries out its functions is the demographic profile of board members. Within the academic literature, there has been little work either modeling why personal characteristics should matter or documenting empirically that they do for either corporate or nonprofit boards. (For a review of the literature and an example of empirical work on the effect of board diversity in the corporate sector, see Westphal and Milton, 2000). Yet there has been much concern over lack of diversity of both for-profit and nonprofit boards, suggesting that the personal characteristics of board members are pertinent when composing a board. Indeed, several pension funds have filed resolutions calling on organizations to create boards that "reflect a diversity of experience, gender and race." (Broder, 1995; Forbes, 1995). The richness of our data set allows us to explore whether demographic differences in fact make any difference to the performance of any of the three major functions of nonprofit board members.

Emerging from the interplay of the board and the executive leadership is not only a board profile, but a set of rules by which the board conducts its operations. Again, in the literature on governance, there have been considerable suggestions on good – governance rules about conduct of meetings, optimal director tenure and the like. Prior empirical work on the effectiveness of various rules has been limited. In the work which follows the effect of several common board rules on performance will be explored.

In sum, we hypothesize that the functioning of nonprofit board members on the three major axes –philanthropy, monitoring and work—will depend on several features of that board: the independence of the board versus director strength, the size of the board, and existing board rules. In addition, we allow for the possibility that individual demographic characteristics may also help to determine board performance. We turn now to examine the data we will use to examine these issues.

I. The Data

In 1999, the New York City Comptroller's Office, working with our research team and a major accounting firm, surveyed the governance practices of its nonprofit contractors. Like most other large cities, New York is a substantial buyer of services from both the for-profit and nonprofit sectors. In 1999, the City awarded approximately $6.8 billion in contracts to just over 3000 separate vendors, of which approximately one third were nonprofit. Historically, the City did very little to monitor the governance practices of its contractors.

Two sets of survey instruments were sent by the City to its one thousand nonprofit contractors. In each case, the Executive Directors of these nonprofits were queried both about the characteristics of the organization itself—size, age, service type, for example—and about their governance practices. The survey instrument contained quite detailed questions about a range of board practices typically associated with good governance. Further details of the survey are contained in Millstein, O'Regan and Oster, (1999). Four hundred and three directors responded to the survey, for a response rate of 40% , which compares favorably to the 20% response rate of the large survey done by the National Center for Nonprofit Boards. (Moyers and Enright, 1997).

In addition to completing their own surveys, executive directors were asked to distribute separate instruments to their board members. The board member survey contained questions about both the organization itself and about the behavior and profile of the individual board member. Just over 4000 board members returned questionnaires, including a number from organizations for which the Executive Director did not complete his or her survey. All responses were coded to include an organization identification number, allowing us to link member and executive director responses. The data that emerged from this survey form the basis for the empirical work that follows.

II. **Specification and Results**

Size and independence

We begin our empirical work with the classic corporate governance questions: Do board size and/or independence have an effect on board performance?

As with much of the corporate literature, size is measured by number of board members. In the survey at hand, board size comes from the report of the Executive Director. In our sample the median board size is fifteen, with a substantial range. (Means and ranges of the variables are contained in Appendix 1).

Constructing measures of board independence is more complicated. The empirical work on corporate board independence has relied primarily on measures of the share of board members who are outsiders, from an employment perspective. (Weisbach, 1988; Byrd and Hickman, 1992). More recent commentary surrounding the accounting debacles of 2002 has suggested that even in the corporate sector this is an imperfect measure of independence. For nonprofits, where boards are typically comprised almost entirely of outsiders,[2] this measure contains too little variance to be very helpful. Callen and Falk's study of health nonprofits defined "insiders" as trustees receiving remuneration (Callen and Falk, 1993). However, board remuneration is also atypical in nonprofits, particularly those outside the health sector. In our sample of nonprofit service providers, for example, only 2 percent of the organizations provide any remuneration, and even this group provides less than $100 annually.

An alternative approach to measuring board independence is to look at the role of the executive leader in board matters. Shivdasani and Yermack (1999), for example, focus on the ability of the CEO to influence board composition, using a measure of CEO involvement in the selection process of board members as their measure of board independence. This approach is particularly appealing in the context of our model of board composition in which board independence is the flip side of the chief executive's

[2] Fama and Jensen (1983) have argued that without the threat of a takeover market, nonprofit boards should be dominated by outsiders.

strength. We follow this approach in this paper, using as one measure of Executive Director strength whether or not he or she has the power to nominate the board. In this sample, 15 % have this power. In addition to this **selection** measure of director power, we also consider an **influence** measure: Does the ED have a vote on the board? Fourteen percent of the directors in our sample have this power. As we will describe shortly, these two measures represent alternative strategies for capturing executive power. Both of these variables measure ED strength and at the same time are indications of board independence.[3] In the empirical specification, we use interaction effects to allow for the role of the two executive power variables to differ between small and large boards.

In looking at the effect of board size and independence on board performance, we focus on the three categories of nonprofit board responsibility described earlier. All of the data here are taken from the individual board member questionnaires, and thus are self-reported. Giving behavior on the part of the board member is captured by two measures, first a dichotomous variable indicating whether the board member gave or not (77 % of the sample report giving something), and second, a variable indicating the level of giving (the mean gift in the sample was $3,200). The time spent on board activities was also captured using two variables: hours per month spent on board activity, and the percent of board meetings attended. Finally, monitoring activity was measured using information on whether a board member reported receiving a variety of evaluation documents. In the nonprofit literature, the key issues of board performance are typically identified as being poorly informed (rather than issues of opportunism seen more in the

[3] The second measure is in fact highly correlated with Shivdasani and Yermack measure (ED voting on the nominating committee) for those organizations reporting this information.

corporate literature). (Chait et al, 1991; O'Regan and Oster, 2002). Focusing on the documents most frequently available to board members (government evaluations, employee turnover, and independent audit letters) a dichotomous measure of monitoring was created, equal to one if the board member reported receiving information on all three performance arenas and zero otherwise.

For the regressions reported on here, our principal concern lies with the effects of board size and independence. Nevertheless, as indicated earlier, there are a number of other organizational and personal characteristics that also potentially affect individual board member behavior. We have included dummies for organizational service sector, and size as measured by the previous years revenues. We have also included a number of the individual trustee traits that have been shown to matter in the literature, most notably tenure (years on board) and multiple board membership. While we include these individual demographic characteristics in all regressions, they will form the focus of the next section of this paper, and will be treated in a fixed effects framework that will allow us to identify these effects more cleanly.

The results of the first set of regressions are reported in Table 1 and suggest that both board size and ED strength/board independence do matter for the behavior of individual board members. As column 1 in the table suggests, board members on larger boards are significantly more likely to give personally to the organization, and, when they give, to give more. The results suggest that increasing board size by one increases the likelihood of giving by 12.5%, and the average gift of those who do give by $79. This increased "activity" is specific to giving, however.[4] The share of meetings attended and number of monitoring activities undertaken each significantly decline with board size, as we see in columns 2 and 3. It appears there may well be agency problems that increase with board size, as Fama and others have suggested, but that personal giving is protected from this effect. Perhaps on large boards, big donors get more of the "warm glow" effect described by Andreoni (1993) in his modeling of charitable giving, as a greater number of other trustees learn of the donor's largesse. If we turn back to our earlier discussion, these results suggest that the chief executive of nonprofits should push toward larger boards which both reduce monitoring and increase funds available. From a good governance perspective, the results suggest that size on the nonprofit board is a mixed blessing, increasing philanthropy but reducing the oversight that may well improve the productivity of the new resources.

Next, we consider the effect of board independence on board behavior. By using interaction effects, we allow for the possibility that influence and selection may operate differently on small versus larger boards. Consider first the effect of the **influence** measure of director power. In terms of personal giving, the results suggest that trustees on boards with voting Executive directors are significantly <u>less</u> likely to give. The direction and size of the interaction effect suggests that this dampening effect is felt principally on large boards. This result suggests that there is an implicit cost to an ED in terms of reduced board giving, associated with exerting voting power. The results further suggest that the cost in terms of demotivating board members does not affect all board members. In particular, while voting by the ED votes reduce the likelihood of giving, the average amount given by trustees (shown in column 2) actually increases. For trustees who <u>do</u> give personally, the amount they give is higher when the ED is strong. Indeed, conditioning on giving at all, an ED vote brings with it an increase of $2355 in average

[4] In fact, other estimates using a squared term for size, find the benefits of size eventually turn negative.

board gift. Note again this effect works principally on large boards (i.e. the interaction effect is negative).Taken together, this suggests a model in which strong ED's use their power to plumb for a few big givers on the board, while at the same time, the very strength of that director somewhat reduces the
average board member's involvement level via giving. The director's tendency to specialize the board members in this way is clearly more pronounced for large boards.

Consider now the effect of the **selection** measure of ED power, the power to nominate board members directly. The results in Table 1, columns 1 and 2, suggest a strong, positive effect of ED nominating power, on both the likelihood of giving and the average gift size, strongly supporting the view that ED's use nominating power to emphasize board giving. Note, the large size of the negative interaction effect suggests that the importance of ED nomination in structuring a board is largely felt in large boards. On small boards, ED's may have powerful <u>informal</u> control mechanisms to structure their board.

The second set of board performance measures, attendance, appears to be unaffected by either of the ED power variables. In fact, the empirical work finds little that affects attendance, other than the demographics of board members. We will explore these demographic effects further in the next section of this paper.

More relevant here, the results for monitoring are clearly supportive of our model of executive director and board bargaining. Trustees on boards with executive directors who participate in the nomination process are significantly less likely to undertake a range of monitoring activities. The effect of an ED vote is similarly negative, though not significant. Again we see these effects working principally on large boards. When we

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However, the linear form of size performed best in the remainder of the regressions.

look at this result in conjunction with the positive effects on giving and on attendance at meetings, a picture emerges of executive directors who use their bargaining power selectively to direct the energies of the board in specific ways. The boards of nonprofits run by strong directors do not spend less time on board activity than their more independent peers, but they do spend that time differently. In this respect, it is interesting to note that research on corporate boards similarly finds no difference in attendance records of board members of Fortunes' most and least admired companies (Sonnenfeld, 2002).

Interpreting Measures of Board Independence: Selection versus influence

The two measures of board independence in the empirical work, selection and influence, represent alternative ways in which an Executive Director can influence board behavior. In some ways, these two mechanisms are similar to Hirshman's exit and voice options in the political process, in that they offer two alternative strategies. Interestingly, while between 14 and 15 percent of Executive Directors nominate board members or vote on their boards (respectively), there is essentially no correlation between these two practices (correlation= .02).[5] Moreover, in only 2 percent of our organizations does the ED both vote and nominate. Both of these facts support the view that to some extent selection and influence are substitutes in the governance process.

In addition to the questions on nominating and voting rules, the Executive Director portion of the NY survey contained information on a number of other board rules and practices that potentially relate to the power of the board versus the executive. In Table 2, we explore the ways in which the selection versus influence measures are themselves related to this constellation of other practices. This provides both added

[5] This organizational-level analysis is based on the responses from 403 directors.

confidence in the measures themselves and some flavor for the details of the governance process.

The first section of Table 2 covers three policies that directly affect the Executive Director's control over board meetings and board composition: whether the Executive Director has sole control over setting the meeting agenda, whether constituents are represented on the board, and whether the nonprofit has a community advisory board. Clearly these characteristics will be influenced by a collection of factors, and will be the outcome of additional bargaining between boards and their EDs. But if the two measures used truly capture organizations in which the ED is exerting influence -- in effect, doing well in these bargaining situations -- we would expect this to be manifested in similar outcomes from other bargaining. And we do find some evidence supporting this interpretation of our variables. Specifically, EDs are significantly more likely to have sole control over the agenda in both organizations in which the ED votes and in organizations in which he or she nominates board members.

The second section of Table 2 covers a set of rules or standards often associated with good governance in the nonprofit literature (Chait et al, 1991). Such rules, of course, may also limit executive discretion and thus be undesirable from this perspective to an Executive Director. The results are consistent with our bargaining description and board independence, though in most cases the differences are not significant at the 5 % level. It is interesting to note that the one place in which the selection and influence measures have different rule correlations involves required giving. Executive influence does not appear to result in board requirements on giving (to the contrary, in fact), while there is mild evidence in favor of the proposition that executive nominating power is positively correlated with giving requirements.

The final section of Table 2 considers an additional aspect of board control, via information. For a board to effectively oversee an organization's activities, it needs information. Thus these measures reflect directly on the board's monitoring ability. Three measures of information are reported here: whether the board is provided with orientation, with on-going training, and with financial reports. Using either the selection or the influence measures, boards which are less independent with stronger directors are consistently and significantly less likely to receive information.

In sum, these results suggest there may be many additional avenues through which strong ED's exert their influence, but that our two measures are clearly capturing the type of phenomena in which we are interested.

Individual Demographics

We turn now to consider the relationship between board performance and individual board member characteristics. Here, we look at two kinds of personal characteristics: characteristics that describe the individual qua board member- in particular, tenure on the board and service on other boards; and a set of personal traits, including gender, age and occupation.

One of the differences between nonprofit and for-profit boards involves the length and conditions of service of board members. In the for-profit sector, explicit term limits are unusual and, absent major organizational changes, many board members serve until retirement. Among nonprofits, term limits are more common. Indeed, in our sample, 16% of the boards report having some limits on cumulative board service. The literature raises conflicting normative assessments of board longevity, contrasting the potential benefits of knowledge or retention of high performing trustees with the potential costs of board capture. Such conflicting forces provide unclear expectations of the tenure variable, but does suggest that the principal negative effect of long tenure may well be on monitoring activity.

A second trustee variable of interest is service on multiple boards. Here too there are conflicting effects. Work on corporate boards has shown a negative effect of a trustee sitting on several other boards, interpreted as a sign of diluted attention (Core et al, 1999). Indeed, there are board governance experts who recommend sharp limits on the number of boards an individual should sit on (MacAvoy and Millstein, 1998). On the other hand, multiple board membership also tells us something about some of the possibly unobservable qualities of the trustee. Board members on multiple boards have clearly been identified as attractive candidates by more than one board. As such, this variable may measure the presence of otherwise unobservable characteristics generally desired by boards, for example, wealth, energy or expertise. In our sample, this conflicting effect is even more pronounced because we do not have information on whether a trustee is sitting on *many* boards, simply on whether he or she serves on any other board. Nevertheless, if the principal issue with multiple board service is attention dilution, one might well expect most of the negative effects to be seen in the time-spent variables.

In terms of personal traits, there are fewer theoretical reasons for expecting these individual characteristics to matter. Given these discussions, we have included three personal traits (occupation, age and gender) that are contained in the board member's survey and relevant for diversity.

Looking back at Table 1, these personal traits generally do not affect any of the behaviors we are examining. Gender matters only for time spent on board activities, which is significantly higher for women, while age never matters. Occupation seems to matter most in terms of giving, particularly for the amount given. Here, half of the occupational dummies are significant, with few surprises. Board members working in education, government or the health care sector give significantly less money to their organizations, while board members in the financial services, manufacturing or real estate sectors give significantly more. One or two occupations at most end up being significant in the remaining regressions.

The most consistently important individual level variable is one capturing a board-related characteristic, tenure. Years on a board significantly increases the likelihood of giving, and the likelihood of monitoring. This finding suggests a packaging of behaviors in experienced board members that leave Executive Directors with a tradeoff. Increased likelihood of giving may come at the cost of increased monitoring. Board members with longer tenure also make larger donations, and attend a larger share of meetings. However, this does not continue to increase with tenure, but eventually to decline as seen in the negative effect of the squared term. At some point, the positive benefits of tenure are eventually outweighed by the negative.

A difficulty in interpreting these finding arises from the endogeneity of board membership. Board membership is the result of a deliberate choice process, either by the Executive Director of the nonprofit or the board itself. They will select members, who, either through observable (in our data) or possibly unobservable characteristics are expected to behave in ways prioritized by the board. These boards will likely then emphasize the specific behaviors they need from their members. For example, believing that women give less than do men, organizations that emphasize fund raising by board members may typically avoid women trustees. Those that do choose women are more likely to be organizations which push their trustees less to give. Giving will be found to be lower among women when in fact this is due –at least in part—from the selection of women onto boards that give less *as a whole*.

In order to mitigate the endogeneity problem just described, we have used a fixed effects regression structure. In the data at hand, we have multiple trustees from the same organization for almost 97 percent of our sample. Thus, it is possible to use fixed effects to ask whether, **controlling for common board behavior**, personal characteristics matter for performance. Table 3 presents the results of this set of regressions, looking at the same measures of board performance that we considered in the structural regressions.

We find almost exactly the same results as in Table 1. In terms of personal traits, occupation continues to matter, but only for the amount of money donated; age and gender matter only for time spent on board activities. Controlling for which board they are on, women are not less likely to donate than are men, and there are no differences in the dollar amount of giving. These "lack of results" are themselves interesting, given concerns with board diversity. Obviously, we are looking at only a limited number of behaviors, and perhaps the push for diversity is led by differences in other behaviors or in perspectives. But, given the importance of these behaviors for boards (particularly personal donating), that women and men do not differ raises the question of why are women under represented on more prestigious and larger boards? It does not appear to be arising through positive selection for larger donors nor negative selection away from more monitoring. Women do, however, spend more time on board activities, which may be correlated with monitoring activities we cannot capture here. There is obviously a need for considerable more empirical work on these issues.

Table 3 also indicates that total time and money given to a board is higher for board members who serve on multiple boards. As noted previously, this higher giving may make them more desirable board members, and so may arise from selection. Our fixed effects approach simply gives us more confidence that this relationship is not spurious, arising strictly from selection onto boards on which all members give more to their boards. That trustees who serve on multiple boards also spend more time on board activities suggests we are not capturing any information about diluted attention in this variable. If there is a dilution of attention that comes from "too many" boards, this effect does not occur from simply being on more than one board.

Finally, our main findings on tenure remain after controlling for common board effects. Up until a point, time on a board increases the likelihood and magnitude of spending, and time and attendance. In this sample, the coefficients suggest that the total amount of giving is maximized at a tenure level of 13.6, while meeting attendance drops off somewhat faster, so that attendance is maximized at 10.5 years. The positive effect of tenure on board performance could have two possible sources. Over time, board members could increase their attention to the board, through giving and time. Alternatively – or in addition—board members who are more generous with their time and resources may be selectively retained on boards. With cross-sectional data, we cannot distinguish between selection and changes over time, though the negative sign on the squared term appears more consistent with a story of attention and interest, rather than selection.

III. Conclusion

There has been over the past year both an increasing focus on the importance of board oversight and an increasing frustration with the quality of that oversight. Controversies involving accounting irregularities at Enron have been paralleled by charges of misreporting of fund raising revenues and improper expense taking among leading nonprofits. It is interesting to note in this respect that some of the structural suggestions to improve corporate governance in the 2002 Sarbanes-Oxley Act and described in the various blue ribbon committee reports have actually long been a feature of the nonprofit board. Board independence, chair independence and term limits all come to mind. Nonprofit boards are also notably more diverse in membership that the typical corporate board. Yet, governance –as we have lately seen—has nonprofit failures as well. Our work in this paper suggests that even with these clearly important structural features, nonprofit boards perform with quite mixed success and that strong executives can have a decided impact on the way those boards perform their varied duties. The nonprofit evidence suggests that the structural remedies currently being promulgated for the corporate sector are only the beginning of the answer to better governance.

Table 1: Director Performance and Board Structure

Independent Variables:	Dependent Variables				
	Personal Giving		Time Spent		Monitors?
	Yes/No	Amount	Hours	%meetings	Yes/No
Board attribute					
Board Size	.125 (5.99)**	78.64(4.13)**	-.001(.20)	-.083(2.56)**	-.019 (2.75)**
ED votes?	-1.94 (2.72)**	2355(3.12)**	.341(1.04)	.958(.59)	-.385(1.32)
ED votes on Small board	1.49 (1.81)	-1251(1.37)	-.122(.28)	2.16(1.12)	.402 (1.11)
ED nominates board	1.13 (2.39)**	1106.51 (2.01)*	-.104(.38)	.148(.08)	-.598(2.44)**
ED Nominates on Small board	-.818(1.35)	-1414(2.09)*	-.286(1.30)	-2.86(1.30)	.347(1.11)
Organizational :					
Dummies for sector	Yes	Yes	Yes	Yes	Yes
1998 Revenues (000s)	-1.0e-05(.50)	0.11(4.23)**	-5.15e-7(.07)	6.38e-5(1.22)	-2.73e-6(.31)
Director trait					
Dummies for occupation	Yes	Yes	Yes	Yes	Yes
Age	-.005(-0.89)	-0.41(.05)	.006(1.52)	-.012(0.34)	.010(2.20)*
Gender (1=Female)	.132(0.97)	265.40(1.31)	.193(2.28)*	.926(1.27)	.170(1.79)
Tenure	1.00(2.12)*	224.88(3.29)**	.042(1.38)	.760(2.56)*	.063(1.92)
Tenure Squared	-.004(-1.71)	-11.38(-3.19)**	.001(0.31)	-.034(-2.22)*	-.002(.87)
Service on other boards	.174(1.06)	906.85(5.07)**	.122(1.43)	.120(0.15)	-.173(1.62)
N	2729	2148	2792	2737	2775

* p<.05; **p<.01. Estimated using robust standard errors.

Table 2: Board independence and additional avenues of ED Influence

	ED Votes:		ED Nominates:	
	Yes	**No**	**Yes**	**No**
ED strength variables:				
ED Nominates Board	16%	15%	---	---
ED votes	--	--	15%	13%
Additional controls over Board:				
ED only sets agenda for meetings	**15%****	**4%****	**12%****	**4.6%****
Has Constituent representative on Board	61%	74%	76%	71%
Has Community Advisory Board	36%	42%	39%	41%
Formal standards for Directors:				
Formal conflict of interest	53%	59%	53%	58%
Minimum attendance standards	49%	59%	**45%****	**60%****
Prohibits transactions with board	74%	71%	61%	73%
Has Tenure limits for officers	15%	27%	**13%***	**27%***
Requires financial contribution	**19%****	**38%****	40%	34%
Informed Board:				
Provides Orientation for board	**21%****	**43%****	**25%****	**43%****
Provides Training for board	**15%****	**32%****	25%	31%
Provides Financial Reports to board	**94%****	**99%****	97%	99%

* p<.05; **p<.01.

Table 3: Fixed Effects Models

Independent Variables:	**Dependent Variables**				
	Personal Giving		**Time Spent**		**Monitors?**
	Yes/No	**Amount**	**Hours**	**%meetings**	**Yes/No**
Using Full sample of Individuals					
Dummies for occupation	Yes	Yes	Yes	Yes	Yes
Age	.016 (1.89)	- 8.10(-1.02)	.013(3.84)*	.041(1.17)	.010(1.94)
Gender (1=Female)	-.123 (-0.64)	-58.70(-0.35)	.171(2.30)*	.720(0.95)	.162(1.55)
Tenure	.265 (4.09)*	123.19(2.17)*	.098(3.90)*	.800(3.12)*	.027(0.75)
Tenure Squared	-.010 (-2.93)*	-4.51(-1.50)	-.003(-1.98)*	-.038(-2.76)*	.0001(0.03)
Service on other boards	.371 (1.91)	538.94(3.19)*	.199(2.64)*	.445(0.58)	-.039(-0.37)
N	974	2424	3182	3124	2423

* p<.05; **p<.01. Estimated using robust standard errors.

Appendix 1 Summary Statistics

	Obs	Mean	Std. Dev.
Organizational characteristic			
Board size	396	18.8	11.16
1998 Revenues	393	6,442,112	250,000
ED votes (1=yes)	391	.138	.345
ED nominates (1=yes)	403	.149	.356
Individual Characteristics			
Age of trustee (years)	3155	56.10	11.67
Gender (female=1)	3136	.47	.50
Years on board	3156	7.77	5.78
Service on another board (1=yes)	3083	.59	.49
Has given personally (1=yes)	3054	.77	.42
Amount given ($)	2384	3230	4357
Hours spent per month	3115	3.53	1.96
% of meetings attended	3046	70.74	17.29
Monitors	2993	.54	.50

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