

FOSTERING EFFECTIVE RELATIONSHIPS AMONG NONPROFIT BOARDS AND EXECUTIVE DIRECTORS

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Nonprofit boards make major decisions for their organization such as setting the mission, strategic planning, budgeting, and hiring an executive director. As a result, board members hold a large portion of the power within nonprofit organizations. On the other hand, important decisions about the day to day operations of the organization are made by executive directors. It is therefore critical for executive directors and nonprofit boards to foster productive relationships in order for the nonprofit organization to accomplish its mission and to ensure that positive decisions are made for the organization.

The purpose of this paper is to identify some key factors that promote effective relationships between the board and the executive director. To accomplish our objective, we identify from the literature several important activities relevant to the board-director relationship. We then analyze the survey findings of executive directors of nonprofit organizations in the Lexington, Kentucky, area to determine which of the factors are correlated with healthy and effective director-board relationships. The objectives of our paper can be summarized in two research questions:

- What makes an effective board-executive director relationship?
- Which elements of the organization or board might be related to the effectiveness of the board-executive director relationship?

The use of a governing board as a major decision-making body is an integral component of the nonprofit sector. While board members are not paid and often perform the duties of volunteers, they have additional responsibilities that differ from those of a normal volunteer. States have passed different laws to define permissible behaviors for board members, usually including the idea that board members must act in good faith when making decisions for the organization. For example, Kentucky law requires that a director (board member) “shall discharge his duties as a director, including his duties as a member of a committee: (a) In good faith; (b) On an informed basis; and (c) In a manner he honestly believes to be in the best interests of the corporation.” (Kentucky Revised Statutes 273.215, 1989). Board members can be held liable for the harmful actions of the organization and in some situations can even be sued as agents of the organization (Duca, 1996). Directors and Officers Insurance can be purchased to financially protect board members, but appropriate behavior is still a responsibility that board members must always demonstrate.

Boards wield tremendous authority as they are frequently responsible for performing a myriad of duties including setting the mission, strategic planning, budgeting, and hiring the executive director. Since executive directors of nonprofit organizations do not hold the same level of concentrated power as chief executives in for-profit organizations, they must build a good working relationship with the board to ensure that favorable decisions are made for the organization. For nonprofit executives, Collins (2005) recommends using legislative leadership to be respectful of the board’s power while still working towards positive decisions for the organization. Legislative leadership relies on

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persuasion, political currency, and shared interests in order to create an environment in which the right decisions can be made (Collins, 2005).

WHAT MAKES AN EFFECTIVE BOARD-EXECUTIVE DIRECTOR RELATIONSHIP?

A review of the literature on board-executive director relationships suggests that four factors are important in building a solid relationship between the board and executive director:

- Executive director perceptions of board engagement in the organization,
- Expectations for the executive director,
- Expectations for the board, and
- Board-executive director communication.

Board engagement in the organization

There are several ways boards can be effectively engaged in the work of the organization. Vartorella suggests that boards should be held accountable for fundraising for the organization and that annual giving comes with the responsibilities of being a board member (Vartorella, 1997). Research by Wolf suggests that if board members are not giving back to the organization and are not soliciting funds, then the organization could have some problems when it comes to recruiting outside donors (Wolf, 1999).

Another way to promote board member activity is to provide adequate orientation for new board members. Orientation may include a number of items ranging from providing a board manual to giving out an annual job description for board members to having a formal informational session. These orientation activities give new board members a chance to become familiar with the organization and the responsibilities of being on the board (Koch, 2003). In fact, Koch contends that orientation and training are “a must” (Koch, 2003).

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Regular attendance at meetings is also important for board engagement. Reading the minutes of the meeting or participating via electronic means is not judged to be at the same level of engagement as attendance at the board meetings (Kilmister & Nahkies, 2004).

Expectations for the executive director

In the formal hierarchy of nonprofit organizations, executive directors are directly below the board. Having an executive director that is clearly accountable to a functioning board is a situation unique to nonprofit organizations (Drucker, 1989). As a result, executive directors should strive to meet the needs and expectations of the board. According to Swanson, these needs and expectations can include regularly reporting on the status of the organization and carrying out the goals and objectives for the organization set forth by the board. In order to make informed decisions for the organization, the board needs to receive regular reports on the status of the organization (Swanson, 1989). The board can also outline organizational objectives for its executive director (Swanson, 1989). Even though the board may be at the top of the organizational chart, it is important that board members and the executive director see each other as colleagues working to achieve the same goals (Drucker, 1989).

Expectations for the board

According to nonprofit fiduciary statutes, the board members of nonprofit organizations are generally charged with the duty of care, the duty of loyalty, and the duty of obedience (Gibelman, Gelman & Pollack 1997). These duties entail acting prudently when making decisions regard-

ing the organization, acting in the best interests of the organization instead of the best interests of the board member, and being obedient to the mission and goals of the organization (Gibelman, Gelman & Pollack 1997). While these legal responsibilities

may vary slightly from state to state, these are the basic legal expectations for board members. However, the executive director will have additional expectations of board members in order to help the organization run smoothly. A major task that the board must undertake is the evaluation of the executive director's performance. This task is one of the main responsibilities the board as a whole must undertake (Iecovich, 2004). This responsibility goes hand in hand with the board's responsibility to hire and potentially fire executives. Boards should also focus on long-term planning for their organizations, as it is their responsibility to set the goals for their organizations (Carver, 1990). Carver also asserts that boards should strive to be open and accountable to their stakeholders and their communities (Carver 1990). Board members hold a great deal of responsibility and their involvement is crucial to the success of the organization.

Board-executive director communication

According to research in this area, clarity of roles and expectations is critical to having a successful board-executive director partnership. Regular communication is also an important component of a successful partnership. It is recommended that the executive director and the board president communicate at least once per week in order to keep the lines of communication open (Koch, 2003). It is not uncommon for the executive director to spend a large portion of time communicating with board members outside of meetings. There is no magic number of hours or minutes that is the best amount of communication time between executive directors and board members. Some boards want to be actively engaged in many decisions, while other boards are content to handle the major decisions and leave the smaller issues to management. Thus, the board should clarify the decisions on which they should be consulted, and which decisions the executive director can be responsible for (Eadie, 1996). Likewise, the executive director should ensure that board members understand the responsibilities that come with being on the board of the organization (Weisman, 1995).

RESEARCH METHODOLOGY

A survey was developed and administered to the directors of nonprofit organizations in Central Kentucky to examine the important factors of effective nonprofit board-executive director relationships. The perceptions of the board-director relationship were assessed from the viewpoint of the executive directors. There was no attempt to survey the board members of these organizations. The survey was administered via a website to sixty executive directors from nonprofit organizations with paid executive directors and located in Lexington, Kentucky. Out of the sixty organizations identified in the sample, thirty-six executive directors responded to the survey for a 60% response rate.

The executive directors were contacted by phone prior to receiving an e-mail invitation to complete the survey in case they had any questions or concerns about the study. This delivery method for the survey allowed the executives to complete the survey at the time that best suited them. However, if the executive did not have access to the internet, he/she was offered the opportunity to take the survey over the phone. A week after initial contact, a reminder was sent to the organizations that had not yet completed the survey. All participants were guaranteed confidentiality so that no information gathered by these surveys would come back to harm the executive director or the organization in any way.

Several assessment tools have been developed by researchers to examine the effectiveness of the board on the organization as whole. The Governance Effectiveness Quick Check is a test that measures the effect of board practices on the overall health of the organization. This tool was developed by Gill, Flynn and Reissing (2005) as an abridged version of their Governance Self-Assessment Checklist. The Governance Self-Assessment Checklist tests 144 items and assigns a Governance Quotient to each organization that shows the effectiveness of board governance practices. This research determined that there was a high correlation between the scores on the Governance Effectiveness Quick Check and the Governance Self-Assessment Checklist (Gill,

Flynn and Reissing, 2005). Our survey included questions from the Governance Effectiveness Quick Check to gauge the overall performance of the boards.

The survey consists of twenty-nine close-ended questions and three open-ended questions. The close-ended questions required a few words for response, a multiple choice answer or an answer based on a Likert scale. For these statements the following Likert scale was used; 1, strongly disagree, 2, disagree, 3, somewhat disagree, 4, somewhat agree, 5, agree, and 6, strongly agree. These statements were designed so that a 6, strongly agree is the best answer and 1, strongly disagree is the worst answer. There were three statements where strongly disagree was the best answer and strongly agree was the worst answer, but the statements and answers to these statements were inverted after the survey collection was complete. Fifteen of the questions in the survey were taken directly from other survey instruments while seventeen of the questions were developed based on the literature review.

Organizations were also given an overall score for their answers on the Likert scale statements as a measure of governance effectiveness. The overall score was tallied by averaging the Likert scale answers for each organization based on the 12 factors that Gill, Flynn and Reissing (2005) used to measure governance effectiveness in their quick check model. The average score can therefore be referred to as The Index of Governance Effectiveness (IGE). The four components of the IGE with the highest average rankings (average score in parentheses) are:

- Board meetings are well-managed (i.e. there is a set agenda, time limits are observed, etc.). (5.47)
- The board’s capacity to govern effectively is not impaired by conflicts between members. (5.36)

Based on previous literature and studies, we propose four primary factors that are believed to influence the value of the IGE score: organizational characteristics, executive director's tenure, board activity, and communication.

- I know which decisions can be made without board consultation and which decisions need board consultation. (5.22)
- Board members demonstrate commitment to this organization’s mission and values. (5.22)

The following statements received the lowest average rankings from the sample:

- The board is actively involved in fundraising efforts for this organization. (3.69)
- The whole board is responsible for a regular evaluation of the executive director/ CEO’s performance. (3.69)
- The board outlines measurable goals, objectives and expectations for my performance. (3.94)

The focus of our study was to identify the factors that are more influential on the governance effectiveness as measured by the IGE. Based on previous literature and studies, we propose four primary factors that are believed to influence the value of the IGE score: organizational characteristics, executive director’s tenure, board activity, and communication. Information on these factors was collected for each organization through the survey.² The specific variables are now discussed.

The organizational characteristics include size of the board (Boardsize) and age of the organization (Age). As the number of board members increases there are

2 Here are the questions as presented on the survey. How many people are on your organization’s governing board? How long have you been the executive director of your organization (in years)? When was your organization established? What percentage of your board members make monetary contributions to the organization at least annually? What is the average attendance rate at your regularly scheduled board meetings? How many hours per week on average do you spend communicating (via phone, e-mail or in person) with your board president outside of meetings? How many hours per week on average do you spend communicating (via phone, e-mail or in person) with all other board members outside of meetings? Does the board conduct a regular evaluation to review your job performance?

more opportunities for conflict with other members and it becomes easier for some members to shirk their responsibilities. The age of the organization is determined as the number of years since it was established. It is unclear whether the organization's age will be a positive or negative influence on IGE.

The second factor is the executive director's tenure at the organization. This variable (Tenure) is measured by the number of years that the executive director has held that position. A longer tenure is expected to increase the governing effectiveness as measured by the IGE.

Board member activity is expected to influence IGE. Two variables are included as proxies for board activity. Attendance at board meetings is measured as average percent attendance at board meetings (Bdattendance). The other variable is the proportion of the board members that make a contribution to the organization (Bdcontributions).

The last factor is communication. Communication is arguably a more important factor than the other three from the perspective of an executive director seeking to improve the quality of governance. Communication is important because the time spent communicating is a factor within the control of the executive director, whereas the organizational age and director tenure are largely

non-controllable factors. An executive director can only indirectly influence board activity. Three variables are employed as important measures of communication. The first is the number of hours the executive director spends each week communicating with the board chair or president outside of scheduled board meetings (Chair-hours). The second variable is the number of hours the executive director spends each week communicating with individual board members outside of board meetings (Board-hours). The third variable (Job performance) is a descriptive variable equal to one if the board conducts a regular evaluation to review the job performance of the executive director.

The descriptive statistics for the variables are presented in *Table 1*. The Pearson correlation for the variables is shown in *Table 2*. The Pearson correlation examines the degree of correlation among these items to determine whether the relationship was positive or negative. The correlation coefficient can range from -1 to 1. In this range, 0 means that there is no relationship, positive values mean that there is a positive relationship between the variables and negative values mean that there is a negative relationship between the variables. Statistical significance (5% level) is indicated in the table by an asterisk.

Table 1: Descriptive statistics for dependent and explanatory variables

Variable	Mean	Median	Std. Dev.	Min	Max
IGE Score	4.802631	4.8421	0.588691	3.1053	5.7895
Boardsize	18.66667	15	12.15143	5	60
Age	32.30556	29	24.08891	2	94
Tenure	5.805556	2	6.777355	1	25
Bdcontributions	62.02778	77.5	39.18344	0	100
Bdattendance	72.16667	75	18.71668	10	100
Chair-hours	3.583333	2	5.129049	0	30
Board-hours	2.638889	2	2.331802	0	10
Job performance	0.805556	1	0.401387	0	1

Based on 36 respondents. See text for variable descriptions.

Table 2: Pearson Correlation Statistics

	IGE Score	Boardsize	Age	Tenure	Bdcontributions	Bdattendance	Chair-hours	Board-hours	Job performance
IGE Score	1.000								
Boardsize	0.082	1.000							
Age	0.089	0.060	1.000						
Tenure	0.438*	-0.010	0.128	1.000					
Bdcontributions	0.167	0.305	-0.148	0.058	1.000				
Bdattendance	-0.217	-0.241	0.141	-0.018	-0.222	1.000			
Chair-hours	-0.081	-0.152	-0.107	0.237	-0.216	0.351*	1.000		
Board-hours	0.386*	0.458*	0.174	-0.230	0.348*	0.042	-0.092	1.000	
Job performance	0.533*	0.221	0.311	0.216	0.122	-0.079	0.084	0.320	1.000

* Statistically significant at .05 level. Obs = 36

Table 3: Estimated Coefficients on Regression Model

Score	Coef.	Std. Err.	t	P>t	[95% Conf. Interval]
Boardsize	-0.01124	0.004842	-2.32	0.028	-0.02118 -0.00131
Age	0.001242	0.003766	0.33	0.744	-0.00649 0.008969
Tenure	0.027975	0.011577	2.42	0.023	0.004221 0.05173
Bdcontributions	0.000985	0.00218	0.45	0.655	-0.00349 0.005458
Bdattendance	-0.00944	0.003153	-2.99	0.006	-0.01591 -0.00297
Chair-hours	0.003212	0.012821	0.25	0.804	-0.02309 0.029518
Board-hours	0.084259	0.038681	2.18	0.038	0.004892 0.163625
Job performance	0.4871	0.332737	1.46	0.155	-0.19562 1.169819
_cons	4.803778	0.345127	13.92	0	4.095636 5.511921

The model is statistically significant in that $F(8, 27) = 5.03$ R-squared = 0.5060 Obs = 36

IGE is statistically correlated with tenure of the director, weekly hours of director communication with board members and the job performance review variable. Also note that board hours is correlated positively with board size and the percent of the board members making contributions. These correlations are generally consistent with our expectations though all have correlation coefficients less than .5 indicating moderate correlation.

A regression model is employed to further examine

the relationship of the variables on IGE. The regression coefficient estimates are presented in Table 3.³ The coefficients on Boardsize, Tenure, Board-attendance, and Board-hours are all statistically significant at a .05 level. Age, Board contributions, Chair-hours, and Job performance are not statistically significant in the regression model.

3 The regression corrects for heteroskedasticity by using robust standard error. The variance inflation factor did not suggest multicollinearity concerns.

DISCUSSION

The regression estimates provide some interesting insights as to the factors that influence the IGE for the nonprofit organizations in Lexington. Board size and board attendance both reduce the effectiveness score. As boards get larger, it appears that management of the board relationship is more complex and on average reduces the IGE score. It is a little surprising that board attendance reduces effectiveness, as one would expect that board engagement would lead to more effective boards, but it appears that more participation makes for less effective board-director relationships. It seems that too many chefs in the kitchen spoil the soup. In both cases, the negative coefficient is quite small, meaning that the addition of a board member has a small negative impact on IGE. There are clearly benefits to having a large board, and for many organizations the benefits of having a large board could outweigh the concerns associated with a reduction in IGE.

The length of time that the executive director has worked at the organization is an important factor to effective relationships. Every year of tenure at the organization increases the IGE score by .03. The average IGE score is 4.8 on a six point scale, so an organization with an average IGE score that increases the tenure of the executive director by one year will increase their IGE to 4.83 holding all other factors constant. These findings might indicate that executive directors who do not have a good relationship with their board may not stay with the organization for a long period of time or that effective governance practices can lead to a long, effective board-executive director relationship.

It is an interesting finding that the number of hours per week spent communicating with board members outside of board meetings through phone calls, emails, letters, etc. is associated with higher IGE scores. The average organization will increase the IGE score from 4.8 to nearly 4.98 by the executive director spending two additional hours per week communicating with the board. Note that the relevant communication is with board members,

not the board chair. The coefficient on Chair-hours is not statistically significant from zero. Thus the sample's 3.6 average hours per week seems adequate for most directors for communicating with the board chair or president. The board chair has an important role, but the executive director should also make efforts to communicate directly with all board members. An additional benefit is that the hours-per-week communicating with the board is positively correlated with the percent of board members who donate to the organization (see *Table 2*).

SUMMARY

Prior research identifies board engagement and communication as important determinants for effective relationships among board members and executive directors. We surveyed thirty-six executive directors in Lexington, Kentucky, and analyzed their perceptions of effective board-executive director relationships as assessed through the IGE questionnaire (Gill et. al. 2005). The survey findings report that, on average, the samples' boards managed their meetings well, had low levels of infighting, established clear guidelines for decision making authority and demonstrated a commitment to the organization's mission and values. The analysis of survey responses indicates that the length of time that the executive director has worked for an organization is an important factor in effective board-director relationships. There is also evidence from the surveyed group that increasing the number of hours per week that the executive director communicates with board members (excluding the board president) will improve the board-executive relationship. The study is limited in terms of geography and the types of respondents who were surveyed. Since the sample is limited to nonprofit organizations in Lexington, Kentucky, the results may not be representative of organizations in other locations. Also a more complete picture could be assessed if resources were available to survey a corresponding sample of board members. Matching board member opinions to executive opinions could provide valuable insights into the different visions and ideas of the board members and executives.

There is never enough time in a week for nonprofit executive directors to accomplish everything on their to-do list. Our study serves as a reminder that building and maintaining effective relationships between the board and executive director should be an important priority for the executive director. A little time invested on a regular basis can pay huge dividends over time as the board and the director collaborate more effectively to accomplish mission objectives and financial stability. ■

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Appendix A: Components of Index of Governance Effectiveness Score

COMPONENT QUESTION <i>Likert scale: 1, strongly disagree; 2, disagree; 3, somewhat disagree; 4, somewhat agree; 5, agree; and 6, strongly agree</i>	Mean	High	Low	Median
This board is actively involved in planning the direction and priorities of the organization.	4.83	6	1	5
The whole board is responsible for a regular evaluation of the executive director/CEO's performance.	3.69	6	1	4
This organization is financially sound.	4.83	6	1	5
Board members demonstrate clear understanding of the respective roles of the board and executive director.	4.63	6	2	5
The board manages the organization's resources efficiently.	4.89	6	2	5
The board has high credibility with key stakeholders such as donors, staff and volunteers.	5.09	6	2	5
Board members demonstrate commitment to this organization's mission and values.	5.23	6	4	5
Board members carry out the duties and responsibilities assigned to them in the bylaws.	4.97	6	3	5
The board's capacity to govern effectively is not impaired by conflicts between members.	5.20	6	3	5
There is a productive working relationship between the board and the executive director.	5.37	6	4	6
I am confident that this board would effectively manage any organizational crisis that could be reasonably anticipated.	5.17	6	2	5
Board meetings are well-managed (i.e. there is a set agenda, time limits are observed, etc.).	5.46	6	4	6
The board uses a set process for making decisions about the organization.	4.89	6	2	5
This organization has a good balance between organizational stability and innovation.	4.77	6	2	5
The board is actively involved in fundraising efforts for this organization.	3.66	6	1	4
I know which decisions can be made without board consultation and which decisions need board consultation.	5.23	6	3	5
The board outlines measurable goals, objectives and expectations for my performance.	3.91	6	1	4
Board members are provided with a statement that outlines their responsibilities to the organization.	5.09	6	2	5