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<u>Upfront</u>

Building a Better Board: *How nonprofit board size and independence relate to board performance*.

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Building a Better Board

How nonprofit board size and independence relate to board performance

For corporate boards, independence from executive influence is recognized as a basic ingredient for good governance, as is size – the board shouldn't be too big. Do the same truths hold for nonprofit boards, whose responsibilities tend to be murkier and purposes less well defined?

Katherine O'Regan of the NYU Wagner Graduate School of Public Service and Sharon M. Oster of the Yale School of Management explored this question in a recent issue of the *Journal of Law, Economics, & Organization*.

In the corporate world, big boards are less desirable because they may encourage free-riding. Among nonprofits, however, O'Regan and Oster found that bigger is better. Using survey data from 400 New York City nonprofits, they found that members of large boards are in fact more likely to give money than are members of small boards. So larger nonprofit boards not only allow for a wider range of talent and a larger Rolodex of donor contacts; they also seem to inspire more members to give. O'Regan and Oster speculate that the "warm glow" effect may be at work – giving is more fun if more people know you've done it. They also suggest that larger boards may have more members who are chosen for their wealth.

On the issue of board independence, the authors found that both nonprofit and for-profit boards benefit from being free from executive entanglements. Among the corporate set, percent of employees sitting on the board is often used as a measure of board independence, with more employees meaning less independence. The general finding is that corporate boards with fewer employees as members, and therefore more independence, better scrutinize the books and the leadership, and are therefore better at representing the interests of the shareholders.

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In the nonprofit world, however, there are too few employees sitting on boards to measure independence in this way. O'Regan and Oster therefore substituted the standard percent-employee measure of independence with two indicators tailored to the nonprofit case: voting rights and participation in board member nominations. If a nonprofit's executive director had voting rights or formally participated in nominating new board members, the researchers considered the board to be less independent of executive influence than boards without these features.

Using these measures, the authors found that members of more independent nonprofit boards spend more time checking up on finances and management. Based on these findings, they suggest that limiting executive director control could help board members more effectively monitor their nonprofits.

A good executive director may chafe against an independent board, but recognizes the importance of maintaining the separation of powers. "The irony is that the very qualities that make an effective, successful executive director," such as imagination and decisiveness, "are often the same qualities that create the inherent tension between her and her board of directors," says Gina Quattrochi, CEO of Bailey House, a New York City nonprofit providing housing and services for HIV/AIDS victims. In other words, vision and caution are often at odds. O'Regan believes that "managing – and maintaining – that tension may be a necessary part of good governance."

–*Jessica Ruvinksy*

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