# Understanding the Behavior of Nonprofit Boards of Directors: A Theory-Based Approach

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*The literature on nonprofit boards of directors is rich with prescriptive advice about the kinds of activities that should occupy the board's time and attention. Using organizational theory that has dominated the empirical investigation of private sector board behavior (agency, resource dependence, and institutional), this article contributes to the literature on nonprofit board governance in three important ways. First, it provides a link between theory and practice by identifying the theoretical assumptions that have served as the foundation for the "best practice" literature. Second, the article presents a theory-based framework of board behavior that identifies the environmental conditions and board/organizational considerations that are likely to affect board behavior. And finally, it offers a set of hypotheses that can be used in future empirical investigations that seeks to understand the conditions under which a nonprofit board might assume certain roles and responsibilities over others.*

***Keywords:*** *nonprofit governance, boards of directors, organization theory*

In a recent comprehensive review of the literature on nonprofit governance, Ostrower & Stone (2001, p. 1) argued that there are "major gaps in our theoretical and empirical knowledge" regarding nonprofit boards of directors. The authors acknowledged a small but growing body of research suggesting an increase in scholarly attention to and interest in "understanding rather than describing" board governance. However, they concluded that future research must address the contextual and contingent elements of governance and make explicit the implications of these considerations. I address this gap in the literature by critically examining the theoretical assumptions that underpin a

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range of normative prescriptions about how a board ought to perform. Consistent with Ostrower and Stone's (2001, p. 4) challenge to integrate the study of nonprofit board governance into "wider disciplinary and theoretical concerns," I draw on the organizational theory literature and investigate the degree to which theories that have been used to understand corporate governance are useful in developing a better understanding of nonprofit board behavior. In this article, I use three organizational theory perspectives to understand and frame the assumptions that underpin normative board roles and responsibilities. I then use these theories to develop a theory-based model of board behavior and a set of testable hypotheses for use in future empirical investigation of nonprofit board process and structure.

Agency theory (Fama & Jensen, 1983; Jensen & Meckling, 1976), resource dependence theory (Pfeffer & Salancik, 1978), and institutional theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977) provide the framework for this analysis of board behavior. Each theory paints an incomplete picture of a highly complex phenomenon because each theory focuses on a different set of activities and functions. The agency theory perspective stresses the importance of separating ownership from control (Fligstein & Freeland, 1995). The board of directors assumes responsibility for the ratification and monitoring of decisions that have been initiated and implemented by the management of the organization. In this way, risk-bearing functions are kept separate from decision structures, and stakeholders are assured that organizational resources are being used in the way in which they were intended (Fama & Jensen, 1983). To an agency theorist, board members have the responsibility to select and evaluate an appropriate administrator, as well as to monitor his or her action to assure that the interests of management are aligned in such a way as to not conflict with the interests of the organization or society (Fligstein & Freeland, 1995).

The resource dependence approach holds that the ability to acquire and maintain resources is essential to organizational survival (Pfeffer & Salancik, 1978). Because no organization controls all of the resources it needs to survive, the board of directors plays a crucial role in facilitating exchanges that reduce interdependencies in the organization's operating environment. Board members, through personal and/or professional contacts, are a benefit to the organization because they can access information and reduce uncertainty. Resource dependence theory highlights the board's boundary-spanning responsibility and provides insight into the ways in which power and influence have the capacity to bias resource allocation decisions.

Institutional theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977) helps focus attention on the ways in which organizational structure and processes reflect institutional pressures, rules, norms, and sanctions. Institutionalization occurs when boards enact similar behaviors (e.g., self-assessment practices), structures (e.g., advisory committees), and/or processes (e.g., Robert's Rules of Order) because these activities and courses of action have

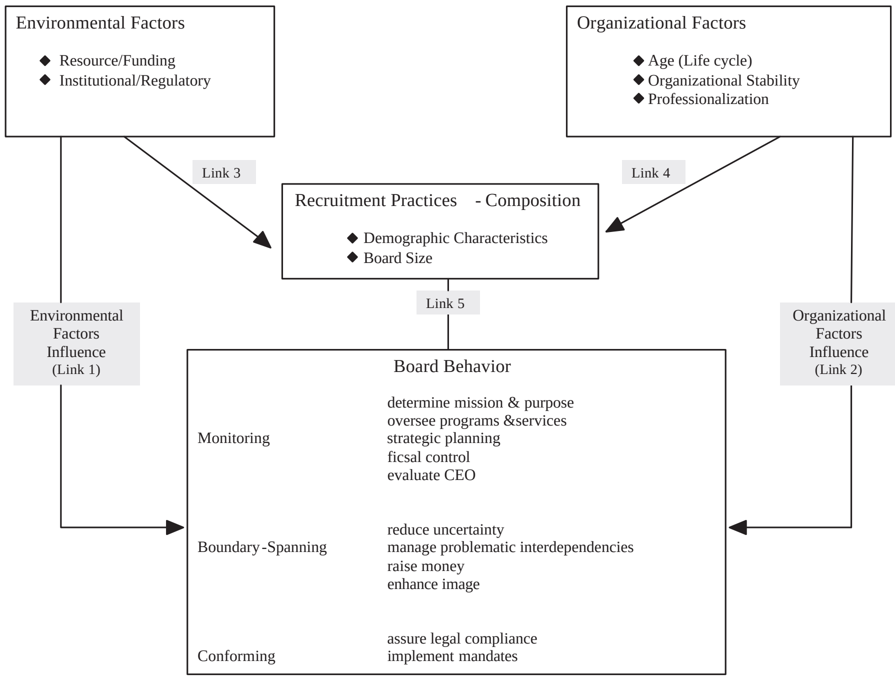


**Figure 1. Theory-Based Typology of Board Behavior**

become the accepted way of doing things. The theory can be useful in understanding why many nonprofit boards of directors engage in similar activities, codify like practices, and develop comparable structures. Institutional theory focuses analytic attention on the interpretation of the norms, values, and beliefs that legitimate governance behaviors.

Given that a consistent theme in the literature is that there is no one-size-fits-all model of board governance because context arguably influences behavior (Ostrower & Stone, 2001; Ryan, 1999; Taylor, Chait, & Holland, 1996), a model of nonprofit board governance capable of predicting the conditions under which a nonprofit board is likely to assume certain roles and responsibilities over others would be a useful addition to the literature. Each of the three organizational perspectives used in this article embrace different theoretical assumptions about why boards are likely to behave in certain ways and the contingencies that have the capacity to influence behavior. To that end, the model presented in Figure 1 is an integrative theoretical framework of board behavior that identifies the conceptual links between environmental factors, organizational factors, and board behavior.

## CONCEPTUAL OVERVIEW OF THE MODEL

Consistent with existing organizational theory research, I contend that board behavior is influenced by two key environmental factors. Nonprofit boards respond to external pressure emanating from (a) the resource or funding environment and (b) the institutional or regulatory environment (Link 1 in the model). Resource dependence theory is useful in explaining board behavior that is responsive to resource-based pressure. The theory posits that the nonprofit board is useful in helping the organization learn about, respond to, and eventually adapt to the constraints that dominate its operating environment (Middleton, 1987; Pfeffer, 1972, 1973; Pfeffer & Salancik, 1978; Zald, 1969). Institutional theory is useful in explaining board behavior that is responsive to institutional or regulatory pressure. The theory suggests that attention to environmental considerations will lead to the adoption of behaviors and structures that are legitimized in the institutional environment.

Organizational theory also sensitizes us to the fact that even though organizations must respond to environmental conditions, there are internal considerations that influence behavior (Link 2 in the model). In Zald's (1969) theoretical synthesis, he contended that board behavior is likely to vary based on two organizational characteristics. Specifically, he argued that board functioning changes with different phases of development (life-cycle stages) and activity (in times of crisis, transformation, and when organizational identity is questioned). Research on private sector boards further suggests that administrative expertise is also likely to affect board behavior (Johnson, Hoskisson, & Hitt, 1993). To that end, I would argue there are three key organizational factors that influence board behavior—age or life cycle stage, stability, and professionalization.

The concepts developed in this article yield a theory-based typology of board behavior that has been absent from the literature on nonprofit board governance. Although it has been argued "that the adoption of structures and practices from the for-profit sector is neither a feasible nor even a desirable solution to problems facing many nonprofit organizations" (Alexander and Weiner, 1998, p. 223), researchers have not explicitly considered how well the theoretical assumptions underlying studies of private sector governance hold in the study of nonprofit boards. The typology presented in this article serves as a theory-based framework useful in developing a more comprehensive understanding of board behavior. The model provides a schematic for studying the form and context of nonprofit boards so that specific structural and process attributes can be empirically examined and compared. Furthermore, because the article integrates a diverse body of literature about both corporate and nonprofit boards of directors, it offers researchers the opportunity to benefit from the knowledge that has been built in two distinct academic communities, thereby enhancing our understanding of the issues that face all boards of directors today. This approach also illuminates those unique paths especially well suited to gaining a better awareness of the specific differences between nonprofit and private sector models of board governance.

The article is organized in the following manner. First, I summarize and present the normative expectations of nonprofit boards of directors. Next, I use the assumptions of three distinct theoretical perspectives: agency theory, resource dependence theory, and institutional theory, to reorganize these familiar roles and responsibilities. Throughout the discussion, I pay specific attention to the ways in which each theory has the capacity to predict the specific contingencies that would lead a nonprofit board to assume certain roles and responsibilities over others (focusing on Links 1 and 2), presenting research hypotheses when appropriate. I conclude with suggestions for future research and implications for practice.

## NORMATIVE EXPECTATIONS OF THE NONPROFIT BOARD OF DIRECTORS

Although every nonprofit board in the United States does not perform exactly the same function, the practitioner literature converges on a set of board roles and responsibilities that are characteristic of "good" governance (Axelrod, 1994; Block, 1998; Houle, 1997; Ingram, 2003). Table 1 displays these behaviors and activities. Organizations such as BoardSource (formerly the National Center for Nonprofit Boards), the Aspen Institute, the Independent Sector, and the Foundation Center also fund, publish, and/or disseminate research and reports that specify the norms for nonprofit governance.

Empirical literature on nonprofit board governance has examined the ways in which adherence to "best practices" has the potential to influence positive organizational outcomes. For example, in their study of 400 nonprofit organizations in Canada, Bradshaw, Murray, and Wolpin (1992) found a positive relationship between the perception of board effectiveness and widely accepted notions of how a nonprofit board of directors should operate. Specifically, they argued that board involvement in the development of the agency's mission and in strategic planning, together with participation at meetings and in committees, contributed to the perception that the board had a positive impact on organizational performance. Similarly, Green and Griesinger (1996) examined 16 social service organization boards to assess the degree to which board attention to the duties and responsibilities prescribed in the normative literature related to organizational effectiveness (i.e., sustaining long-term quality client services). The authors found that the boards of directors for effective organizations tended to be engaged in at least seven best practices including policy formation, strategic planning, program monitoring, financial planning and control, resource procurement, board development, and dispute resolution.

The positive relationship between best practices and desired organizational outcomes can also be found in Herman and Tulipana's (1985) study that

**Table 1. Normative Board Roles and Responsibilities**

| *Axelrod (1994)* | *Block (1998)* | *Houle (1997)* | *Ingram (2003)* | *National Center for Nonprofit Boards (1995)* |
|---|---|---|---|---|
| Determine mission and purpose | Determine organization's mission | Assure mission congruence and set broad policies | Determine mission and purpose | Determine organization's mission and purpose |
| Select and support chief executive | Recruit, hire, evaluate, reward, or terminate, if necessary, the executive director | Select the executive and establish conditions of employment | Select chief executive | Select and support the executive, review his or her performance |
| Review the executive's performance | | | Support chief executive and assess performance | |
| Plan for the future | Set policies and adopt plans for the organization's operations | Approve and periodically revise long-range plans for the institution | Ensure effective organizational planning | Engage in strategic planning |
| Approve and monitor the organization's programs and services | | Oversee the programs of the institution to assure objectives are being achieved | Determine, monitor, and strengthen the organization's programs and services | Approve and monitor the organization's programs and services |
| Provide sound financial management | Approve budget, establish fiscal policies and financial controls, monitor finances | Manage and secure adequate financial resources | Manage resources effectively | Ensure effective fiscal management |
| Ensure adequate financial resources | Provide adequate resources for organization | | Ensure adequate resources | Raise money |
| Advance organization's public image | Develop organizational visibility | Integrate the organization with its social environment | Enhance the organization's public standing | Enhance the organization's public image |

| | | | | |
|---|---|---|---|---|
| Strengthen its own effectiveness as a board | Recruit and select new board members and provide them with an orientation to the board's business | Continuously appraise itself and periodically devote time to analyzing its own composition and performance | Recruit new board members and assess board performance | Carefully select and orient new board members and organize for efficient operation |
| | Ensure that the organization's corporate governance documents are updated and all reports are filed as required | Assure that its basic legal and ethical responsibilities are being fulfilled | Ensure legal and ethical integrity and maintain accountability | |
| | Protect and preserve the organization's tax exempt status | | | |
| | | Work closely and interactively with the chief executive and staff | | Understand the relationship between board and staff |
| | | Serve as an arbiter in conflicts between staff | | |

showed how organizational effectiveness was related to the extent to which board members believed they were properly informed of their roles and responsibilities, and Provan's (1980) assertion that agencies that have successfully attracted powerful and influential community leaders to their boards had the potential to increase organizational effectiveness in terms of the board's ability to influence funding sources. Moreover, recent work by Jackson and Holland (1998) suggests that board development, which they define as improving performance through the Board Self-Assessment Questionnaire (BSAQ) can strengthen the financial performance of the organizations they govern.

In sum, the literature on nonprofit board governance is rich with prescriptive advice about the kinds of activities that should occupy the board's time and attention. What is interesting to note is that although not explicitly mentioned in these empirical investigations, the various normative roles and responsibilities for nonprofit governing boards reflect the orientations of three contemporary organizational theories—agency theory, resource dependence theory, and institutional theory. In Table 2 these normative assertions have been reorganized so that they reflect their appropriate theoretical origins. In the next section, literature on private sector boards is used to develop the theoretical basis of the nonprofit best-practice literature. Specific attention is given to the conditions under which a board might assume a particular orientation toward discharging its various governance responsibilities.

## AGENCY THEORY AND THE BOARD OF DIRECTORS

The underlying assumptions of agency theory provide the basis for most of the research on corporate boards of directors (Golden-Biddle & Rao, 1997; Zahra & Pearce, 1989). In a principal-agent relationship, the principal delegates control to an agent, who is expected to act in a way that is consistent with the interests of the principal (Jensen & Meckling, 1976). When applied to corporate governance, principals, or owners, delegate control to executive managers who act as their agents. Managers are expected to act in ways that further the interests of the owners or shareholders. However, a fundamental assumption of the theory is that the interests of managers will not always be perfectly aligned with the interests of the shareholders.

One way to keep agency problems at a minimum is to keep the control (ratification and monitoring) of decisions separate from the management (initiation and implementation) of decisions (Fama & Jensen, 1983). In this way, those that are expected to benefit from the decisions are protected against opportunistic actions of those who make the decisions. Fama and Jensen (1983) argued that the establishment of an independent board of directors is one way to ensure that the interests of principals and agents are properly aligned.[1] They assert that

**Table 2. Theoretical Origins of the Best Practice Literature: Highlighting Differences in How the Theory is Applied to the Study of Nonprofit Versus Private Sector Boards**

| *Theoretical Framework* | *Focus* | *Best Practice* | *Private Sector Boards* | *Nonprofit Boards* |
|---|---|---|---|---|
| Agency theory | Separating ownership and control<br><br>Monitoring agency action to assure managerial behavior is congruent with stakeholder expectations | Determine the mission and purpose | Focus is on monitoring managerial action to assure activities increase shareholder wealth | Emphasis is placed on the board's role in developing the mission and purpose |
| | | Approve and monitor the organization's programs and services | Emphasis is placed on using financial indicators to assess program effectiveness | Focus is on establishing program evaluation criteria to assure that existing and proposed programs reflect mission and purpose |
| | | Evaluate the chief executive's performance | Reflects the board's evaluation of CEO contribution to corporate goal of maximizing shareholder wealth | Reflects board satisfaction with the chief executive's actions in support of mission and purpose |
| | | Ensure effective organizational planning | Focus is on providing insight regarding critical actions such as acquisitions, divestitures, or takeover bids | Emphasis is on translating the mission and purpose into measurable goals and objectives |
| | | Establish fiscal policies and financial controls | Monitoring financial indicators such as market share, return on investment, and profit | Focus on monitoring resource allocation decisions to assure congruence with mission-related priorities |

(continued)

**Table 2. Continued**

| *Theoretical Framework* | *Focus* | *Best Practice* | *Private Sector Boards* | *Nonprofit Boards* |
|---|---|---|---|---|
| Resource dependence theory | Linking the organization with its environment | Identify candidates who can improve access to information | The goal is to improve coordination among firms | The goal is to link organization to constituent groups with the requisite knowledge to contribute to the governance process |
| | | Provide adequate resources for the organization | Emphasis is on establishing board interlocks with financial institutions to facilitate the firm's access to cash | Focus is on boundary-spanning functions to increase flow of critical resources |
| | | Advance the organization's public image | Focus is on enhancing reputation through networking | Focus is on serving as ambassadors, advocates, and community representatives |
| Institutional theory | Conforming to institutional pressures that legitimate governance practices | Assure that basic legal and ethical responsibilities are fulfilled | Adhere to legal mandates and statutory requirements | Adhere to legal mandates and statutory requirements |
| | | Assess board effectiveness | Appraise board performance | Appraise board performance |

> the common apex of decision control systems of organizations, large and small, . . . is some board of directors. Such boards always have the power to hire, fire, and compensate the top-level decision managers and to ratify and monitor important decisions. Exercise of these top-level decision control rights by a group (the board) helps ensure separation of decision management and control. (p. 311)

Thus, the board can be regarded as the ultimate form of corporate control, charged with the responsibility to monitor and reward chief executives while assuring that corporate activity reflects stakeholder expectations.

In the literature on private sector boards of directors, agency theorists focus on the link between the board's control role and corporate financial performance. At question is the relative power distribution between the board of directors and the corporation's chief executive officer (CEO). The extent to which either the board or the chief executive might recognize their preferences is dependent upon the relative power distribution between the two. Empirical research that has examined the degree to which director action is independent of managerial influence has typically focused on one of two major issues: the ratio of inside directors to outside directors (Bainbridge, 1993; Fredrickson, Hambrick, & Baumrin, 1988; Hoskisson, Johnson & Moesel, 1994) or the separation of CEO and board chair roles (Anderson & Anthony, 1986; Finkelstein & D'Aveni, 1994; Mallette & Fowler, 1992; Westphal & Zajac, 1995). At the heart of these concerns is whether the board of directors is an effective control mechanism or simply a rubber stamp for management initiatives.

Issues of insider-outsider ratios and CEO duality have not been explicitly examined in the literature on nonprofit governance, with the notable exception of work done by Alexander, Weiner, and Succi (2000). In their empirical investigation of the role hospital boards play in assuring community accountability, the authors argue that boards with a higher proportion of outside directors ("board members who hold neither management positions nor clinical privileges") are apt to have closer ties to the community than boards dominated by inside members. The implicit assumption is that outside members will provide the board with information it needs to be responsive to community expectations. Existing literature suggests that the need for information is likely to vary with two key organizational variables, professionalization and stability (focusing on Link 2 in the model).

Kramer (1985) noted that executives have access to and control over organizational information by virtue of their professional status, specialized knowledge, and administrative authority. Zald (1969) concurred when he stated, "Boards are at the mercy of the managers who control information, definitions of alternatives, the nominating process, and indeed the very agenda of decision-making" (p. 98). Referencing Mintzberg (1983), Kramer (1985, p. 24) argued that board-executive power relationships vary with organizational factors such as size, task complexity, bureaucratization, and professionalization. These factors then influence the relative distribution of power between the board and staff. Similarly, in a study of board involvement in corporate restructuring, Johnson et al. (1993) found a negative relationship between highly educated top management teams and active board involvement in strategic decision making. The authors presumed that professionalization (measured as level of education) served as a proxy for expertise and a signal to the board that their involvement was not necessary.

Daily and Schwenk (1996) agreed in their empirical investigation of interdependencies of top management teams and corporate boards of directors. Moreover, they noted that when corporations are experiencing significant change (such as restructuring or globalization) or are in crisis (decline), it may be beneficial to have power concentrated in the chief executive. In this way, important stakeholders are confident that the firm is not "headless" and organizational leadership is stable. These studies predict that when the organization is transitioning or when professional knowledge is specialized or technical, the distribution of power shifts from the board to the chief executive, and the board becomes dependent upon the staff for information. To that end, the following two hypotheses are advanced (Link 2).

*Hypothesis 1a*: Nonprofit boards are more likely to engage in monitoring activities when the organization is stable.

*Hypothesis 1b*: Nonprofit boards are less likely to engage in monitoring behaviors when the executive staff is professionalized.

Agency theory has been used to understand the corporate board's role in monitoring executive behavior to assure that managerial objectives are aligned with shareholder interests. In fact, Gibelman, Gelman, and Pollack (1997) made a compelling argument suggesting that appropriate board oversight and control may have prevented the harm that fell on the constituencies and communities of five nonprofit organizations[2] that had "gone wrong." In four out of the five cases they reviewed, the board stood idly by as the chief executive misappropriated organizational funds for personal gain. The authors asserted that although it is appropriate for the board to rely on the chief executive for expertise and professional knowledge, the board has a responsibility to guard against the possibility of managerial opportunism and an obligation to ensure that the organization engages in only those activities that are congruent with community expectations.

An agency theory perspective focuses attention on the board's strategic contribution, particularly in terms of board involvement with mission development, strategic planning, program evaluation, executive recruitment and oversight, and resource allocation. Given the normative assertions about the kinds of activities nonprofit boards are expected to perform, it seems reasonable to conclude that agency theory may be a powerful heuristic in explaining the monitoring behavior of a nonprofit board of directors.

## RESOURCE DEPENDENCE THEORY AND THE BOARD OF DIRECTORS

Resource dependence theory is the dominant theoretical approach used to guide research efforts focused on nonprofit boards of directors (see, e.g., Harlan & Saidel, 1994; Jun & Armstrong, 1997; Middleton, 1987; Pfeffer, 1973; Provan, 1980; Provan, Beyer, & Kruytbosch, 1980). Although much of the resource dependence literature is based on the theoretical perspectives developed in Selznick's (1949) study of the Tennessee Valley Authority, empirical research conducted by Zald (1969, 1970) and Pfeffer (1972, 1973) provide much of the framework for viewing boards of directors as a mechanism to reduce environmental uncertainty and provide access to critical resources (Johnson, Daily, & Ellstrand, 1996). Subsequent studies (Harlan & Saidel, 1994; Jun & Armstrong, 1997; Provan, 1980; Provan et al., 1980) used the underlying assumptions of resource dependence theory to build a more complete understanding of the ways in which the nonprofit board's ability to span boundaries and co-opt resources from the environment can increase agency power relative to those organizations competing for the same resources.

In their roles as boundary spanners, the board of directors performs four primary functions (Middleton, 1987). First, the board reduces organizational uncertainty by developing "exchange relationships" with external constituencies. These exchange relationships decrease the number of organizational resource dependencies while increasing the flow of organizational resources. Second, the board assures that the organization remains adaptive by gathering and interpreting information from the external environment. In this capacity, the board processes complex (often competing) information so that the organization can remain competitive in a dynamic environment. Strategies such as buffering, collusion, contracting, and acquisition or integration reduce environmental uncertainty and dynamism, thus creating a more stable operating environment (Dess & Beard, 1984). Third, the board protects the organization from environmental interference by passing on only that information that is essential to organizational operation. And finally, the board represents the organization to external constituencies.

Following Middleton's logic, normative board roles and responsibilities that reflect a resource dependence perspective include ensuring that the agency has adequate resources to meet organizational purposes, identifying appropriate candidates for board recruitment, and enhancing the organization's public image. The importance of these boundary-spanning activities can also be found in the prescriptive advice offered to practitioners. Boards have an important role in integrating the organization with "its social environment and as well as the publics to which it should be related" (Houle, 1997, p. 94). They also "serve not only as a link between the organization's staff or volunteers and its members, constituents, or clients, but also as the organization's ambassadors, advocates, and community representatives" (Ingram, 2003, p. 15).

It is important to note that the way in which resource dependence theory is applied to the study of nonprofit boards is somewhat different from the way it is applied to the study of corporate governance. The nonprofit board's role in linking the organization with its environment entails coordinating with a fairly broad array of constituents, whereas board-environment linkages in the private sector, for the most part, involve securing access to capital and enhancing coordination among firms. This means that board recruitment strategies, public relations programs, and the board's role in acquiring necessary resources are likely to be different in each of the sectors. These differences are discussed below.

To the extent that estimations of organizational effectiveness and legitimacy are externally conferred, the board serves as an important link to those who evaluate the organization. In the private sector, evaluating organizational success is fairly straightforward in that it is closely related to quantifiable performance measures such as profit maximization, return on investment, and market share. Because the amount and type of financing the firm is able to secure is related to the types of financial institutions that are represented on the corporation's board, a board is deemed effective when it is composed of individuals who have the capacity to facilitate favorable transactions that enable the organization to secure capital from financial institutions (Mizruchi & Stearns, 1988; Stearns & Mizruchi, 1993). A strong tradition of empirical research on corporate board interlocks provides support for the notion that boards provide the firm with information and resources necessary to decrease dependency relationships between firms while creating mutually beneficial interorganizational relationships (Bazerman & Schoorman, 1983; Boeker & Goodstein, 1991; Kaplan & Minton, 1994; Lang & Lockhart, 1990; Mizruchi & Stearns, 1988; Schoorman, Bazerman, & Atkin, 1981; Stearns & Mizruchi, 1993).

Nonprofit organizational effectiveness is more difficult to assess. Multiple stakeholders with conflicting claims on the organization's resources each assess the nonprofit organization's activities, performance, effectiveness, and overall legitimacy using different evaluation criteria (Kanter & Summers, 1987). These various stakeholders have the potential to control the financial viability of the organization because they control numerous resources that the organization needs to survive. Existing research (Harlan & Saidel, 1994; Pfeffer, 1973; Zald, 1967) draws attention to the idea that the types of boundary-spanning activities and functions performed by nonprofit boards is likely to be influenced by the degree to which the organization is dependent on external sources of funding, environmental complexity, and the need for information.

Pfeffer (1972, 1973) and Pfeffer & Salancik (1978) developed a set of general propositions regarding the degree to which a board of directors is likely to focus on specific behaviors. They predicted that in highly complex environments where the organization is dependent on the environment for the resources it needs to survive, the board of directors will focus on external roles, whereas boards governing those organizations less dependent on the external environment for survival will be more likely to engage in administrative functions. To that end, the following hypotheses are advanced (Link 1).

*Hypothesis 2a*: Nonprofit boards are more likely to focus on a boundary-spanning function than on monitoring functions when the proportion of income raised from external sources is high.
*Hypothesis 2b*: Nonprofit boards are more likely to focus on monitoring functions than on boundary-spanning functions when the proportion of income raised from external sources is low.

To the resource dependence theorist, information is essential in reducing environmental uncertainty. Board members link the organization to critical elements in the operational environment and provide management with important information about how influential others evaluate the organization. Whether it be the private foundation that makes financial grants to the nonprofit organization or the zoning board that approves land-use requests, the agency that incorporates information about these evaluation mechanisms into its programs and policies is more likely to be deemed legitimate and/or effective than the organization that does little to include such information.

When the environment is fairly stable and the organization is not experiencing significant change or responding to crisis it seems reasonable to assume that the need for external information would actually be quite low. Moreover, following the logic of Daily and Schwenk (1996), when highly specialized or technical knowledge is needed to carry out mission-related goals and objectives, boards rely on the chief executive to handle administrative issues and focus attention on resource dependence activities. To that end, the following two hypotheses are advanced.

*Hypothesis 3a*: Nonprofit boards are more likely to engage in boundary-spanning activities when the external environment is complex or when the organization is in transition or crisis.
*Hypothesis 3b*: Nonprofit boards are more likely to engage in boundary-spanning behaviors when the executive staff is professionalized.

In summary, a board composed of influential members from the organization's external environment performs a boundary-spanning function that absorbs uncertainty, reduces operational dependencies, exchanges information, represents the organization to external stakeholders, and enhances overall performance (Middleton, 1987; Pfeffer, 1972, 1973; Price, 1963; Provan, 1980; Zald, 1967). Resource dependence theory makes an important contribution to understanding board behavior. The theory is useful in that it highlights the board's capacity to unite the organization with its environment. However, the resource dependence approach has been criticized by those who argue that the theory is not helpful in identifying the coalitions of organizations that are most important to reducing the environmental dependencies of the focal organization (Provan et al., 1980). Powell (1988) took this critique a bit further, asserting that "organizational environments are themselves collectively organized—and external sources of influence are much more multi-faceted than a focus solely on the supply of resources would suggest" (p. 119).

Although useful in understanding the board's role in linking the organization with the environment, managing and interpreting the flow of information, and enhancing the organization's public image, resource dependence theory is deficient in its ability to explain the full range of board behavior. The theory underestimates the complexity of organizational life by assuming that the only legitimate sources of power and influence are resource based. Yet, as noted in the discussion of agency theory and concerns over the relative distribution of power between the chief executive and the board, there are many sources of external control. Resource dependencies are but one of the many environmental pressures and demands to which an organization must respond (Greening & Gray, 1994). A deeper understanding of the ways in which a board of directors responds to multiple sources of power and influence emerges when attention is directed to the institutional environment. For this shift in focus we turn to institutional theory.

## INSTITUTIONAL THEORY AND THE BOARD OF DIRECTORS

The institutional perspective asserts that conventional behavior in organizations is shaped by the institutional environment (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Zucker, 1983, 1987). To be deemed legitimate, organizations embrace the norms, values, beliefs, and expectations that conform to societal mores, even when these social pressures may get in the way of effective organizational performance (D'Aunno, Sutton, & Price, 1991). For example, a board of directors may create subcommittees not because there is ample evidence to suggest that this is an effective method of organizing but rather because committees are considered to be the appropriate way to structure the work of the board. As Zucker (1987) noted, actions are taken in a specific way just because they have become an accepted way of accomplishing them.

A key assumption of institutional theory is that organizations of the same type become increasingly isomorphic, or similar, to those in their environment over time. Institutional isomorphism occurs through coercive, mimetic, or normative processes, each with their own set of antecedents (DiMaggio & Powell, 1983). Coercive isomorphism occurs as a result of "explicit regulative processes: rule setting, monitoring, and sanctioning activities" (Scott, 1995, p. 35). Fear of sanction serves as a powerful constraint on behavior. For the nonprofit board, failure to conform to institutional expectations is likely to have serious effects on organizational legitimacy that could ultimately result in the loss of tax-exempt status, the forfeiture of grants and contracts, or involuntary dissolution. Sources of coercive pressure to conform come from mandates in the organizational, legal, and funding environments.

Coercive pressure to comply with external directives in the organizational environment is perhaps best understood in the context of affiliate structures (such as Planned Parenthood, Girl Scouts, United Way, etc.). Oftentimes, this type of organizational structure mandates adherence to specific expectations that if not upheld could result in the revocation of an organization's charter. As DiMaggio and Powell (1983) noted, subsidiaries must adopt the structures and processes that are compatible with the parent organization in order to survive.

Nonprofit boards must also be responsive to external mandates that emanate from the legal environment. The practitioner-oriented literature places a great deal of responsibility on the nonprofit board for insisting that the organization fulfill its basic legal and ethical responsibilities.

> The board is ultimately responsible for ensuring adherence to legal standards and ethical norms. By being diligent in its responsibilities, the board can protect the organization from legal action, promote a safe and ethical working environment, and safeguard the organization's integrity in pursuit of its mission. (Ingram, 2003, p. 8)

Board responsibilities include attending meetings; adhering to local, state, and federal laws; filing required forms and documents; ensuring compliance with occupational, safety, health, labor, and related regulations; adhering to provisions in the bylaws; insisting on sound financial management tools; and avoiding conflict-of-interest situations (Block, 1998; Ingram, 2003).

A final way to understand coercive compliance with external mandates is to consider the influence funding agents have on board behavior. For example, in a study of 400 nonprofit organizations in New York State, Saidel (1998, p. 433) found that 40% of the respondents reported having an advisory group that performed specific governance functions. They noted that in certain instances, these advisory groups were mandated or "strongly encouraged" by government or funding agents. Because there was no evidence to suggest that these boards created advisory groups because they thought such action would add value, it is quite possible that they may have gone through the process simply because they knew the funders believed advisory groups were important. Funding agents might also influence board composition. For example, funders may, as a condition of funding, mandate organizations to diversify their boards in ways that are proportionally representative of the community served regardless of whether these boards actually govern better or not.

It should be noted that conformity to coercive pressures may or may not result in any substantive changes (DiMaggio & Powell, 1991). That is, the board may create alternative governance structures or diversify its membership but still not seek the benefits of these changes (e.g., creativity, differing perspectives, and innovation). Nonetheless, organizations ritualistically go through the change process in an effort to be deemed legitimate by those external to the organization. As Hall (1996) noted, "organizational responses to environmental pressures are neither automatic nor necessarily rational" (p. 207).

Mimetic isomorphism occurs when one organization copies a course of action from another organization because the imitating organization is uncertain about how to proceed in a given situation. Organizations mimic the behavior of others that they perceive to be more legitimate or successful. Drucker (1995) supported the idea that modeling effective behavior is the key to legitimization and success when he argued that the "average nonprofit organization must manage itself as well as the best-managed ones do" (p. 276). To the extent that corporations are considered to exemplify the best operational practices, institutional theory and the notion of mimetic isomorphism can explain the trend to have nonprofit organizations become more "business-like" and less "value-laden" (Steckel, Simons, & Langsfelder, 1987).

Normative isomorphism stems from the pressure to professionalize. By virtue of their specialized training, education, and/or credentialing, professionals play an important part in developing the normative basis for a wide range of organizational structures and processes that signal operational legitimacy. To that end, organizations can be expected to engage in behaviors that enhance normative approval or moral legitimacy (Meyer & Rowan, 1977). In a recent study, Luoma and Goodstein (1999) showed that the normative pressure to include nonshareholder stakeholder representation on a corporate board of directors was strong enough to result in statistically significant growth, over a 10-year period, in the overall proportion of nonshareholder stakeholders represented on boards. Miller and Lakey (1999) argued that a growing number of nonprofit boards of directors are engaging in self-assessment processes and relying on governance consultants to learn about the various characteristics of "good" governance. Although no empirical research has been done to learn why nonprofit boards are taking on these activities, it is quite possible that the underlying rationale for such behavior is closely linked to developing operational procedures that legitimate board activities.

Institutional isomorphism may be quite useful in understanding how board members explain specific behaviors, particularly when they engage in activities that embody expectations laid out in the normative literature. As noted earlier in this review, there has been some empirical work that has attempted to link the nonprofit board's execution of normative roles and responsibilities to organizational performance. Although it may be the case that nonprofit boards engage in these behaviors, no study has asked board members why they perform the functions that they do. Institutional theory would suggest that legitimacy is the main reason for boards to adhere to prescriptive best practices.

Although there has been little research that has actually applied the theoretical tenets of institutional theory to the study of boards of directors, with the notable exception of the Luoma and Goodstein (1999) study mentioned above, there is cursory evidence to suggest that institutional forces have shaped board structure and practice. For example, Abzug (1996) showed that nonprofit boards of directors in six different U.S. cities had grown more demographically diverse over a 60-year period. Although she suspected that increasing requests for greater inclusivity and enhanced community representation may have been the antecedent to increased demographic diversity, it was impossible to empirically test this hypothesis. These findings, coupled with the work by Luoma and Goodstein (1999) and Saidel (1998) provided tentative support for the notion that institutional pressures have the potential to influence board structure and process.

## USING THEORY TO UNDERSTAND AND INTERPRET BOARD BEHAVIOR

As shown in Figure 1, each of the theoretical perspectives considered in this review predicts that environmental factors and/or organizational factors are likely to affect board behavior (Links 1 and 2). Because an important aspect of this article was to develop a set of testable hypotheses capable of predicting the conditions under which a nonprofit board is likely to exhibit specific behaviors, the research hypotheses thus far have focused on Links 1 & 2 in the framework. It should be noted however, that a primary purpose in developing this model was to gain a better understanding of nonprofit board governance through the integration of multiple theoretical perspectives. Yet in doing so it becomes apparent that many behaviors can be understood and interpreted from all three theoretical perspectives. For example, boards might engage in strategic planning because there are control issues (agency theory), or to manage resource dependencies (resource dependence), or because funders require it (institutional theory). Similarly, aspects of fiscal control, chief executive evaluation, fundraising, public relations, and board self-assessment could be understood from all three perspectives.[3] In this section, I discuss the case of targeted recruitment practices because they provide a particularly illustrative example of the ways in which the underlying assumptions of each theory have the capacity to result in specific behaviors.

According to agency theory new board members are likely to be recruited to manage power relationships between the board and staff. Research embracing an agency theory perspective predicts that board size would be large so as not to be susceptible to managerial domination (Zahra & Pearce, 1989[4]), and made up of representatives of important ownership groups so that multiple stakeholder interests would be represented (Abzug, DiMaggio, Gray, Kang, & Useem, 1993; Bowen, 1994; Carver, 1997; Houle, 1997; Kang & Cnaan, 1995). Notice, however, that although each of these predictions is informed by theory, each fails to address the relational dynamics in and around the boardroom.

Research in the resource dependence tradition also provides empirical support for the notion that board size and composition are likely to vary with the amount of complexity and uncertainty in the external environment (Boyd, 1990; Dess & Beard, 1984; Pfeffer, 1972, 1973; Pfeffer & Salancik, 1978). This means that if a nonprofit board is focused on recruiting new members with the explicit intent to reduce environmental uncertainty, it is likely that board size would be quite large (Pfeffer, 1972, 1973; Provan, 1980; Siciliano, 1996) and composed of those individuals linked to important resources in the external environment (Harlan & Saidel, 1994; Zald, 1967). Notice that both agency theory and resource dependence theory are likely to predict board size to be fairly large. If future research were to look only at board size as an indicator of behavior, how would we know whether the board was large because there was concern about abuse of power or because the environment was complex?

And finally, an institutional theory approach sensitizes us to the coercive nature of the external environment and suggests that boards diversify their membership in response to external mandates rather than out of an attempt to reap the benefits of diversification. If new members were recruited in response to external mandates to conform, institutional theory would predict that nonprofit boards in similar fields would have a fairly consistent board size and a common pattern of demographic diversity among members (Abzug, 1996; Luoma & Goodstein, 1999). In this case, examining structure and composition would provide us with little information about the general conduct of the board.

I do not mean to suggest that these theories are not useful in making a link between board structure and process. Quite the contrary. I would argue that to the extent that board members perform the functions for which they were recruited, the recruitment strategies explained above would result in three different behavioral scenarios. First, if the purpose of expanding board membership was to balance the power relationships between the board and staff, it is likely that the board would assume more of a monitoring and oversight role. Second, if board members were added to the board with the hope that they would manage uncertainty, it would be reasonable to expect the dominant board behavior to be boundary spanning. And finally, if board composition were to change in response to external mandates, we would expect to see the board engaging in behaviors that were primarily focused on conforming to normative expectations of legitimate behavior.

Each of the three theories discussed in this review predict that board size, composition, and performance expectations will differ based on environmental organizational factors. As a result, nonprofit board behavior is likely to be influenced by a board's recruitment strategies. The challenge for those researching these links in the future is to develop empirical questions informed by these (and other relevant theoretical perspectives) that do not make "great inferential leaps . . . from input variables such as board composition to outcome variables such as board performance with no direct evidence on the processes and mechanisms that presumably link the inputs to the outputs" (Pettigrew, 1992, p. 171).

## CONCLUSIONS AND RECOMMENDATIONS

I have argued that scholars of board governance have applied the various tenets of agency theory, resource dependence theory, and institutional theory to the study of boards of directors in an effort to predict and understand board behavior. Depicted in Figure 1 is a theory-based typology of board behavior that integrates multiple theoretical explanations for specific board behaviors and identifies the antecedent conditions under which boards enact certain behaviors over others.

A theory-based integrative approach to the study of board governance reveals a promising accumulation of wisdom regarding the roles and responsibilities of nonprofit boards. The model provides a schematic for studying the structure and process of nonprofit boards and offers several opportunities for future research. One possibility might be to longitudinally examine the degree to which nonprofit boards perform qualitatively different functions as they mature or develop. Although Dart, Bradshaw, Murray, and Wolpin's (1996) empirical investigation of hypotheses derived from life-cycle models of nonprofit governance provided mixed results, the authors noted that researchers in the broader field of organizational behavior and theory have empirically tested the validity of these models by looking at behavior at specific stages of an organization's life (e.g., founding, transformation, and decline). In fact, researchers examining stages of board development in both the nonprofit (Mathiasen, 1999; Wood, 1993) and the private (Zahra & Pearce, 1989) sectors argued that when the board transitions to different phases, there is a corresponding shift in governance functions. Although it may be the case that there are interaction effects related to other board variables, additional research is needed to fully understand these relationships.

Another research opportunity would be to empirically examine the degree to which each theory actually explains nonprofit board behavior, particularly as the argument developed in this review suggests that sectoral differences are likely to influence how each of the theories are applied to the study of board governance. Through empirical observation, researchers can link specific activities presumed to be within the board's sphere of interest and influence with actual board functioning and process. Such an approach is consistent with work done 10 years ago by Margaret Harris (1993) with the total activities analysis approach. In this way, empirical data can "redress the overwhelmingly prescriptive bias in the literature, and begin to provide some basic descriptive findings about boards and their directors" (Pettigrew, 1992). As Zahra and Pearce (1989) noted, "there are countless lists of what boards should do. Yet evidence of what boards actually do is not well documented . . . there is a pressing need to document what boards actually do" (pp. 325-326).

A closely related research opportunity is to empirically examine the antecedent conditions under which a nonprofit board might assume certain roles and responsibilities over others. The model developed in this review suggests that nonprofit boards of directors are likely to engage in behaviors that embrace the assumptions of three different theoretical perspectives. The hypotheses presented in this article, although certainly not complete, do, however, stimulate thinking about the conditions under which a board is likely to enact one set of behaviors over another. Future empirical work is needed if we are to fully understand the specific contingencies that would lead a board, for example, to conform to institutional pressures rather than performing boundary-spanning functions or monitoring roles.

It may also be the case that some behavior can be interpreted and explained using multiple theoretical perspectives. This suggests that a more fruitful approach to the study of nonprofit board behavior would be one in which multiple perspectives could be combined and compared. To fully understand board behavior, it is important to include activities that are important to the agency theorist as well as the social, political, and environmental considerations that the resource dependence and institutional theorist deem important. In this way, behaviors are theoretically grounded, and a deeper understanding of board activity can be empirically investigated. The framework developed in this article serves as an important first step in this regard. The ideas and premises presented here can serve as a useful starting point for future empirical research that seeks to fully understand board behavior by determining the relative distribution of various functions among nonprofit boards of directors. Such an approach would respond to Oliver's (1991) call for research that provides a richer explanation of organizational behavior through the integration of multiple theoretical perspectives.

Another research possibility is to examine the implications of institutional pressures to conform. Institutional theory provides a strong theoretical argument for why nonprofit boards have developed many of the same structures and practices as their private sector counterparts. Interestingly, institutional theory also provides a strong conceptual argument as to why governance structures and practices should look different in each of the sectors. Future research might examine the degree to which sectoral differences suggest the need for an alternative approach to nonprofit board governance.

A final research opportunity is to examine the practical implications of the theory-based model presented in this review. In this article, I have implicitly articulated the difficulty in determining the board's overall contribution to organizational performance. Absent from existing studies is any detailed description or direct evidence of the ways in which adherence to best practices actually influences organizational outcomes. Each theoretical perspective presented in this review embraces different assumptions about why boards behave in certain ways and describes how specific behaviors have the capacity to influence organizational performance. To illustrate the link between theory and practice, I conclude the article by extending my earlier discussion of board recruitment to show how different theoretical assumptions predict different behaviors that result in different outcomes.

Agency theory predicts that nonprofit boards select members capable of providing organizational oversight. New members monitor administrative action to assure that the interests of management are properly aligned with constituent expectations. Resource dependence theory suggests that the board is likely to recruit new members who can facilitate access to critical resources or who can provide management with valued information about the criteria used to evaluate the organization. The board links the organization with its environment so that influential others deem the organization effective and continue to provide the resources necessary for survival. And finally, according to institutional theory new board members are people who can legitimize the organization. Board composition reflects institutional pressures to conform to societal expectations. Unless future empirical research seeks to understand the rationale for board behavior, whether recruitment strategies or some other familiar role or responsibility, it is possible to interpret behavior in a way that is inconsistent with how these practices were expected to influence organizational performance.

Difficulties determining board contribution to organizational performance occur when performance is assessed using evaluation criteria embracing the behavioral assumptions of the wrong theory. For example, if board members were recruited to legitimize the organization, it would be unacceptable to assess board performance by measuring its contribution to the oversight function. Similarly, if the board engages in self-assessment activities in order to position itself for a capital campaign, it would be inappropriate to evaluate the effectiveness of the self-assessment from an agency theory perspective. The problem is that as this article has demonstrated, the assumptions of three different theoretical perspectives underlie the best practice literature. Until actual behavior is observed and explained, linking board activity to organizational performance will continue to yield ambiguous results. It is time to supplement our knowledge of what boards look like and what they should do with more empirical evidence of their actual behaviors.

## Notes

1. The authors argue that establishing a board of directors is one of three ways to separate ownership and control. Decision hierarchies that partition internal decision processes and incorporate incentive structures for employees are one mechanism for diffusing and separating the management and control of decisions within the organization. The stock market and the market for takeovers are two other mechanisms for controlling agency problems (Fama & Jensen, 1983).

2. The organizations were the United Way of America, the National Association for the Advancement of Colored People, the Jewish Community Center of Greater Washington, the Foundation for New Era Philanthropy, and Upsala College.

3. I am grateful to the anonymous reviewer who, through his or her careful review of several versions of this manuscript, broadened my thinking about this issue and provided the logic behind this argument.

4. Zahra & Pearce (1989) stated that "larger boards are not as susceptible to managerial domination as their smaller counterpart. . . . [T]hese boards will be more actively involved in monitoring and evaluating CEO and company performance, normally through specialized committees" (p. 309).

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