2016

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[1] We thank BoardSource for providing the 2012 BoardSource Governance Index Surveys.

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ABSTRACT

Using principal-agent theories, this study examines differences in the perceptions of nonprofit CEOs and board chairs on key governance aspects including board performance, leadership, satisfaction with diversity, and board meetings. Using data from the CEOs and board chairs of 474 nonprofit organizations we found statistically significant differences in the governance perceptions of these leaders of nonprofit organizations. The findings provide support for an agency theory explanation about the differing interests of principals (board chairs) and agents (CEO). The findings suggest that these two sets of nonprofit actors frequently operate from different perspectives, potentially impacting the governance of their organizations.

Key Words: Nonprofit, board of directors, governance, performance, leadership, agency theory, stewardship theory

Nonprofit organizational governance has traditionally been the role of the board of directors (Stone and Ostrower, 2007). Governance includes "the systems and processes concerned with ensuring the overall direction, control, and accountability of the organization" (Cornforth and Brown, 2014: 4-5). Practitioner literature has converged on good governance characteristics that fulfil legal and fiduciary responsibilities and promote effective board performance based on board roles and responsibilities including setting the organization's mission and purpose, selecting, supporting and evaluating the chief executive, strategic planning, oversight of programs and services, financial, ethical, and legal oversight, fundraising, outreach, and recruiting of new board members (e.g. Axelrod, 1994 ; Miller, 2002).

Prior research suggests that much can be learned about nonprofit organization governance and performance by studying the dynamic relationship between the Chief Executive Officer (CEO) and board chair (BC) (Siciliano, 2008; Green, Madjidi, Dudley, and Gehlen, 2001). Yet, little is known about how the CEO and BC view nonprofit governance and board performance. Here, we address this knowledge gap by examining CEO and BC perspectives on a variety of governance aspects including board performance, leadership, and governance practices.

Although it is important to make a distinction between the CEO and the BC due to the need to separate governance and management, CEO and BC behaviors often contribute to ambiguity, confusion, and conflict (Otto, 2003). In an effort to increase nonprofit efficacy, the present study examines the juxtaposition of CEO and BC perspectives so organizations may determine areas which need additional CEO and BC collaboration and areas where they may choose to acknowledge and leverage differences. The broader implications of understanding CEO and BC perceptions of governance is the practical need to improve board effectiveness, particularly since improving board effectiveness impacts organizational effectiveness (Herman and Renz, 2000).

Four governance aspects provide a comprehensive view of the roles of BCs and CEOs: board performance, leadership (by the CEO and the board), board diversity, and board meeting practices. Prior research involving these aspects of governance did not consider the potential for differences in perspectives by the CEO and BC. For example, Buse, Bernstein and Bilimoria (2014) examined the impact of diversity on board performance by surveying only CEOs, and Bradshaw and Fredette's (2012) research into board level diversity combined results from CEOs, board members and BCs. Other empirical studies investigating the relationship between the CEO and the board have focused primarily on board members. A comparison of board member and CEO ratings of board performance on six general functions (including fiscal oversight, setting policy, and ensuring effective leadership) found that the board members' ratings were significantly higher in every instance (Brown, 2007). Siciliano (2008) found statistically significant consensus scores between CEOs and board members only with respect to mission statements. CEOs viewed board involvement at a lower level than perceived by board members (Green et al., 2001; Siciliano, 2008). LeRoux and Langer (2013) found that board members and CEOs were aligned with respect to administrative and management tasks, but differed when examining board behaviors and the CEO's involvement in mission setting and staff oversight duties. The present study's examination of the governance perspectives of both CEOs and BCs raises the possibility that identification of respondents may be important for interpretation of results in future studies.

Governance Perspectives

The literature delineates nonprofit governance in terms of separation between principals (board chair and members) and agents (CEOs) (Fama and Jensen, 1983). Governance issues such as CEO and board relationships, board performance, leadership and operations are frequently studied using two principal-agent theories: agency theory (Jensen and Meckling, 1976; Fama and Jenson, 1983) and stewardship theory (Davis, Schoorman, and Donaldson, 1997; Sundarmurthy and Lewis, 2001). Agency theory is based on a contractual relationship between principal and agent with each actor having different goals and interests. The principal delegates control to the agent, yet is dependent on the agent to provide services and information on their behalf. However, the agent may not always act in ways that are beneficial to the principal creating information asymmetries, agent opportunism, and goal conflict (Eisenhardt, 1989). According to this theory, the perspectives of CEOs and BCs about effective governance diverge because of the conflicting roles, goals and interests of principals and agents (Caers, Du Bois, Jergers, Geiter, Schepers, and Pepermans, 2006). Based on the tenets of agency theory, we hypothesize:

H1a: CEOs and BCs will differ in their perspectives on key governance aspects related to board performance, board and organizational leadership, board diversity, and board meeting practices.

Caers et al. (2006) note that the application of agency theory to board-management relationships is complex and may be influenced, among other things, by weak or strong board control, CEO power, information asymmetry, and the influence of the CEO on board elections and nominations. Stewardship theory addresses the principal-agent relationship, but makes the assumption that collaboration and trust (rather than control and distrust) exists between the principal (board members) and agent (executives) in part because of their high identification with the organization. Stewardship theory may be viewed two ways (Van Puyvelde, Caers, Du Bois, and Jegers, 2012): (a) the agent will act in the best interest of the principal even if their interests diverge because in doing so they will accomplish higher personal outcomes of achievement, affiliation and self-actualization (Davis et al., 1997) or (b) the principal's and agent's goals are in fact perfectly aligned because of commonality of interests (Sundarmurthy and Lewis, 2003). In either case, stewardship theory suggests that the governance perspectives of CEOs and BCs will largely overlap since they have compatible or aligned goals. Hence a counter-hypothesis based on stewardship theory emerges:

H1b: CEOs and BCs will not differ in their perspectives on key governance aspects related to board performance, board and organizational leadership, board diversity, and board meeting practices.

Methods

Sample

Data were obtained from the 2012 BoardSource Nonprofit Governance Index of CEOs and BCs. This survey is administered biannually by BoardSource, an organization focused on exceptional governance practices. After screening the data for complete surveys and matching CEO and BC data, the sample consisted of 474 organizations. Responses came from all 50 states and included a diverse mix of nonprofit charities, foundations, and associations. These organizations have a wide range of operating budgets ranging from under $25,000 to greater than $25 million with 27.5% below $1 million, 37% between $1 and $1.49 million, and 36% above $1.49 million. The geographic scope of the sample included local (39.7%), regional or within state, (24.5%), state (12.2%), regional or multi-state (5.9%), national (10.3%), and international (7%). Full time employees varied from one or two (7.8%) to more than one hundred (21.1%), with the latter being the largest category. The CEOs were 94% Caucasian and 63% female. The survey did not include questions related to the demographics of the BC.

Variables

We used items from the 2012 BoardSource survey relating to board performance, leadership, satisfaction with diversity, and board meeting practices. The same questions were asked of the CEOs and the BCs. Board performance included 13 items related to the organization's mission, oversight and responsibilities (see Table 1). Board and CEO leadership perspectives were measured using 14 items (see Table 2). To ascertain satisfaction with diversity, two questions, each assessed with regard to age, gender, and race/ethnicity, were asked of the CEOs and BCs (see Table 3). Board meeting practices were assessed by five items (Table 4).

Results

T-tests were employed to compare the responses of the CEOs and BCs[i]. Table 1 shows the CEO and BC perspectives on board performance. A statistically significant difference between the perceptions of CEOs and BCs emerged for 10 out of 13 board performance items. In all cases, BCs' ratings were higher than CEOs' ratings, suggesting that BCs perceive that their boards were performing at higher levels than CEOs perceive. Three items showed no significant difference between CEOs and BCs: legal and ethical oversight, financial oversight, and level of commitment and involvement.

Insert Table 1 about here

Table 2 shows the CEO and BC perspectives on various items related to board and CEO leadership. All but one of the 11 items significantly differed in the comparative ratings, with

BCs' ratings being more favorable in each case. The only factor which demonstrated CEO and BC consensus was the extent of collaboration between the CEO and the board.

Insert Table 2 about here

Table 3 reports comparisons of the satisfaction with diversity items, all but one of which were found to be significantly different between CEOs and BCs. BCs exhibited significantly higher satisfaction with the age, gender, and racial/ethnic diversity of the board. However, CEOs' perceptions of the extent to which age and race/ethnic diversity would increase the organization's ability to achieve its mission were significantly higher than those of BCs. This was the only instance in which CEOs had a significantly higher perception than BCs in the entire study. CEOs and BCs showed consensus in their perspectives of the extent to which gender diversity would increase their organization's ability to achieve its mission.

Insert Table 3 about here

When comparing the perceptions of CEOs and BCs about board meeting practices, only two of the five factors were statistically different (see Table 4). The items exhibiting consensus were: "board members are prepared for meetings", "board members receive information needed to make decisions", and "board members focus on strategy and policy rather than on operational issues". BCs' ratings were higher than CEOs' ratings for the remaining two items: "meetings are well run" and "meetings allow adequate time for board members to ask questions".

Insert Table 4 about here

Overall, the study's findings suggest strong support for an agency theory view of principals and agents in that BCs and CEOs differed on the majority of items related to board performance (10 of 13 items), board and CEO leadership (13 of 14 items), and satisfaction with and importance of diversity (3 of 5 items) for all organizations. The stewardship view of principals and agents received modest support with regard to effective processes of board meetings in that 3 out of 5 items showed no differences in the perspectives of CEOs and BCs.

Discussion

The findings indicate more support for H1a, agency theory, than H1b, stewardship theory, with 30 of the 38 items demonstrating statistically significant higher ratings from BCs than CEOs. The interpretations of the BCs were higher for virtually all measures in all categories, except for the functionality of board meetings. These findings may indicate either that CEOs lack confidence in their boards' ability to fulfill the basic duties required of board members or that BCs are overconfident about their boards' abilities to govern. One of the few items that showed convergence between the CEOs and BCs was that "board members receive information necessary to make informed decisions", yet, we are concerned that the BCs may be unaware of information that was not provided to them by the CEOs and that these unexpectedly strong divergent perspectives may be due to information asymmetry. While perfect information symmetry will likely never be achieved, it is important that the CEOs share knowledge and information with both parties striving toward an open governance environment (Stone and Ostrower, 2007). With regard to board performance, only the areas of legal and ethical oversight, financial oversight and the level of board commitment and involvement showed no statistical differences between the responses of CEOs and BCs, possibly because these governance components may have relatively clear guidelines, reporting mechanisms and policies in place or may be regulated for nonprofit organizations receiving government funding.

Compared with CEOs, BCs were more satisfied with the age, gender, and racial/ethnic diversity of their boards. Conversely, CEOs reported significantly higher beliefs than BCs that increasing age and racial/ethnic diversity would increase their organization's ability to achieve its mission. The CEOs' perspectives are consistent with Buse et al. (2014) findings, which indicate significant direct effects of racial/ethnic diversity and gender on effective governance practices and an interaction effect that indicates when boards have greater gender diversity, the negative impact of racial diversity on governance practices is mitigated. The convergence of CEO and BC perspectives regarding the impact of increased gender diversity on the ability of an organization to achieve its mission is consistent with the fact that 63% of the CEOs in the present study were women.

CEO and BC perspectives on board meeting practices resulted in the greatest degree of consensus in this study—board members were viewed by both CEOs and BCs as being prepared for meetings, receiving information necessary to make informed decisions, and focusing on strategy and policy rather than on operational issues. These findings, in modest support of H1b and stewardship theory, may reflect the common practice that both BCs and CEOs are involved in meeting preparation and management including information dispersal to board members and setting an effective meeting agenda which drives board discussions.

The divergence of CEO and BC perceptions may be explained by the failure of organizations to clearly identify the roles and responsibilities of these actors, information asymmetry, and board power (perceived or actual) over the CEO (Brown and Guo, 2010). Possibly, CEOs and BCs operate in separate environments, one for the CEO that accommodates the complexity of overseeing the operation of the nonprofit organization and another for the BC who is removed from the day-to-day operations and interacts primarily with other board members. Agency problems frequently occur in nonprofit agencies where a discrepancy between the objectives of those setting vision and those executing it exists (Du Bois, Caers, Jegers, De Cooman, De Gieter, and Pepermans, 2009). Additionally, when discord between the CEO and the board arises, it is often attributed to a disconnection between the vision of the board and the organization's operations under the CEO's leadership (LeRoux and Langer, 2013). Clarity of board members' own understanding of their roles and responsibilities positively impacts their ability to engage in community outreach, fundraise, and recruit new board members (Bernstein, Buse, and Slatten, 2015). Disconnects might lead to overzealous managerial power or boards overstepping their roles and micromanaging the CEO and organizational operations.

Nonprofit board members tend to believe that their CEOs would not pursue interests of their own and act in ways aligned with the organizational mission in support of stewardship theory. According to agency theory, the possibility exists that the agent or CEO has his or her own agenda and acts independently of the board. This may be exacerbated when the board provides weak CEO control and oversight (Miller, 2002). Conversely, boards that exert too much control or power may lead to misperceptions and distrust between the board and the CEO. The notion that the board is solely responsible for organizational governance may be too narrow and needs to be replaced with the idea that governance is "not a set of responsibilities held by any one party but rather as a set of actions that emerges from multiple actors…" (Stone and Ostrower, 2007). This may result in a blurring of board and CEO boundaries contrary to the delineation of nonprofit governance in terms of agency theory and the separation between the principals and the agents.

Limitations and Implications for Future Research.

Our findings indicate that when evaluating data from nonprofit organizations, attention should be paid to who (CEO or BC) is completing the assessments. This study is limited by using only two stakeholder perspectives. Van Puyvelde et al. (2012) suggest, and we concur, that to completely comprehend the dynamics of nonprofit governance, one should consider the complex multi-layered relationships that exist among stakeholders beyond those of the board and manager. Future research should continue to focus on why these differences in perspectives exist, in particular understanding why consensus was reached in some areas and not others. We recommend examining whether CEOs and BCs have convergent or divergent perspectives on issues related to funding and sustainability. We suggest additional inquiry to ascertain the impact of the information asymmetry and power issues associated with CEO and BC role differences. Further research may determine if the overwhelming support for agency theory may be due to the influence of external factors such as individual, organizational, and environmental factors which have been shown to influence the CEO and BC (Ostrower and Stone, 2006; Stone and Ostrower, 2007).

Finally, we are concerned about the potential bias of BoardSource survey respondents because BoardSource member organizations are probably more likely to be working towards best governance practices. For organizations not involved in BoardSource nor responding to the survey, the divergences and contrasts may well be starker. In comparison to the broader U.S. nonprofit sector three quarters of charitable nonprofits had annual expenses of less than $500,000 and only four percent had annual expenses over $10 million (National Center for Charitable

Statistics, 2015), the BoardSource sample skewed toward larger budget-sized organizations potentially exacerbating the influence of agency theory on the findings.

Implications for Practice.

This study's findings of a dominant lack of consensus on important governance issues suggests that nonprofit organizations should seek greater CEO and BC/board alignment to counter goal divergence, foster a more open environment, improve trust, build better communication, understand goals and roles, and ensure the ability of the BC to properly evaluate CEO performance. Differing CEO and board objectives need not always translate into agency costs and lower organizational performance (Du Bois et al., 2009). Different perspectives between an operations-oriented CEO and a strategy-oriented BC could be beneficial and even creative if they are willing to engage in open dialogue about similarities and differences and come to consensus in the governance process.

One interpretation of the discrepancy between CEO and BC perspectives is that it may indicate a certain hubris and a possible lack of organizational knowledge on the part of BCs. Therefore, BCs in accordance with the duty of care may need to ask more probing questions of the CEO and admit when they lack knowledge or need additional information. Increased dialogue may lead to deeper analyses of board and organizational issues, driving the principal agent relationship toward the more aligned goals described by stewardship theory. Conversely, CEOs should be more proactive in providing information to BCs regarding virtually all aspects of the organization.

We recommend that boards delve deeper into the convergent and divergent perspectives held on governance, leadership, and performance between board members and CEOs since such exploration could inform board members about the everyday realities and constraints experienced by CEOs and contribute to improved board decision-making. For example, nonprofit organizations which deliberately seek to improve board performance and engage board members in executing recommended board practices such as those presented in the items of this study, were more likely to see improved board effectiveness and by extension, organizational effectiveness (Herman and Renz, 2000). We encourage nonprofit organizations to employ state-of-the-field education and training of board members to strengthen board governance and ultimately organizational effectiveness.

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Table 1
Nonprofit CEO and Board Chair Perspectives on Board Performance

Board Performance Items [a]	CEO Rating		Board Chair Rating	
	Mean	Std Dev	Mean	Std Dev
Understanding your organization's mission.	3.44	.737	3.59***	.623
Strategic planning and thinking strategically.	2.68	.911	2.90***	.859
Knowledge of your organization's programs.	2.73	.878	2.99***	.778
Monitoring organizational performance and impact.	2.54	.957	2.87***	.840
Legal and ethical oversight.	3.09	.846	3.20	.865
Financial oversight.	3.40	.795	3.34	.808
Evaluating the chief executive.	2.88	1.080	3.05*	.950
Providing guidance and support to the CEO.	2.97	.979	3.18***	.792
Understanding the board's roles and responsibilities.	2.60	.895	2.92***	.818
Community relations and outreach.	2.11	.902	2.40***	.885
Recruiting new board members.	2.20	.976	2.40***	.910
Level of commitment and involvement.	2.78	.919	2.86	.858
Increasing the diversity of the board.	1.71	.983	2.20***	1.007

*** $p<.001$, ** $p<.01$, * $p<.05$

[a] In response to question "Grade your board's performance in the following areas."
Scale: 0=Fail, 1=D, 2=C, 3=B, 4=A.

Table 2:
Nonprofit CEO and Board Chair Perspectives on Leadership

Leadership Items[a]	CEO Rating		Board Chair Rating	
	Mean	Std Dev	Mean	Std Dev
The majority of Board members are actively engaged in effectively overseeing and governing the organization.	3.12	.692	3.23**	.644
There is effective collaboration between CEO and board on major decisions.	3.63	.563	3.67	.523
The CEO actively involves the board in leading the organization.	3.52	.563	3.63**	.537
The communication between CEO and board is open and honest.	3.63	.559	3.71*	.504
The CEO can share and discuss mistakes with board without fear.	3.43	.678	3.64***	.518
The Board has the right members to be effective.	2.91	.721	3.20***	.640
An effective succession plan is in place for board members.	2.62	.827	2.97***	.795
The Board's level of financial expertise is sufficient to monitor the organization's financial health.	3.33	.704	3.44*	.643
The orientation process is effective and enables board members to get up to speed quickly.	2.81	.722	2.95**	.723
Board members coach and teach each other.	2.62	.690	2.95***	.673
Board members help develop each other's strengths.	2.55	.679	2.87***	.668
Different board members take lead on different issues.	3.01	.662	3.18***	.660
Each board member contributes unique perspectives to issues under consideration.	3.05	.620	3.19***	.625
Board members listen attentively to each other,	3.33	.606	3.44**	.549

*** $p<.001$, ** $p<.01$, * $p<.05$

[a] In response to the question "To what extent do you agree or disagree with the following statement." Scale 1=Strongly Disagree to 4=Strongly Agree.

Table 3
Nonprofit CEO and Board Chair Perspectives on Satisfaction with Diversity

Satisfaction with Board Diversity Items[a]	CEO Rating		Board Chair Rating	
	Mean	Std Dev	Mean	Std Dev
Age	2.65	.660	3.01***	.675
Gender	2.78	.774	3.15***	.705
Race/Ethnicity	2.05	.741	2.52***	.802
Increase the Organization's Ability to Achieve Mission[b]	**CEO Rating**		**Board Chair Rating**	
	Mean	**Std Dev**	**Mean**	**Std Dev**
Age	2.68	.902	2.51**	.899
Gender	2.37	.969	2.23	.914
Race/Ethnicity	2.88	.837	2.72**	.901

*** $p<.001$, ** $p<.01$, * $p<.05$

[a] In response to the question "How satisfied are you with your board's current level of diversity?" Scale: 1=Very Dissatisfied to 4=Very Satisfied.

[b] In response to the question "To what extent would diversity increase the organization's ability to achieve its mission?" Scale 1=Not At All to 4=Great Extent.

Table 4
Nonprofit CEO and Board Chair Perspectives on Satisfaction with Board Meetings

Board Meeting Items[a]	CEO Rating		Board Chair Rating	
	Mean	Std Dev	Mean	Std Dev
Board members are prepared for meetings, e.g. read materials in advance, follow up on assignments.	3.32	.592	3.35	.568
Meetings are well run and use effective meeting practices, such as clear agendas, good facilitation, start/end on tine.	3.68	.554	3.77**	.454
Board members receive information necessary to make informed decisions.	3.81	.422	3.78	.447
Board members focus on strategy and policy rather than on operational issues.	3.22	.714	3.30	.639
Meetings allow adequate time for board members to ask questions.	3.50	.616	3.67***	.510

*** $p<.001$, ** $p<.01$, * $p<.05$

[a] In response to survey question "To what extent do the following occur." Scale of 1=None At All to 4=Great Extent.

[i] Additional analyses were performed to address organizational budget size when considering CEO and BC perspectives. Overall, these analyses did not substantially add to the results reported here. The additional findings are available from the first author.