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Abstract

This study examines how and when non-profit board performance is impacted by board diversity. Specifically, we investigate board diversity policies and practices as well as board inclusion behaviors as mediating mechanisms for the influence of age, gender and racial/ethnic diversity of the board on effective board governance practices. The empirical analysis, using a sample of 1456 nonprofit board chief executive officers, finds that board governance practices are directly influenced by the gender and racial diversity of the board and that board inclusion behaviors together with diversity policies and practices mediate the influence of the board's gender and racial diversity on internal and external governance practices. Additionally we found an interaction effect that indicates when boards have greater gender diversity, the negative impact of racial diversity on governance practices is mitigated. The findings suggest that board governance can be improved with more diverse membership but only if the board behaves inclusively and there are policies and practices in place to allow the diverse members to have an impact.

Key Words: Diversity, Diversity Policies and Practices, Inclusion Behavior, Board Effectiveness, Nonprofit Boards

The relationship between boardroom diversity and board performance continues to be of great interest to scholars, policy makers and practitioners alike. In the present study we empirically examine the relationship between board (age, gender and racial/ethnic) diversity and board performance outcomes in a sample of 1456 nonprofit organizations. We test the mediating effects of board diversity policies and procedures as well as board inclusion behaviors on this relationship, seeking to answer the question: How and when can board diversity enable effective governance practices?

It is commonly held that there is inherent value in diversity; that diverse groups, as compared with homogeneous groups, provide a broader range of information, knowledge, and perspectives (Cox et al., 1991; Ely and Thomas, 2001). But empirically, the benefits of diversity are complex to ascertain. Scholarly research on diversity in the workplace remains an enigma, sometimes supporting and sometimes undermining performance outcomes (Horwitz and Horwitz, 2007; Jehn and Bezrukova, 2004; Joshi and Roh, 2009; Milliken and Martins, 1996; Pitts, 2006; Ugboro and Obeng, 2009; van Knippenberg and Schippers, 2007; Williams and O'Reilly, 1998). Kochan et al. (2003) found racial and gender diversity to have neither a positive nor a negative effect on performance or group processes. Williams and O'Reilly (1998) analyzed 40 years of diversity research and concluded that many of these inconsistent results might be attributed to an oversimplified approach to diversity.

Horwitz and Horwitz's (2007) meta-analytic review of group-level diversity on outcomes and performance found that varying team member characteristics, such as age, ethnicity, and expertise, are negatively associated with performance outcomes (Jackson et al., 1995; Milliken and Martins, 1996). However, task-related diversity positively impacted the quality and quantity of team performance. Horwitz and Horwitz, therefore, recommend that high-performing teams

be created with members who have task-relevant heterogeneity, instead of bio-demographic attributes. Joshi and Roh's (2009) meta-analytic review noted that the majority of studies investigating the relationship between diversity and group outcomes yielded "non-significant, direct relationships between team diversity and performance" (p. 599). Within these studies, the authors found that "approximately 60% of the direct effects reported…were non-significant for various attributes. Among the remainder, 20 percent of the effects reported were significantly positive, and 20 percent were significantly negative" (p.601). Suboptimal performance in diverse teams is associated with negative outcomes, including decreased cohesion, commitment and performance (Jehn et al., 1999) and may occur when the work context enhances stereotypes and biases toward minority groups and, also, where others perceive teams with higher representatives of minority groups of subpar performance (Joshi and Roh, 2009). More recently Hafsi & Turgut (2013) determined empirically that diversity in boards, specifically gender (positively) and age (negatively), impact corporate social performance (related to corporate social responsibility).

Projected demographic changes predict that the majority of the U.S. workforce will be composed of nonwhite, race-based minorities, including Hispanics, African Americans, and Asians, by 2039 (Treuhaft et al., 2011), however little has been accomplished in diversifying the boardroom in either the for-profit or nonprofit sectors. Caucasian men held 73% of board seats in the Fortune 500 companies in 2012, while minority men held 10%, Caucasian women held 13%, and only 3% of board seats were held by minority women (Alliance for Board Diversity, 2013). On the nonprofit board side, 82% of board members are Caucasian and this has not changed in the last two decades (Board Source, 2012). 57% of nonprofit board members are men, and 59% are over the age of 50 (Board Source, 2012). Only 23% of nonprofit chief executives report satisfaction with the diversity of their boards (Board Source, 2012).

Diversity within nonprofit boards holds potential for insuring that organizational programs and services reflect the needs and interests of the community, for bringing multiple perspectives into boardrooms that promote a culture of inquiry and generative thinking, and for breaking the cycle of power and privilege in the United States (Carter et al., 2003; Erhardt et al., 2003; Ferreira, 2010; Miller and Triana, 2009). However, in practice, such transformational aspects of diversification have eluded most nonprofit boards of directors (Bradshaw and Fredette, 2011). In light of these varied studies, further examination of nonprofit board diversity and governance practices is justified so as to enable board representation that is equivalent or at least similar to the organization's stakeholders.

Concepts and terminology from diversity literature as well as that on board practices are used in this empirical study. Here we define the terms used, starting with Cornforth's (2012) definition of *governance* as the "systems and processes concerned with ensuring the overall direction, control, and accountability of the organization" (p. 1121). *Governance practices* are those essential duties, functions, and competencies related to this direction, control and accountability (Fredette and Bradshaw, 2010). *Board diversity policies and practices* are those procedures adopted by boards with the intent to promote diversity. Board diversity policies and practices describe "practices and procedures that are commonly believed to enhance diversity and improve the experience for minority group members, such as diversity statements, policies, committees or taskforces dedicated to diversity and inclusion, diversity training for board members, and integration of diversity into the core mission and values" (Bernstein and Bilimoria, 2013, p. 641). *Board inclusion behaviors* are the actions of board members that enable members from minority and marginalized communities to feel respected and engaged in the organization's governance (Fredette and Bradshaw, 2010). These behaviors include "the

intragroup communication, influence and power interactions that the dominant members of small groups engage in consciously or unconsciously which signal the authentic inclusion of diversity" (Bernstein and Bilimoria, 2013, p. 640).

In the present study, we hypothesize that board diversity policies and practices as well as board inclusion behaviors are influenced by the board's diversity and will mediate the effects of diversity on governance practices. Because previous studies have shown mixed results on the impact of diversity, we have chosen to examine the impact of mediating mechanisms as well as interaction effects related to gender, age and racial/ethnic diversity. We hypothesize a model that includes diversity policies and practices as well as inclusion behaviors to explain how diversity impacts board performance of internal and external governance. Figure 1 displays the hypothesized model where board diversity is linked to governance practices through diversity policies and practices as well as inclusion behaviors.

Insert Figure 1 about here

Theory Development and Hypotheses

Governance practices are measures of board effectiveness as these practices reflect the board's capacity to perform various functions and competencies (Fredette and Bradshaw, 2010). They pertain to how competently board members perform essential governance duties and functions. A variety of strategies have been suggested in the literature for assessing the performance of the board on essential practices (Bradshaw et al., 1992; Callen et al., 2010; Chait, Holland, and Taylor, 1991; Cornforth, 2001; Green and Griesinger, 1996; Herman and Renz, 1998; Herman et al., 1996; Jackson and Holland, 1998, Nobbie and Brudney, 2003). Internal practices represent work undertaken by board members within the boardroom or organization

while external practices occur outside the boardroom or organization. The assessment of the board's performance of internal practices includes strategic planning, legal, ethical, and financial oversight, evaluating, guiding, and supporting the CEO, monitoring performance, understanding the board's roles and responsibilities, and include the board's level of commitment and involvement. The assessment of the board's performance of external practices includes fundraising, community relations and outreach, and recruiting new board members.

Board composition studies have generally focused on examining the relationship between board diversity and performance, on the assumption that who serves on the board has an impact on board outcomes (Brown, 2002; Bradshaw et al., 1996; Duca, 1996; Gitin, 2001; Siciliano, 1996; Stone and Ostrower, 2007). However, some studies assessing the impact of diversity on governance practices in a range of contexts collectively have resulted in mixed findings, often attributed to the complexity of the relationships between diversity and performance. For example, Siciliano (1996) found that age diversity in board members was linked to higher levels of donations, but was insignificant with respect to the organization's social performance. The same study suggested that gender diversity had a positive impact on the organization's social performance, but a negative impact on fundraising. Subsequent studies of for-profit firms have demonstrated that gender and age diversity have a significant impact on corporate social performance (Boulouta, 2013; Hafsi and Turgut, 2013; Zhang et al, 2013). Several studies show that increased gender board diversity generates economic gains, resulting in a positive impact on financial performance and firm value (Campbell and Mínguez-Vera, 2008; Francoeur et al, 2008). Other studies show that gender board diversity impacts other factors important to organizations including the extent of diversity in the top management team (Bilimoria, 2000; 2006). Bernstein and Davidson (2012) found that racial/ethnic diversity had an impact on

nonprofit board performance when inclusion behavior was used as a mediator. In the corporate boardroom, racial and gender diversity have been shown to positively influence firm performance (Carter et al., 2003; Erhart et al., 2003).

Applying the rationale that diverse membership provides a broader range of knowledge, information, and perspectives, we hypothesize that board member demographic diversity (gender, age, and race/ethnicity) will have a positive and direct impact on internal and external governance practices.

> *Hypothesis 1: Internal governance practices of a nonprofit board are positively and directly impacted by the (a) gender, (b) age, and (c) racial/ethnic diversity of board members.*

> *Hypothesis 2: External governance practices of a nonprofit board are positively and directly impacted by the (a) gender, (b) age, and (c) racial/ethnic diversity of the board members.*

Mechanisms Facilitating Board Effectiveness

Two mechanisms likely enable the ability of diverse board members to effectively undertake governance practices — adoption of specific diversity policies and practices at the board level, and behaviors facilitating inclusion among board members themselves (Bernstein and Bilimoria, 2013; Ely and Thomas, 2001). Board diversity policies and practices, or those procedures that boards adopt with the intent to promote diversity, are commonly believed to enhance diversity and improve the experience for minority group members. These policies and practices frequently include diversity statements, diversity policies, committees or taskforces dedicated to diversity and inclusion, diversity training for board members, and integration of diversity into the organization's core mission and values.

Bradshaw and Fredette (2012) found that boards adopting diversity practices and policies at the board level have more success in recruiting minority board members. Management

practices such as inclusion of explicit statements allow members to critically reflect on the organization's norms and values so as to facilitate change in their cognitive frames and schemas (Hanappi-Egger, 2012). Many nonprofit organizations, for example, 31% in New York City (McGill et al., 2009) and 59% in Michigan (Miller et al., 2009), have formal diversity and/or inclusion policies. One third of respondents in a 2009 BoardSource survey indicated that having such a policy was the second most important route to inclusivity. Based on this empirical evidence, we hypothesize that the effective use of board diversity policies and practices will positively influence a minority board member's experience of inclusion and will positively impact the ability of the board to perform effective internal and external governance practices.

Hypothesis 3: Board diversity policies and practices positively and directly impact (a) internal and (b) external governance practices of a nonprofit board.

A second mechanism, board inclusion behaviors, also likely influences how board diversity enables effective governance practices. Board inclusion behaviors describe actions by board members through which "members of diverse and traditionally marginalized communities are present on boards and meaningfully engaged in the governance of their organization" (Fredette and Bradshaw, 2010, p. 8). Drawing on extant conceptualizations in the literature (Pelled et al., 1999; Mor Barak, 2000; Roberson, 2006; Janssens and Zanoni, 2007), inclusion refers to an individual's or subgroup's sense of efficacy, belonging and value in a work system. Board inclusion behaviors describe the intragroup communication, influence and power interactions that the dominant members of small groups engage in consciously or unconsciously which signal the authentic inclusion of minority members or other members of the non-dominant subgroup. Examples of such behaviors may be whether there exists among board members a consensus about the value and benefits of expanding diversity of the board and a culture that promotes inclusive board dynamics. Such behaviors may be perceived and interpreted by

minority members as reflecting their true value and treatment by majority members. The experience of inclusion comprises involvement in meaningful groups, access to information and resources necessary for effective job performance, influence in decision-making, and job security (Mor Barak, 2000). The inclusion experienced by minority board members is important because it has consequences for their recruitment, performance and retention, all indicators of successful diversification at the board level.

Organizations that employ an integration and learning motivation perspective for board diversity and focus on encouraging their majority group members to engage in inclusive behaviors, rather than solely on diversity-focused policies and procedures, engendered racial/ethnic minority board members' greater experiences of inclusion (Bernstein and Bilimoria, 2013: Ely and Thomas, 2001). Similarly, Bernstein and Davidson (2012) found that inclusive behaviors mediated the impact of racial/ethnic diversity on governance practices. Thus we hypothesize that:

> *Hypothesis 4: Board inclusion behaviors positively and directly impact (a) internal and (b) external governance practices of a nonprofit board.*

Acknowledging the contradictory results found in the literature examining the impact of diversity on nonprofit governance practices cited above, we hypothesize two mediating factors. Fredette and Bradshaw (2010) suggested that the adoption of functional inclusion ("goal-driven and purposeful inclusion of individuals identified as from diverse or traditionally marginalized communities", p. 8) was more impactful than social inclusion ("embeddedness in the actual social context and fabric of the board of directors, based on authentic relational bonds", p. 10). In fact, without paying attention to the task-oriented activities that are functionally inclusive, social inclusion may not be as impactful. Investigation of the mediation hypotheses enables further understanding of the relationships in nonprofit organizations between board diversity (gender,

age, and racial/ethnic) and the board's internal and external governance practices. Therefore, to

further our understanding of the impact of diversity on governance practices, we hypothesize that

board diversity policies and practices, as well as inclusion behaviors, will mediate the impact of

board diversity on governance practices.

> *Hypothesis 5: Board diversity policies and practices mediate the relationship between board (a) gender, (b) age, and (c) racial/ethnic diversity and internal governance practices of a nonprofit board.*

> *Hypothesis 6: Board diversity policies and practices mediate the relationship between board (a) gender, (b) age, and (c) racial/ethnic diversity and external governance practices of a nonprofit board.*

> *Hypothesis 7: Board inclusion behaviors mediate the relationship between board (a) gender, (b) age, and (c) racial/ethnic diversity and internal governance practices of a nonprofit board.*

> *Hypothesis 8: Board inclusion behaviors mediate the relationship between board (a) gender, (b) age, and (c) racial/ethnic diversity and external governance practices of a nonprofit board.*

METHODS

Participants and Procedures

BoardSource has operated as a resource for nonprofit organizations for more than 25

years with a mission to improve organizational effectiveness by strengthening nonprofit boards

(BoardSource, 2012). Member organizations of BoardSource are surveyed biannually using the

BoardSource Nonprofit Governance Index (BSGI). This survey includes multiple-choice and

open-ended questions to collect chief executive officer (CEO) and board member demographics,

organizational characteristics, board structure, diversity and inclusion, board meeting practices,

compliance with basic governance roles and responsibilities, and collaborative leadership

practices. The survey asks the respondents to rate their board on the performance of 14

competency areas or practices, including strategic thinking, monitoring organizational

performance, financial oversight, fundraising, and community outreach are assessed by the

CEO's (Board Source, 2012). For the current study, we partnered with BoardSource and

obtained the raw data from the 2012 CEO survey. From the original dataset we extracted the

responses of 1456 chief executive officers from nonprofit organizations whose mission included

fundraising. Responses came from all 50 states in the U.S. and included a diverse mix of

nonprofit charities, foundations, and associations. Table 1 shows the breakdown of these

organizations by annual operating budget and Table 2 details the nonprofit sectors.

Insert Table 1 about here

Insert Table 2 about here

A little more than half of the CEOs of these organizations described themselves as

Caucasian women (55%) with 39% between 50 and 64 years of age. Two tables detail the

demographics of the CEOs, Table 3 shows gender and race while Table 4 includes the age by

CEO gender.

Insert Table 3 about here

Insert Table 4 about here

Measures

Nine items were used to measure *Internal Governance Practices* including "Grade your board's performance in understanding your organization's mission" and "Grade your board's performance in understanding the board's roles and responsibilities" with responses 1 = Fail to 5 = Excellent. Three items were used to measure *External Governance Practices* including "Grade your board's performance in Fundraising", "Grade your board's performance in community relations and outreach", and Grade your board's performance in recruiting new members" with responses of 1 = Fail to 5 = Excellent.

Board diversity policies and practices employed eight items such as "Has your organization incorporated diversity into the organization's core values?" and "Has your organization actively recruited board members from diverse backgrounds?" *Board Inclusion Behaviors* was measured using 8 items such as "Rate the extent to which board members from diverse backgrounds work together and interact with one another" and "Board members value the contributions of diverse members to the board's tasks" and "Diverse members make contributions to the board's critical tasks". The ratings ranged from 1 = Not at all to 5 = To a Great Extent.

G*ender Diversity, Age Diversity, and Racial/Ethnic Diversity* were measured using Blau's (1977) Index as it is an optimal measure to capture variations within a group (Harrison and Klein, 2007). As a measure of board diversity, the Blau Index meets all four of the following criteria: a zero point to represent complete homogeneity; larger numbers indicate greater diversity; positive values; and frequent use (Miller and Triana, 2009; Harrison and Sin, 2006). A gender diversity index was calculated for each board using the number of board members and number of women board members. A board with no gender diversity would score a 0 and an

equal gender distributed board would be a 0.5. The age diversity index was calculated for each

board from CEO responses on the number of board members in the following age groups: under

30, 30 to39, 40 to 49, 50 to 64 and over 65. Racial/ethnic diversity was calculated for each board

from CEO responses on the number of board members in the following racial/ethnic categories:

1) American-Indian, 2) African American/Black, 3) Asian including Asian Indian, Chinese,

Filipino, Japanese, Korean, Vietnamese or other Asian, 4) Caucasian, 5) Hispanic, Latino or

Spanish including Mexican American, Chicano, Puerto Rican, Cuban and other Hispanic, 6)

Native Hawaiian or Pacific Islander, and 7) Two or more races. A detailed description of the

measures used in this study is provided in the Appendix.

Data Analysis

The 1456 boards were comprised of mostly Caucasian (82%) members of whom 43% are

women with the age and racial/ethnicity distribution as shown in Table 5 and 6.

Insert Table 5 about here

Insert Table 6 about here

Exploratory factor analysis (EFA) and confirmatory factor analysis (CFA) were employed to

verify the uni-dimensionality, validity, and reliability of the model constructs. SPSS for

Windows (PASW Statistics Gradpack 17.0, 2009) was used to conduct the EFA. AMOS 17.0.2

was used for the CFA and the structural equation models (SEM). The choice of SEM analysis

was made so as to examine a series of dependence relationships simultaneously. SEM is

particularly useful in testing theories that contain multiple equations involving dependence

relationships using multivariate analysis techniques (Hair Jr., Black, Babin, & Anderson, 2010).

The mediation hypotheses were tested using the method recommended by Preacher & Hayes (2008).

RESULTS

The effects of board diversity regarding age, race/ethnicity and gender were simultaneously examined to explore the impact on governance practices both internally and externally. A mediation model was hypothesized where board diversity policies and practices in addition to board inclusion behavior were tested as having an impact in developing a structural equation model. Lastly the interaction effects of the diversity factors were tested in terms of their impact on governance practices. The means, standard deviations, reliabilities and correlation between the study variables are shown in Table 7.

Insert Table 7 about here

Several analyses substantiated the validity, uni-dimensionality, and reliability of the measurement models corresponding to the model constructs. Bartlett's test of sphericity was highly significant ($\chi 2 = 17868$; df = 171; p < 0.000) implying that the strength of the relationship among variables is strong. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was 0.927, well above the acceptable level of 0.70 indicating the data was adequate for factoring. The reliability of each construct as measured by Cronbach's α were all above 0.60 (Churchill, 1979) and are detailed in Table 7. The confirmatory factor analysis showed that the model had acceptable fit with n=1456 where χ^2=606, df= 204, χ^2/df=2.97, CFI=0.978, RMSEA=0.037. Convergent and discriminant validity was established using criteria from Hair et al. (2010).

Additional testing was completed to ensure that there was no bias due to the common method for data collection. A common method bias may be indicated if an examination of the correlation table of the latent variables shows correlation above 0.90 (Pavlou et al., 2007). As

shown in Table 7, the correlations in this study are all far below 0.90. Further to assess for

methods bias a confirmatory factor analysis was conducted in which the baseline model included

a common method factor where each item is linked to this factor (Podsakoff et al., 2003). The

variance associated with the measurement model was more than three times greater than the

variance associated with the common factor indicating that common method variance does not

bias the results of this study.

Direct Effects within the Structural Equation Model

As shown in Figure 2 hypotheses H1a and H2a are supported in the structural equation

model as there are positive, direct, significant effects of board gender diversity on both internal

(β= .07, p < 0.05) and external governance practices (β= .06, p < 0.05). There was no support for

H1b or H2b as age diversity was not found to impact these practices, however age diversity was

found to impact board diversity policies and practices (β= .08, p < 0.001). While we found direct

significant effects of racial/ethnic diversity on both internal (β= -.15, p < 0.001) and external

governance practices (β= -.16, p < 0.001) hypotheses H1c and H2c are not supported as these are

negative relationships.

H3a and H3b are supported as board diversity policies and practices directly impact

internal governance practices (β= .23, p < 0.001) and external governance practices (β= .21, p <

0.001). H4a and H4b are supported as board inclusion behaviors directly impact internal

governance practices (β= .27, p < 0.001) and external governance practices (β= .26, p < 0.001).

Insert Figure 2 about here

Mediation Effects

The results presented in Table 8 and Figure 2 indicate that board diversity policies and

practices partially mediate the relationship between gender diversity and internal governance

practices as well as between gender diversity and external governance practices, supporting H5a and H6a. Similarly, board diversity policies and practices partially mediate the relationship between racial/ethnic diversity and internal governance practices as well as between racial/ethnic diversity and external governance practices, supporting H5c and H6c. However, no support was found for H5b and H6b as board diversity policies and practices did not mediate the relationship between board age diversity and internal or external governance practices. Board inclusion behavior partially mediates the relationship between racial/ethnic diversity and internal governance practices as well as between racial/ethnic diversity and external governance practices, supporting H7c and H8c. No support was found for board inclusion behavior partially mediating the relationship between gender diversity and internal or external governance practices (H7a and H8a) or between age diversity and internal or external governance practices (H7b and H8b).

Table 8 includes the direct, indirect and total effects for gender, age and racial/ethnic diversity on board inclusive behaviors, and internal and external governance practices. This table shows that as a mediator board inclusion behavior links board diversity policies and practices to governance practices. Board inclusion behaviors explain how diversity policies and practices impact governance practices. Further, the mediation testing shows that board inclusion behaviors are the mechanism through which gender and racial/ethnic diversity impact board policies and procedures.

Insert Table 8 about here

Interaction Effect

While not hypothesized, we examined the interaction effects of board diversity on internal and external governance practices. We found that the board's external governance practices are impacted by an interaction between gender and racial/ethnic diversity (see Figure 3). As detailed earlier there is an inverse relationship between racial/ethnic diversity and external governance practices, where more racial/ethnic diversity results in less effective external governance practices. However the level of gender diversity was found to moderate the impact of racial/ethnic diversity on the effectiveness of external governance practices such that when there is greater gender diversity it dampens the inverse relationship between racial diversity and external board practices. The most interesting aspect of this analysis is that racial/ethnic diversity becomes a positive influence on external governance practices when there is greater gender diversity. This finding suggests that board diversity dimensions have complex effects on board performance factors.

Insert Figure 3 about here

DISCUSSION

The present study of nonprofit boards reveals four important findings describing how and when board diversity impacts governance practices. First, the study supports previous work in the for-profit and nonprofit sectors that a board's diversity impacts the effective performance of its governance duties and responsibilities. Second, a board's diversity policies and practices as well as its inclusion behaviors impact the effectiveness of its governance practices. Third, board diversity aspects of gender, age and race/ethnicity impact its diversity policies and practices. These diversity policies and practices are the mechanisms through which board diversity impacts

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internal and external governance practices. Lastly, the relationship between governance practices and the racial/ethnic diversity of the board is complex as it is impacted by board diversity policies and practices, the inclusive behaviors of the board and also an interaction effect related to the gender diversity of the board. Not only do these findings add to the literature on boards and diversity, but these findings can be used by nonprofit CEOs and board directors to more effectively leverage board diversity to influence governance practices thereby fulfilling the mission of the organization.

The first main finding is that board diversity impacts governance practices but that this impact is manifested differently for gender, age and racial/ethnic diversity. The results showed that gender diversity on nonprofit boards not only impacts board internal and external governance practices but also impacts the policies and practices of the board related to diversity and inclusion. Simply stated, a board that has greater gender diversity has more effective governance practices and is more likely to have policies and practices related to diversity. This is an important finding because many question the value of diversity and the findings offer clear evidence that greater gender diversity leads to more effective performance of internal and external governance practices. The finding that gender diversity directly impacts governance practices is consistent with studies of for-profit boards which have concluded that gender diversity significantly impacts board and firm performance (e.g., Boulouta, 2013; Campbell and Mínguez-Vera, 2008; Carter et al., 2003; Erhart et al., 2003; Francoeur et al, 2008; Hafsi & Turgut, 2013; Zhang et al, 2013).

The age diversity of the nonprofit boards in this study was skewed toward an older population and this variable significantly impacted only the board's diversity policies and practices. This finding is consistent with the propensity for organizations to adopt normative

diversity policies and practices in the later 20th century. An explanation of this finding may be that older board members feel more comfortable focusing on diversity policies and practices that have been in place for a while. Today workplace diversity has evolved from meeting quotas dictated by federal law to the current focus on fostering inclusion and achieving maximum success. Many organizations use diversity policies and practices as only a part of an encompassing culture of diversity which expects and fosters inclusive behaviors (Anand and Winters, 2008).

The second main finding indicates that policies and practices related to diversity positively impact governance practices in nonprofit organizations. The development of these diversity policies and practices is influenced by the diversity of the board, and the greater the diversity (gender, age and racial/ethnic) the more there are diversity-related policies and practices. Additionally, behaviors related to including board members directly impact the performance of both internal and external governance practices. These board inclusion behaviors are influenced by the diversity policies and practices within the board. The behaviors related to inclusion also are influenced by racial/ethnic diversity. Board diversity policies and practices partially mediate the impact of racial/ethnic diversity on board inclusion behaviors.

A third key contribution of this study is support for the adoption of board diversity policies and practices as a mechanism that enables board diversity to influence governance practices. Board diversity policies and practices provide the foundation, setting up the minimum standards to include diverse members. These policies and practices articulate the values of the board and establish a common language that is used to overcome visible differences between board members. As boards establish more policies and practices related to diversity n there will

likely continue to be improvements in the effective performance of internal and external governance practices.

Understanding the dynamics involved with the racial/ethnic diversity of the boards involves a series of small steps. First it is important to understand the distribution of race/ethnicity within the study's sample as these boards comprised of mostly Caucasians (82%) with almost 9% African-American/Black, 4% Hispanic and 3% Asian as detailed in Table 3. Next, looking at the direct relationship between racial/ethnic diversity and the performance of governance practices, both internal and external, it is an inverse relationship such that more racial/ethnic diversity means less performance of these effective governance practices. These findings, while consistent with previous nonprofit studies (Bernstein and Davidson, 2012) are inconsistent with Carter et al. (2003) and Erhart et al.'s (2003) determination that racial diversity has been shown to positively influence for-profit firm performance. However within the multivariate data analysis, the presence of diversity and diversity policies and practices together with inclusion behaviors by the board creates a positive influence shifting the overall impact of racial/ethnic diversity on governance practices to a positive overall influence (see Table 8). The mechanism for positively influencing governance practices with racial/ethnic diversity is to have diversity policies and practices in place along with inclusion behaviors. The evidence presented here suggests that in the absence of diversity policies and practices and/or inclusion behaviors, greater racial/ethnic diversity will likely result in less effective governance practices.

A fourth important finding from this study is that effective external governance practices were influenced by an interaction effect between racial/ethnic diversity and gender diversity. Because the direct impact of racial/ethnic diversity on effective governance practices is an inverse relationship, having more gender diversity, regardless of the level of board diversity

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policies and practices or inclusion behavior, will serve to mitigate the direct effect. Boards that are more diverse in race/ethnicity will have more effective governance practices when the gender diversity is higher.

The relevant literature has been reviewed and well-documented methods have been employed to obtain the findings, however several limitations to this study should be noted. The data used to develop the model was reported only by each nonprofit organization's CEO. A rigorous methodological approach of theory testing has been adopted that seems to confirm the adequacy of the structural equation model but it is possible that other dimensions impacting board performance have not been included. The separation of the constructs related to internal and external governance practices may also be a limitation. The model shows subtle differences in the factors that impact these dependent variables however adequate validity and reliability was established in the exploratory and confirmatory factor analyses. Finally, the study used data collected by BoardSource from its members who are nonprofit organizations' chief executive officers. A study of random nonprofit organizations may yield different insights. Despite these limitations, this study provides a rigorous quantitative examination of board diversity and performance in the nonprofit sector.

Future Research

The use of the 2012 BoardSource Governance Index (BSGI) Survey for Chief Executives highlights the value of using surveys of organizations to investigate important issues and theories for the nonprofit sector. Similarly, secondary analyses of these surveys can lead to improvements in subsequent surveys, yielding valuable findings and insights for nonprofit leaders and researchers. The examination of previous and future BoardSource Governance Indices is recommended as the survey data is rich and analyses can add to deeper and broader

understanding of how nonprofit boards function. We also suggest that further work be done to determine additional factors, including mediators and moderators, that impact effective governance practices. Finally we recommend that future studies examine the relationships presently studied in sectors other than nonprofit boards.

Implications for Practice

From a practical standpoint, this study shows how research can be used by leaders to benefit their organization's ability to attain its mission. Boards seeking to improve their governance effectiveness should include diverse board members, but must be certain that there are diversity policies and practices in place to allow the diverse members to have a positive impact. Inclusion behaviors and an inclusive culture have an impact on the ability of diverse members to positively impact the board, especially when there is greater racial/ethnic diversity. The findings indicate that boards with more gender and racial/ethnic diversity will have more effective governance practices than those with less diversity; thus board chairs and nominating committees should seek both gender and racial/ethnic diversity when recruiting new members. When diverse board members are encouraged to participate fully through meaningful diversity policies and practices as well as inclusive behaviors among members, board diversity positively impacts board performance.

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Table 1
Organizations' Annual Operating Budget

Annual Operating Budget	Number of Organizations	Percent
Under $250,000	82	5.6%
$250-$499,000	164	11.3%
$500-$999,000	223	15.3%
$1-4.9 million	517	35.5%
$5-$9.9 million	184	12.6%
$10-24.9 million	172	11.8%
$25 million or more	114	7.8%
Total	**1456**	**100.0**

Table 2
Type of Nonprofit Organizations

Type of Nonprofit	Number of Organizations	Percent
Arts and culture	104	7.1
Business/industry	35	2.4
Community/economic development	55	3.8
School/college/university	136	9.3
Environment	44	3.0
Health care	220	15.1
Housing and shelter	92	6.3
Human/social services	424	29.1
International development	15	1.0
Philanthropy/grant making	111	7.6
Religious congregation	13	.9
Science and technology	11	.8
Sports and recreation	22	1.5
Youth development	88	6.0
Other	81	5.6
Total	1451	99.7
Missing	5	0.3

Table 3
CEO Respondents - Gender and Race

CEO Race	Female	Male	Total
Caucasian	806	530	1336
African American/Black	34	20	54
Hispanic, Latino or Spanish	22	7	29
Two or more races	11	2	13
Asian	6	2	8
American Indian/Alaskan	2	3	5
Native Hawaiian/Pacific Islander	1	0	1
Race Missing	7	3	10
Total	**889**	**567**	**1456**

Table 4
CEO Respondents - Gender and Age

CEO Age Range in Years	Female	Male	Total
Under 40	55	31	86
40 to 49	178	113	291
50 to 64	567	343	910
65 and Older	88	79	167
Age Missing	1	1	2
Total	**889**	**567**	**1456**

Table 5
Board Race/Ethnicity Distribution as Reported by CEOs

Board Member Race/Ethnicity	
American Indian or Alaska Native	0.7%
African American/Black	8.5%
Asian (includes Asian Indian, Chinese, Filipino, Japanese, Korean, Vietnamese, or other Asian)	3.0%
Caucasian	82.4%
Hispanic, Latino, or Spanish (includes Mexican, Mexican American, Chicano, Puerto Rican, Cuban, and other Hispanic, Latin, or Spanish origins)	4.3%
Native Hawaiian or Pacific Islander	0.2%
Two or more races	0.9%

Table 6
Board Age Distribution as Reported by CEOs

Board Members Age Range	
Under 30	.1%
30 to 39 years	11.5%
40 to 49 years	27.7%
50 to 64 years	42.7%
65 years or older	15.9%

Table 7

Means, Standard Deviations, Cronbach's Alphas and Correlations for Board Source Data

	Mean	SD	1	2	3	4	5	6
1. Internal Governance Practices	2.91	.684	**.882**					
2. External Governance Practices	2.02	.840	.734	**.794**				
3. Board Inclusion Behaviors	3.02	.790	.284	.266	**.944**			
4. Board Diversity Policies & Practices	4.16	2.02	.285	.256	.361			
5. Age Diversity	.500	.167	.011	.060	.110	.105		
6. Race/Ethnic Diversity	.221	.194	.059	.041	.474	.334	.166	
7. Gender Diversity	.407	.121	.091	.079	.062	.076	.030	.070

N=1456
Cronbach's Alphas in bold on the diagonal

Table 8
Direct, Indirect and Total Effects of Variables on Board Inclusion Behaviors, Internal and External Governance Practices

	Board Inclusion Behaviors			Internal Governance Practices			External Governance Practices		
	Direct	Indirect	Total	Direct	Indirect	Total	Direct	Indirect	Total
Gender Diversity				.067*	.012	.079*	.063*	.011	.074*
Age Diversity					.024	.024		.023	.023
Race/Ethnic Diversity	.397***	.073*	.471***	-.151***	.202**	.051*	-.161***	.193***	.032*
Diversity Policies & Practices				.233***	.062*	.295***	.214***	.060*	.275***
Inclusion Behaviors				.269***		.269***	.264***		.264***

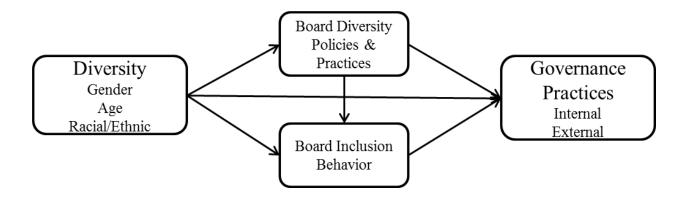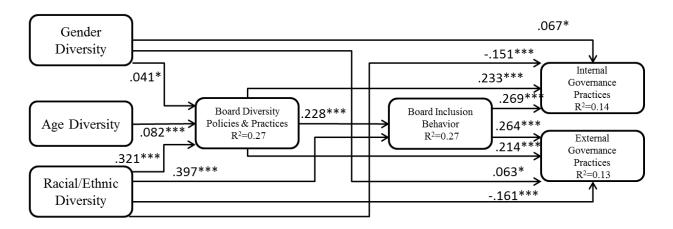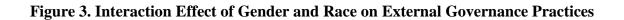*p<.05, **p<.01, ***p<.001

Figure 1.
Hypothesized Model

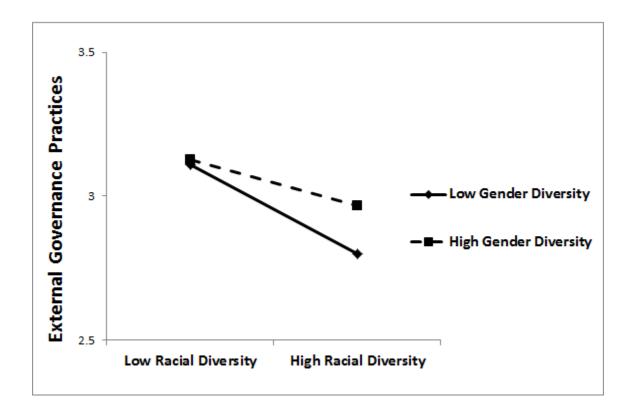**Figure 2.**
Standardized Solution for Internal and External Board Governance Practices

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

Figure 3. Interaction Effect of Gender and Race on External Governance Practices

Appendix: Study Measures

Construct	Measurement	Scale
Age Diversity	Compiled using Blau (1977) Method where: $BIAge = 1 - \Sigma(p_i)^2$ p is the percent of each age group and i is the number of groups. Continuous 0 to 1.0	1 = Under 30 2 = 30 to 39 3 = 40 to 49 4 = 50 to 64 5 = Over 65
Gender Diversity	$BIGender = 1 - \Sigma(pf)^2 + (p_m)^2$ p is the percent of each gender group, f is female and m is male. Continuous 0 to 0.5	1 = male 2 = female
Racial/Ethnic Diversity	$BIRace = 1 - \Sigma(p_i)^2$ p is the percent of each racial group and i is the number of groups. Continuous 0 to 1.0	CEO reported total number of board members and total number of each racial/ethnic group: Caucasian, African American, Hispanic, Pacific/Hawaiian Asian, American Indian/Alaskan, and Two or more races.
Board Diversity policies and practices	Has your organization or board done the following? 1=Yes or 2=No for each question $P\&P = \Sigma All\ Responses$	1. Incorporated diversity into the organization's core values. 2. Modified organizational policies and procedures to be more inclusive. 3. Conducted diversity training for staff. 4. Conducted diversity training for board members. 5. Developed a detailed plan of action for the board to become inclusive. 6. Evaluated and modified its recruitment efforts specifically to reach members with more diverse backgrounds. 7. Actively recruited board members from diverse backgrounds. 8. Discussed the values and benefits of expanding diversity of the board

Board Inclusion Behavior	Please rate the extent to which board members from diverse backgrounds work together and interact with one another. 1 = Not at all 5 = Great Extent	1. Board members initiate social interactions with members' from diverse backgrounds. 2. Board members value the contributions of diverse members to the board's tasks 3. Diverse members participate in developing the board's most important policies 4. Members take a personal interest in board members from diverse backgrounds 5. Diverse members make contributions to the board's critical tasks. 6. Diverse members become friends with the other members of the board. 7. Diverse members are influential in the board's routine activities. 8. Diverse members share their personal ideas, feelings, and hopes with other members of the board.
Internal Governance Practices	Grade your board's performance in the following areas. 1= Fail 5= Excellent	1. Understanding your organization's mission 2. Strategic planning and thinking strategically. 3. Knowledge of your organizations programs 4. Monitoring organizational performance and impact 5. Legal and ethical oversight 6. Financial oversight 7. Evaluating the chief executive 8. Providing guidance and support to the chief executive 9. Understanding the board's roles and responsibilities
External Governance Practices	Grade your board's performance in the following areas. 1= Fail 5= Excellent	1. Fundraising 2. Community relations and outreach 3. Recruiting new board members