Hough, Alan and McGregor-Lowndes, Myles and Ryan, Christine M. (2005) *Theorizing about board governance of nonprofit organizations : surveying the landscape.* In: 34th Annual Conference of the Association for Research on Nonprofit Organizations and Voluntary Action, 17-19 November 2005, Washington DC. (Unpublished)

Theorizing about board governance of nonprofit organizations: surveying the landscape

Alan Hough
Professor Myles McGregor-Lowndes
Professor Christine Ryan*
Queensland University of Technology, Brisbane, Australia

Paper presented at the 34th Annual Conference of the
Association for Research on Nonprofit Organizations and Voluntary Action
November 17 - 19, 2005
Capital Hilton Hotel, Washington DC

Abstract

Leading scholars on nonprofit governance have urged that future research be more informed by theory in order to promote more rigorous analysis. The aim of this paper is to survey the major theories on board governance, including those based in the disciplines of economics, management, sociology, psychology, politics, history and theology, in order to respond to this challenge. In addition, the relevance of these theories to a critical set of board behaviors - that is, how boards monitor, judge and influence organizational performance - is examined. Gaps in the theoretical literature are identified, and implications for public policy are explored. We conclude that a multi-theory and multi-disciplinary perspective is needed if research on governance of nonprofit organizations is to be complete in scope, rich in content, and relevant.

* Alan Hough is a research student of the Centre of Philanthropy and Nonprofit Studies and the School of Accountancy of Queensland University of Technology. Professor Myles McGregor-Lowndes is Director of the Centre. Professor Christine Ryan is Head of the School of Accountancy.

The authors are grateful for the comments of Professor Jeffrey Leiter and Professor Helmut Anheier on an earlier version of this paper (Hough, McGregor-Lowndes and Ryan 2004). Professor Leiter's comments helped widen and considerably strengthen the theoretical discussion. Professor Anheier challenged us to consider the public policy implications of the paper. Of course, responsibility for errors or omissions rests with the authors.

Comments on this paper are welcome and can be directed to a.hough@student.qut.edu.au.

Theorizing about board governance of nonprofit organizations: surveying the landscape

Attempting to capture the totality of this diversity [of the social landscape] with references to a single monolithic "theory" is usually misguided. Insights from several theories at different levels of analysis are appropriate for social landscapes. – Llewelyn

1. Introduction

As early as 1776, Adam Smith in *The Wealth of Nations* commented on the dilemmas of board governance of for-profit corporations, noting that directors managing other people's money would not take the same care as they would if the money was their own . In the nonprofit sector, the first serious study of nonprofit governance was Bacon's 'Responsibility in the management of societies' published in the *New Englander* in 1847 . Despite this early scholarship, the study of board governance was significantly under-researched until the 1990s. Writing in the context of nonprofits, Middleton concluded in 1987 that empirical studies of boards were 'scarce'. Writing in 1992, Pettigrew described research into boards as being in its infancy, with the extant research being 'fragmented and largely nonadditive'. Since then, however, there has been a 'dramatic surge' in research on boards in the for-profit sector and an 'evident increase' in the nonprofit sector . The increase in scholarship in the area is no doubt in part a reaction to the high profile corporate collapses such as Enron and World.com in the for-profit sector, and scandals such as United Way and Covenant House in the nonprofit sector.

Leading scholars on board governance in the nonprofit sector have called for future research on nonprofit boards to be more informed by theory. What then are the relevant theories and perspectives, their strengths and limitations, and what are the implications? This paper surveys the theories of board governance, examines critiques of these theories, and considers relevant empirical evidence in an attempt to respond to this challenge.

As noted, the amount of scholarship on board governance is now massive. There are currently four academic journals dedicated to the issue of corporate governance.[1] A search of the words 'board of directors' or 'governance' in citations or abstracts of scholarly journals on the ProQuest databases produced over 14000 references. Even narrowing this search to the nonprofit sector produced 277 references. Given the extent of the literature, the paper cannot be exhaustive. What the paper attempts to do is to examine the extant theoretical literature, identifying the major theories and perspectives relevant to governance in an attempt to provide the theoretical platform from which to advance the research and debate on nonprofit governance. The paper identifies foundational works on each theory, and identifies *some* of the key empirical studies. Gaps in the theoretical literature are identified, and implications for public policy are also

[1] The journals are *Corporate governance: an international review*, *Corporate governance: international journal of business in society,* the *Journal of Management and Governance,* and *The International Journal of Disclosure and Governance*.

explored. We conclude that a multi-theory and multi-disciplinary perspective is needed if research on governance of nonprofit organizations is to be complete in scope, rich in content, and relevant.

In order to investigate the explanatory powers of the various theories, the paper examines what insights the theories offer into one critical set of board behaviors, namely how boards monitor, judge and influence organizational performance . These behaviors are considered to be critical because boards are usually legally responsible for managing the business and operations of the organizations they govern. The insights offered by theory can variously include whether these behaviors are seen as the role of the board, by what methods these behaviors are performed, how well boards perform these behaviors, and with what effect.

Current scholarship about board governance

This paper is not only motivated by the desire to document in one place the major theories and perspectives on board governance: it is also motivated by frustration with the state of existing analysis and debate.

First, much of the discussion about governance is about agency theory and the agency problem. Without subscribing to romantic generalizations about the third sector, nonetheless the question must be asked whether a theory founded in self-interest is the best place to start in analyzing governance in a sector in which other-regarding behavior is common. Also, while agency theory is useful for thinking about the resolution of the agency problem, there are many other problems which deserve attention (Learmount 2003). It is not healthy that one particular problem should be driving the discourse of an entire area . Scholars of nonprofit governance must ensure that they do not replicate the obsession with agency theory of scholars of for-profit governance.

Second, while agency theory and economics has been the subject of extensive research, the contributions of some other disciplines are clearly underdeveloped. For example, while the discipline of psychology has contributed theory on small group effectiveness and psychoanalytic insights, it is apparent that psychology could contribute much more. This argument is developed in section 10 of the paper.

Third, we believe it is a fiction to conceive of the nonprofit sector as a uniform mass. There are many different types of nonprofits – small and large, public-serving and member-serving, all-volunteer and all-staff, commercially-operating and donative – with many gradations in between. Some nonprofits have self-perpetuating boards, and others are characterized by an obsessional commitment to democratic processes. These nuances must be acknowledged and explored. This variation suggests the question of whether there should be one dominant theoretical analysis – be it agency theory, stakeholder theory or resource dependency theory. As Ostrower and Stone (2003) have noted, the analysis of nonprofit governance needs to be more context specific.

Fourth, most researchers have made limited use of the diversity of the relevant theories and the connections between the theories. For example, many authors fail to recognize the positivist agency theory/stewardship theory dichotomy and the fact that negative evidence for one theory is normally positive evidence for the other. Also, the debate on team production theory has made little or no reference to the debate on stewardship theory, despite the central role of trust in both theories. Some issues are clearly capable of being understood using multiple theoretical perspectives .

Finally, like other authors we believe the pursuit of a single comprehensive theory of governance of nonprofit organizations is unlikely to be successful. There is much to be said for Bainbridge's argument that situation-specific mini-theories may be more useful than attempts to build a single unified theory of board governance. We have already argued that the nonprofit sector consists of many different organizational forms and purposes. We would add that relevant theory depends on the particular research question, but the research questions must be understood broadly. Hence, a multi-disciplinary and multi-theory perspective is needed .

Defining board governance

Most of the published definitions of 'governance' are of corporate governance . Van den Berghe and DeRidder in their detailed comparison of the various definitions offered of 'corporate governance' note that the definitions can be simple or complex, with complex definitions offering normative instructions as to purpose and/or task.

Given that the focus of this paper is on the work of boards in directing and controlling their organizations in whatever manner that role is performed, a simple definition is to be preferred. In this paper, 'board governance' is 'the systems and practices by which boards direct and control entities'. For ease of reference, the term 'governance' will be used as shorthand for 'board governance'.

Governance in the sectors

Board governance in the for-profit, public and nonprofit sectors has points of similarity and of difference. For all three sectors, it can be argued that governance should be concerned with enabling appropriate performance and conformance. However, the context in which board governance occurs varies considerably between and within the sectors.

It is arguable that, after compliance with their legal responsibilities, boards of for-profits have a single focus, namely the optimization of returns to shareholders. Among publicly listed companies, board governance exists in the context of active markets for performance analysis and for corporate control , providing a universal and instant judging system available to all players. In these companies, governance might now be considered an obsession, regularly reinforced by very public government inquiries into corporate scandals and show trials of corporate offenders. At the other end of the for-profit sector, family companies often reflect the psychodynamics of the family .

In the public sector, governance is practiced in a political context. For departments of State in Westminster democracies, at least at a rhetorical level, there remains a notion of ministerial authority and responsibility. The division of responsibility between ministers and public servants, although in part regulated by legislation, tends to be an issue of constant tension. These tensions can also extend to the boards of statutory authorities and government-owned enterprises. Expectations of stakeholder voice and influence, and of transparency and accountability, tend to be higher in the public sector than in the private sector.

The unifying features of the third sector are that the organizations are private (i.e. non-government) and have a primary mission other than profit maximization for owners. As there is no single guiding objective such as profit maximization, judgments of organizational performance in the nonprofit sector are inevitably multidimensional, made by different stakeholders, and usually on different bases . As has been discussed, the sector in diverse in organizational form and board composition.

The scope of the paper

The criterion for inclusion was that the literature is (a) explicitly theoretical or tests theory in relation to board governance and (b) is wide in scope.

Thus historical accounts have been excluded, except for path dependence accounts with their explicitly theoretical base. Further, in order to have a consistent focus in the paper, we excluded board effectiveness models as not being explicitly theoretical in their orientation.

The paper concentrates on theories of board governance with a relatively wide scope (without necessarily attempting to be all-embracing). On this basis, the paper does not include social network theory or information processing theory .

In the next section, we offer a framework by which theories of governance might be catalogued. This framework provides the basis for our discussion in sections 3 to 9 of economic, management, sociological, psychological, political, historical and theological theories of board governance. Section 10 explores the ways in which research on nonprofit governance might be better informed by theory, including commenting on the range of research problems explored, the use of multi-theory research designs, and areas in which research is currently underdeveloped. The implications of our analysis for public policy are briefly explored in section 11 in which we argue that much of the public policy discussion has been based on the wrong questions and consequently we suggest some radical alternatives for the design of corporate governance systems. Conclusions are offered in Section 12.

2. A framework for understanding theories of board governance

Other authors have catalogued theories of board governance, for example, Cornforth , Hung , Stiles and Taylor and Turnbull . This paper differs from earlier works in three ways. First, it provides a more comprehensive account of available theories, including several theories which are not mentioned in any of these works. Thus, the scope of prior work is expanded, and comparisons and links between theories developed. Second, the paper includes discussion of governance in both the for-profit and nonprofit sectors. Although the primary concern of this paper is nonprofit governance, much of the relevant theory is derived from the for-profit sector. Hence an understanding of the theory and evidence in that sector provides a foundation for understanding the theory and for interpreting the evidence in the third sector. Third, the paper focuses on board governance in particular, rather than corporate governance in general.

The thesis of the paper is that processes of board governance are complex, and can only be properly understood by the adoption of a multi-disciplinary and multi-theory approach.

Figure 1 classifies theories of board governance according to the discipline providing the underpinning analytical framework. This framework provides the structure for the paper.

Figure 1: Theories of board governance

Economics	Management	Sociology	Psychology	Other disciplines
Agency theory (Jensen & Meckling 1976, Fama & Jensen 1983) **Transaction cost economics** (Williamson 1983, 1984 & 1985) **Team production theory** (Blair & Stout 1999)	**Stewardship theory** (Donaldson 1990) **Stakeholder theory** (Freeman 1984) **Paradox theory** (Cornforth 2003, 2004) **Managerial hegemony theory/ Hegemony of the Technostructure** (Mace 1971 Mintzberg 1983 Galbraith 1974)	**Institutional isomorphism** (DiMaggio & Powell 1983) **Strategic choice theory** (Child 1972) **Resource dependency theory** (Pfeffer & Salancik 1978) **Class hegemony/Elites theory** (Useem 1979, 1982) **Feminist theory** **Social embeddedness theory** (Granovetter 1985) **Zald's contingency theory** (Zald 1969)	**Small group effectiveness theories** (Zander 1994) **Psychoanalytic theory** (Dartington 1996, 1998)	**History** Path dependency theory **Politics** (March 1962) **Theology** Christian stewardship theory (Jeavons 1994)

Several qualifiers apply to the framework in Figure 1. First, it is acknowledged that the method of classifying the theories is to some extent arbitrary. The theories could be categorized on a number of different bases, for example: by the discipline providing the underlying framework for the theory; by distinguishing between those theories that assume rational-logical behaviors by boards and those which do not; by whether the theories are primarily descriptive, normative or instrumental; or by chronology of development. No one basis of categorization is ideal. While our decision to classify the theories by discipline was arbitrary, as was the classification of some of the theories, it is argued that the benefit of the classes outweigh the costs because this system of classification facilitates understanding by the reader, and helps identify commonalities between the theories. We are making no claims that the framework itself has explanatory power.

Second, as previously noted our criterion for inclusion was that the paper explicitly addresses board governance. Thus the framework does not purport to identify all the contributions that various disciplines *could* make to thinking about governance. For example, despite an extensive search of databases of scholarly journal articles, we have not been able to locate any articles on corporate governance from a Marxist perspective and hence Marxism is not included. Readers of the paper will no doubt identify areas of their discipline not covered in this paper which could make a significant contribution to thinking about governance.

Third, the appropriate presentation and classification of legal theory is a dilemma. It could be presented as a separate category in its own right. Legal theory includes both a contractarian and a communitarian view of the corporation . The contractarian position is essentially economics' agency theory, and will therefore be considered under that heading. The communitarian view is diverse, but 'shares common ground in its opposition to a strictly contract based approach to the definition of nonshareholder rights'. Communitarianism closely corresponds to stakeholder theory , and will be dealt with under that heading. Therefore legal frameworks of analysis are not separately presented.

Fourth, although each theory is presented as a single entity, it is acknowledged that not all proponents of a theory agree with each other in all respects. For example, there are wide differences in the views of proponents of stakeholder and feminist theories.

In discussing each theory of governance the following structure is used:

- a brief description of the theory, with an emphasis on foundational works;
- the role suggested by the theory for the board in monitoring, judging and influencing organizational performance;
- critiques of the theory;
- the empirical evidence in relation to the theory, in both the for-profit and nonprofit sectors but with an emphasis on the latter; and
- conclusions in relation to the utility of the theory.

3. Economic theories

Economics 'is the study of how people ... [including organizations] generate, accumulate, allocate, distribute, and consume resources in order to create value'. . While the 'black box' of the firm/organization has been opened by economists only relatively recently , there is a now a substantial economic literature on how organizational form impacts on productive capacity. Indeed, economics is the dominant analytical framework in the academic literature on governance. Economic theories share a common concern with efficiency, and similar, but not identical, assumptions about self-interested behavior. Economics has contributed agency theory, transaction cost economics and team-production theory to thinking about governance. Each of these theories will be discussed in turn.

3.1 Agency theory

Description of the theory: Agency theory provides the basis for most research on boards of directors and is central to most of the law and economics scholarship on corporate law . It is concerned with the principal-agent problem or 'agency problem', where principals engage agents to act on their behalf and the interests of the principals and the agents might not be aligned. Agency theory addresses the problem of how to ensure that agents act in the best interest of the principals.

Agency theory has developed along two lines of thinking: the 'principal-agent' and 'positivist' approaches . Principal-agent approaches are broad, are concerned with the general theory of principal-agent relationships, have explored agency problems in a wide range of settings, and use a predominantly mathematical approach. On the other hand, positivist agency theory is narrower, focusing on the specific issue of owners and managers of corporations. It is based on more rigid assumptions such as that of goal conflict between owners and managers. Positivist agency theory tends to be less mathematical in approach. It might be considered a special case within the broader context of principal-agent approaches.

In the case of board governance, the agency problem is most commonly discussed in the context of listed public companies, existing in active and informed markets for corporate control. It is formulated with the shareholders being the principals and the managers as their agents, although the agency problem can occur between different parties and at all levels of an organization . Given assumptions of bounded rationality and self-interest, it is assumed the agent will not always act in the interests of the principal . Positivist agency theory uses the metaphor of a contract to describe the relationship between principal and agent, and indeed views the firm as a nexus of contracts .

While contracts are an economically efficient means of organizing and regulating flows of resources to and from an organization, having residual risks borne and residual benefits gained by owners reduces the cost of maintaining and monitoring contracts . However, such an arrangement results in the agency problem. Where there are a large number of owners in for-profits or in *any* nonprofit, Fama and Jensen argue that separation of risk-bearing results in systems that separate decision initiation and implementation, from decision ratification and monitoring. Common features of decision control systems in complex organizations are decision hierarchies and mutual monitoring systems. Fama and Jensen (1983, 311) claim the common apex of decision control in *any* organization in which agents do not bear a risk to their wealth as a consequence of their decisions is a board of directors with the power to hire and fire senior managers and to ratify and monitor the most important decisions.

Key recommendations that flow from agency theory include formal systems of control, budget controls and limitations, audits, and incentive systems aligning the interests of managers with those of principals . In relation to boards of directors, recommendations include:

- in the case of public corporations, expert boards - including executive and non-executive directors - that limit the discretion of top managers;
- in the case of donative nonprofits, boards largely or entirely composed of non-executive directors (including donors) in order to offer assurance to donors that collusion and expropriation of donations will not occur; and
- fixed-term appointments of managers in complex nonprofits

.

Agency theorists do not necessarily believe that the positivist assumption of goal conflict between principals and agents is accurate, but do believe the assumption allows useful modeling and generates useful predictions . In a theory-building article, Hendry relaxes the assumption of self-seeking behavior by agents to explore issues of honest incompetence on the part of agents and the difficulty for principals in specifying objectives. The resulting predictions are largely the same as those of standard agency theory.

Ben Ner and Van Hoomissen combine a stakeholder approach with agency theory to argue that nonprofit organizational law should be based on enhancing the rights of consumers, donors and sponsors. They claim such an approach would reduce the incidence of fraud and mismanagement, as well as result in more economically efficient outcomes. Brown
argues that in nonprofits agency theory might need to be reconceptualized as being concerned with adherence to organizational mission or purpose, rather than adherence to owner interests.

The role of the board in monitoring, judging and influencing organizational performance: Monitoring of organizational performance by boards is crucial in agency theory. Despite this, Jensen and Meckling state they have 'little which could be glorified by the title of a "Theory of Monitoring" and yet this is a crucial building block of the analysis'. Fama and Jensen argue that, at least for public corporations, boards must have access to information from top managers as well as lower level managers in order to be appropriately informed. Under agency theory, the board's influence on organizational performance is directed towards ensuring that management interests and the interests of residual claimants remain aligned.

Critiques of the theory: Agency theory can be questioned on a number of bases, which are very briefly stated here. The applicability of the notion of principal has been questioned. Some nonprofit organizations, such as trusts, do not have identifiable 'owners' or members . Even if the nonprofit does have members, membership is often small with no residual capital committed. Even in public for-profit corporations, the principal-agent relationship is often ambiguous . Some authors deny that, in law, shareholders are owners; they argue the shareholder agency conception of the firm is a myth perpetuated in Anglo-American systems of corporate governance . In some situations, residual risk is borne by parties other than the shareholders, for example certain corporate borrowing and workforce-contracting arrangements (Blair and Stout 2001, 411-416). Blair and Stout (2001, 418) go so far as to argue that shareholders are 'almost never' the sole residual risk bearers in a listed corporation.

Further, agency theory has also been criticized for concentrating on issues of control and motivation, to the detriment of other issues determining organizational performance such as managerial competence .[2] It has limited regard for the structural, political, cognitive and cultural contexts of boards or to processes of social psychology . It has been argued that agency theory assumptions are more appropriate in Western countries, like the US, than in countries which are more collectivist, hierarchical, risk averse and timid in culture .[3] Agency theory has been criticized for ignoring the reality of 'other regarding' behavior in organizations . It assumes opportunistic behavior on the part of managers – 'guilt by axiom' – with any other behavior being beyond the scope of the theory .[4] It has been argued that if goal conflict and information asymmetry are regarded as variables, and the possibility of goal conflict among principals is allowed, then very different scenarios will result from those proposed by positivist agency theory .

Further, positivist agency theory has been criticized for its 'capability of subsuming a wide range of mutually contradictory propositions' . The assumption in agency theory that it is only the agents who might not perform their end of the bargain has also been questioned . Significantly, Jensen – who is a proponent of agency theory – has argued that, in practice, capital markets have been the predominant control on management and the concept of outside directors with little equity in the company effectively monitoring and disciplining managers has proven 'hollow at best'. Finally, it can be argued that agency theory is ideologically-driven and one-sided: it highlights the possibility of self-seeking behavior by persons other than owners, but not the possibility of exploitation and other wrongdoing by owners .

[2] The response of Hendry (2002) to this argument has already been stated.

[3] For a discussion of cultural differences in corporate governance, see Licht (2001).

[4] However, Hendry (2002) would reply that the assumptions do not matter if the resulting predictions are true.

The empirical evidence: Many of the empirical studies on agency theory in the for-profit sector examine whether there is a link between board composition and shareholder value. Based on two meta-analyses , Daily, Dalton and Cannella conclude the empirical evidence in support of agency theory is 'scant'. Dalton and Dalton , in a article summarizing the relevant meta-analyses, write bluntly that 'it is apparent that agency theory has limited explanatory power for corporate governance research'. Stiles and Taylor in their review of empirical studies summarize the evidence as being 'equivocal'. Hermalin and Weisbach , in summarizing empirical studies published in the economic literature, conclude the proportion of non-executive directors is not correlated with firm performance, but is correlated in the theorized direction in relation to CEO replacement in the event of poor corporate performance, responses to hostile takeovers, 'poison pill' provisions, and CEO compensation. However, they caution there is a real possibility of spurious correlations in these studies. Hermalin and Weisbach argue the role the board actually plays will depends on firm performance and the consequent bargaining position of the CEO . They caution that game theory modeling of board behaviors might be inappropriate as 'individuals appear to be governed more by issues of emotion, fairness, and norm adherence[5] than is consistent with standard economic models' .

In the nonprofit sector, there are useful case studies of scandals in which chief executive officers have inappropriately pursued personal aggrandizement and wealth at the expense of their organizations . Such case studies support agency theory arguments about the conflicting interests of principals and agents, and the need for active oversight by boards. Empirical studies that have explicitly used an agency theory approach in the nonprofit sector are Callen and Falk , Callen, Klein and Tinkelman , Miller and Olson . Callen and Falk find no relationship between the proportion of insider directors on the boards of 72 Canadian charities with a health-specific focus and either technical efficiency or allocative efficiency. In a later study, Callen, Klein and Tinkelman report results consistent with agency theory, namely a statistically significant association between the presence of major donors on the board and on the finance committee, and indicators of organizational efficiency such as the ratio of administrative to total expenses. However, Callen and colleagues acknowledge that they demonstrate correlation not causation, and accept the results are also consistent with a multiple-constituency view of organizational effectiveness and with institutional theory. Further, they accept that a focus on such ratios may be functional or dysfunctional. In a qualitative study of 12 nonprofit boards, Miller found agency theory to be deficient in explaining nonprofit board monitoring behavior as board members do not assume goal conflict between principals and agents.[6] Olson found partial support for agency theory-based hypotheses in a quantitative analysis of relationships between board and CEO demographics, and revenue and gift income. However, Olson's study had a low response rate of 10.2% and the independent variables selected for study could equally relate to other theoretical approaches such as resource dependency theory. Brown finds empirical support

[5] See also the work of Ocasio (1994) on boards as normative arenas.

[6] The failure to assume self-interested behavior by the CEO was also a feature in one of the cases studied by Edwards and Cornforth (2003, 94). In the particular case, board monitoring was associated with the directors' fears of not performing legal duties rather than any distrust of management.

for his reconceptualized version of agency theory (described above) in a study of US nonprofits.

In summary, the empirical evidence about the theory is equivocal. This is true for both the for-profit and nonprofit sectors.

Conclusion: Agency theory focuses on the issue of attempting to ensure that agents act in the best interests of principals. It highlights the monitoring role of the board and the importance of the provision of information by management to the board for monitoring purposes.

Given that there are numerous examples where the self-interested behaviors of some CEOs have been to the detriment of organizations and stakeholders, there is a compelling logic in agency theory's concern for control. Each new scandal results in calls for yet more regulation based in agency theory. However, it can be argued that this self-interested behavior is only one of a range of human behaviors.

Indeed, the empirical evidence for positivist agency theory is equivocal, in both the for-profit and nonprofit sectors. Agency theory is useful in analyzing the principal-agent problem, but explains only some aspects of governance. As discussed in this paper, many other issues of nonprofit governance deserve attention in addition to the agency problem.

3.2 Transaction cost economics

Description of the theory: A second economic theory is transaction cost economics (TCE), most often associated with the work of Williamson . TCE shares with agency theory the assumptions of bounded rationality and self-interest, which are said to be deep in human nature . One of the key differences between the theories is their starting points: agency theory is concerned with the agency problem, whereas TCE is concerned with the broader question of efficiency in transaction costs .

TCE contends that the purpose of economic organization, including governance structures, 'is to economize on the costs of transacting over time' , including minimizing the impact of informational asymmetries where parties have made firm-specific investments. Writing of the manufacturing sector, Williamson argues the principal purpose of the board is 'to safeguard those who face a diffuse but significant risk of expropriation because the assets in question are numerous and ill-defined, and cannot be protected in a well-focused, transaction-specific way'.

Williamson identifies three situations regarding investments in the firm, whether they be of labor, capital, or supplies. The first situation is where the assets are general purpose and not transaction-specific, for example, non-specialized manual labor. In this case, normal market contracting protections suffice and there is no need for additional safeguards. Board representation of parties in this situation would lack economic purpose. The second situation is where the assets are transaction-specific, and would attract a premium price for the consequent risks unless safeguards can be devised. An example would be shareholders in for-profit corporations. Board representation and voting of parties in this circumstance may be appropriate. The third situation is where the assets are transaction-specific but contractual safeguards such as penalty provisions for early termination and arbitration arrangements are sufficient to protect the interests of the parties. Parties in these circumstances might be included on the board for information purposes but do not require voting representation.

According to Williamson , shareholders cannot be in the third category because the diffuse character of their investments makes safeguards other than board protection impractical. Whether other parties are in the second situation is a question of the facts of the specific organization.

The application of TCE to nonprofit governance is perplexing (for example the case of nonprofits largely funded by government, with members making token contributions through membership fees), with Williamson stating 'further inquiry' is needed. Although TCE has been applied to nonprofit organizations , regrettably there appear to be no studies examining nonprofit governance from a TCE perspective.

The role of the board in monitoring, judging and influencing organizational performance: Williamson states that, in order to effectively discharge their roles, board members need 'to learn a great deal about the overall character and agenda of the corporation'. Elements of this process would include timely access to internal performance measures, the ability to authorize audits for special purposes, being informed of key proposals before their implementation, and otherwise reviewing and monitoring the organization's management.

Critiques of the theory: Only those criticisms relevant to TCE's view of governance are reported here. As with agency theory, TCE has been criticized for ignoring the diversity of human behavior: both rational and non-rational, and self-regarding and other-regarding . TCE maintains a fiction of self-interested maximizers, in the face of evidence to the contrary . TCE's application to the nonprofit sector has been criticized for ignoring other equally valid explanations for phenomena .

The empirical evidence: Writing of both agency theory and TCE, Stiles and Taylor conclude the evidence for these theories is 'equivocal'. As discussed in section 3.1, Callen and Falk use agency theory and TCE assumptions to examine the impact of nonprofit board composition on technical and allocative efficiencies, but find no relationship.

Conclusion: Although starting from a different point, TCE shares assumptions and conclusions of agency theory. The theory draws attention to the costs of organization, and in particular, to the most efficient means of acquiring and coordinating resources. According to the theory, boards exist in order to ensure that those making organization-specific investments, which cannot be appropriately guarded by other means, have such investments protected.

TCE might have explanatory power in relation to the existence of the nonprofit form (see references cited in the introduction to this section). It might explain governance of professional and trade organizations, where the members' investment in the organization is often significant and their interests are not otherwise readily protected as a group. However, as previously discussed, it is not apparent how TCE explains governance arrangements in some other categories of nonprofits.

3.3 Team production theory

Description of the theory: A third economic theory is team production theory. Whereas both agency theory and TCE assume the primacy of shareholders in for-profit corporations, team production theorists reject this doctrine. Instead, they argue that the role of the board is to govern the organization in the interest of the organization itself and, in particular, to mediate between members of the 'production team'.

Ironically, team production theory is founded in the work of economists Alchian and Demsetz , who write from an agency theory perspective. Legal scholars Blair and Stout build on this work to develop a distinct theory. This section begins by discussing the work of Alchian and Demsetz, and then explains how Blair and Stout have developed their work.

Alchian and Demsetz describe team production as production involving the use of several types of resources with different owners, with the output of the whole being greater than the output achievable with the individual resources. The problem of team production is that individual productivity is not directly observable, and economic analysis suggests that shirking is inevitable. In the (closely-held) classical firm, the problem of shirking can be overcome by having a monitor who is a residual claimant, who is the central party to all contracts, who has the right to vary team membership, and who has the capacity to sell this right. In the case of publicly-listed corporations, the monitor must coordinate decision-making across a wide group of owners. Delegation of authority in relation to contracting and monitoring to a smaller group is economically efficient . Alchian and Demsetz posit that in nonprofits, greater shirking should be expected because of the absence of owner incentive to maximize returns.

Blair and Stout build on the analysis of Alchian and Demsetz in relation to public for-profit companies. They suggest the role of board of directors in public companies is that of mediating hierarch, 'to coordinate the activities of the team members, allocate the resulting production, and mediate disputes among team members over that allocation' . Further, Blair and Stout claim that team production theory explains current US corporate law regimes. From their perspective, public corporation law eliminates the role of the shareholder as principal. Primacy is given to the corporation itself, not shareholders, and the law recognizes others' interests. The role of the board is one of fiduciary, not that of agent. The board, independent of all team players, protects the enterprise-specific investments of all members of the corporate team and tries to maximize the economic value of the firm's assets. The view that shareholders are not owners has also been expressed in relation to English corporate law .

Blair and Stout argue there are two factors motivating directors to do their job well. First, there are disclosure and audit rules . Secondly, there is the self-belief of directors that they ought to behave in a trustworthy way. They assert boards rely on the assumption that 'at least some people, at least to some extent, at least some of the time, are capable of looking out for the interests of others – even when they reap no direct economic benefit from doing so' . Trustworthy behavior might also be motivated by an enforceable duty of loyalty, procedural rules, and 'soft' actions such as judicial exhortations ('dicta'), promotion of a group ethos, and mutually-reinforcing trustworthy behaviors of other directors .
The role of the board in monitoring, judging and influencing organizational performance: The issue of board monitoring and judging organizational performance is not fully addressed in team production theory. However, it is clearly consistent with the theory for the board to seek to monitor, judge and influence organizational performance so far as it seeks to protect the interests of all team members and advance the economic value of the corporation . However, Blair and Stout see the board as providing a incentive to management to resolve problems among members of the production team on a collegial basis without reference to ' a disinterested – but potentially erratic or ill-informed – hierarch'.

When discussing team production, Mitchell argues for the abandonment of 'the American "monitocracy"'. This does not require 'the complete dismantling of monitoring systems … but it does suggest a deemphasis on monitoring and agency cost problems and a greater emphasis on structures and incentives to build loyalty' .

To conclude, the issue of monitoring is an area where Blair and Stouts' views are currently underdeveloped.

Critiques of the theory: Only criticisms relevant to our present purposes will be summarized here. First, in the view of some scholars, contrary to the assertions of Blair and Stout, shareholders do have legal primacy over other stakeholders . According to these scholars, the law imbues shareholders with more rights than other members of the production team such as management, employees, or debtors. Second, if the board is an independent mediating hierarch between team members, then – by definition – in for-profit companies it only applies to publicly-listed companies that lack a controlling shareholder and which somehow have escaped the market for corporate control .[7] Blair and Stout may have been better to present their arguments for a team production theory of governance in normative terms, rather than assert the theory has descriptive or explanatory power . Neither of the criticisms listed so far are valid if the theory is viewed in normative terms.

Third, it has been argued the independent board in a team production theory schema will fail to protect the interests of team members, as directors have no apparent incentive to maximize the welfare of the team . Fourth, it is argued that the theory fails to offer any insights into the basis on which the board should make its judgments as the mediating hierarch, and how the board acting in that role constitutes an efficient solution to the problems of team production . Finally, like other organizational economic theories, team production theory can be criticized for being amoral and under-socialized , with no race, class or gender perspective .

It is ironic the theory is meant to overcome self-seeking behaviors in team production, yet assumes some level of trustworthiness on the part of the board of directors itself. It is not at all clear why the theory assumes trustworthy behaviors on the part of the board, but not on the part of management or other members of the production team. Mitchell argues that, as team production theory assumes trustworthy behavior on the part of directors, a theory of team production requires a theory of trust, and trust in the governance of a corporation is interdependent on trust in the management. Perhaps there will be a convergence of team production and stewardship theories over time, or team production theory will otherwise metamorphose to embrace trust more widely.

[7] Ironically, this suggests the theory might have more relevance to nonprofits than the domain of publicly-listed for-profit firms for which the theory was originally developed.

The empirical evidence: So far, there are no published empirical studies directly using team production theory.[8, 9]

Conclusion: Team production theory departs from the orthodox conceptualization of the relationship between the company and its shareholders. In the for-profit sector, it challenges the doctrine of shareholder primacy, and recognizes that the interests of other members of the production team are also worthy of protection through board governance arrangements.

Nonetheless, it is arguable that team production theory suffers from a significant logical inconsistency in relation to its treatment of trust and motivation. Further, the theory offers little of benefit to understanding how boards monitor, judge and influence organizational performance, beyond the general point that boards might play a mediating role in protecting the enterprise-specific investments of all team members.

3.4 Summarizing the contributing of economic theories

In summary, economic theories of governance believe that the role of boards is to increase the productive capacity of organizations, which is a worthy goal for most organizations. Agency theory and transaction-costs economics, despite their different starting points, come to similar conclusions about the role of boards in protecting the organization. Team production theory offers a somewhat different perspective, arguing that boards should protect the organization-specific investments of all members of the production team. Economic theories are an essential element in developing a holistic understanding of board governance. For example, despite our considerable reservations about the use of agency theory as a single theory of governance, the regular - albeit exceptional - cases of scandal demonstrate that it is essential element in understanding the roles that boards can play.

4. Management theories

The discipline of management is concerned with the 'set of activities (including planning and decision making, organizing, leading, and controlling) directed at an organization's resources (human, financial, physical, and information), with the aim of achieving organizational goals in an efficient and effective manner' . The discipline thus has a wider perspective than the concern for productive efficiency that characterizes economics. It seeks to suggest the best means of

[8] There is some indirect evidence in support of team production theory. Around two-thirds of firms undertaking initial public offerings adopt some form of anti-takeover provisions, which might be explained by the need to protect the enterprise-specific investments of the firm's managers and employees (Blair and Stout 2001).

[9] The forthcoming PhD thesis of Ms Annie Liu of Queensland University of Technology exploring the relevance of team production theory to the governance arrangements of one nonprofit organization will be the first empirical study published explicitly using team production assumptions.

coordinating and controlling entities. The discipline has made diverse contributions to understanding of governance, namely stewardship theory, stakeholder theory, paradox theory, and managerial and technostructural hegemony theories.

4.1 Stewardship theory

Description of the theory: In this review, stewardship theory has been classified under the discipline of management, although its proponents argue its roots are in sociology and psychology . It might equally be regarded as a special case within the broader conception of agency theory, the case where managers are motivated to act in the best interests of their principals .

Whereas positivist agency theory assumes opportunistic managers, stewardship theory makes the reverse assumption, i.e. managers are intrinsically motivated to be good stewards of the interests of the owners . .. Consistent with the prediction of Hansmann , there is evidence that workers and managers in the nonprofit sector have higher levels of intrinsic motivation than their for-profit colleagues .

Davis, Schoorman and Donaldson propose that managers are more likely to be stewards when they:

- identify with the organization they serve, especially the organization's goals;
- use personal power, more than coercive power;
- are more involvement-oriented, rather than control-oriented, in their management philosophy; and
- operate in a collectivist culture, as opposed to an individualist culture.

It might be hypothesized that these conditions are more likely to be true in the nonprofit sector than in for-profits.

The purpose of the board in stewardship theory is to provide 'clear, consistent role expectations and authorize and empower senior management' . The recommendations for practice that flow from stewardship theory are:

- the roles of board chair and CEO should be vested in one person, in order to maximize information, knowledge and commitment ;
- there should be a high proportion of executive directors on the board;
- smaller board size promotes board effectiveness and organizational performance;
- the interests of board members and managers (cf., board members and shareholders) should be aligned; and
- boards should seek longer tenure .

The role of the board in monitoring, judging and influencing organizational performance: In relation to monitoring and judgment, the theory does *not* emphasize, as does agency theory, full and rigorous disclosure of information on performance to the board . However, it has been argued that stewardship still requires a system of board monitoring in order to ensure that the resources are used in the best interests of the organization In relation to board influence on organizational performance, it can be inferred that the board's role would be one of supporting management, and would include such actions as acting as a sounding board to the CEO.

Critiques of the theory: Stewardship theorists are their own critics. They have always recognized the possibility that agency theory and stewardship theory might both be true in their own domains, but not outside them . Therefore, they suggest a search for what 'switching rules' might apply, i.e. what determines that in one context the theory is valid and in another it is not . More recently, Davis, Schoorman and Donaldson have stated that principals within organizations are likely to have agency relationships with some managers and stewardship relationships with others, and that these relationships can change over time.

The empirical evidence: Stiles and Taylor describe the evidentiary base for the study of stewardship theory in the for-profit sector as 'slight'. As stewardship theory makes opposite assumptions to agency theory, studies which support agency theory must contradict stewardship theory, and vice-versa. Given the evidence in support of agency theory is said to be equivocal, the evidence in support of stewardship theory might also be regarded as equivocal.

There is no empirical research published on the nonprofit sector that explicitly uses stewardship theory. However, for the reasons just argued, the empirical studies in the nonprofit sector previously detailed about agency theory are relevant. These results might be summarized as equivocal and mixed.

Conclusion: It can be argued that stewardship theory, based in the belief that most managers are motivated to act as stewards, is more realistic in its assumptions than economic theories. Especially in some areas of the nonprofit sector, other-regarding behavior is the norm and thus stewardship theory may be particularly appropriate to the sector. Research testing stewardship theory in nonprofit settings is to be encouraged.

Stewardship theory recognizes its limitations. As the cases of scandal demonstrate, organizations must have some protection from the occasional incidences of corrupt and self-serving managers. Thus stewardship theory cannot explain – and does pretend to explain – all governance relationships and behaviors.

4.2 Stakeholder theory

Description of the theory: 'Stakeholder theory', as the term is used in this paper, was developed in the context of business. Therefore, it can be viewed as a management theory. Like team production theorists, stakeholder theorists reject the assumption of shareholder primacy and argue for a wider view of board responsibility. Unlike team production theorists, they see board responsibility as extending to all stakeholders, not just members of the production team. Proponents of stakeholder theory argue that the purpose of a firm is to coordinate stakeholder interests .[10] Stakeholders can be identified on the basis of who is affected by or can affect the organization's purpose or on the basis of the 'actual or potential harms and benefits that they experience or anticipate experiencing as a result of the firm's actions or inactions' .

What is striking about Freeman's earliest writing on the stakeholder theory of the board is the tentative and cautious nature of his comments. Freeman argues that, at a minimum, a board must be *aware* of its impact on key stakeholder groups, but says they should be *responsive* to the interests of stakeholders. He stops short of recommending direct stakeholder representation on the board and instead suggests that efforts to improve board functioning may be more important. Freeman offers the stakeholder theory of the firm as having normative and instrumental value. However, in this early writing, he suggests a menu of options, rather than one correct view.

In later writing, Evan and Freeman suggest a more radical version of stakeholder theory. They propose that boards should have the duty to act in the interests of the corporation and its stakeholders. At least the boards of publicly-traded corporations should be comprised of representatives of employees, customers, suppliers, stockholders, the local community, and of the corporation itself. Directors would not necessarily have equal voting rights, but all directors would have a duty of care to all stakeholder groups.

Evidence in support of stakeholder theory includes the example of the Bhopal disaster. Green argues the failure of Union Carbide's management to respond to

[10] Thomas Donaldson, who writes on stakeholder theory, is not to be confused with Lex Donaldson, who writes on stewardship theory.

reports of the poor state of repair at the plant can be seen 'as the outcome of a chain of business reasoning predicated on the shareholder model'.

Stakeholder theory can be descriptive, instrumental or normative . In its *descriptive* aspect, stakeholder theory has been used to describe the way directors think of organizational constituencies. In one study, for-profit directors when asked about the legitimacy of expectations of various stakeholders gave highest ranking, in order of importance, to customers and government, shareholders, employees and society . *Instrumentally*, the theory helps organizations in thinking about the connection between stakeholder management and the achievement of corporate objectives. In its *normative* aspect, stakeholder theory suggests guidelines for the operation of organizations.

As already noted, stakeholder theorists contest the primacy of shareholders among corporate stakeholders. Some stakeholder theorists argue that shareholders have little moral and limited financial commitment to the firms in which they invest, and certainly no more commitment than employees . They assert that the concept of managers serving shareholders, instead of serving stakeholders, is 'morally untenable' .

In stakeholder theory, the role of the board is to ensure the 'maximum possible value is generated … for the benefit of all stakeholders' . Consistent with the theory, boards might include stakeholder representatives .

Kay and Silberston offer a trusteeship model of the corporation, combining elements of both stakeholder theory and team production theory. They reject the concept of shareholders as owners. Instead, they argue the role of directors should be to promote the interests of the firm and to balance the claims of stakeholders.

In the nonprofit sector, the involvement of stakeholders is less controversial and more common than in the for-profit sector , although these practices are not always discussed in terms of stakeholder theory. The principle of involving one key stakeholder group, namely consumers, has been increasingly popular over recent years .

The role of the board in monitoring, judging and influencing organizational performance: The implications of stakeholder theory are that the board monitors and judges organizational performance from the perspective of the multiple stakeholders and seeks to influence organizational performance on their behalf. This would include resolving goal conflicts where the goals of the diverse stakeholders are not consistent.[11] Stakeholder theory also suggests boards should report regularly to stakeholders on matters relevant to the individual stakeholder groups . Hill and Jones stress the importance of monitoring devices to reduce information asymmetry among stakeholders.

[11] See our discussion in section 7 on political theories of governance.

Critiques of the theory: Donaldson and Preston note the descriptive, instrumental and normative uses of the theory lead to 'less rigorous thinking and analysis than the stakeholder concept requires'. As a theory of organizations, it is claimed that stakeholder theory is seriously underdeveloped and a 'weak theory' . The theory is said to be non-scientific , and vague and located in a US cultural context . Perhaps it is 'more a vision and a narrative about a company that a real theory' Sternberg is unrelenting in her criticism of the normative use of stakeholder theory, arguing it is fundamentally incompatible with business, as the goal of balancing benefits between stakeholders is inherently unworkable. Sternberg notes that the theory offers no guidance on how goal conflict is to be resolved. She notes that while balance is necessary, it is usually achieved according to the substantive goal of the organization, not the competing interests of stakeholders.

The empirical evidence: Hillman, Keim and Luce found few associations between stakeholder representation on the board and stakeholder management indicators in a study of 250 large US firms. In the nonprofit sector, there has been limited empirical research. Barrett's single case study concludes that stakeholder theory is of value in understanding nonprofits, but concedes other theoretical frameworks highlight the importance of external stakeholders . Hardina's study of 46 US nonprofits concluded that board representation by consumers had a 'limited effect' on organizational culture.

Conclusion: Stakeholder theory does appear to have *descriptive* power in explaining how directors approach their role. Especially in the nonprofit sector, stakeholder understandings of governance are likely to have an inherent appeal to many practitioners, for both ethical and pragmatic reasons. A multi-constituency view of organizational performance reflects the reality of the environment in which most nonprofits operate, and many nonprofit organizations seek to establish sound relationships with key players in their operating environment.

Nonetheless, as has been noted, stakeholder theory is one of the most controversial theories of governance and critics have challenged the theory on a number of bases, including whether it actually deserves the title 'theory'. Further, the argument for the primacy of mission over the interests of particular stakeholders appears compelling, albeit that the mission is not necessarily fixed over time.

4.3 Paradox theory

Description of the theory: So far the theories presented have a rational-linear epistemology. In contrast, paradox theory argues that such approaches are simplistic and that organizations are inherently paradoxical .
It is important to note that paradox theory moves beyond the 'either/or' assumptions of contingency theory, to embrace the possibility of 'both' .

There are three general strategies for positively managing paradox, all based on exploring rather than suppressing paradoxical tensions . First, the paradox can be accepted, with individuals learning to live with the tension. Second, the paradox can be confronted, and accommodations made between the competing perspectives. Third, the paradox might be transcended by developing more sophisticated understandings of the issues.

Paradox theory has been proposed as a means to understand both for-profit and nonprofit governance. Sundaramurthy and Lewis embrace *both* agency theory and stewardship theory to hypothesize that there can be dysfunctional reinforcing cycles of *collaboration* between board and management, as well as dysfunctional reinforcing cycles of board *control*. They theorize that it is possible to build self-correcting cycles by embracing both trust and distrust, and embracing both diversity of views – and shared understandings – among board and management. Cornforth argues that paradox theory can help integrate other theories of governance.

Three paradoxes have been identified in for-profit governance . First, the board is the 'fountain of power', yet power is normally exercised by top management. Second, board members require intimate knowledge of the organization, yet need to be independently-minded in their judgments and decision-making. Third, the board needs both trusting familiarity of a group, yet directors who are willing to raise critical questions. In relation to nonprofit governance, other paradoxes identified include the tension between having boards democratically elected and the need for boards to have expertise, the tension in the role of boards between conformance and performance, and the tension for boards between controlling and collaborating with management .

The role of the board in monitoring, judging and influencing organizational performance: Demb and Neubauer note that directors must gain sufficient knowledge of the organization to exercise critical judgment, yet not get enmeshed in detail. They suggest a range of strategies relevant to monitoring, judging and influencing organizational performance: boards including both inside and outside directors; outside directors having the opportunity to access information through formal and informal channels; outside directors having the opportunity to discuss strategy; boards meeting regularly (i.e. more than quarterly); using committees to provide detailed insight into issues; using outsider-dominated nominating committees; having smaller boards of eight to ten people; and establishing clearly the board's purpose . As already noted, Sundamurthy and Lewis suggest that boards should act in ways that are both trustful and distrustful of management. Ryan, Chait and Taylor note the paradox that a board's work might be like that of a firefighter: rarely called to act, but vitally important they be trained, equipped and ready for action. Other practical implications of paradox theory for board understanding of and influence on organizational performance might include recognition that:

- individual board members and managers will always understand organizational performance in differing ways, using differing sources of information, and applying differing weights to those sources;
- the board is both potent and impotent in influence; and
- board attempts to influence organizational performance are likely to have paradoxical effects, sometimes having positive intended consequences and sometimes having negative unintended consequences.

Critiques of the theory: Two criticisms can be made of paradox theory. First, it is more an approach to resolving contradictory theories and evidence, rather than a specific framework for theory building about governance.[12] Second, at this stage, paradox theory in the context of governance has not been tested using quantitative techniques. Paradox theory requires different research designs and methods to those typically used in management research .

The empirical evidence: Demb and Neubauers' multinational qualitative study identified the three key paradoxes previously reported, and suggested board design is like bridge design in that there are different, but equally effective, solutions. Gabrielsson and Winlund in a study of the control and service roles of boards of Swedish small and medium enterprises demonstrated a high correlation between these roles, suggesting the roles coexist rather than are mutually contradictory. Chait, Taylor and Holland in their qualitative study of boards of private higher education institutions reported that effective boards 'were more inclined to think "both/and" rather than "either/or" and to describe board actions with multiple objectives derived from the use of multiple frames'. This finding is all the more significant because the authors did not explicitly use paradox theory to inform their study.

Conclusion: Paradox theory usefully reminds researchers to move beyond oversimplified and polarized notions and to embrace the possibilities of complexity and contradiction. It offers a way in which apparently conflicting theories of governance might be simultaneously true. Paradox theory appears to have interesting potential in the empirical investigation of governance effectiveness. While some theories suggest, and board effectiveness models urge, that boards demonstrate more of one set of behaviours than others (for example, more control than service and resourcing), it is possible that effective boards demonstrate more of 'everything' (for example, more control, more service and more resourcing). However, at this stage, paradox theory is more a general approach to understanding complexity than an explicit framework of governance.

[12] Demb and Neubauer (1992), however, provide a good example of how paradox theory can be used to generate recommendations for governance.

4.4 Managerial hegemony and hegemony of the technostructure

Description of the theory: Hegemony refers to the concept of predominant power. Although the two theories of managerial hegemony and hegemony of the technostructure are distinct in that they have different views as to who is in control, both views share a common element in disputing that owners and boards are in control of corporations. Hence, they will be discussed together.

Managerial hegemony theory has its origins in the 1932 classic work of Berle and Means, who noted of the shareholder, that 'his vote, if he has one, is rarely capable of being used as a vehicle of democratic control' . Berle and Means asserted that management, rather than the ownership, controls the modern corporation.

Although adopting a contingency view of board-management power, Mintzberg suggests 'board approval of management decisions and performance under normal circumstances tends to be a forgone conclusion'. Mintzberg argues that boards under normal conditions are passive and subject to the guidance of senior management.

An early empirical study of for-profit directors suggested that directors saw themselves as pawns of management . However, the dynamics of governance have changed and for-profit directors no longer see themselves in this way . A 'lighter' version of the theory has emerged which acknowledges that, while directors are not pawns, CEOs nonetheless remain dominant over directors at most times because the CEO has greater access to information and more time, and because of boardroom norms .

While managerial hegemony might be attributed to a Machiavellian use of power by the CEO, benign explanations exist. In the for-profit sector, it can be argued that the emergence of 'managerial capitalism' to replace family and financial capitalism was economically efficient, as it was only managers who had the necessary information, time and experience to operate large multi-unit enterprises . Firms – and boards – increasingly became management-controlled as a result . For the nonprofit sector, Herman and Heimovics argue that, in nonprofits, organizational success and failure are likely to be attributed to the CEO rather than the board.[13] Therefore, they argue it is appropriate for the CEO to take full control of the organization, although the CEO should also work to ensure the board fulfils its responsibilities. More bleakly, Block argues the reality of nonprofit boards is that the CEO should be 'thankful for what [they] get and do the rest [themselves], alone, with staff, with consultants, or other volunteers'.

[13] Cf. the qualitative study of Golensky (2000, 15), based on 60 interviews with 58 CEOs and board members, which reported that positive outcomes were attributed to the CEO, sometimes together with the board, but negative outcomes were seldom viewed as the responsibility of the CEO.

The concept of the technostructure is related to the work of economist John Kenneth Galbraith. It is discussed under the discipline of management because of its links with managerial hegemony theory. The technostructure is ‘all who bring specialized knowledge, talent or experience to group decision-making’ in the large business organization . The concept includes management, but extends far beyond it. Galbraith writes that ‘one can do worse than think of a business organization as a hierarchy of committees’ engaged in ‘obtaining, digesting or exchanging and testing information’. However, Galbraith cautions against seeking to understand the corporation as a single form, as market considerations predominate in smaller organizations and the requirements of the technostructure predominate in the larger.

The role of the board in monitoring, judging and influencing organizational performance: Where managerial hegemony operates, the board’s monitoring and judgments about organizational performance are entirely reliant on what the CEO chooses to disclose. Poor results are often attributed to factors beyond the CEO’s control . The directors are inclined to accept any plausible explanation, because of behavioral norms such as treating the CEO with respect. During normal times, board attempts to influence organizational performance, if any, are limited to asking penetrating questions. It is only in times of crisis the CEO’s explanation of organization performance might be openly challenged.

Likewise, Galbraith's technostructural explanation also downplays the role of the board in governing the organization. While information processing is a key requirement of the organization, the formal hierarchy of the large organization does not reflect the levels at which effective pooling of information and decision-making occurs . While boards engage in the solemn rites of decision-making, this merely conveys the impression of power .

Critiques of the theory: The main criticism of these theories is, while they might have descriptive power for some boards at some times, they do not accord with the legal reality of director responsibility for the conduct of the organization. These theories may be a historical vestige. It appears that boards lacked influence, except in time of crisis, in the corporate sector in the 1970s and this might remain true in some areas of the nonprofit sector today. However, over time, directors appear to be increasingly aware of their legal responsibilities and liabilities, and more active in their role . Even Mintzberg , a proponent of the lighter form of managerial hegemony, acknowledges the possibility that boards might be strengthened so that managerial performance is assessed objectively. A further concern is that the theories offer no solution to the agency problem and are thus economically inefficient . As demonstrated in section 3.1, some managers do engage in opportunistic – and even illegal – behavior at the expense of their organization.

The empirical evidence: The empirical evidence in support of managerial hegemony in the for-profit sector includes the studies of Mace and Lorsch and McIver , previously mentioned. Consistent with the theory, the study of Judge and Zeithaml of board involvement in strategic decision-making processes in four different settings found that only 4 per cent of surveyed boards 'both specified and probed management evaluations', 27 per cent of respondents said their board specified the information wanted but accepted the data received, and nearly 70 per cent of respondents said their board accepted whatever management gave them.   Westphal demonstrated that increases in the structural independence of boards are associated with higher levels of ingratiation and persuasion behaviors by CEOs toward board members.

There is empirical evidence contrary to the theory, found in the interview based studies of Pettigrew and McNulty of British corporate directors (McNulty and Pettigrew 1999; Pettigrew and McNulty 1995; 1998). They argue that the relative power of the board and CEO reflects a complex mix of context and structure, personal and formal sources of power, and the will and skill of individual directors. Although some 90% of management recommendations on capital investments are endorsed, this figure masks the role of boards in influencing the recommendations before presentation .

Studies relevant to managerial hegemony in the nonprofit sector also reflect complex patterns of board-CEO power. Murray, Bradshaw and Wolpin , through case studies in an undisclosed number of organizations, identified five different patterns of board-CEO interaction. These patterns were then studied by a survey of CEOs of 417 Canadian nonprofit organizations, mainly from the social welfare and health sectors. The results were that 43% of respondents said they had a CEO-dominated board, consistent with managerial hegemony theory. However, the majority did not: 38% said they had a power-sharing board; 9% a chair-dominated board; 6% a powerless board; and 4% a fragmented power board.   Golensky in her case study in four organizations identified four categories of contingency in board-CEO relations: the nature of communication between the parties; the personal attributes of the CEO; the degree of congruence between CEO and board in philosophy and style; and clarity, consistency and reciprocity of role expectations.

Cornforth extended the Murray, Bradshaw and Woplin framework in his case study of CEO-board power in four organizations, of which two were quasi-governmental and two were true nonprofits. In one of the nonprofits, the power relations were characterized as a 'dominant coalition' of the CEO and a particular board member. In one of the quasi-governmental boards, the board was seeking a mutually-strong partnership[14] with the CEO. Cornforth argues the degree of board power relative to the CEO depends on the relevant knowledge, experience and skills of directors, the quality of board information and systems, the confidence of directors, and board procedures and processes (such as agenda size and order).

[14] The difference between a 'power-sharing board' as identified by Murray, Bradshaw and Wolpin (1992, 168) and the 'partnership' as described by Cornforth (2001, 45) is in the ideological orientation of the boards. The former are said to have an ideological commitment to equality and democracy, whereas that is not present in the latter, which wanted both the board and the CEO to be strong and powerful in their own domains.

In case studies of organizational failure in the nonprofit sector, Mordaunt and Cornforth demonstrate there are strong pressures for board denial of such failure, including limited opportunity for the board to meet without management, and lack of skill, time and emotional energy. Even if problems are perceived, they might not be named as to do so implies accepting responsibility for their resolution.

We have only been able to locate one empirical study using Galbraith's concept of technocracy, i.e. a historical case study of the East India Company , which offers partial support for Galbraith's explanation.

Conclusion: Managerial hegemony theory and technostructure theory share the view that the shareholder primacy doctrine does not accord with the reality of large corporations. Managerial hegemony theory appears to have a strong empirical base, valid in at least some organizations at some times. It suggests that boards will make few attempts to influence organizational performance, unless some form of crisis occurs. Nonetheless, it may well be that managerial hegemony and technostructure explanations have a limited life as directors become increasingly sophisticated in their understanding and performance of their responsibilities.

4.5 Summarizing the contribution of management theories

Management theories, despite their diversity, all challenge the shareholder/member model of the corporation. Stewardship theory reminds that most managers are trustworthy, and should be supported by their boards. Stakeholder theory posits that the organizations have a purpose beyond serving shareholders/members. Paradox theory moves beyond simplistic notions to embrace complexity. Managerial hegemony theory usefully challenges many of the normative expectations of boards.

The paper now moves to examine the contributions of sociology to the understanding of board governance.

5. Sociological theories

Sociology is the study of 'the analysis of the structure of social relationships as constituted by social interaction' . In the context of board governance, sociology seeks to explain the institutional and social aspects of board functioning. Sociological theories relevant to boards include theories about institutional isomorphism, strategic choice, resource dependency, elites, feminism, social embeddedness, and Zald's contingency theory.

5.1 Institutional isomorphism

Description of the theory: Institutional isomorphic theory also goes by the name of neo-institutionalism. Isomorphism is 'a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions' . While isomorphism can result from the forces of economic competition, it can also be a consequence of a quest for institutional legitimacy. Institutional isomorphism results from domination or dependency (coercive isomorphism), from copying others (mimetic isomorphism), or from the forces of professionalization (normative isomorphism). The key point about institutional isomorphism is that these forces operate as rationalized myths, maintaining appearances and validating an organization, regardless of the effect on the performance of the organization .

Some authors speculate that boards themselves might simply result from institutional isomorphic forces, adding more legitimating and symbolic value than governing value .[15] Others argue that the behavior of boards becomes similar as organizations replicate structures and processes of similar organizations in order to demonstrate their legitimacy. Institutional pressures are said to influence strongly board structures and behaviors in nonprofits . Coercive forces include those of the corporate law, the requirements and recommendations of funders, and affiliate relationships. Mimetic forces include calls for nonprofits to be more business-like, in order to increase legitimacy. Professional forces include the rise of a class of professional nonprofit managers, standards of practice and the increasing amount of governance training offered by both sector peak councils and independent consultants.

DiMaggio and Powell theorize about the conditions that foster institutional isomorphism. They propose institutional isomorphic forces will be greater:

- the greater the dependence of one organization on another, including for resources;
- the greater the uncertainty about the relationship between ends and means;
- the greater the ambiguity of the goals of an organization;
- the greater the reliance on academic qualification in choosing staff (and presumably, by logical extension, directors); and
- the greater the participation of staff (and, by extension, directors) in trade and professional associations.

The role of the board in monitoring, judging and influencing organizational performance: According to Meyer and Rowan , institutionalized organizations ceremonialize evaluation accepting 'at face value the credentials, ambiguous goals, and categorical evaluations that are characteristic of ceremonial [institutionalized] organizations'. The board will avoid inspection and evaluation within the organization.

[15] Peck (2004, 195) would reply that the symbolic role is of value: 'Boards are places where participants tell narratives about who they collectively are, sustain culture, organize shared emotions, sustain loyalty etc.'

However, a different scenario might also be envisaged as being consistent with isomorphic theory. The board might reflect and enact the external isomorphic forces in their governance of the organization. For example, a board might influence the organization to pursue – or not pursue – a strategy based on the views of funders, what other organizations in the field are doing, or on perceptions of what constitutes 'best practice' or 'professional standards'.

Critiques of the theory: It is arguable that institutional isomorphic theory had more validity when there was less economic competition. However, as competitive practices are increasingly required among government-funded nonprofits, for example tendering for services rather than direct grants to nonprofits, institutional isomorphic forces might be overtaken by economic isomorphic forces. Particular governance arrangements might be adopted because they are more economically efficient. A second critique of isomorphic theory is that it might not have sufficient regard for the strategic choices available to organizations . This argument is explored in the next section.

The empirical evidence: Only one empirical study has been identified which directly tests institutional isomorphism in the context of boards. In a study of US companies, Luoma and Goodstein demonstrated associations between incorporation in US states with 'other constituency' statutes (i.e. statutes allowing boards to consider interests additional to those of shareholders) and (a) the proportion of directors who are stakeholders, and (b) the presence of board committees concerned with stakeholder issues. Likewise, heavily regulated industries were more likely to have such directors and committees.

There is also one study which indirectly comments on isomorphic pressures. Long, Dulewicz and Gay , in a study comparing the roles played by non-executive directors in listed and unlisted companies, conclude that the boards of unlisted companies are subject to less isomorphic pressure in relation to the issues of executive remuneration and succession planning than their counterparts in listed companies.

Conclusion: While there appear to be a number of factors reducing the impact of institutional isomorphic forces, they remain a powerful explanation for the existence, structure and behavior of boards. It is readily apparent that coercive isomorphism operates in the form of legislative requirements to have boards and for boards to play certain roles. In relation to mimetic and professional forces, it would be interesting to examine the effects of peak councils, technical assistance centers, professional bodies, and professional advisors and consultants in the propagation of particular forms of structure and process. In particular, it would be interesting to examine the rhetorical devices that are used to promote particular governance solutions.[16] Further, research of the efficacy of many popular structures and processes might show that there is no basis for the claim that they constitute 'best practice', in which case their adoption must be due to institutional isomorphic forces.

[16] For an example of the value of linguistic analysis of publications promoting popular management solutions, see Norreklit's (2003) rhetorical analysis of the Balanced Scorecard.

5.2 Strategic choice theory

Description of the theory: Neoinstitutional theory assumes the environment shapes organizations and their behaviors. On the other hand, strategic choice theory rejects this deterministic assumption – and assumptions of the deterministic role of technology and organizational size – and instead posits that organizations influence their own circumstances; indeed ‘strategic choice is the critical variable in a theory of organizations’ . While not rejecting the possibility of environmental pressure, the theory holds that choice exists about structural forms, about attempts to manipulate the environment, and about desired performance standards. The theory suggests that the structure and the context of organizations will reflect political choice and action by the organization’s dominant coalition. Hence, strategic choice theory can be considered a contingency theory.

The role of the board in monitoring, judging and influencing organizational performance: Although the foundational work of Child does not specifically address the role of boards of directors, the later work of Andrews has done so. Andrews suggests the main function of the board is ‘to review the management’s formulation and implementation of strategy and to exercise final authority in ratifying with good reason management’s adherence to established objectives and policy or in contributing constructively to management’s recommendations for change’.

Critiques of the theory: The theory does not explain why boards exist, but appears to take them as a given. The implications of the theory for governance do not appear to be well developed.

The empirical evidence: Judge and Zeithaml used institutional theory and strategic choice theory to examine board involvement in strategic decision-making processes in four different settings. The study found support for some – but not all – of the propositions said to be related to strategic choice theory. However, in our view, the claim that these propositions are based in strategic choice theory is questionable.

We have not been able to locate any studies explicitly using strategic choice theory in the context of nonprofit governance. However, numerous empirical studies in the nonprofit sector have demonstrated the value of board engagement in strategizing: for example Bradshaw, Murray and Wolpin , Green and Griesinger , and Brown (2005).

Conclusion: Strategic choice theory is a reaction to the deterministic nature of some sociological theories. It recognizes that boards and organizations can exercise some level of self-determination and some influence on their environments. However, the implications of the theory for governance do not appear to be well developed.

5.3 Resource dependency theory

Description of the theory: It has been claimed that resource dependency theory is the dominant theoretical approach used in the study of nonprofit governance' . Resource dependency theory challenges the individual and intraorganizational focus of most management theory and research . It might be seen as occupying the middle ground between institutional isomorphism, where environment determines organizational form and behavior, and strategic choice, where the organization shapes its environment. In resource dependency theory, organizations maneuver in the context of their environment, but do not reshape it.

Resource dependency theory holds that organizational survival, although not necessarily problematic, nonetheless is dependent on the organization creating and maintaining its coalition of support. This coalition is especially important for the acquisition of resources. The degree of dependency of one organization on another is determined by the degree of concentration of resource control, the availability of substitute sources, and whether the dependency is mutual or asymmetrical .

In resource dependency theory, organizational effectiveness is the satisfaction of ‘the demands of those in its environment from whom it requires support for its continued existence’ . Effectively managing the environment requires the organization to maintain a balanced approach, and not be too closely nor too loosely connected with its environment .

Consistent with the theory, the board’s role can be seen as reducing uncertainty through collecting and responding to information from the external environment, maintaining good public relations with these external stakeholders, and attracting resources to the organization . Resource dependency theory suggests that interlocking directorships, i.e. a director serving on multiple boards where the organizations they govern have a relationship of dependency, are a means by which organizations attempt to manage their environment.

The theory highlights the issue of how an organization selects and processes information . Pfeffer and Salancik observe that information systems will reflect the ease of collecting, processing and presenting the particular information, criticality and utility of the information, and organizational structure (for example, organizational subunits may attempt to justify their own existence through the presentation of performance data).

The role of the board in monitoring, judging and influencing organizational performance: Resource dependency theory recognizes that boards might be internally-oriented or externally-oriented, depending on the organizational resource needs . Internally-oriented boards will be involved in activities such as the evaluation of programs. Externally-oriented boards are primarily concerned with attracting resources from the external environment. However, it can be deduced that an externally-orientated board might still be concerned with internal performance if this was important to those in the external environment holding resources.

Critiques of the theory: The application of resource dependency theory in large corporations has recently been the subject of trenchant criticism. It has been argued that the theory had explanatory power for board interlocks and for mergers and acquisitions in the 1970s: at that time, these were indeed mechanisms by which organizations controlled their environment. However, Davis claims that from the 1980s on, the theory 'fails to account for virtually anything that large corporations did'. Miller-Millisen notes that the theory has a narrow emphasis on resources and ignores other environmental pressures on nonprofits and their boards.

The empirical evidence: Stiles and Taylor summarize resource dependency studies in the for-profit sector and the results of these studies are mixed. Much of the relevant empirical research in for-profits is on interlocking directorships. Pettigrew , having reviewed most of the extant studies and having spoken with several leading researchers on interlocking directorships, concludes that it is 'remarkably difficult to summarize the key patterns from these studies' due to conflicting results and the competing interpretations using resource dependency theory and class hegemony theory. He critiques this body of research as suffering from the 'so what?' problem, i.e. it is not clear what the interlocks really mean. Pettigrew notes the considerable variability in patterns of interlock between nations. He argues the mere availability of statistical studies demonstrating director interlocks tells little about the purpose and consequence of these ties. Davis concludes that the interlocks identified in his study were more about social embeddedness than resource dependency. His study is further reviewed in section 5.6.

In the nonprofit sector, the study by Zald of branches of Chicago YMCA showed those branches with high status boards had higher financial contributions by board members to the organization, and had higher perceived organizational efficiency, program quality, and board strength. However, he was not able to exclude the possibility of spurious correlation with executive and staff competence. Pfeffer in a study of hospital boards established that board composition and function were related to the ability to attract resources from the environment. Provan demonstrated in his study of nonprofit human service agencies that board power – as reflected by prestige, linkages, size, and proportion of men on the board – was a strong predictor of funding levels, but not of increasing funds. He concluded board power might be important in resource protection, but not acquisition. Wernet and Austin in their qualitative study of nonprofit human service organizations also found support for resource dependency theory. However, they also found that for most critical events in organizations, there was a preference for shared board-executive leadership, which may reflect stewardship theory. Harlan and Saidel used resource dependency theory to study the role of US nonprofits boards in influencing relationships with government around contracting. They found that the boards were active in the apparently contradictory roles of facilitating contracting and advocating on behalf of their organizations, on the one hand, as well as buffering the organization from government and guarding its values, on the other. Jun and Armstrong found correlations in two church congregations between positional power and parishioner financial contributions and service to the congregation. Saidel reported that, among her sample of nonprofits in New York State, around 40% had an advisory body in addition to its board. In a qualitative study with a subset of these boards, Saidel demonstrated that the advisory boards played roles consistent with the theory. More recently, Brown (2005) used resource dependency theory to inform his study of US nonprofits, and found that political and strategic competencies of boards were correlated with CEO and board member perceptions of organizational performance and some aspects of financial performance (although the findings might be also be seen as consistent with strategic choice theory).

Conclusion: Nonprofit organizations are often resource poor, and the work of many boards is dominated by questions of resource acquisition. Resource dependency theory thus has 'face' validity: for many nonprofit organizations their survival depends on their ability to obtain resources and support in the external environment. Many nonprofit boards and managers scan their environment in the search for directors who can contribute wealth, wisdom or work to the organization. However, the empirical evidence in relation to resource dependence theory is not clear-cut, suggesting complex and subtle interactions between board composition and role, the external environment, and organizational performance.

5.4 Class hegemony theory

Description of the theory: Whereas institutional isomorphism, strategic choice and resource dependency theory are concerned with institutional characteristics, class hegemony theory is concerned with the social character of board functioning. The theory, also known as the theory of elites, was a key issue in early scholarship on nonprofit boards. Middleton's 1987 review article on nonprofit governance, the first such review, devoted over two of its 11 pages to the topic.

Class hegemony theory has an extensive history in sociology. The theory is simply that the upper class dominates key institutions in society, including for-profit and nonprofit boards of directors. Useem , a prominent elite theorist argues that 'a dominant segment, consisting of the limited number of senior executives of the nation's largest firms … has a common culture, informal social cohesion, and even some formal organization … [and] act, albeit in a highly imperfect fashion, as a politicized leading edge for large corporations as a bloc'.

Contributing to the internal cohesion of this corporate elite is the participation of its members in exclusive clubs, in industry associations and in the governance of nonprofits. Especially in traditional welfare nonprofits, boards are seen to provide a place where business elites meet and exchange information, thus reinforcing class cohesion by creating common viewpoints around social, economic and political issues .

From a class hegemony perspective, nonprofits would have a wider role than mere socialization of the elite. First, charities ameliorate some of the excesses of capitalism. Second, without in any way diminishing the genuine commitment of some members of the elite to charitable causes and social justice, the involvement of the elite in charities helps promote the public image of elite individuals and their companies.

The role of the board in monitoring, judging and influencing organizational performance: Class hegemony theory emphasizes the hidden role of boards rather than the overt and formal roles. Generally, elite boards ensure the organization does not threaten the power of the elite . It is possible that where boards are dominated by elites, the elite board members are vitally concerned about governance issues. If there is a failure in the governance of a nonprofit with which they are associated, this could have implications for the individual's eligibility to serve and reputation as a director of for-profits.

Critiques of the theory: Several critiques can be made of class hegemony theory. First, elite domination has declined over time due to the greater demand for board members with the growth in the number of nonprofits, increasing support from government (and thus declining dependence on donations), and the professionalization of nonprofit managers . Second, while there are some examples of elite domination of nonprofits, this does not hold for all and especially not for the smaller, less prestigious organizations . Third, class hegemony theory might be considered reductionist in that it assumes the upper class to be one coherent entity with common interests. However, there are many examples of members of the upper class with a strong pre-existing commitment to social justice. Finally, class hegemonic theory assumes the nonprofit to be coopted by the elite directors, and ignores the possibility of the reverse process .

The empirical evidence: Middleton identifies a number of empirical studies of nonprofits, now somewhat dated, which demonstrated that community elites serve on nonprofit boards. Abzug , in her historical-comparative study of nonprofit board composition in six US cities from 1931 to 1991, reports a decline in the number of elite trustees, albeit a relatively slow decline. In a study of board interlocks across major US nonprofit, corporate and government institutions, Moore et al. reported dense linkages between business, government, and policy-planning groups, but found that national charities and foundations had significantly lower levels of interlocks.

Conclusion: Class hegemony theory was once a popular explanation of the role played by nonprofit boards. However, over time, the amount of scholarship using this framework has considerably reduced. We speculate that there have been two factors at work. First, we suggest there has been a decline in support for explicitly left-wing ideology in academia. Second, the rapid increase in the number of nonprofit organizations seen in many countries, together with the rise of the commitment to consumer participation, has opened board participation to a wider group. Although still maintaining descriptive power for some nonprofits (for example, some foundations and older charities), the theory of class hegemony has diminishing applicability over time.

5.5 Feminist theory

Description of the theory: It is difficult to define what constitutes feminist theory, with one author claiming that 'resistance to defining feminism is in fact so widespread as to appear to be the dominant feminist theoretical position' . Writing from a radical perspective, hooks[17] defines feminism as 'a struggle to end sexist oppression' including 'a struggle to eradicate the ideology of domination that permeates Western culture on various levels as well as a commitment to reorganizing society so that the self-development of people can take precedence over imperialism, economic expansion, and material desires'. Feminist theorizing is diverse, including liberal, Marxist, socialist, radical, post-modern and anarchist perspectives. According to Machold , modern feminist theory might be grouped into two schools. First, sexual difference theorists focus on women's experience and voices, and 'an affirmation of the feminine' . Second, gender theorists focus more on gender than biological differences and argue against inequality. Feminist organization theory highlights issues such as patriarchy, power and hierarchy .

[17] hooks does not use capitals in her name.

Feminist legal scholars have been active in raising issues in corporate law . They have asked 'the woman question', i.e. where are women and what are their experiences; asked practical questions about the utility of law from women's perspectives; and challenged the dichotomy between public and private lives in governance matters . Further, feminist scholars have challenged shareholder primacy, critiqued the limited operation of the fiduciary duty of care, and critiqued the concentration of corporate power .

Writing from a management perspective, Machold suggests that existing discourse on corporate governance – including agency theory and stakeholder theory – are largely framed in masculinist terms, with an emphasis on questions such as power and conflicts of interest. She proposes what she calls a 'feminist governance model', where the organization is seen as a web of relationships rather than as agency theory's nexus of contracts. Within this web there is an ethical obligation to care, which is embedded in the organization's systems and procedures. As opposed to broad stakeholder theory, Machold suggests that the duty to care is to those individuals with whom the board is in a close relationship.

Writing specifically in the context of the nonprofit sector, Odendahl and Youmans (1984, 208) argue that the nonprofit system is "gendered female", with strong gender roles operating in elite charity boards. In these boards, male father-figures perform the role of decision making and female mother-figures take on the role of caregiving. However, they acknowledge that nonprofits and their boards are in a process of transition, with greater involvement of women, including minority women.

The role of the board in monitoring, judging and influencing organizational performance: Iannello (1992, 45) asserts that within organizations based on feminist principles of empowerment, 'members monitor themselves'. In Machold's feminist governance model, board influence would be consistent with feminist values around caring .

Critiques of the theory: From our brief introduction to the debates about the definition and content of feminist thought, it is clear that there is no one single theory, but rather a collection of relatively diverse perspectives bound together by a concern for women and the roles played by women.

The empirical evidence: Empirical studies informed by feminism have been dominated by research on gender counts and organizational form. In relation to gender counts, Burke reviews these in for-profits and Odendahl and Youmans do the same for the nonprofit sector. The latter authors conclude that female directors of nonprofits are less likely than their male counterparts to be engaged in policy-making, and more likely to be involved in organizations that are community-based and in organizations with smaller budgets.

There is a small but significant body of work on organizational form. There has been some academic interest in feminist collectives in particular, with Iannello (1992), highlighting the need to recognize ability or expertise within collectives, for strategies to maximize empowerment, and for strong goal clarity within these groups. Grant , in her analysis of 17 British women's nonprofits, found increasing convergence within women's organizations, as a result of move away from bureaucracy and hierarchy in traditional women's organizations and a move to greater structure in the women's movement organizations. She notes that few pure collectives continue, with most collectives having transformed into hybrid organizations involving creative combinations of structure and participation. A similar trend towards hybrid organization is noted by Bordt in her study of women's organizations in New York City.

An exception to the counts- and organizational form- studies is that of Bradshaw, Murray and Wolpin (1996). In a study looking at the difference female-dominated boards made among 276 Canadian nonprofits, the authors found few differences between boards with a high percentage of women, and those with a low percentage, in board and organizational effectiveness, structure, process and organizational characteristics.

Conclusion: There is no single feminist theory, but rather a coincidence of interest in issues relevant to women, as well as broader issues in relation to oppression, power and hierarchy. Feminist theory usefully highlights issues of whose voice is heard, whose is not, and with what consequence. It also brings into focus questions of power. Empirical work on governance informed by feminist theory has, so far, been dominated by studies of gender counts and organizational form.

5.6 Social embeddedness theory

Description of the theory: 'Embeddedness' or 'social embeddedness' refers to the argument that behavior and institutions must be understood as being constrained by ongoing social relations . It rejects positivist economic views of organizations – such as agency theory and TCE – as undersocialized, for they 'disallow by hypothesis any impact of social structure and social relations' . Embeddedness theory also rejects over socialized theories, which see behavior as automatically determined by the these elements. Instead, embeddedness theory treads the middle ground, seeing culture as an on-going process.

In terms of organizational behavior, embeddedness theory stresses 'the role of personal relations and structures (or "networks") of such relations in generating trust and discouraging malfeasance' , such as self-serving behavior in the agency problem. However, Granovetter acknowledges that personal relations and structures are not the complete answer as networks vary and, while social relations may be necessary for trust, they are not a guarantee of trustworthy behavior.

The role of the board in monitoring, judging and influencing organizational performance: Embeddedness theory suggests that, for directors, social relationships can prevail over fiduciary concerns or technical expertise. Indeed, it might even be seen as 'the major factor limiting their effectiveness' . Director interlocks create a network of social obligation, and those social obligations can impede board monitoring, distort the basis of judgment, and negatively impact on the influence of directors. Alternatively, the social relationships can also work positively as 'directors are more likely to respond to concerns about honor, obligations, and notions of appropriateness' . As Granovetter suggested, albeit in a broader context, embeddedness theory makes no sweeping predictions.

The empirical evidence: Davis notes evidence of 'an interlocking directorate linking virtually all large American firms into a single network based on shared board members'. After careful analysis of these interlocks, he suggests that, with rare exceptions, the pattern of interlocks is not consistent with resource dependency theory and is better explained as reflecting social embeddedness. The interlocks are sources of information and legitimation for CEOs and boards.

We have not been able to identify studies examining embeddedness in the study of nonprofit governance.

Conclusion: Embeddedness theory treads the middle-ground between under- and over-socialized conceptions of organizations. It avoids making sweeping generalizations, and instead suggests that organizational behavior must be understood in the context of the particular social structures and social relations of an organization. Embeddedness issues are relevant to the agency problem and agency theory, and are part of the explanation for managerial hegemony. Contradictorily, they can also be relevant to managerial stewardship.

5.7 Zald's contingency theory

Description of the theory: Zald rejects both managerial hegemony and class hegemony theories, arguing for a contingency theory of the power and functions of boards. He argues board power is a function of bases of power, personal characteristics and organizational characteristics. For example, board members are more powerful when:

- they control or represent important external resources to the organization, such as major blocs of shares or external groups important to organizational success;
- board members are high in prestige and status; and
- the organization is in crisis or making major decisions.

The role of the board in monitoring, judging and influencing organizational performance: Zald explicitly addresses the question of the board's knowledge of the organization, arguing that it is essential for director input to and impact on decision making.

Zald argues that conditions of organizational complexity, and in particular size and technology, impact on board understanding and influence. In general, the smaller the organization and the simpler the technology, the easier it is for the board to understand the organization. The larger the organization and the more complex the technology, the more the board is dependent on the CEO for information. However, Zald also suggests adaptive responses by boards, including delegation to expert subcommittees, and the recruitment of directors with specialist knowledge.

Critiques of the theory: Proponents of paradox theory suggest that contingency theory merely reframes problems as ‘either/or’ rather than being based on more organic understandings of organizations .

The empirical evidence: Murray, Bradshaw and Wolpin in their study of Canadian nonprofit boards tested some, but not all, aspects of Zald’s theory. The evidence did support one association predicted by Zald (between board-power profiles and the maintenance of a wide range of external contacts), but did not find other associations he predicted (percentage of women on the board, prestigious board members and the age of the organization).

Conclusion: Despite the lack of validation, Zald’s contingency theory is useful in highlighting how organizational complexity might impact on the power and functions of the board of directors. It presents a relatively comprehensive set of explanations for the power and functions of boards. In particular, it suggests organizational size and technology will impact upon board understanding of and influence on organizational performance.

5.8 Summarizing the contribution of sociological theories

Sociology contributes to our understanding of the institutional and social forces in operation in board governance. Institution-based theories are isomorphism, strategic choice, and resource dependence theories. Institutional isomorphism suggests that organizations in the same field are likely to look alike; strategic choice theory stresses organizational discretion and strategizing; and resource dependency theory might be seen as occupying the middle ground. Theories which are more socially-based are feminist theory and social embeddedness theory. Feminist theory addresses issues of oppression and power, especially power for women. Social embeddedness theory contends that individual behaviors must be understood in the context of social relations. Zald’s contingency theory includes both institutional and social factors.

6. Psychological perspectives

Psychology is concerned with 'the science of mind' or 'the science of behavior' . There are surprisingly, and regrettably, few studies on governance by authors whose primary discipline is psychology. So far, psychology has mainly offered insights the issues of small group effectiveness, and the core psychological processes underpinning board functioning.

6.1 Small group effectiveness theories

Description of the theory: Psychology has long been concerned with the question of effective group functioning, and governance researchers can learn from these studies . Forbes and Milliken argue the very existence of boards 'is rooted in the wise belief that the effective oversight of an organization exceeds the capabilities of any individual and that collective knowledge and deliberation are better suited to this task' . They argue that board effectiveness is likely to be heavily dependent on social-psychological processes. They theorize that board task performance will be positively associated with group effort norms, cognitive conflict, and the knowledge and skills of board members, but board cohesiveness will be negatively associated with cognitive conflict. Bainbridge argues that groups are superior in governance roles because the group usually has the benefit of the views of its best decisionmaker, can avoid individual decision-making biases, and can help constrain individual shirking due to group norms. Bainbridge does acknowledge, however, that group norms can work either way and group decisionmaking can result in social loafing. Nonetheless, Bainbridge argues corporations benefit from group decisionmaking at the top of their hierarchies.

Drawing on a lifetime of research into group effectiveness, Zander argues that, in a strong board, the board is interactive rather than passive, directors depend on each other to achieve common goals, personal involvement is satisfying, and the board has genuine influence on those who the board is expected to monitor and guide. In a short but useful article, Cascio highlights the application of general issues in group and team effectiveness to the specific work of boards, including the behavior of group leaders, selection of group members, and performance assessment and feedback.

The role of the board in monitoring, judging and influencing organizational performance: Understanding of organizational performance will be enhanced by identifying and sharing relevant facts . Board influence on organizational performance will increase by the board presenting clear information, arousing the interest of those responsible for change, making action easier by providing practical steps to follow, engaging support within the organization, and enacting reinforcing strategies .

Critiques of the theory: Reviewing the evidence on selected aspects of the decisionmaking behavior of small task groups, Davis cautions against accepting 'compelling intuitions' such as the superiority of group performance in decisionmaking. He notes the existence of a number of under-researched areas, including decisionmaking by 'long-term groups of experts dedicated to protracted periods of work, punctuated by rest or alternative effort' – which might be an apt description of boards. Other than Bainbridge's analytical article, there appear to be no other articles which have applied Davis' work to governing boards.

The empirical evidence: Zander and Newcomb in a study of 149 United Way funds demonstrated that, ironically, 'unreasonably difficult goals are more often chosen when performance … is deficient'. The subsequent study by Zander, Forward and Albert examined 23 boards that met their fundraising targets four years in a row with 23 boards that did not do so each year for the same period. Unsuccessful boards repeatedly set their goals too high, or sought to eliminate goals, and gave lower ratings to their boards as a whole. Chait, Taylor and Holland in their qualitative study of governing boards in higher education reported the effective boards had set goals for themselves.

The empirical evidence in relation to appropriate group size for group decision-making has been assessed to be incomplete, inadequate and inconclusive . In relation to board size, the evidence is mixed: Cornforth in his study of UK charities found no relationship between board size and board effectiveness. On the other hand, Golden and Zajac in their study of US hospital boards found a curvilinear relationship, with a positive association for boards under 30 persons between increasing board size and organizational strategic change, and a negative relationship for boards above this size.

Brown's study, previously discussed, uses decision and group process theory to inform his study of US nonprofits, finding that the analytic, educational and interpersonal competencies of boards are correlated with CEO and board member perceptions of organizational performance and with some indicators of financial performance (Brown 2005).

Conclusion: This review of the literature on small group effectiveness, albeit limited in scope, demonstrates that psychology can provide rich insights into the work of governing boards. However, research into boards as small groups has so far been limited, despite this potential. There is a clear need for further investigations of board governance by those with a sound training in psychology.

6.2 Psychoanalytic theory

Description of the theory: The psychoanalytic approach rejects the view of organizations as rational entities. As Manfred Kets de Vries writes 'what really goes on in organizations takes place in the intrapsychic and interpersonal world of the key players, below the surface of day-to-day behaviors' Further, he argues that ‘Scholars of management need to recognize that organizations as systems have their own life – a life that is not only conscious but also unconscious, not only rational but also irrational .

Kets de Vries suggests three basic processes in groups: dependency, fight-flight responses, and pairing. In dependency, the group looks for strong, charismatic leadership. In fight-flight responses, the group functions on the basis of attack or avoidance; ‘taking personal responsibility for problems is unheard of; instead, blame is routinely (and vindictively) assigned elsewhere’ . In pairing, people pair up with an individual or group perceived as powerful, but this ironically results in splitting in the wider system. Kets de Vries suggests that there are five types of neurotic organizations: the dramatic organization is characterized by emotion, boldness, and flamboyance; the suspicious organization is typified by distrust and paranoia; the compulsive is dominated by rules and procedures; detached organizations are cold and emotionally austere; and depressive organizations are associated with inactivity and conservatism. He calls for organizations that embody authenticity in their actions.

Dartington has applied psychoanalytic theory to nonprofits, including the role of nonprofit boards. Analyzing the experiences of those appointed to new positions of CEOs in small organizations, he writes ‘It is as if being elected to a committee puts the individual in touch with omnipotent fantasies of the tyrannical infant’ . Gibelman confirms that first CEOs often have difficulty with their boards.

Critiques of the theory: No published critiques of psychoanalytic explanations of organizational behavior have been located.

The role of the board in monitoring, judging and influencing organizational performance: The psychoanalytic approach de-emphasizes the rational aspects of monitoring, judging and influencing organizational performance, and instead would locate processes such as these in the wider psychodynamics of the organization. For example, when an organization first appoints a CEO, organizational performance might not be judged based on objective factors. After an initial honeymoon period, directors experience loss of psychological ownership of the organization and judge the CEO on that subjective basis. Dartington suggests organizations must resolve their ‘Oedipal struggles’ at key stages of their growth in order to function effectively.

The empirical evidence: By its nature, the psychoanalytic approach does not lend itself to statistical data-gathering, but requires case studies of individuals and organizations across time .

Mace’s early work on governance highlighted the psychological dynamics of family firms, arguing that such companies family members ‘bring into the business conflicts, rivalries, guilt feelings, ambitions, loyalties, prides, resentments, and interrelationships which are quite different from the characteristics of typical nonfamily companies’ .

In an in-depth case study in one nonprofit organization, Golden-Biddle and Rao note the organization's hybrid identities of a 'volunteer-driven organization' and a 'family of friends'. Dartington's work, previously mentioned, includes useful case studies of psychodynamic processes at work in two nonprofit organizations .

Conclusion: Psychoanalytic theories offer potentially profound insight into the work of governing boards, especially in small nonprofits. We offer three insights. First, as noted by Golden-Biddle and Rao, many small nonprofits have a strong family feel to their operations, and this might well result in the typical dynamics of family-based firms discussed by Mace. Second, in some nonprofits, there are limited forces containing behavior, for example directors lack the socializing experiences of directors of listed corporations. Thus, basic psychological processes might operate more fully. Third, in health and disability organizations, some behaviors might be explained by the processes of clients, and affected staff and directors, acting out their emotional responses in relation to their health or disability.

7. Political theories

Description of the theory: Politics is the 'practice of the art or science of directing and administrating … political units' , with organizations being conceived as political units.

Unlike agency theory and TCE which seek to understand board governance in the context of production and assume that the interests of individual players are subordinate to the economic goals of the organization, political theory[18] gives more emphasis to social context and acknowledge the distribution of power and politics to be fundamental to the work of boards. [19] Two political perspectives are explored here: interest group theory, and the normative promotion of democracy.

The interest group theory of political decisionmaking has 'modest analytic pretensions but rather impressive generality as a framework for observation' . It assumes that all organizations consist of interest groups which make demands on the organization. In order for decisions to be made on resource allocation, brokers attempt to form coalitions among the interest groups.
The theory ordinarily highlights 'bargaining, compromise, negotiation, inconsistency, and more or less continual conflict' and 'power, internal struggle, and expediency' .. With the advent of computers, mathematical modeling of interest group theory became possible, for greater analytical precision .

---

[18] So do team production theory, stakeholder theory, paradox theory, managerial hegemony theory, strategic choice theory, resource dependency theory, and the theory of elites.

[19] This is a much wider conception of politics than the 'political model' identified by Turnbull (1997, 191-193). Turnbull is concerned with the more limited question of how governments favour particular corporate constituencies. For that reason, Turnbull's 'political model' is not developed here.

In the political framework, the board might be conceived as being positioned between the organization's external coalition (for example owners, suppliers, unions, interest groups, and government) and the internal coalition (for example the CEO, managers, staff and organizational ideology) . The external coalition may be dominating, divided, or passive, depending on organizational circumstances . Where the external coalition is dominating, the board is a control device; however, in reality the dominant forces will probably bypass the board and access management directly. If the external coalition is divided, the board will be a symbolic 'battleground for control', despite the fact that boards have limited influence. Finally, if the external coalition is passive, management will control the organization unhindered and use the board to provide service to management or as a façade. The question of the relative power of the board has already been discussed in section 4.4 when discussing managerial hegemony theory.

Of course, the degree to which the political perspective holds true might be contingent on the circumstances of the particular organization. Based on their conversations with board members of independent and public education institutions, Chait, Taylor and Holland believe the board members of the latter 'often view themselves as public watchdogs, constituency representatives, or emissaries of partisan political interests'.

Some authors promote democracy in governance. Mintzberg argues for democratization of for-profit enterprises by worker and/or public interest group representation on boards. Democratic values influence many nonprofit organizations. Cornforth argues that, in a democratic framework, the board's role is to represent its constituencies and to resolve differences in preferences of those constituencies. Reiser argues that, although democratic membership-based organizations are not essential for efficiency and accountability, democracy can assist achieving these, promote the reputation and legitimacy of the organization, and advance the cause of civil society.

The role of the board in monitoring, judging and influencing organizational performance: A political perspective suggests that board monitoring, judging and influencing of organizational performance is an inherently political process, reflecting the distribution of power within the organization at the relevant time. As suggested by Leat , such understanding and influence will be subject to contest. Despite challenging rational assumptions about the role of boards, Leat sees value in some rational approaches such as negotiated roles. Turnbull points out that for action to be taken, the organizational actors need information 'which is accurate, timely, sufficient and yet manageable'.

Critiques of the theory: Political perspectives of corporate governance are more a perspective for understanding boards, than a coherent theory. Another consideration is that boards with a predominantly political mode of operation might not be able to survive, as the constant contest would take its toll on board effectiveness .

In relation to the argument for democratic governance, it has been argued that representative structures in corporate governance will impair the quality of decision making . Democracy in for-profit institutions has been described as 'an impractical ideal' . Democracy in nonprofits can result in the election of directors on the basis of 'popularity and likeability', not skill .

The empirical evidence: In one of the earliest empirical studies on boards, Price identified that the roles of directors of regulatory bodies were predominantly political, rather than supervisory or economic. Chait, Taylor and Holland in their qualitative study of boards of nonprofit higher education institutions identified political competencies as among the core competencies of the board. However, the quantitative study by Jackson and Holland, using the Board Self-Assessment Questionnaire, found only a very weak correlation between degree of board competency on the political dimension and one indicator of organizational performance, namely performance on a composite financial indicator.

Conclusion: Thinking about boards from a political perspective highlights two phenomena. First, there is the question of how boards respond to the conflicting interests of stakeholders in the environment. Here, there are obvious links with the descriptive and instrumental versions of stakeholder theory. Second, there is the question of how boards respond to their internal conflicts and jockeying for power. Of course, the internal and external phenomena are sometimes related.

8. History

History is concerned with that 'branch of knowledge which deals with past events, as recorded in writings or otherwise ascertained; the formal record of the past, esp. of human affairs or actions; the study of the formation and growth of communities and nations' (Oxford English Dictionary Online). In the context of governance, it addresses the question of how the current forms and practices of governance have come to be and come to be sustained or changed.

Historical accounts tend to be theory-free. However, path dependency theory is based in the history of the development of governance mechanisms. Ironically, most of the writing on path dependency explanations of corporate governance has been by legal scholars, rather than historians. Thus most of the relevant literature has a comparative law perspective and methodology. Nonetheless, it is essentially a theory of historical development, and hence has been placed in this section.

Path dependency theory

Description of the theory: Generally, path dependency 'refers to how a unique beginning can trigger a sequence of events and create a deterministic path that is followed in the chain of subsequent events' . However, Bebchuk and Roes' foundational work on path dependency in corporate governance is not necessarily deterministic. They argue that regimes of governance depend on past arrangements, but only in part. While arrangements for governance may change, they change in the context of, and in reaction to, the arrangements in existence at the time of change. Bebchuk and Roe use path dependency theory to explain why governance structures differ among the advanced economies of the world, despite forces for convergence.

Three reasons have been suggested for path dependence. First, there is structure-driven path dependence resulting from factors including sunk costs and the creation of power-bases. Second, there is rule-driven dependence. For reasons of efficiency, initial rules reflect the initial corporate governance arrangements which are then sustained because of interest group politics A third reason for path dependency is the psychology specific to national cultures, described as 'the mother of all path dependencies' .

The role of the board in monitoring, judging and influencing organizational performance: Path dependence theory has not addressed these issues. However, it can be anticipated that relevant processes and practices will in part reflect the path of their development.

Critiques of the theory: It has been argued that path-dependence is overstated for some for-profit types. While formal governance arrangements may be slow to change, it might well be that there is more convergence at the functional level . For example, in for profits, poor financial performance will have consequences for the tenure of senior management , regardless of whether the corporate governance system is shareholder-based, conglomerate-based or banker-based, and regardless of whether there is unitary governance or a two-tiered system of executive board and supervisory board.

Other authors go further, arguing that instead of path dependence, there is in fact substantial convergence of corporate governance systems across nations as a result of competitive advantages of the shareholder-focused system of corporate governance . This is said to result from the forces of logic, example and competition. Convergency theory, in turn, has been challenged as ignoring real national differences .

The empirical evidence: Most of the empirical evidence in relation to path dependency, or its competitor, convergence, has been based in historical comparisons of the law or cross-jurisdiction comparisons of the law . In much legal scholarship, there is limited gathering of new empirical evidence and instead more analysis, speculation of theoretical relationships, and synthesis.

We have not been able to identify any articles taking a transnational approach to the analysis of nonprofit law using a path dependency perspective. However, it might be speculated that path dependency will be more pronounced in relation to nonprofit corporate forms, due to the absence of competitive forces in existence in the for-profit sector.

Conclusion: Path dependency theory suggests governance arrangements developed at a point in time guide subsequent actions, even if only serving as a reference point for future change. It is, potentially, a powerful explanation of the forms of nonprofit governance. A potential line of research would be to study the relationship between institutional isomorphic pressures and path dependency. For example, it would be interesting to compare the development of the governance arrangements of organizations in the same field, but founded at different points of time and with different starting arrangements, as a way of exploring whether institutional isomorphic pressures at the field level compete or co-exist with path dependency pressures at the level of the organization.

9. Theological perspectives

Religious organizations play an important role in the nonprofit sectors of many nations. In order to understand the functioning of these organizations, it is essential to understand the theology of their members . Ontology and theology are linked.

Theology is 'Reflection on the nature and being of God' or 'The study or science which treats of God, His nature and attributes, and His relations with man and the universe; 'the science of things divine' (Hooker); divinity' (Oxford English Dictionary Online). With governance, theology is concerned with the question of how to practice governance consistent with one's faith. In this section, we explore Christian stewardship theory, although we acknowledge that it might best be described as a an understanding or approach rather than a theory. Regrettably, the paper does not extend to perspectives on governance in other faiths.

In passing, it is noted that there are links between theology and general laws of governance. The concept of fiduciary responsibility was developed in the context of testamentary law by the ecclesiastical courts. The notion of 'fiduciary' might be considered a secular version of the Christian concept of 'steward'.

Christian stewardship

Description of the understanding: According to Hester 'practicing governance in a religious institution is a calling, an expression of the human vocation to live faithfully in the image of God, to serve God by responding with care in the matters of daily living to God's universal love for all creation'. The governance arrangements of religious groups vary widely. For example, the Catholic Church regards the power of governance as belonging to the Church 'by divine institution', with those in sacred orders being capable of power with the cooperation of lay people . At the other extreme is the anti-clerical congregational polity of some protestant denominations.

It is common for Christian organizations to talk about governance in the context of stewardship . The definition of steward includes 'servant of God' (Oxford English Dictionary Online). Analyzing Luke 12:13-48 and 16:1-9 and Matthew 25:14-30, Jeavons suggests that, at a descriptive level, the steward always serves something or someone greater than him or herself, the steward's interests extend beyond financial matters, good stewardship cannot be assumed, and the steward's role is proactive 'in cultivating resources for moral purposes'. At a normative level, it is suggested these passages reinforce the obligation of trust of governing boards, emphasize that stewardship requires a profound commitment, and state the role of the steward is to take 'material things, that may have no inherent value, and give them lasting worth by seeing that they are administered to serve a moral purpose' .

In religious-based community services, boards face 'the challenge of articulating institutional purposes and values in light of their sacred nature' and keeping the institution faithful . The organization's mission and values should be derived from the organization's theological understandings, and should inform all aspects of the governance and management of the organization .

The role of the board in monitoring, judging and influencing organizational performance: Hester argues governance should be regarded as a process of interpretation of mission and values, rather than one of problem-solving. During the process of interpretation, the board draws on both theological and practical understandings. Butler argues that monitoring information must be mission-relevant.

Where mistakes are made, directors can have regard to their theological beliefs regarding forgiveness and reconciliation .

Critiques of the understanding: Theological understandings, by their nature, are arguably neither right nor wrong. They simply reflect faith.

The empirical evidence: Hester reports on his work with Holland surveying sixteen theological schools. He concludes that, empirically, the institution's theological beliefs play 'a very modest role, if any at all, in the practice of trusteeship'. No other studies on board monitoring, judging and influence from a theological perspective have been identified.

Conclusion: Christian stewardship understandings on governance are clearly intended to be normative. They offer a unique – and, in some ways, radical -understanding of the task of governance. Theological understandings of governance will undoubtedly vary according to adherents' meta-frameworks of theology, and are likely to reflect the institutional framework of the relevant religious denomination. Inevitably, the governing boards of religious organizations need to refer to practical considerations, as well as theological ones.

10.Implications for research

From the review of the theories of board governance, it is clear that if research on the governance of nonprofit organizations is to be complete in scope, rich in content, and relevant, multi-disciplinary and multi-theory perspectives are needed. This review has demonstrated that there are numerous issues, beyond the agency problem, to be explored. It has also been shown that there are substantial overlaps between the theories. Thus, a single discipline is unlikely to provide all relevant theoretical insights into any given research problem. For example, questions of power are often important in research on board governance, and thus insights from political theory will be relevant. To give another example, it is clearly the case that both agency theory and stewardship theory have their place. Researchers could investigate the 'switching rules' in order to examine the paradox of how to assurance conformance without being overly controlling.

We concur with other researchers who argue that research on board governance must move beyond simple reliance on agency theory and economics, while not rejecting the insights they might offer . As Lynall, Golden and Hillman succinctly state, 'it is not a question of if existing theories are helpful to our understanding of boards and [organizational] performance but, rather, a question of when each is helpful'.

To advance scholarship in nonprofit governance, researchers might consider the following suggestions. First, nonprofit scholars must continue to investigate a range of issues, not just issues related to the agency problem. The analysis of the theoretical literatures has highlighted many other areas for investigation.

Second, where practical and appropriate, researchers should use a multi-theory approach . It is encouraging to observe that attempts to use a multi-theory approach have recently emerged in the literature on nonprofit governance, (see for example, Brown (2005) and Miller-Millesen (2003)). For any given issue in nonprofit governance under investigation, there is likely to be more than one relevant perspective and theory.

Third, as discussed in section 6, there is a clear need for further investigations of board governance by academics with a strong training in psychology. The literature is increasingly moving into psychological issues such as trust , interpersonal power, and group cognition, and yet much of this writing has been by academics who have no or very limited training in psychology. There are obvious dangers in this regard. Also, psychologists could usefully expand existing research in relation to teamwork and small group effectiveness, explore issues in relation to belongingness , conflict, and the impact of differences in national cultures . These are fundamental issues in psychology.

Fourth, where possible, there is value in having research teams composed of people of differing disciplines. This will help overcome the problem of lack of awareness of the contributions that different disciplines can make and help challenge any blind-spots of particular disciplines.

Finally, we note that taking a more theoretical approach does not require the use of higher-level theory in all cases. As Llewelyn convincingly argues, simply generating metaphor, identifying dualisms, and creating concepts are all forms of theorizing. Board process studies are interesting examples of the valuable contribution that mid-level theorizing can make.

11.Implications for public policy

Agency theory considerations have dominated regulatory thinking about governance. Certainly, agency theory has some place in regulatory designs as the numerous cases of scandals in both the for-profit and nonprofit sectors demonstrate. Yet the range of relevant theory and empirical research suggest that the singular emphasis on the agency problem has been misplaced. There are a range of 'problems' to be solved in corporate governance in addition to the agency problem.

We would argue that starting discussions about governance with the question of the purpose of the board is to begin the discussion with the wrong question. The beginning question in public policy should be how regulators can foster performance and conformance *in diverse organizations*. Regulatory schemes should allow the variable apportionment of corporate governance responsibilities and liabilities having regard to the internal and external environments of organizations.

A first consideration should be matching governance requirements with organizational powers. An organization with limited powers might have few regulatory requirements imposed on it. On the other hand, those organizations which intend to implement substantial programs, seek substantial donations from non-members, acquire substantial assets, or borrow large sums from their banks might be subjected to extensive requirements.

A second consideration is that, while every organization should have appropriate mechanisms and structures for ensuring organizational accountability, it is not necessarily the case that any one responsibility must lie with the board. As long as someone in the organization has the responsibility and accountability, it might matter little if it is management or the board which discharges the responsibility . It should be remembered that in many nations there has been the rise of a generation of skilled nonprofit CEOs, which raises legitimate questions about whether some responsibilities might more appropriately rest with the CEO rather than the part-time amateur boards .

A third consideration is that boards are just one *possible* element in the design of an appropriate corporate governance regime. Organizations could be allowed flexibility in designing corporate governance regimes. In the case of smaller organizations, such regimes might or might not include a board of directors. The one-size-fits-all requirement to have a board of directors should be reconsidered.

It is ironic that the smallest incorporated nonprofit is subject to the same requirement to have a board of directors as the largest and richest organization. While the appropriateness of larger organizations having boards is not questioned, there might be greater flexibility about their role.

Corporate governance arrangements – other than boards – that could assist organizations achieve high levels of accountability might include increased legal requirements on CEOs, general meetings of members, requirements in relation to reporting to stakeholders or regulators, and requirements for independent audits of key aspects of the organization beyond the traditional financial audit.

In summary, the current emphasis on the agency problem in regulatory regimes ignores other important issues in the design of corporate governance arrangements. Given the lack of an incontrovertible explanation for the existence and function of boards, there is a strong case for more flexible corporate governance designs.

12.Conclusion

This paper has surveyed existing theories of board governance. It has provided a broad overview of the existing state of theory, across disciplines as diverse as economics and theology. Similarities and differences between theories have been identified. Additionally, empirical evidence in relation to the crucial behaviors of board monitoring and influence have been summarized.

Each theory has something to offer our understanding of board governance. Our choice of theoretical perspectives in research should reflect the specific research problem we are attempting to resolve. In the context of governance, economics addresses how organizational form impacts productive capacity and protection of assets. Management theories offer insight into the best means of coordinating and controlling entities. Sociological theories explain the institutional and social aspects of board functioning. Psychology offers insights into small group effectiveness, and the psychoanalytic underpinnings of board dynamics. Politics provokes thinking about how the interests of competing stakeholders are accommodated, and about organizational rationality. History raises interesting questions about the extent to which current corporate governance arrangements simply reflect the path of their development. Theology informs the entire ontological system of believers, including beliefs about governance.

This paper has supported the calls for research to be better informed by the diversity of theory, and for research to be more context-specific in order to take account of the diverse organizational forms and purposes found in the third sector. One of the inherently fascinating things about governance, and especially governance in the third sector, is its complexity. A multi-disciplinary and multi-theory approach will help capture that complexity.

References