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Effective governance in nonprofit organizations: A literature based multiple stakeholder approach [☆]

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KEYWORDS

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Stakeholder approach

Summary Nonprofit organizations (NPOs) are increasingly required to become (more) effective. This review summarizes and integrates the results of studies focusing on NPOs' governance effectiveness. It proposes an extension of stakeholder theory to NPOs concerning governance involving diverse stakeholder groups. What makes this paper innovative is that it aims to identify more than effective board governance, and takes the perspectives of multiple nonprofit key stakeholders into account. This approach is particularly valuable as numerous researchers argue that the likelihood of NPOs being perceived as effective increases when they manage to align the, possibly very diverse, expectations of stakeholders on good governance. We consequently focus on the relationship between (1) the needs and objectives of key stakeholders and (2) (expected) governance (structures) in NPOs. The stakeholders we consider are government, beneficiaries, private donors, board members, management, volunteers, and non-managerial staff members. Results not only show the lack of attention some stakeholders have received in the literature, but also the governance related conflicting needs and objectives between stakeholder groups. In addition, even in the same stakeholder groups it is not rare that opposing findings are reported. Several studies indicate the (unforeseen) negative impact on (being accountability to) other stakeholders when NPOs try to be responsive to the needs and objectives of a particular stakeholder group. The value of this review lies in the fact that it reveals both the complexity of and the need for stakeholder management in NPOs, if they want to be perceived as (more) effective by their numerous stakeholders, and related to that gain insight in how to improve their governance practices. Numerous directions for further research are suggested.

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Introduction

Since the publication of Freeman's landmark book (1984), stakeholder theory has been increasingly debated in the literature (Donaldson & Preston, 1995; Hyndman & McDonnell, 2009), with a growing interest shown by nonprofit

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researchers. Stakeholders are defined as “any group or individual who can affect or is affected by an organization’s achievements” (Freeman, 1984, p. 46). Stakeholder theory argues that (the manager of) an organization has obligations to a group of stakeholders, and that the development of an organization may be influenced by the way in which diverse stakeholder relationships are managed. A suitable stakeholder management policy might strengthen the well-functioning of an organization (Donaldson & Preston, 1995), which consequently might lead to a competitive advantage (Bouckaert & Vandenheve, 1998).

This review proposes an extension of stakeholder theory to NPOs (nonprofit organizations) concerning governance involving diverse stakeholder groups. We argue that as the well-functioning of an NPO is influenced by the way in which diverse stakeholder relationships are managed, an important step in relation building is to become aware of the expectations with respect to governance of diverse stakeholder groups. This reasoning is supported by the fact that several researchers find that the likelihood of nonprofits being perceived as effective increases when they manage to align the, possibly very diverse, expectations of stakeholder groups with respect to good governance (Abzug & Galaskiewicz, 2001; Balser & McClusky, 2005; Brown, 2005; Herman & Renz, 2008; Hsieh, 2010; Kilby, 2006; Ospina, Diaz, & O’Sullivan, 2002; Studer & von Schnurbein, 2012). Brown (2005), among others, has suggested that including stakeholders’ perceptions in measuring effectiveness will improve understanding of NPO governance and therefore the quality of governance practices.

To our best knowledge, there have been no previous attempts to provide an overview of the needs and objectives of diverse NPO stakeholder groups in relation to corporate governance. Providing such an overview will help to gain insight into how NPOs can be perceived as more effective by diverse stakeholder groups, with a possible positive impact on the stakeholder relationships and overall well-functioning of the organization. Such knowledge can be of particular importance as NPOs are increasingly expected to operate as effectively as possible. Some important reasons for this need to be more effective stem from growing consumer awareness, the consequences of the recent global economic downturn, and the widely publicized scandals some NPOs have been involved in (e.g. Radbourne, 2003; Waters, Burnett, Lamm, & Lucas, 2009).

An overview of needs and objectives of diverse NPO stakeholder groups in relation to corporate governance can also be seen as a preliminary step in the development of a “multiple principals” framework. A principal is someone who “engages another person (agent) to perform some services on his/her behalf which involves delegating some decision making authority to the agent” (Jensen & Meckling, 1976, p.308). When going through the NPO literature, it becomes clear that in the context of the principal-agent theory, the most frequently studied principal-agent relationship is the one between the board, acting as the principal, and the manager, being the agent. There have been only an occasional references to the organization’s beneficiaries and donors as principals, let alone in depth analyses of these principals and their combined impact on the NPO (Jegers, 2011). We are not claiming that the classic

“board-manager principal-agent view” is not valuable, but using a multiple principals framework (as opposed to the standard “one principal” approach) will provide a better picture of reality. When looking back at Jensen and Meckling’s definition of a principal, different persons (e.g. board members, managers, volunteers, beneficiaries) indeed can act as a principal in a principal-agent theory of NPOs, which also fits with stakeholder theory claiming that an organization has obligations to a group of stakeholders. Jegers in particular states that: “because there is no reason to believe that stakeholders all have identical objectives or for that matter identical perceptions of effectiveness, a comprehensive principal-agent approach would imply a “multiple principals” framework” (Jegers, 2009, p. 146). As of this writing, such a nonprofit theory has not been developed, and can be seen as a specific application, and combination of stakeholder theory and principal-agent theory adapted to the nonprofit industry.

The above-mentioned considerations brought us to focus in this review on NPOs’ effective governance. In contrast to numerous other studies, we transcend an exclusive focus on effective board governance practices and seek to take the perspectives of multiple nonprofit key stakeholders on good governance into account.

We expect to find a wide diversity in needs and objectives of NPOs’ stakeholders in relation to effective governance as they go “into partnership” with an NPO for different reasons (Herman & Renz, 2004). This expected diversity in needs and objectives between stakeholder groups can be rephrased as the expectation that several needs and objectives of different stakeholder groups can be conflicting, sometimes even mutually harmful. Not only across stakeholder groups we expect to find a diversity in needs and objectives, but also expect this within some particular stakeholder groups.

Combination of a first literature review using the words “stakeholder” and “NPO”, and discussions with numerous academicians and NPO practitioners, lead to the following list of crucial stakeholders (that will be discussed in this paper): governments, beneficiaries, private donors, board members, management, volunteers working at the grassroots level, and non-managerial staff members. When looking back at this review’s first paragraph, and more precisely to Freeman’s definition of stakeholders, it becomes clear that each of the abovementioned seven categories can affect and/or is affected by an organization’s achievements, making it appropriate to call them stakeholders. For each of these stakeholders we provide a literature overview focusing on the relationship between (1) their needs and objectives and (2) (expected) governance (structures) in NPOs. It became however clear from the outset that only a limited number of studies have focused on this relationship. Therefore, we expanded our study to more general organizational effects that arise from the contacts/relationships between primary stakeholders and NPOs. As organizational effects might be inconsistent with (some) stakeholders’ intentions and their actual needs and objectives, reporting on them not only points a more holistic picture of governance (practices), it also increases the awareness on the relevance of considering stakeholders’ perceptions in policy making.

This paper's reference consists of 122 items. As twelve references (marked with an asterisk in the literature list) were only used in the introduction/conclusion to provide more information on stakeholder theory/definition of accountability/general information, the results section integrates the findings of 110 studies.

To select the 110 studies, the following steps were taken. First, studies were identified through searches of the Web of Knowledge. Keywords, title and abstract information were used. The main search terms were effectiveness, nonprofit organization, perceptions, stakeholder theory, accountability and governance. When an abstract was judged to be relevant, the full paper was read. As the Web of Knowledge is today's premier research platform for information in the sciences, social sciences, arts, and humanities, we decided in a first stage to limit our literature search to this research platform. In addition, we also reviewed the reference lists of each article which was found to be useful, to ensure we did not overlook any important material. As less than 5% of all eventually included articles was found by reviewing the reference lists, we can be sufficiently confident in the chosen search methodology. We decided to include only peer-reviewed studies. As all articles included were peer-reviewed, we did not consider assessing their methodological soundness. We acknowledge that much useful research is published in outlets other than peer-reviewed articles. We did however exclude unpublished studies, abstracts, dissertations, theses, book chapters and studies published in non-peer-reviewed journals due to (very) restricted access to such outlets, making it difficult to ensure that a systematic search was performed and all relevant information was found. The restriction to peer-reviewed papers can be seen as an important study limitation. There is no way of knowing how large the excluded literature is and thus findings should be approached cautiously.

To be sure that all articles relevant for nowadays practices are included, we went back to 1998, spanning a 15 years period. Earlier insights which have not become obsolete will surely have found their way in this literature (Polit & Beck, 2004). Nieswiadomy, Ter Maten-Speksnijder, and De Lange (2009) additionally argue that research is a continuous process that builds on previous knowledge. The decision to limit our literature search to articles published after 1997 is also considered acceptable by observing that recently published reviews often make use of comparable search periods. To illustrate, Machado, Leonidas, Santos, and Souza (2012): time period 1997–2010, Terry (2012): time period 1996–2011, and Dywili, Bonner, Anderson, and O'Brien (2012): time period 2004–2011. Due to language barriers, only English, Dutch and French written articles were considered. Given the heterogeneity in study designs of the identified studies, we were not able to perform a statistical meta-analysis. Most of the included studies are from the U.S., making use of cross-sectional designs, empirical of both qualitative and quantitative nature, or theoretical. In addition to the just-mentioned limitations, the results should also be interpreted cautiously as this review is entirely qualitative. All conclusions, observed trends or patterns are subjective, not based on controlled variables, or any statistically significant (e.g. meta-analytic)

grounding. The quality of the results is therefore highly dependent on the expertise and insights of the reviewers and thus open to criticism.

The results section is divided in seven subsections (one for each stakeholder). These subsections are structured as follows: a short summary of the literature findings (in italics), a more detailed description and integration of the extant literature, and an indication of revealed research needs. This paper ends with a conclusion and an appendix. In the appendix one finds a summary table based on all 110 studies. This table makes clear that the central research questions have mainly received attention in the U.S., and are not studied at all in several NPO sectors. All governance related needs and objectives as mentioned by the stakeholders themselves are listed in one column, in a next column the organizational effects that arise from the contacts/relationships between stakeholders and NPO are enumerated. The overview not only shows the lack of attention some stakeholders have received, but also the conflicting needs and objectives/organizational effects between stakeholder groups. In addition, even for the same stakeholder groups, researchers frequently arrive at opposing findings. The last column highlights the governance challenges that can be associated with or result from the previous columns.

The results section of this paper (divided in seven subsection) not only sheds more light on the topics shortly addressed in the summary table found in appendix, it also provides additional relevant information (e.g. shortcoming in research methodologies, directions for future research,...).

Results

Government

Governments are increasingly demanding NPOs to become more market-driven. Yet, because of a lack of empirical research on governments' satisfaction with and expectations of concrete NPO practices, the main focus in this section is on the observed difference between NPOs that rely (heavily) on government funding and those that do not. Financial dependency on government funding clearly influences organizational governance. Several researchers warn that the government desired market-driven approach might come with some side-effects negatively influencing NPOs' governance quality and service delivery.

NPOs are increasingly expected by governments to become more efficient service providers and to adopt more market-driven approaches (e.g. Eikenberry & Kluver, 2004). Suarez (2011) interviewed 200 leaders of US nonprofit organizations, and showed that nonprofits that professionalize and go into partnerships with other organizations are more likely to receive government funding. Governments might be more willing to fund NPOs that collaborate, as combined forces are considered to be essential in resolving complex social problems. Ostrower (2007) found by studying over 5.000 US NPOs that to receive government funding organizations have to meet Sarbanes–Oxley like requirements. Results showed,

among other, that government funding is positively associated with being audited, having a conflict of interest policy, a document retention policy, and a whistleblower policy. She also found a positive association with community relations and having minority group members on the board. Analogously to Ostrower (2007), Leroux (2009a) found that government funding increases opportunities for client participation in organizational policymaking. Leroux's insights were obtained from 76 executive directors of nonprofit social services operating in Michigan. A reason why governments might stimulate beneficiaries' participation is that such practices provide the organization with valuable feedback (e.g. Mandel & Qazilbash, 2005). Another empirical example of governments' influence on organizational policymaking is given by Fisman and Hubbard (2005). They used panel data on US nonprofits ($n = 2,868$), and demonstrated that governance problems were greater in states with weaker oversight by the State Attorney General, going together with a higher correlation between managerial compensation and donations received.

Alexander, Young, Weiner, and Hearld (2008) reported on the diverse legislative initiatives introduced by federal and state policy makers to improve the governance of US nonprofit hospitals. In contrast to Ostrower (2007) and Leroux (2009a), they found a limited impact of legislative initiatives intending to stimulate the level of activity by the hospital in community engagement. Alexander et al. (2008) argued that this limited impact may be due to the indirect way of targeting hospital practices. Their survey was sent to the CEOs or chairs of 395 hospitals.

Several researchers warn that the government desired market-driven approach might come with some side-effects negatively influencing NPOs' governance quality and service delivery. Alexander, Nank, and Stivers (1999) received surveys from 124 nonprofits serving youth and children in Ohio. In addition to the survey, three series of focus groups were held with service providers. They found that the increasingly required focus on, among other, outcome measurement and documentation, pushes organizations away from serving those in need. In addition, due to the pressure to professionalize less time can be spend on listening to clients and stimulating them to become involved in policy making. Related to this risk for beneficiaries of not being involved in policy making, Guo (2007) argued that government funding dependency leads to an increased professionalization of the board, leaving less board member seats available for 'ordinary' community representatives. Guo (2007) also indicated that applying for government grants is a time consuming process for board members. As a consequence, board's monitoring quality is threatened. Results were based on surveys of chief executives of 395 charitable organizations operating in Los Angeles. Also Nowland-Foreman (1998) argued that government funding leads to less volunteer support at the organization's grassroots level. The (economic) importance of volunteer labor at the grassroots level is however stressed by several researchers (e.g. De Cooman, De Gieter, Pepermans, & Jegers, 2011). Suarez (2011) also warned for the negative

side-effects associated with increased NPOs' professionalization.

Further research

There is an obvious need for future research. Attention should be given to governments' satisfaction with and expectations of governance practices. In addition, more insight must be gained into the possible conflicts between governments' motives to stimulate certain practices and their actual impact on NPOs. This need for research is also supported by the finding that most researchers, who conclude that boards receiving more government funding differ in focus from those receiving less funding, do not directly connect any of these board practices to objective measures of performance. Also, research performed outside the US is scarce, and longitudinal and cross-country research is necessary.

Beneficiaries

This section shows, firstly, that there is a lack of research taking beneficiaries' perceptions into account and, secondly, that objective parameters to evaluate beneficiary involvement effects on NPO governance are not available yet. Several researchers have studied the benefits of beneficiaries' participation to beneficiaries themselves, the community at large, and the NPO. Others question whether beneficiaries are the best judges of their own interests and whether they have the tools and skills to participate in governance. Studying beneficiaries is complicated since they constitute a very diverse stakeholder group. This heterogeneity makes beneficiary-related generalizations challenging or sometimes misleading.

For the following reasons it seems appropriate that beneficiaries are involved in organizational policymaking (e.g. Ospina, Diaz, & O'Sullivan, 2002):

- individuals have the right to be involved in decisions that affect their daily lives
- in some countries, NPOs receive public funding
- governments attach increasing importance to organizations that strive to be 'close to the customer'

The findings of Packard (2010) are consistent with the reasoning that beneficiaries need to be involved in organizational policy making. He is one of the few researchers who has focused on stakeholders' perceptions while studying organizational performance. He analyzed 52 staff members' perceptions, employed in 12 human service organizations. Client satisfaction was seen as a valid way to assess organizational performance.

Despite the acknowledged value of relying on client satisfaction ratings to influence organizational policy, researchers mention several barriers to its use.

First, Hardina (2011) investigated whether nonprofit managers ($n = 65$) perceived themselves or their organizations as being involved in administrative activities that support the inclusion of low-income service consumers in organizational decision making. One-third reported

the preference to use participatory approaches in day to day practice, but perceived organizational reluctance to the utilization of such approaches. Barriers mentioned included the necessity to obey to rigid rules, bureaucratic requirements, and hierarchical decision-making structures. Numerous researchers referred to the reluctant attitude of some stakeholders (other than beneficiaries) towards mechanisms involving beneficiaries in the NPO governance (Dom & Verhoeven, 2006; O'Dwyer and Unerman, 2009; Sitzia, Cotterell, & Richardson, 2006). Next, some stakeholders also question either beneficiaries' representativeness and/or the beneficiaries' competences to positively influence policy (e.g. Cornwall, 2008). Finally, several researchers stressed the challenge of finding a balance between the needs, expectations and objectives of various stakeholders (e.g. Brown 2002; Guo & Musso, 2007). This challenge of reaching equilibrium between the desires of various stakeholders might impede the organization to become beneficiary driven when setting organizational policies. Results of Leroux (2009b) and Leroux and Wright (2010) illustrate this. Leroux analyzed 72 surveys from CEOs of nonprofit social service organizations in Michigan, and found that in their search for additional funding nearly 20% of these NPOs fail to recognize their beneficiaries' interests. Findings of Leroux and Wright (2010) are based on a survey among 314 executive directors of diverse types of US NPOs. Their findings showed that the directors' strategic decisions are not being influenced by information gathered via beneficiary satisfaction feedback mechanisms. NPOs are expected to become more inclined to value beneficiaries' input if they were to become paying customers.

In contrast to findings indicating great difficulties with beneficiaries' inclusiveness, Bess, Prilleltensky, Perkins, and Collins (2009) and Mandel and Qazilbash (2005) sketched a more optimistic view. Bess et al. (2009) explored what would happen with health and human service organizations and community members when psychologists were to implement values of inclusiveness. They took the perceptions of both staff members and community members into account. In consistency with previous researchers, they also mentioned barriers, for both staff and community members. Barriers identified for the staff were time and resources. Barriers identified for community members were the lack of feeling both safe and supported, and they sometimes felt limited by both basic team work and literacy skills. By trying to overcome the reported barriers, Bess et al. noticed a slow but nevertheless observable progress towards inclusiveness. Mandel and Qazilbash (2005) described the effects of an eight month pilot project where adolescents were given a position as advisory board members in a school-based health center program in Boston. The youngest participants were aged thirteen. On average, between 8 and 10 pupils attended board meetings. Youth were judged to be capable, if offered support, to provide valuable feedback and shape organizational policy. Participants were trained, among other, in choosing, prioritizing and implementing of action projects, and educated on advisory boards and other governance structures.

The large majority of beneficiary-related literature is based on studies on the health care industry. For other

domains, less evidence is available. Exceptions include studies by Baldock, Van Rossem, and Buelens (2010), Barnes and Bennett (1998), Kilby (2006), Kissane and Gingerich (2004), McDonald and Sherry (2010), Ospina, Diaz, and O'Sullivan (2002), Preston and Brown (2004), on, among other, the arts industry, the development industry, sports and the social service industry.

The results of several of these studies showed the positive effects that beneficiaries' participation can bring to the NPO, and/or to the beneficiaries actually involved in policy development, and/or to the beneficiaries as a stakeholder group. These include increased effectiveness of delivered services, facilitated achievement of organizational goals, increased legitimacy, improved affective commitment among board members (the NPO), feelings of usefulness, learning new things, increased social capital (beneficiaries involved in policy development), improved quality of received services (beneficiaries as a stakeholder group).

Contrary to these results, Voss and Voss (2000) found a negative association between customer orientation and organizational performance (attendance rates and revenues) when studying the nonprofit professional theatre industry. They argued that when frequent theatregoers are asked about their preferences, their answers might unintentionally not reflect what they really want. These customers respond more favourably to innovative, thought-provoking creative new products. While studying arts NPOs, Hsieh (2010) also found that customer orientation contributes very little to organizational performance.

Most of the work focusing on beneficiaries is characterized by several important limitations.

First, the beneficiary perspective itself is often not taken into account when assessing performance (Crawford, Rutter, Manley, Weaver, Bhui, et al., 2002). Exceptions are the research by Baldock et al. (2010), Mandel and Qazilbash (2005) and McDonald and Sherry (2010). The latter found that Australian sports clubs' beneficiaries (n = over 200.000 season ticket holders) assess board performance by using both financial and non-financial measures. Making members feel included together with on-field performance appeared to be of particular importance in these ticket holders' evaluations. Baldock et al. (2010) investigated to what extent members and board members of community sports clubs had shared perceptions of what are outstanding board members' competencies. They interviewed 26 board members and 28 sport members of 23 different sport clubs and found some remarkable differences in perceptions. For example, only board members perceived administrative knowledge as an essential competency, and only sports members mentioned the importance of board members and sports members having good relationships. The researchers concluded that to enhance board effectiveness, boards need to be aware of the expectations of their stakeholders.

Second, regardless of the fact that numerous researchers have indicated that beneficiaries' involvement can be implemented through various participating mechanisms (e.g. advisory committee members, board members, surveys) (Andreassen, 2008; Kilby, 2006; Kreindler, 2009; Leroux, 2009a), studies comparing the effectiveness of

these mechanisms are extremely rare. [Hester, van de Bovenkamp, Trappenburg, and Grit \(2009\)](#) interviewed 52 Dutch actors in the health care field, and found that even when participation mechanisms exist, they are not necessarily experienced as powerful by the participating beneficiaries. As to web based involvement mechanisms, [Saxton and Guo \(2011\)](#) also warned for not overestimating their value. They performed a content analysis of the websites of 117 US community foundations and found that NPOs nowadays to a large extent use websites merely to disclose information to their stakeholders. [Johnston \(2010\)](#), however, spoke very positive about these mechanisms as ways to empower people and increase accountability.

Further research

Several researchers have previously stressed the necessity to study beneficiaries' participation in policy making, from both a marketing perspective and the desire to increase effective governance in NPOs. Nevertheless, such studies are still scarce. Moreover, the understanding of which participation mechanisms are most preferable and effective remains unclear. [Wellens and Jegers \(2011\)](#) encourage to explore how the management of stakeholder interests gets prioritized in nonprofit organizational governance, and how these practices influence organizational performance. Future research should try to answer [Radbourne's \(2003\)](#) questions of how far accountability to the public should extend and which decisions need to be in the public domain. There is also a clear need for future studies to provide insight into the factors (such as demographic characteristics of managers, management education, or organizational funding) that are associated with the implementation of beneficiary-centered decision-making approaches.

Private donors

Given the increasing dependence on private donors, NPOs need to understand which elements private donors attach value to. Results show that there is variation, often even contradiction, in the reported factors and conditions that influence donors' decisions. A recurring theme however is that private donors expect NPOs to demonstrate responsible behavior. When focusing on whether donations from one organization/individual affect donations from another organization/individual, results appear to be equivocal. Finally, there appears no consensus on the value donors can offer to NPOs in addition to their financial support.

First, we focus on the factors and conditions that influence donors' decisions, especially responsible organizational behavior. [Kitching \(2009\)](#) examined whether audit quality affects donor decision making in 228 US charities. Results showed that simply by engaging a quality auditor, donors demonstrate a higher willingness to provide financial support. Results additionally indicated that donors consider information provided by a high quality auditor as more trustworthy. [Fisman and Hubbard \(2005\)](#) studied panel data on 2,868 US NPOs. They found that when there is a lack of monitoring at state-level,

managers become constrained by donors in the accumulation of reserves. [Oster \(1998\)](#) stated that donors may be reluctant to fund NPOs that highly compensate their chief executive, and that the executive's compensation declines when reliance on private donations increases. Data came from 95 organizations with a variety of missions. Next, by studying a sample of 27,495 public charities from 1999 to 2007, [Petrovits, Shakespeare, and Shih \(2011\)](#) found a negative association between the disclosure of weak internal controls on financial reporting and donor support received.

[Waters \(2011\)](#) surveyed 1,706 randomly selected donors of three US nonprofit hospitals. Donors' trust and satisfaction were vital in predicting which donors had donated during the hospitals' most recent fundraising campaign, which is an important finding as previous fundraising research had shown that past donations are the strongest indicator of future giving. [Sargeant, Ford, and West \(2006\)](#) previously found in a study of 1,300 donors that trust in the organization was significantly affected by organizational performance and communication.

Various authors studied donor's use of information related to organizations' fraudulent activities and publicly available accountability ratings. Findings showed to be ambiguous. [Greenlee, Fischer, Gordon, and Keating \(2007\)](#) stated that the negative publicity ensuing from NPOs' fraudulent activities may reduce received donations in subsequent periods. [Sloan \(2009\)](#) studied the effects of accountability ratings on donor behavior while focusing on the Wise Giving Alliance ratings for 683 NPOs in the State of New York. He found that the Wise Giving Alliance "pass" was associated with significantly higher donations. "Did not pass" ratings however were not found to result in a decrease in donations. Sloan's findings are opposed to those of [Szper and Prakash \(2011\)](#). In a first step, they examined Charity Navigator's rating data of 80 US charities for the period 2004–2007, and found no association between donor giving and changes in ratings. In a second step, interviews were conducted in 10 charities. These revealed that charities believed that donors placed much more importance on program content, outcomes, or organizational reputation in the community, than to ratings. The authors advised the redesigning of rating organizations so that information is disclosed that donors actually want. [Cnaan, Jones, Dickin, and Salomon \(2011\)](#) found that some donors (23%) attach importance to rating information, and that those who donate large sums, or those who want to donate to advocacy organizations, consult such information.

In consistency with various researchers, [Hallock \(2002\)](#) stated that (potential) donors may consider receiving government funding as a sign of organizational quality and, related to that, a guarantee of close government monitoring. This indication of good governance stimulates them to donate to organizations that receive government funding. [Okten and Weisbrod \(2000\)](#) also found empirical evidence of such crowding-in effects. [Khanna and Sandler \(2000\)](#) found that government grants are significantly associated with crowding-in for UK social welfare organizations ($n = 59$). No significant results were however found for UK health organizations ($n = 60$). Autonomous charity's income showed some substituting with donations, but generally the relationship was insignificant.

Based on data from 123,314 organizations, Tinkelman and Neely (2011) observed that government grants have a positive impact on donations but that program revenues have a negative one, with effects that vary by industry.

Unlike previous results, O'Regan and Oster (2002) found evidence of crowding-out. They argued that board donors may consider their funds as less necessary when receiving government funds. Another possible explanation is that organizations that strongly depend on government funding may become tempted to select board members with skills particularly valued by the government, not always including fund-raising abilities. Over 4,000 board members and 403 executive directors participated in this study. Andreoni and Payne (2011) also found a significant crowding-out effect using panel data from 8,062 US charities. Together with Song and Yi (2011) they argued that government grants crowd-out private giving as NPOs are less motivated to optimize their own fundraising efficiency skills.

Finally, Horne, Johnson, and Van Slyke (2005) ($n = 675$, Georgia State) found only limited support for the assumption that private donors know the proportion of organizations' income that comes from the government. Furthermore, 82% of the participants argued that they would not diminish their donations if their organization would receive more government funding, 7% said their giving would increase and 8% said their giving would decrease.

The last part elaborates on the non-financial value that donors can offer to NPOs. On the one hand, Leroux (2007), Leroux (2009b) warned for possible conflicts of interest and undue influence of wealthy donors in NPO governance as most NPOs depend on diverse financial sources for their income. On the other hand, several researchers highlighted the value of donors actively involved in NPO governance (e.g. Callen, Klein, & Tinkelman, 2003; de Andrés-Alonso & Azofra-Palenzuela, 2009). Based on 123 US nonprofit charities, Callen et al. (2003) found that the administrative efficiency increases with the proportion of major donors on the board, albeit mentioning their cross-sectional design as a study limitation. de Andrés-Alonso and Azofra-Palenzuela (2009) surveyed 104 Spanish foundations and found that the presence of a donor may be related to a smaller board size. They argued that a donor performs a monitoring function in the NPO and consequently reduces the need for monitoring on the part of the board.

Callen et al. (2003), supported by Kitching (2009), formulated some words of caution, despite the value of donors on the board. They stated that under-investments may result from the excessive focus by donors on efficiency ratios.

Further research

Additional research is needed to learn how private donors use organizational information, and how they influence organizational policymaking (e.g. Cnaan et al., 2011;

Frumkin & Kim, 2001). As mentioned earlier, an empirical question that still needs to be answered is how nonprofit leaders balance the conflicting demands of their stakeholders (when they are dependent on several sources for funding). Something that also deserves further attention is the responsiveness of donations to a number of economic determinants in several industries (Okten & Weisbrod, 2000). By using different industry classification schemes, (slightly) dissimilar results were obtained. These findings emphasize that methodological choices should be very well thought-out.

Board members

Given the board members' possible impact on organizational policymaking and the fact that they are mostly volunteers, NPOs need to know what board members attach value to. Our results show that the empirical focus on board members' needs and objectives is limited. Additionally, only a limited number of researchers studied how board members themselves judge organizational and board effectiveness or performance. Some researchers that did study board members' perceptions, compared the ratings of board members and other stakeholders. Results demonstrated the difficulty to generalize perceptions over stakeholder groups. This section concludes by paying specific attention to the influence of board member heterogeneity and board member remuneration on governance. A well reasoned and thought-out selection procedure for board members appears to be important.

Board member perceptions

As mentioned earlier, Baldock et al. (2010) found for sports clubs, that only board members perceive "having administrative knowledge" as an essential competency for an outstanding board member, and only members perceive "board members having a good relationship with members" as important. Based on a literature review and interviews with numerous board members and executive directors, Preston and Brown (2004) gained understanding of which behaviors are considered to be indicators of effective board members. They arrived at the following list: (a) attendance at mandatory meetings, (b) quality of attendance at meetings and events, (c) knowledge of the organization's mission, services, and programs, (d) have a general sense of overall issues that confront NPOs, and (e) provide assistance where needed. Consistent with the research of Baldock et al. (2010), the importance of "a good relationship with beneficiaries" was not mentioned. As a second research step, Preston and Brown (2004) asked 28 executive directors and 267 board members of US social service NPOs to evaluate board members' performance on each of these items. They found strong convergence between board members' ratings of themselves and the executives' evaluations of them. Mitchell (2012) asked 152 leaders of international nonprofits in the US how they define effectiveness. More than 80% of the respondents were CEOs, presidents, and executive directors. Consistent with Preston and Brown (2004), Mitchell found that the judgments of different

stakeholder types are similar. A large majority (about 82%) of the interviewees defined effectiveness as "outcome accountability", referring to the demonstrable achievement of measurable goals, and keeping promises to stakeholders and in particular to donors. A small percentage (about 15%) linked effectiveness to cost minimization.

Brown (2005) and Herman and Renz (2004) reported, contrary to abovementioned studies, that stakeholder types sometimes differ in their ratings. Brown found that board members of 202 US NPOs tend to rank board performance slightly higher than executives do. Perceived organizational performance was not scored significantly differently. Strategic contributions of the board were identified as strongly associated with organizational performance. Similarly, the interpersonal dimension was also found to be important. Herman and Renz (2004) found in a longitudinal study of 44 United Way-funded US organizations that funders, executives and board members judged nonprofit organizational effectiveness in different ways, but saw board and organizational effectiveness as correlated. Board members and executives viewed the NPO's financial condition as the true measure of board effectiveness. Only board members took correct management practices into account when assessing organizational effectiveness.

Board member heterogeneity

Numerous researchers have argued that board member heterogeneity influences board policies (e.g. Brickley & Van Horn, 2002; Brown, 2002; Du Bois, Caers, Jegers, De Cooman, De Gieter, et al., 2009; Ostrower, 2007; O'Regan and Oster, 2005; Siebart, 2005), but the intensity and direction of these effects are not sorted out unambiguously yet (Caers, Du Bois, Jegers, De Gieter, Schepers, et al., 2006).

Fama and Jensen (1983) stressed the value for the organization of implementing an independent board of directors and insuring in this way that the interests of principals and agents are properly aligned. de Andrés-Alonso, Azofra-Palenzuela, and Romero-Merino (2010) on the other hand found that an increase of non-officers on the board was associated with a decrease in efficiency. They argued that board members whose wages depend on the organization's survival might invest more time and effort than unpaid volunteers. These researchers used survey data on 119 Spanish foundations. de Andrés-Alonso and Azofra-Palenzuela (2009) also reported that board members can influence governance, but indicated that numerous factors might influence board member behavior. They argued that when a foundation's financial leverage is high, the organization's survival chance increases by including more outsiders with financial expertise on the board. In addition, when managers are also donors, the divergence of interests between donors and managers reduces, and therefore the need to include outside monitors on the board. Results were based on 104 surveys from Spanish foundations. Consistent with these findings, Linck, Netter, and Yang (2008) suggested that before making any board structure changes, the NPO's idiosyncrasies and its contextual framework need to be studied in detail.

Board member remuneration

Across countries, regulations on nonprofit board member compensations vary. For example, in contrast to Spain, the United States allows trustees remuneration (de Andrés-Alonso & Azofra-Palenzuela, 2009). de Andrés-Alonso and Azofra-Palenzuela (2009) found that without payment, the most skilled trustees ultimately devote their time only to the biggest and oldest foundations. Ostrower (2007), on the other hand, found no general indication that compensation promotes higher levels of board engagement, nor evidence that it helps nonprofits attract particularly skilled board members ($n = 5.115$ US public charities). Results revealed that only two percent of the studied organizations pay their board members (see also Callen, Klein, and Tinkelman (2010)). So for which reasons would individuals serve on boards as numerous organizations worldwide do not pay their board members? O'Regan and Oster (2005) found in their New York survey that a large number of board members give mission fulfillment or program improvement as the principal reason for serving. These altruistic motives also imply the possibility that paying board members might crowd-out commitment (Frey & Jegen, 2001).

Further research

Abovementioned results again illustrate the need for further research. Comparing studies and drawing overall conclusions is very hard nowadays. Reasons therefore are that only a limited amount of studies takes board members' perceptions into account, there is inconsistency in reported findings, and researchers use diverse measurement instruments. There is a clear need to investigate the overall effects of board member remuneration, and especially its influence on board member behavior, board and organizational effectiveness. More research is also necessary to reveal the governance value of a well thought-out board member selection procedure.

CEO and other managers

A review of the literature shows that (a) only a limited number of studies focus on nonprofit managers' needs and objectives, (b) the most frequently studied principal-agent relationship is the one between the board, acting as the principal, and the manager, being the agent. As mentioned earlier, we are not claiming that the classic "board-manager principal-agent view" is not valuable, but using a multiple principals framework will provide a better picture of reality. In consistency with the available research, most of the studies included in this section depart from the classic "board-manager principal-agent view", and several of these articles discuss the so-called principal-agent (board-management) problems. Other researchers however argue that differences in objectives between board and management should not necessarily lead to agency costs and can even be enriching for the governance process.

The limited number of studies focusing on nonprofit managers' needs and objectives reveal that these can differ from those of other stakeholders and of managers employed in for-profit and public organizations (e.g. Brown &

Guo, 2010). Lee and Wilkins (2011) compared public and nonprofit managers' job motivations and found that nonprofit managers attach more importance to "an increased responsibility in the organization" and the use of "family-friendly policies". Their findings were based on surveys of 797 public managers and 275 nonprofit managers in the US. Additionally, nonprofit managers can as well differ in their judgments of organizational and board effectiveness with other nonprofit stakeholders. Du Bois et al. (2009) found in their study on Flemish schools after analyzing 639 surveys, that headmasters judged staff satisfaction and pupil satisfaction as very important. Boards valued ideological values over overall student satisfaction.

Numerous results lean towards the agency view that either CEOs seek to increase their own pay if unrestrained or that money stimulates them to perform better. Lavy (2008) for example, studied the effect of paying 120 Israeli school principals higher wages, unconditional of future productivity. The results suggested that increasing wages led to improved students' outcomes. He nevertheless cautioned that the relatively small sample of treated and control schools need to be seen as a study's limitation.

Furthermore, several researchers argued that not all nonprofits are equally vulnerable to managerial self-enrichment practices. Cardinaels (2009) for example showed, by using a sample of 80 Dutch private hospitals characterized by a two tier board, that supervisory boards are less effective in limiting excess CEO compensation when their own remuneration is high. He also stressed the importance of having an experienced board with a variety in backgrounds. Such boards may be better able to align CEO pay to the relevant economic conditions. The threat of CEO duality as mentioned by Barros and Nunes (2007) is confirmed by multiple researchers (e.g., Caers et al., 2006). Brickley and Van Horn (2002) even formulated a warning for just having a CEO as a voting member on board. Brickley, Van Horn, and Wedig (2010) additionally found, while studying 308 US hospitals, a limited but statistically significant positive association between CEO compensation and CEO presence on the board.

The above-mentioned results suggest that the board's monitoring function is important, even when organizations are not characterized by CEO-duality or voting membership on the board. Nevertheless, several authors argue that managers can be altruistic and intrinsically motivated (e.g. Jobome, 2006). If they experience too much control, a crowding-out effect may occur. Callen et al. (2010) and Siebart (2005) furthermore argued that the presence of an executive director on the board can bring value to the organization: the executive director's objectives may be relevant and enriching. Additionally, differences in objectives between stakeholders should not necessarily lead to agency costs and therefore lower organizational performance (Du Bois et al., 2009). Furthermore, increasing pay levels in the nonprofit sector, as a means to improve performance, could lead to crowding-out altruism, reducing intrinsic motivation and/or attracting the wrong kind of manager (Jegers & Lapsley, 2003; Jobome, 2006).

Further research

The research contradictions, the use of cross-sectional designs, the inconsistency in control factors, and the fact that management members' perspectives were rarely taken into account in the extant research, illustrate the necessity for further research.

A time series approach is the only design that will allow to reach firm conclusions as to the link between performance (changes) and remuneration (changes) (Jegers, 2009). Further, there should be no ambiguity as to the organizational objectives in case organizations implement incentive-based payment systems (ibid.). This need for unambiguousness is challenging as there is currently no consensus on what the needs and objectives of the different nonprofit stakeholders are. Additionally, as argued by, among others, Baber, Daniel, and Roberts (2002) and O'Connell (2005), there are multiple ways to measure the performance of managers in NPOs.

An additional direction for future research is to study managers not merely in their roles as agents, but also in their roles as principals.

Volunteers working at the grassroots level

NPOs need to gain insight in volunteers' needs and objectives, as this understanding might help them to optimize organizational practices in its respect to volunteers. Attracting and retaining volunteers is particularly important given the importance of volunteer labor at the grassroots level and the rising difficulty in securing it. In consistency with previous parts, some findings report on conflicting needs and objectives between volunteers and other stakeholders, leading to reduced volunteers' satisfaction and organizational commitment if not appropriately dealt with. Results furthermore show that volunteers can be positively or negatively influenced by organizational factors. For example, rigidly implementing for-profit HR practices is found to negatively impact on volunteers' wellbeing, organizational support and training are found to positively impact on volunteers' satisfaction and commitment. Overall conclusions are difficult to draw nowadays, as the operationalization of most constructs varies widely, diverse research methods are used, and 'the typical volunteer' does not exist.

Numerous researchers stress volunteers' need for organizational support and training, and the positive impact these have on their satisfaction and commitment. Cuskelly, Taylor, Hoye, and Darcy (2006) conducted 16 focus group with committee and board members, and collected 375 surveys from the same type of stakeholders in rugby sport clubs. They found that the use of planning, training and support practices is associated with fewer perceived problems in the overall retention of volunteers. Bortree (2010), Costa, Chalip, Green, and Simes (2006), Garner and Garner (2011), Waters and Bortree (2010), and Wisner, Stringfellow, Younghdahl, and Parker (2005) reached the same conclusions about these HR practices.

Despite the fact that abovementioned results emphasize the value of certain HR practices, Cuskelly et al. (2006)

warned for a too extensive use and too straightforward implementation of for-profit HR practices, especially in less formalized environments. Kreutzer and Jäger (2011) found empirical proof that "the new managerialism" leads to a reduction in volunteer motivation. The reasons for the increasing professionalization of NPOs are manifold, but one important motive stems from gaining legitimacy in the eyes of government and complying with their requirements. Kreutzer and Jäger (2011) conducted 34 interviews with internal and external stakeholders of six European patient organizations.

Bennett and Barkensjo (2005) received surveys ($n = 91$) and conducted interviews ($n = 15$) with the volunteers of a national UK charity. They found that the positive influence of organizational support on volunteers' wellbeing becomes smaller if volunteers are confronted with negative client-contact experiences (e.g. rude or uncooperative beneficiaries). They additionally argued that when volunteers are deciding how to react on a negative incident, their communication with paid staff influences their decision. They advised NPOs to prepare volunteers for negative client-contact experiences and help them deal with their feelings after an incident.

Despite the fact that several researchers argued that volunteers' satisfaction increases when they interact with paid staff (Garner & Garner, 2011; Wisner et al., 2005), Kreutzer and Jäger (2011), amongst others, referred to noticeable tensions between volunteers and paid employees, causing volunteers to even abandon the organization. These problems can be caused, among other, by paid staff feeling threatened by volunteers, especially when volunteers can perform the same functions, and by conflicting perceptions about the NPO's identity. Waters and Bortree (2010) stressed that organizations must make sure that volunteers and staff understand each other's needs and trust each other. They (2010) emphasized that staff and volunteers must spend sufficient time together as it leads to an improved valuation of each other's organizational contribution, an increased understanding of organizational identity and values, and their specific roles.

Wisner et al. (2005) surveyed 228 volunteers, in 43 NPOs. They found that social interactions with other volunteers and staff, and a work environment where people feel comfortable to make suggestions that are acted upon by the NPO, make volunteers feel valued and satisfied. They additionally advised to implement reflection opportunities into work processes as results demonstrated that volunteers' satisfaction increases when these are able to reflect on the value they are adding. Based on surveys from 297 high school student volunteers, Bortree (2010) came to the same conclusion. She furthermore stressed the importance of letting volunteers know that they are valued by the organization, and providing them with channels for posing job related questions. Garner and Garner (2011) studied 383 US volunteers, and suggested to engage volunteers in advisory and planning committees. Waters and Bortree (2010) referred to formal surveys or informal hallway conversations to collect feedback from volunteers.

Finally, as demonstrated in numerous studies, volunteers can be driven by (evolving) altruistic and egoistic motives (e.g. Bennett & Barkensjo, 2005; Hartenian & Lilly, 2009). Garner and Garner (2011) advised NPOs to investigate their volunteers' motives, and this from the beginning of the relationship. These obtained insights might help NPOs to match volunteers with their expected roles.

Further research

As the 'typical volunteer' does not exist, additional (longitudinal) research is necessary to explore the degree of generalizability across different volunteer "types" of their preferences, expectations and satisfaction (Cuskelly et al., 2006; Waters & Bortree, 2010). Hartenian and Lilly (2009), Studer and von Schnurbein (2012), and Waters and Bortree (2010) furthermore advise not only to focus on personal characteristics but also to dig deeper into how situational characteristics and agency characteristics support a long-lasting motivation to volunteer. For instance, it would be valuable to get a more nuanced insight in contemporary volunteer resource management practices (e.g. content and frequency of volunteer training programs). Studer and von Schnurbein (2012) additionally express a need for research focusing on the tradeoffs between volunteers' and organization's needs. Wisner et al. (2005) recommend to study the relationship between client contact and volunteer satisfaction, and whether there are variables that affect the client-volunteer relationship. Finally, Garner and Garner (2011) suggest to focus on the paid staff-volunteer relationship, and to explore how communication influences volunteers' responses to negative experiences.

Non-managerial employees

Employing satisfied paid staff members is valuable, not only because these are important collaborators in a world where competition for staff increases, but also because service effectiveness improves when employees' job satisfaction augments (Borzaga & Tortia, 2006; Kim & Lee, 2010; Parlalis, 2011). Consequently, identifying and meeting employees' needs is desirable (Parlalis, 2011).

Results demonstrate that a noteworthy amount of literature exists studying employees' perceptions on governance issues. Nevertheless, numerous directions for further research can be formulated. This part shows that consensus exists on the importance of an employee-organization fit, and that organizational changes can be a threat to this fit if not managed well. As with volunteers; empowerment, quality of intra-organizational relationships and provision of training and support appear to be important.

NPOs employ persons (partly) driven by intrinsic motivations, people stimulated by the meaningfulness of their work and the desire to make a positive difference in people's lives (Blaser & Carmin, 2009; Lanfranchi, Narcy, & Larguem, 2010; Narcy, 2011). Borzaga and Tortia (2006), among others, found in a study on 2.066 workers of public, nonprofit and for-profit Italian

organizations that intrinsic motivation does not stop employees from leaving the organization when they are not sufficiently satisfied with personal and process related aspects (e.g. job security and degree of autonomy). Lanfranchi et al. (2010) furthermore warned for the crowding-out of intrinsic motivation of employees asked to work too many paid hours or if being monitored too closely, (data in six European countries on more than 3.000 employees).

Related to this threat of voluntary employee turnover, numerous researchers stressed the necessity of a fit between on the one hand employees' individual values and needs and on the other hand the organization's mission and related practices (Blaser & Carmin, 2009; Christensen & Ebrahim, 2006; De Cooman, De Gieter, Pepermans, & Jegers, 2011; Moynihan & Pandey, 2007). Moynihan and Pandey (2007), among others, found a positive relation between such fit and long-term employee commitment. Their data were collected from 12 US NPOs, 326 employees were surveyed. A careful recruitment process and regularly communicating about the value of the organization's mission and the role that employees have in achieving this mission, increase the chances of a fit (De Cooman et al., 2011; Moynihan & Pandey, 2007).

Given the abovementioned, NPOs have to be careful when going through organizational changes and especially leadership successions. If not dealt with effectively, employees can become resistant to the change and conflicts can arise (Blaser & Carmin, 2009; Parish, Cadwallader, & Busch, 2008). Paralis (2011) observed during a five-year period the implementation of gradual changes in a Scottish NPO, receiving surveys from 38 employees. The majority of employees had a negative attitude towards the changes as they were not announced. They felt ignored in the whole process. Parish et al. (2008) received surveys from 192 employees of a US university's transportation services department. They emphasize the necessity for timely consulting staff members about their interpretations of the organizational identity, and their opinion regarding the changes. Becker, Antuar, and Everett (2011) as well confirmed in their Australian case study the importance of involving staff and ensuring that the organization's values and mission are reflected in the intended change. Insights are based on surveys from employees collected at two point in time during the implementation stage of a new performance management system ($n = 75$ and $n = 26$).

Paralis (2011) stated that legislation changes have an impact on the organization's strategy. Kim and Lee (2010) also reported that the increasing NPOs' dependence on government funding put greater emphasis on complying with (regularly changing) governments' requirements than on the needs and desires of employees, beneficiaries and the organization's mission. They analyzed surveys from 180 employees of a US human service agency, and found that if the reasons of changes are not clearly understood and related to the organization's mission, job tension and perceived workload increase and consequently threatens mission accomplishment. Christensen and Ebrahim (2006) also found that staff's workload of fulfilling government requirements is perceived to be less burdensome if employees can directly related these to fulfilling the organization's

mission. They furthermore reported on the fundamental role of the manager in staff member support. He organized frequent (informal) gatherings with staff members, stimulating an open communication, and promoting the accessible of each member to one another. Data were collected in a local refugee resettlement and immigration assistance agency.

Numerous studies found that offering employees voice opportunities and empowering them is not only valuable during organizational changes: a positive relation is also reported between listening to and empowering employees, and employee satisfaction and mission achievement (Costa et al., 2006; Garner & Garner, 2011; Moynihan & Pandey, 2007; Waters and Bortree, 2010). Employees' empowerment can be achieved via various formal and informal mechanisms at different organizational levels (e.g. personal job involvement and participation in overall organizational policymaking).

The quality of intra-organizational relationships also seems to be valued by employees. As pointed out by Christensen and Ebrahim (2006), a social network in the organization is perceived to be very important for employees (Moynihan & Pandey, 2007; Paralis, 2011). Numerous ways to improve social ties with other employees exist, such as organizing inducement programs for new employees and providing a physical space to encourage contacts. Moynihan and Pandey (2007) warned that the (government) tendency to introduce practices that encourage staff competition, like individualized pay for performance systems, can threaten the sense of staff cohesion and consequently increase voluntary turnover. Borzaga and Tortia (2006) furthermore found a positive relationship between interactions with clients and workers' satisfaction.

Earlier in this review, we described how volunteers' wellbeing is affected by employees' attitudes and behaviors. Rogelberg, Allen, Conway, Goh, Currie, et al. (2010) studied the paid staff-volunteer relationship from the employees' perspective. They questioned 270 employees of 220 US animal care organizations. In general, employees assess their experiences with volunteers positively: promoting their wellbeing and retention. Unsatisfied employees reported to experience more stress, a greater workload and less organizational commitment. Rogelberg et al. (2010) mentioned several practices that employees associate with more positive volunteer experiences (e.g. a volunteer performance evaluation system and a formal policy for handling volunteer problems). They emphasized that employees want to be involved in volunteer resource management practices.

Finally, several researchers also mentioned the importance for employees of training opportunities, family friendly policies and perceived external prestige (e.g. Carmeli & Freund, 2009; Moynihan & Pandey, 2007; Paralis, 2011).

Further research

There are numerous directions for further research. Firstly, there is a need to confirm abovementioned findings in different NPO types via a longitudinal study design. The results show that future studies focusing on how to find a compromise among employees' requirements and these of other

stakeholders will be valuable (Kim & Lee, 2010). Next, given the importance of intra-organizational relationships, more attention should be given on how social networks emerge and what keeps them going (Moynihan & Pandey, 2007). A point of particular interest would be to take the perspectives of both staff and volunteers into account in the same study. Becker et al. (2011) furthermore express the value of focusing in more depth on how to manage volunteers' performance. Investigating how and to what extent an organization need to invest in order to sustain and improve (perceived) external prestige, is a potential research direction proposed by Carmeli and Freund (2009). Finally Parlalis (2011) suggests to investigate how the job satisfaction of different stakeholders involved in NPO care influences the effectiveness of provided services.

Conclusion

In this review, we tried to provide an overview of the extant knowledge on the relationship between the effectiveness of nonprofit governance and the expectations of the most prominent stakeholders. The table in appendix presents the key findings about each key stakeholder in relation to the research questions readers can find of the surveyed literature. In general, comparing studies and drawing specific conclusions is very hard. The reasons therefore are the following: only a limited number of studies take stakeholders' perceptions into account, there is inconsistency in reported findings, the operationalization of most constructs varies widely, and diverse research methods are used. Despite these challenges to draw specific conclusions, we have obtained several rather general, but nevertheless important, insights. The summary table illustrates that the research questions have mainly received attention in the US, and have not received much consideration in several NPO industries. This table not only shows the lack of attention some stakeholders have received in the literature, but also the conflicting needs and objectives/organizational effects between stakeholder groups. In addition, even for the same stakeholder groups opposing findings are frequently reported. These contrasting results might be due to the diversity in NPO industries/cultural differences between countries, but the current state of the art makes it impossible to explain them. The last column in the table highlights the governance challenges that can be associated with or result from the previous columns (all governance related needs and objectives as mentioned by the stakeholders themselves are listed in the first column, in the next column the organizational effects that arise from the contacts/relationships between stakeholders and NPO are enumerated). The studies that indicate the (unforeseen) negative impact on (being accountability to) other stakeholders when NPOs try to be responsive to the needs and objectives of a particular stakeholder group, are of particular importance.

The value of this review lies in the fact that it reveals both complexity of and the need for stakeholder management in NPOs, if they want to be perceived as (more) effective by their numerous stakeholders, and related to that gain insight in how to improve their governance practices.

This review discloses the impossibility to consider the governance related needs and objectives of board members and managers as similar to the governance needs and objectives of other prominent stakeholders. Several findings additionally indicate the positive results on the NPO or the stakeholders themselves of being accountable to/involving different key stakeholders (e.g. Christensen & Ebrahim, 2006; Mandel & Qazilbash, 2005; Waters & Bortree, 2010). Such insights stress the value of future research to further explore ways to optimize accountability processes and reinforce in that way the relevance of Freeman's stakeholder theory (1984). However, only by effectively transcending the symbolic function of accountability mechanisms, as mentioned by several researchers (e.g. Hester et al., 2009), one will truly be able to investigate profoundly the value and impact of such mechanisms, stressing even more the value of stakeholder theory in the context of the non-profit industry.

As shown in the results section, there are numerous directions future research could take. Focusing on the identified knowledge gaps and overcoming methodological difficulties former researchers were confronted with, will help move NPOs and the current state of the literature forward.

Based on obtained insights, the following recommendation for practice can be formulated. NPOs should identify who their key stakeholders are, and listen to their needs and objectives (at regular points in time as needs and objectives can change (e.g. Herman & Renz, 2004)). NPOs should try to implement governance structures that function as information exchange platforms with their key stakeholders, adapted to the NPO's idiosyncrasies and context (e.g. exchange platforms for clients: beneficiaries councils in nursing homes, the use of questionnaires in arts institutions). We expect that the more NPOs try to be accountable to numerous stakeholder groups at the same time, the more effective NPOs will be perceived. The rationale behind this expectation is that by making use of accountability mechanisms, stakeholder groups also can become more aware of the needs and objectives of other stakeholder groups (as accountability can, among others, be put into practice via disclosure statements and reports, performance assessment and evaluation, and participation (Ebrahim, 2003)), possibly creating more understanding for each other's needs and objectives and a greater willingness to meet each other halfway.

This "broadened accountability need" in trying to optimize the effective governance of NPOs fits the need for a "multiple principals" framework (Jegers, 2009). It should be emphasized again, that this review does not contest the value of the classic "board-manager principal-agent view". However, by using a multiple principals framework a better picture of reality will be created, this increased understanding will consequently help to optimize the governance effectiveness of NPOs.

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Appendix.

Synoptic review table of 110 studies (initial article search 1998–2012).

	Countries where studies took place/Types of NPOs (<i>n</i> = number of studies)	Governance related needs and objectives (as mentioned by the stakeholders themselves)	Organizational effects that arise from the contacts/relationships between stakeholders and NPOs (<i>rationale in italics</i>)	Governance challenges (<i>rationale in italics</i>)
Government	US (10) Belgium (1) Different types of NPOs in one study (3) Social service NPOs (2) Hospitals (1) NPOs serving youth and children (1) Schools (1) Charitable organizations (1) Voluntary organizations (1) Theoretical study/review (1)		NPOs that professionalize and go into partnership with other organizations receive more government funding (Eikenberry and Kluver, 2004; Guo, 2007; Ostrower, 2007) (<i>Combined forces are considered to be essential in resolving complex social problems</i>) (Suarez, 2011). Governance problems are greater in states with weaker oversight by the State Attorney General, going together with a higher correlation between managerial compensation and donations received (Fisman and Hubbard, 2005). Government funding increases opportunities for client participation in policy making (community relations and having minority group members on the board) (Leroux, 2009a; Ostrower, 2007) (<i>Such practices provide the NPO with valuable feedback</i>) (Mandel and Qazilbash, 2005). Alexander et al. (2008) only find a limited impact of legislative initiatives intending to stimulate the level of activity by the hospital in community engagement.	Pressure to professionalize pushes NPOs away from serving those in need. Less time can be spent on listening to clients and stimulating participation in policy making (Alexander et al., 1999; Suarez, 2011). Less board member seats are available for 'ordinary' community representatives due to increased board professionalization (Guo, 2007). Applying for government grants is time consuming for board members, threatening the board's monitoring quality (Guo, 2007). Government funding leads to less volunteer support at the organization's grassroots level (Nowland-Foreman, 1998).
Beneficiaries	US (20) Belgium (3) UK (2) Australia (2) Netherlands (1) Scotland (1) India (1) Ireland (1) Canada (1) Norway (1) Social service NPOs (8) theoretical study/review (6) Different types of NPOs in one study (3) Sports clubs (2) Schools (2) Community based NPOs (2) Arts NPOs (2) Health NPOs (2) NGDOs (2) Foundations (1) Human service NPOs (1) Identity based NPOs (1)	<u>Staff members/management</u> : client satisfaction is a valid way to assess organizational performance (Balsler and McClusky, 2005; Mandel and Qazilbash, 2005; Packard, 2010). Managers prefer to use participatory approaches in day to day practice (Hardina, 2011). Barriers identified for the staff to include beneficiaries in the governance process are time and resources. <u>Beneficiaries'</u> barriers are the lack of feeling both safe and supported, and they sometimes feel limited by both basic team work and literacy skills (Bess et al., 2009). <u>Some stakeholders (other than beneficiaries)</u> have a reluctant attitude towards mechanisms involving beneficiaries in the NPO governance (Dom and Verhoeven, 2006; Leroux and Wright, 2010; O'Dwyer & Unerman, 2009; Sitzia et al. 2006). <u>Beneficiaries</u> evaluate board performance by using both financial and non-financial measures. Making the NPO's customers feel included together with on-field performance appears to be of particular importance (McDonald and Sherry, 2010). Only <u>sports members</u> mention the importance of board members and sports members having good relationships, only <u>board members</u> perceive administrative knowledge as an essential competency (Balduck et al., 2010).	<i>Positive effects of beneficiaries' participation include increased effectiveness of delivered services, facilitated achievement of organizational goals, increased legitimacy, improved affective commitment among board members (the NPO), feelings of usefulness, learning new things, increased social capital (beneficiaries involved in policy development), improved quality of received services (beneficiaries as a stakeholder group)</i> (Andreassen, 2008; Balduck et al., 2010; Barnes and Bennett, 1998; Johnston, 2010; Kilby, 2006; Kissane and Gingerich, 2004; McDonald & Sherry, 2010; Ospina et al., 2002; Preston and Brown, 2004).	Negative association between customer orientation and organizational performance (Hsieh, 2010; Voss and Voss, 2000). Even when participation mechanisms exist, they are not necessarily allowing beneficiaries to truly participate in policy making/are not necessarily experienced as powerful by the participating beneficiaries (Hester et al., 2009; Kreindler, 2009; Saxton and Guo, 2011; Waters et al., 2009). Several barriers to implement values of inclusiveness (e.g. rigid rules, resources) (Bess et al., 2009; Cornwall, 2008; Crawford et al., 2002; Hardina, 2011). Finding a balance between the needs, expectations and objectives of various stakeholders is a challenge (Abzug and Galaskiewicz, 2001; Brown, 2002; Guo and Musso, 2007; Radbourne, 2003). This might impede the NPO to become beneficiary driven when setting policies (Kim and Lee, 2010; Leroux, 2009b; Wellens and Jegers, 2011). NPOs may become more inclined to value beneficiaries' input if they were to become paying customers (Leroux & Wright, 2010). NPO effectiveness is a socially construed, unstable construct (Herman and Renz, 2008).

(continued on next page)

Appendix (continued)

	Countries where studies took place/Types of NPOs (<i>n</i> = number of studies)	Governance related needs and objectives (as mentioned by the stakeholders themselves)	Organizational effects that arise from the contacts/relationships between stakeholders and NPOs (<i>rationale in italics</i>)	Governance challenges (<i>rationale in italics</i>)
Private donors	US (20) Spain (1) UK (1) Charities (9) Different types of NPOs included in one study (8) Foundations (1) Social service NPOs (1) Arts NPOs (1) Community-based NPOs(1) Health NPOs(1)	<u>Donors'</u> trust and satisfaction are vital in predicting which donors had donated during the hospitals' most recent fundraising campaign (Waters, 2011). Donors' organizational trust is significantly affected by organizational performance and communication (Sargeant et al., 2006). Only 23% of the <u>donors</u> attach importance to rating information; those who donate large sums, or those who want to donate to advocacy organizations (Cnaan et al., 2011). <u>Staff members</u> believe that donors placed much more importance on program content, outcomes, or organizational reputation in the community, than to ratings (Szper and Prakash, 2011). Most private <u>donors</u> do not know the proportion of organizations' income that comes from the government. 82% of the donors argue that they would not diminish their donations if their organization would receive more government funding, 7% say their giving would increase and 8% say their giving would decrease (Horne et al., 2005).	Donors may be reluctant to fund NPOs that highly compensate management. When reliance on donations rises, management's compensation declines (Oster, 1998). When there is a lack of monitoring at state-level, managers become constrained by donors in reserves' accumulation (Fisman and Hubbard, 2005). Donors demonstrate a higher willingness to provide support when NPOs use quality auditors' services (Kitching, 2009). The disclosure of weak internal controls on financial reporting negatively influences donations (Petrovits, Shakespeare, and Shih, 2011). Negative publicity ensuing from NPOs' fraudulent activities may reduce future donations (Greenlee et al., 2007). A Wise Giving Alliance "pass" is associated with higher donations. "Did not pass" ratings are not found to result in a decrease in donations (Sloan, 2009). No association between donor giving and rating changes (Szper and Prakash, 2011). The administrative efficiency increases with the proportion of major donors on the board (Callen et al., 2003). The presence of a donor on the board may be related to a smaller board size (<i>a donor performs a monitoring function and consequently reduces the need for monitoring on the part of the board</i>) (de Andrés-Alonso and Azofra-Palenzuela, 2009). Government funding related crowding-in effects (Khanna and Sandler, 2000; Okten and Weisbrod, 2000; Tinkelman and Neely, 2011) (<i>These funds can be seen as a sign of NPO's quality and guarantee of government monitoring</i>) (Hallock, 2002). The relationship between autonomous charity's income and donations is insignificant (Khanna and Sandler, 2000). Program revenues have a negative impact on donations, with effects that vary by industry (Tinkelman and Neely, 2011). Government funding related crowding-out effects (<i>government grants crowd-out private giving as NPOs are less motivated to optimize their own fundraising efficiency skills</i>) (Andreoni & Payne, 2011; Song & Yi, 2011) (<i>board donors may consider their funds as less necessary when receiving government funds/NPOs that strongly depend on government funding may become tempted to select board members with skills particularly valued by the government, not always including fundraising abilities</i>) (O'Regan and Oster, 2002).	When donors functioning as board members, under-investments may result from the excessive focus by donors on efficiency ratios (Callen et al., 2003; Kitching, 2009). Possible conflicts of interest and undue influence of wealthy donors in NPO governance may arise as most NPOs depend on diverse financial sources for their income (Leroux, 2007, 2009b).

Board members	US (10) Belgium (3) Spain (2) Switzerland (1) Germany (1) Different types of NPOs included in one study (6) Theoretical study/literature review (4) Foundations (2) Sports clubs (1) Hospitals (1) Schools (1) International NPOs in the US (1) Social service NPOs (1)	<u>Board members</u> perceived administrative knowledge as an essential personal competency (Balduck et al., 2010). <u>Board members and executive directors</u> consider the following items indicators of effective board members: a) (quality of) attendance at (mandatory) meetings and events, b) knowledge of the mission, services, programs, c) have a general sense of overall issues that confront NPOs, d) provide assistance where needed (Preston and Brown, 2004). <u>Boards and directors</u> view the NPO's financial condition as the true board effectiveness' measure. <u>Board members</u> take correct management practices into account when assessing organizational effectiveness (Herman and Renz, 2004). <u>CEOs, presidents, and executive directors</u> associate effectiveness with demonstrating the achievement of measurable goals, and keeping promises to stakeholders (donors in particular). 15% link effectiveness to cost minimization (Mitchell, 2012). Strategic board contributions are strongly associated with organizational performance. The interpersonal dimension is also found to be important (Brown, 2005). <u>Boards</u> valued ideological values over overall student satisfaction (Du Bois et al., 2009). Principal reasons for serving on a board are mission fulfillment/program improvement (O'Regan and Oster, 2005).	By implementing an independent board of directors, one insures that the interests of principals and agents are properly aligned (Fama and Jensen, 1983). When a foundation's financial leverage is high, the organization's survival chance increases by including more outsiders with financial expertise on the board (de Andrés-Alonso and Azofra-Palenzuela, 2009). A decrease in efficiency is associated with an increase of non-officers on the board (<i>board members whose wages depend on the organization's survival might invest more time and effort than unpaid volunteers</i>) (de Andrés-Alonso & Azofra-Palenzuela, 2009). Without payment, the most skilled trustees ultimately devote their time only to the biggest and oldest foundations (de Andrés-Alonso and Azofra-Palenzuela, 2009). Compensation does not promote higher levels of board engagement, nor does it help NPOs attract particularly skilled board members (Ostrower, 2007).	Board member heterogeneity influences board policies (e.g. Brickley and Van Horn, 2002; Brown, 2002; Du Bois et al., 2009; Ostrower, 2007; O'Regan and Oster, 2005; Siebart, 2005), but the intensity and direction of these effects are not sorted out unambiguously yet (Caers et al., 2006). In addition, numerous factors (NPO's idiosyncrasies and contextual framework) might influence board member behavior (de Andrés-Alonso & Azofra-Palenzuela, 2009; Linck et al., 2008). Stakeholder types sometimes differ in their ratings of board performance/effectiveness and/or organizational performance/ effectiveness (Brown, 2005; Herman and Renz, 2004). When board members give mission fulfillment or program improvement as the principal reason for serving on a board, this also implies the possibility that paying board members might crowd-out commitment (Frey and Jegen, 2001).
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Appendix (continued)

	Countries where studies took place/Types of NPOs (n = number of studies)	Governance related needs and objectives (as mentioned by the stakeholders themselves)	Organizational effects that arise from the contacts/relationships between stakeholders and NPOs (<i>rationale in italics</i>)	Governance challenges (<i>rationale in italics</i>)
CEO and other managers	US (7) Belgium (4) UK (1) Netherlands (1) Spain (1) Israel (1) Germany (1) Portugal (1) Different types of NPOs included in one study (4) Theoretical study/literature review (4) Hospitals (3) Charities (2) Foundations (2) Schools (2)	Nonprofit <u>managers</u> attach more importance to "an increased responsibility in the organization" and the use of "family-friendly policies" in comparison to managers of public organizations (Lee and Wilkins, 2011). Headmasters judge staff satisfaction and pupil satisfaction as very important (Du Bois et al., 2009). For additional information about the needs and objectives of CEOs and other managers, the "beneficiaries and board members" sections of this summary are also relevant.	CEOs seek to increase their own pay if unrestained/money can stimulate them to perform better (Brickley and Van Horn, 2002; Brickley et al., 2010; Lavy, 2008). CEO duality is a threat for the NPO's well-functioning (Barros and Nunes, 2007; Caers et al., 2006). Not all NPOs are equally vulnerable to managerial self-enrichment practices. Supervisory boards (two tier board) are less effective in limiting excess CEO compensation when their own remuneration is high. Experienced boards with a variety in backgrounds are better able to align CEO pay to the relevant economic conditions (Cardinaels, 2009). When managers are also donors, the divergence of interests between donors and managers reduces, and therefore the need to include outside monitors on the board (de Andrés-Alonso and Azofra-Palenzuela, 2009). Several results lean towards the stewardship view that managers are altruistic and intrinsically motivated (Jobome, 2006). The presence of an executive director on the board can bring value to the organization (Callen et al., 2010; Du Bois et al., 2009; Siebart, 2005) (<i>the executive director's objectives may be relevant and enriching</i>) (Callen et al., 2010; Siebart, 2005).	Nonprofit managers' needs and objectives can differ from those of other stakeholders and of managers employed in for-profit and public organizations (e.g. Brown and Guo, 2010; Jegers, 2009). Nonprofit managers can differ in their judgments of organizational and board effectiveness with other nonprofit stakeholders (Du Bois et al., 2009). Managers can be altruistic and intrinsically motivated (e.g. Jobome, 2006). If they experience too much control, a crowding-out effect may occur. Increasing pay levels in the nonprofit sector, as a means to improve performance, could lead to crowding-out altruism, reducing intrinsic motivation and/or attracting the wrong kind of manager (Jegers and Lapsley, 2003; Jobome, 2006).
Volunteers	US (5) Australia (1) Switzerland (1) six different European countries (1) theoretical study/review (4) Sports clubs (2) Charities (1) Libraries (1) NPO that offers services to children and adolescents (1) Health NPOs (1) Different types of NPOs in one study (1)	<u>Committee and board members</u> : planning, training and support practices are associated with fewer problems in overall volunteers' retention (Cuskelly et al., 2006). <u>Volunteers</u> value planning, training and support practices organized by the NPO (Bortree, 2010; Costa et al., 2006; Garner and Garner, 2011; Waters and Bortree, 2010; Wisner et al., 2005). The positive influence of organizational support on volunteers' wellbeing becomes smaller if volunteers are confronted with negative client-contact experiences. The reaction on a negative incident is influenced by the communication with paid staff (Bennett and Barkensjo, 2005). Social interactions with other volunteers and staff, and a work environment where people feel comfortable to make suggestions that are acted upon by the NPO, make volunteers feel valued and satisfied (Bortree, 2010; Garner and Garner, 2011; Wisner et al. 2005). (Evolving)altruistic and egoistic motives can drive <u>volunteers</u> (Bennett & Barkensjo, 2005; Hartenian and Lilly, 2009).		"The new managerialism" can lead to a reduction in volunteer motivation (Cuskelly et al., 2006; Kreutzer and Jäger, 2011). The reasons for the increasing professionalization of NPOs are manifold, but one important motive stems from gaining legitimacy in the eyes of government and complying with their requirements (Kreutzer and Jäger, 2011). Noticeable tensions can exist between volunteers and paid employees (Studer and von Schnurbein, 2012), causing volunteers to even abandon the NPO (<i>paid staff feeling threatened by volunteers, especially when volunteers can perform the same functions, or by conflicting perceptions about the NPO's identity</i>) (Kreutzer and Jäger, 2011).

Non-managerial employees	US (10) Australia (1) Italy (1) Israel (1) Belgium (1) France (1) Scotland (1) Seven European countries (1) Social service NPOs (5) Different types of NPOs in one study (4) Community service NPOs (2) Libraries (1) NPOs serving immigrants and refugees (1) Sports clubs (1) Charities (1) Animal care NPOs (1) Environmental NPOs (1)	<u>Employees</u> are (partly) driven by intrinsic motivations, stimulated by the meaningfulness of their work and the desire to make a positive difference in people's lives (Blaser and Carmin, 2009; Lanfranchi et al., 2010; Narcy, 2011). Intrinsic motivation does not stop employees from leaving the NPO when they are not satisfied with personal and process related aspects (Borzaga and Tortia, 2006). Such motivation can crowd-out when asked to work too many paid hours or if being monitored too closely (Lanfranchi et al., 2010). Employees also attach importance to trainings, family friendly policies and perceived external prestige (Carmeli and Freund, 2009; Moynihan and Pandey, 2007; Parlati, 2011). A fit between individual values/needs and the NPO's mission/related practices can positively influence long-term <u>employee</u> commitment (Blaser and Carmin, 2009; Christensen and Ebrahim, 2006; De Cooman et al., 2011; Moynihan and Pandey, 2007). When employees feel not enough involved in organizational changes/the reasons of changes are not clearly understood and related to the NPO's mission, conflicts can arise and mission accomplishment can be threatened (Becker et al., 2011; Blaser & Carmin, 2009; Christensen & Ebrahim, 2006; Kim and Lee, 2010; Parish et al., 2008; Parlati, 2011). Listening to/empowering <u>employees</u> is positively related to employee satisfaction/mission achievement (Costa et al., 2006; Garner and Garner, 2011; Moynihan and Pandey, 2007; Waters and Bortree, 2010; Wisner et al., 2005). Workers' satisfaction is positively influenced by client contacts (Borzaga & Tortia, 2006) and contacts with other employees (Christensen and Ebrahim, 2006; Moynihan and Pandey, 2007; Parlati, 2011). A negatively perceived employee-volunteer relationship increases feelings of stress and workload, and lowers organizational commitment. Employees want to be involved in volunteer resource management practices (Rogelberg et al., 2010).	Increasing NPOs' dependence on government funding puts greater emphasis on complying with (regularly changing) governments' requirements than on the needs and desires of employees and the organization's mission (Kim and Lee, 2010; Parlati, 2011). The (government) tendency to introduce practices that encourage staff competition, like individualized pay for performance systems, can threaten the sense of staff cohesion and consequently increase voluntary turnover (Moynihan and Pandey, 2007).
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This reference set includes 122 items. The 12 asterisked items are not part of the literature review, restricted to the other 110 items; and are used only in the introduction/conclusion section for general information.

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