

GOVERNANCE MODELS AS PRECURSORS OF EFFECTIVENESS
IN NOT-FOR-PROFIT SERVICE ORGANIZATIONS

by:

Ana M. Viader Mundo, MBA

DISSERTATION

Dissertation Submitted in Partial Fulfillment of the Requirement for the
Degree of Doctor in Business Administration

School of Business Administration

Universidad del Turabo

Gurabo, Puerto Rico

May, 2008

UMI Number: 3412823

All rights reserved

INFORMATION TO ALL USERS

The quality of this reproduction is dependent upon the quality of the copy submitted.

In the unlikely event that the author did not send a complete manuscript and there are missing pages, these will be noted. Also, if material had to be removed, a note will indicate the deletion.



UMI 3412823

Copyright 2010 by ProQuest LLC.

All rights reserved. This edition of the work is protected against unauthorized copying under Title 17, United States Code.



ProQuest LLC
789 East Eisenhower Parkway
P.O. Box 1346
Ann Arbor, MI 48106-1346

UNIVERSIDAD DEL TURABO
CERTIFICATE OF DISSERTATION APPROVAL

This dissertation is approved as a Partial Fulfillment of the Requirement for the
Degree of Doctor in Business Administration

Ana M.Viader Mundo

Dissertation Committee:

Date:

Maritza I. Espina, Ph.D.
Committee Chair

Juan Carlos Sosa, Ph.D.
Committee Member

Carlos A. Andújar, Ph.D.
Committee Member

©Copyright, 2008

Ana M. Viader Mundo

All right reserved

GOVERNANCE MODELS AS PRECURSORS OF EFFECTIVENESS

IN NOT-FOR-PROFIT SERVICE ORGANIZATIONS

by:

Ana María Viader

Dr. Maritza Espina, Ph.D.

Committee Chair

ABSTRACT

This research provides empirical evidence of the applicability of For-Profit (FPO) Organizations' governance elements in the Not-for-Profit (NPO) governance universe, a contribution to the academic literature on governance and an evidence of the overlap of business elements for both types of organizations. Fifty (50) NPO dedicated to diverse social services in Puerto Rico (PR) were investigated in relation to their governance elements and their organizational effectiveness. An effectiveness index was calculated for each NPO based on organization's trends for stability, growth, and financial indicators. The FPO governance models used as framework for the research were Agency, Resource Based, and Stewardship Models. It was found that 80% NPO of the social service sector in PR have governance elements which are predominantly within these FPO models. A twenty percent (20%) of the investigated organizations were classified as Hybrid models because there was no predominant model, rather a mixed composition of the models. A proposed research model, which considered governance models as precursors of organizational effectiveness was tested considering the Organization's Top Executive (corresponding to CEO in the FPO) characteristics (tenure,

experience and academic preparation) as a moderating variable. No significant relationship was found between the governance model, the top executive's characteristics and the organizations' effectiveness index.

Although governance model and top executive's characteristics were not proved to be statistically significant in the organization's effectiveness index, this research contributes to the normative literature of NPO governance and effectiveness elements. The applicability of the FPO governance elements and the development of an effectiveness index for the NPO are both a contribution to the academic literature on management and a contribution to the business environment for Not-for-Profit Service Organizations (NPSO). Moreover, the conclusions open the door to future research within the framework of NPO organizational effectiveness factors.

RESUME
ANA MARÍA VIADER

Vista del Atlántico, Arrecife 7
San Juan, Puerto Rico 00924
Tel. (787) 257-8306; (787) 364-9443
joryana@coqui.net

ACADEMIC BACKGROUND

Doctorate in Business Administration with concentration in Management
Universidad del Turabo, Gurabo, PR
Graduated in 2008

Master in Business Administration with concentration in Management
Universidad Metropolitana, Cupey, PR
Graduated in 2000

BS Chemistry
University of Puerto Rico, Río Piedras Campus
Graduated in 1972

PROFESSIONAL EXPERIENCE

NNE PHARMAPLAN, San Juan, PR **1999 - Present**
Quality Systems and Regulatory Manager

Responsibilities:
Human Resources Management
Administration/Management
Quality Management
Project Management
Regulatory Systems Consulting

UNIVERSITY OF PHOENIX, Guaynabo, PR **2004 – Present**
Professor for Management and Total Quality Management Courses

UNIVERSIDAD DEL ESTE, Carolina, PR **2006- Present**
Professor for Management Courses

BAXTER HEALTHCARE CORP, Carolina, PR

Quality Manager

1989 – 1998

Responsibilities:

Quality Systems Management

Regulatory Systems Compliance Management

Managed a Quality function staff of 120 employees

Responsible for a \$5 MM budget administration

Quality Assistant Superintendent

1985 – 1989

Quality Assurance Supervisor

1978 – 1985

Staff Assistant to Puerto Rico Director

1977 – 1978

Product Release Coordinator

1974 – 1977

ACADEMIA SAGRADO CORAZÓN

High School Science Teacher

1972 – 1974

Responsible for teaching Chemistry, Earth Science and Physics

ACTIVITIES:

President of Board of Directors of Colegio Bautista de Carolina
(non profit private school)

Deliver trainings for Six-Sigma Supervisors Certification

Workshops on Quality Systems and Indicators

Teach Course on Preparation for Marriage

Give Conferences for Communication in Marriage

Give Conferences for Management of Conflicts in Marriage

President of Family Ministry (PIBC)

PUBLICATIONS:

Destructores.com (fiction)

PRESENTATIONS:

Governance Models as Precursors of Effectiveness in
Not-For-Profit Service Organizations

Encuentro de Investigadores April 2008

Universidad del Turabo

Gurabo, PR

DEDICATION

This achievement has not been easy and it would have been impossible without the support and contribution of my husband, Jorge. Jorge and I have been married for 35 years and there has not been a moment in which he has not encouraged and supported me to achieve my goals and succeed in my challenges.

On a second thought, Jorge has been such a suitable companion just because God, in his eternal love, brought us together. Long time ago I gave the control of my life to God and gave Him permission to execute His perfect plan on me, whichever the plan was. His plan included many blessings among which are Jorge, our two sons and daughter, and three beloved grandkids. The most recent blessing in His plan is this doctorate degree.

To God and to Jorge, I dedicate this work: for their love, support and encouragement.

ACKNOWLEDGEMENTS

It is very difficult and risky to try to acknowledge all the people that have contributed to this achievement. The immediate thought is for my family: all of them have suffered the long hours of study and preparation for this degree. All of them have, at some point postponed expectations and needs in lieu of my study demands. All of them have encouraged me to complete the challenge, and all of them are celebrating with me now. Thanks for the sacrifices.

There is also an acknowledgement for my Thesis Committee Chair, Dr. Maritza Espina. She was the first one to introduce me to the topic of governance and later, as a Chair, was the one who encouraged me even through the times when I thought the end was too distant. Thanks for believing in me.

Thanks to the other members of my committee, Dr. Sosa and Dr. Andújar, who contributed with their knowledge and experience.

Many others helped: fellow students who became friends along the way and professors who did not hesitate to help and lead. Thanks to all of you.

TABLE OF CONTENTS

	<u>Page</u>
LIST OF TABLES.....	xiii
LIST OF FIGURES.....	xv
CHAPTER I	
HISTORICAL BACKGROUND AND RESEARCH PROBLEM.....	1
Introduction.....	1
Research Problem.....	2
Relevance and Justification of the Research.....	5
Research Model.....	10
Dependent Variables.....	11
Independent Variables.....	12
Moderating variables.....	12
Constructs.....	12
Governance Models.....	13
CEO Characteristics.....	14
NPSO Effectiveness.....	14
Summary of Hypothesis.....	17
CHAPTER II	
LITERATURE REVIEW.....	19
Governance Models in For-Profit Literature.....	19
Agency Model.....	22
Stewardship Model.....	24
Resource Dependence Model.....	25

TABLE OF CONTENTS

	<u>Page</u>
Governance in Non-for-Profit Organizations.....	26
Non-for-Profit Organizations' Effectiveness.....	30
CHAPTER III	
METHODOLOGY.....	34
Research Design.....	36
Sample Selection.....	39
Instrument.....	41
Variable and construct operationalization.....	45
Data Analysis.....	55
CHAPTER IV	
FINDINGS.....	57
General Organization Characteristics.....	57
Top Executive / CEO Characteristics.....	61
Board Composition and Practices.....	65
Characteristics related to the effectiveness of the organizations.....	70
Determination of research model variables.....	79
Hypothesis analysis results.....	84
CHAPTER V	
CONCLUSIONS.....	94
Conclusions.....	94
Research Contributions.....	96
Research Limitations.....	97

TABLE OF CONTENTS

	<u>Page</u>
Recommendations.....	98
REFERENCES.....	100
APPENDIXES	
A Instrument Cover Letter	110
B Informed Consent Letter	112
C Research Instrument	116

LIST OF TABLES

<u>Table</u>		<u>Page</u>
Table 1	Total Population and Employment in PR.....	8
Table 2	PR Gross National Product Distribution.....	8
Table 3	Board Comparison Summary.....	20
Table 4	Relationship between Governance Models In For Profit and Not-For-Profit Literature.....	30
Table 5	Codification Process Product.....	42
Table 6	Variable and Construct Operationalization for Governance Model...	46
Table 7	Variable and Construct Operationalization for Effectiveness Index...	51
Table 8	Variable and Construct Operationalization for Top Executive / CEO Characteristics.....	54
Table 9	Descriptive Statistics and Correlation Matrix for Effectiveness Index and Governance Model.....	85
Table 10	Independent T-Test Results For Effectiveness Index And Governance Model.....	86
Table 11	Descriptive Statistics and Correlation Matrix for Effectiveness Index and Top Executive/CEO Academic Preparation.....	87
Table 12	Descriptive Statistics and Correlation Matrix for Effectiveness Index and Top Executive/CEO Previous Experience.....	88
Table 13	Descriptive Statistics and Correlation Matrix for Effectiveness Index and Top Executive/CEO Tenure.....	89
Table 14	Descriptive Statistics and Correlation Matrix for Effectiveness Index, Top Executive/CEO Characteristics and Governance Model...	91

LIST OF TABLES

<u>Table</u>		<u>Page</u>
Table 15	ANOVA Relationship Results for Effectiveness Index, Governance Model and Top Executive /CEO Characteristics.....	91
Table 16	Summary of Hypothesis Results.....	92

LIST OF FIGURES

<u>Figure</u>		<u>Page</u>
Figure 1	Strategic Options' Space for Operating Economy Units in PR.....	7
Figure 2	Research Contribution Flow Diagram.....	10
Figure 3	Proposed Relationship Model among Dependent, Independent and Moderating Variables.....	11
Figure 4	Research Model Showing Hypotheses Relationship.....	34
Figure 5	Relationship Between Research Model, Variables And Constructs.	45
Figure 6	Frequency Distribution of Type of Services Provided By Respondents.....	57
Figure 7	Frequency Distribution of Year of Incorporation of Respondents..	58
Figure 8	Frequency Distribution of Number of Employees of Respondents.....	59
Figure 9	Distribution of Number of Clients Reached By Respondents in a Year.....	60
Figure 10	Distribution of Respondents' Total Year Budget.....	61
Figure 11	Frequency Distribution of Internal vs. External Top Executives / CEO.....	62
Figure 12	Frequency Distribution of Tenure of Top Executives.....	62
Figure 13	Frequency Distribution of the Academic Preparation of Top Executives.....	63
Figure 14	Frequency Distribution of Previous Experience of Top Executives.....	64

LIST OF FIGURES

<u>Figure</u>		<u>Page</u>
Figure 15	Distribution of Number of Members in the Board of Directors....	65
Figure 16	Distribution of Responses Recruiting Body for Top Executive /CEO.....	66
Figure 17	Distribution of Responses Regarding Existence of a Formal Performance Evaluation Process for Top Executives/CEO.....	66
Figure 18	Distribution of Board Selection Processes.....	67
Figure 19	Distribution of Requirements for Board Membership.....	68
Figure 20	Distribution of Board Reporting Responsibilities.....	69
Figure 21	Distribution of Budget Trend in Last 5 Years.....	70
Figure 22	Distribution of Number of Employees Trend in Last 5 Years.....	71
Figure 23	Distribution of Number of Clients Reached Trend in Last 5 Years...	73
Figure 24	Distribution of Year End Budget Results Trend.....	74
Figure 25	Distribution of Financial Condition at Last Year End.....	75
Figure 26	Distribution of Debt Ratios.....	76
Figure 27	Distribution of Debt Ratio Trends in Last 5 Years.....	77
Figure 28	Distribution of Percent of Budget Allocated to Administrative Expenses.....	78
Figure 29	Governance Model Distribution.....	79
Figure 30	Distribution of Effectiveness Index among Respondents.....	83
Figure 31	Distribution of Top Executive / CEO by Level.....	84

CHAPTER I

HISTORICAL BACKGROUND AND RESEARCH PROBLEM

Introduction

Puerto Rico's economy is a top ranked topic, with multidisciplinary aspects and multilevel complexity. Not-for-Profit Organizations (NPO) compose one of the sectors with potential to contribute significantly to the improvement of the economy (Colley, et al., 2003; Gutiérrez, 2001). NPO are also known as the *Third Sector* (Gutiérrez, 1996), alluding to the two traditional economy sectors: Private and Government. Factors influencing the NPO effectiveness are thus, of particular interest for the economy.

Governance has been extensively linked to performance in For-Profit Organizations (Coles, Mc Williams & Sen, 2001). According to Arrington and Gautam (1995), governance is “an essential component of organizational life whose primary function is to establish and sustain an enterprise that produces desirable results for the people served by the work of the enterprise”. Simpler, as per Gordon (2002), “governance is commonly considered work that is done by a board of directors; the process of leading, directing the work, and monitoring performance.”

There is a growing interest on the relationship between governance, board effectiveness and not-for-profit organization effectiveness (Herman & Renz, 1997; Jackson & Holland, 1998; Green & Griesinger, 1996; Bradshaw, Murray & Wolpin, 1992; Bradshaw, et al., 1998). Although the correlation among these variables is recognized both in For-Profit and Not-For-Profit organizations, there is no consensus in how to measure not-for-profit organizational effectiveness (Gordon, 2002). Governance models specifically associated with NPO (Gordon, 2002; Bradshaw, et al., 1998;

Alexander & Weiner, 1998; Colley, et al., 2003) have scarcely been associated to the For-Profit governance models. Only Miller (2002) reported a research using For-Profit governance models to evaluate board activities in NPO. Alexander and Weiner (1998) addressed the growing adoption of for-profit governance models by NPO. Ostrower and Stone (2001) argue that there are major gaps in the theoretical and empirical knowledge regarding NPO Board of Directors behavior while at the same time acknowledge some attention to the topic in the last years, and encourage future research.

The three major governance models from the For-Profit literature considered for this research were: Agency Model (Berle & Means, 1932), Stewardship Model (Donaldson, 1990), and Resource Dependence Model (Hillman & Daziel, 2003). This research looked into the relationship between the predominant governance model of NPO using the For-profit models and the effectiveness of the organization. Because the top executive of the organization plays an important role in the organization's performance, the executive's academic preparation, tenure and experience were considered moderating variables.

Research Problem

NPO are generally defined as those organizations whose nature is not to generate profit, either in money or in stock (Puerto Rico Law 144). They do not produce profit for the accumulation of wealth of the owner(s). They exist to provide a service, at low or no cost, to a given group according to its' individual mission. NPO receive their operating income from donations, government funding (federal, state or municipal), or by selling the services. In each case, the income has the sole purpose of reinvestment in its social mission.

NPO are very diverse and can be classified according to different parameters. In general, NPO are classified based on the nature of their mission: corporations based on individual's contributions for charitable purposes (trusts and foundations may fall in this general category), professional or sports associations, common interest associations (religious, scientific, literary, educational, artistic associations or even tenants in a common residential complex), and corporations dedicated to services and community welfare. These may be additionally classified according to the type of service they provide: environmental protection, protection of rights for minority groups, health prevention services, recreation services for youth groups, and others. They may also be classified according to the serviced groups: working mothers, children, homeless, addicts, general public, others. A third classification could be by the type of service they provide: counseling, education, food, shelter, health services, others.

The NPO dedicated to provide social services can contribute significantly to a country's economy in more than one way. The two main contributions are: the creation of jobs, and the provision of services to low and middle income sectors, thus improving the quality of life of such groups. Although the 4,347 estimated Not-For-Profit Organizations in Puerto Rico (Estudios Técnicos, Inc., 2002) are already contributing in these two areas, they can become a stronger sector of the economy complementing the efforts of the private sector and the government. The possibility of these organizations becoming a strong Third Economy Sector depends on several factors which can be consolidated in two key inter-related ones: their ability to obtain funds consistently and their effectiveness in managing such funds to the satisfaction of the community and other stakeholders. Since the funds may come from donations or from the income related to

products/ services sold, the two key factors are strongly related to the credibility and image which the organization projects to all its stakeholders with focus on quality of the services provided and employee/management credibility (Moore & Ryan, 2006; Gill, Flynn & Reissing, 2005). The stronger the performance, the credibility and the image of the organization, the stronger the organizations will contribute to the economy.

Governance has been linked to performance in For-Profit Organizations (Coles, Mc Williams & Sen, 2001). In the case of NPOs, governance is related not only to the performance of the organization itself, but to the credibility and image of the organization to the stakeholders. This credibility is fundamental to overcome the resistance or prejudice that NPO may confront when looking for funds (Non Profit Evaluation and Resource Center, 2006; Moore & Ryan, 2006; Gill, Flynn & Reissing, 2005).

The primary objective of this research was to propose a governance model pertinent to Not-For-Profit Service Organizations (NPSO) that has demonstrated a significant relationship with the effectiveness level of the organization. Thus, this research compiled and analyzed the governance models of NPSO in PR, with the final purpose of proposing an effective governance model for this type of organizations.

The objective would be achieved by addressing the following questions:

1. Which are the most common governance models that NPSO use in Puerto Rico?
2. How do these models compare with the primary governance models described in the literature for For-Profit Organizations?
3. From the existing governance models in Puerto Rico's NPSO, is there any one that can be correlated to organizational effectiveness?

These questions were answered throughout the testing of the hypotheses and the analysis of the data provided by NPSO regarding their governance procedures, Top Executive/CEO characteristics and effectiveness information. Refer to Chapter IV and V for the Findings and Conclusion.

Relevance and Justification of the Research

Economists have traditionally recognized Government and Private Sector as the two contributing components of the economy. Both, government and private sectors contribute in a dual way: providing goods and services to the community and providing employment. Individuals depend on one or the other for the goods and services they need, making their selection based primarily in their acquisition power and the quality of the goods / services offered. Michael Parkin (1995) represented the economy of a country as a circular, interdependent flow between these two sectors. In their common goal of providing goods and services as well as employment to the community, both sectors have equilibrium difficulties.

In Puerto Rico, the government sector has grown under the vision of a paternalistic/benefactor entity which tries to compensate the needs/limitations of the economy by increasing the services and employment offered. The growing gigantism of the PR government has made its services less effective and more expensive and many economists have already addressed the danger of this continuing growth (Caribbean Business, June 2005) and the need to structural changes (Gutiérrez, 2001). In terms of the employment it provides, although contributing to lower the unemployment and social dependence, it has become a different type of social beneficence resulting in higher costs for the services and government operational deficits.

The private sector, on the other hand, in search of lower costs and more efficiency in its function as goods and services provider, is continuously looking for strategies to do more with less. Strategies such as Lean Manufacturing (Liker & Morgan, 2006; Mehri, 2006), Flat Organizations (Ketchen, et al., 1997), Just in Time (Flynn & Sakakibara, 1995), Reengineering (Nahavandi & Aranda, 1994) and others (Mroczkowski & Hanaoka, 1997), are aimed towards reduction of labor and materials costs and thus, increased competitiveness and sustained success.

The community groups are eager to contribute to the improvement of the quality of life, as reported in PR2025, a study by A.T. Kearney Management Consultants on the island's conditions and trends towards year 2025. Understanding these trends leads to the conclusion that new economy sectors/alternatives are needed to feed the economy and that the community is willing to participate and contribute. This is a perfect window for Not-For-Profit Organizations development, growth and contribution.

In their structure to provide these services, NPSO provide direct and indirect employment and promote the country's economy by interchanging goods and services with other sectors. Furthermore, the goal of these organizations is social in nature and thus, focuses on services to low income groups. Due to the increasing importance to the PR economy, these corporations have come to be known as the economy's *Third Sector*. This sector provides an alternative to improve and increase the services that both the government and the private sector provide, without the social cost associated with the government gigantism and at a lower cost than the private sector due to the non-profit vision of the owners/directors and the low wage and volunteer nature of the employees.

This *Third Sector* potential and its relationship with the other two sectors within the PR economy were described by Dr. Elías Gutiérrez from the Planning School of the University of Puerto Rico using figure 1:

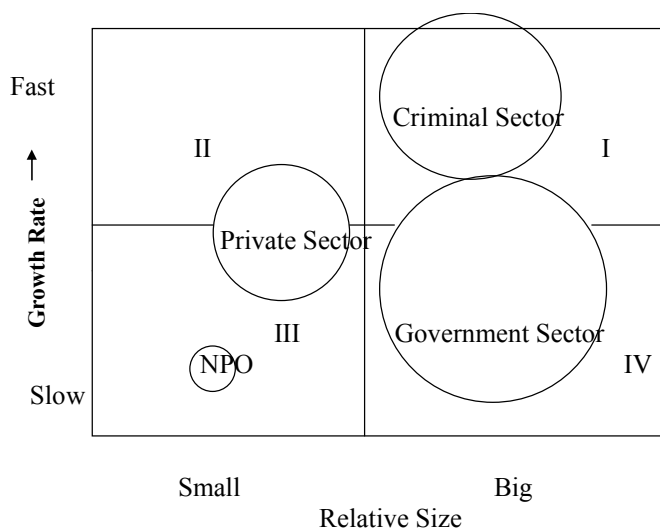


Figure 1. Strategic Options' Space for Operating Economy Units in PR. Source: Gutiérrez, E. (1996).

Dr. Gutiérrez' analysis includes the criminal sector as one whose growth needs to be stopped and its contribution to PR economy may be re-directed through the NPO. In 2002, the NPOs in PR contributed with \$2,156 MM, which was 5% of the PR Gross National Product (GNP). In addition, NPOs provided between 113,000 and 121,000 direct employment (Estudios Técnicos, Inc., 2004). Indirect employment probably reached hundreds of thousand that are not in the statistics (Nina, 2003). The following tables show the proportion of employment sources among the three mentioned sectors.

Table 1

Total Population and employment in PR (Government, Private Sector and NPO)

Year	Total Population	Labor Force	Employed individuals	Government employees	Private Sector employees	NPO employees
2000	3,808,610	1,306,000	1,174,000	277,000	776,000	121,000

Source: Junta de Planificación, Programa de Planificación Económica y Social,

Subprograma de Análisis Económico

Table 2

PR Gross National Product Distribution (in millions of dollars / %)

Year	Total GNP	Government Sector	Private Sector	NPO Sector
2002	\$45,071.3	\$8,356.1	\$34,559.2	\$2,156
		19%	77%	5%

Source: Junta de Planificación, Programa de Planificación Económica y Social,

Subprograma de Análisis Económico.

As mentioned previously, NPO are supported by donations, government funds (in PR they can be state funds, federal funds, municipal funds, or any combination of them), and the income from the selling of the products / services offered. US government has recognized the contribution and potential of the NPO by approving various legislations in order to incentivize and protect such organizations (Estudios Técnicos, Inc, 2004). In PR, Law 131 from 2003, created the “Oficina de Iniciativas de Fe y Base Comunitaria”,

as the liaison office between the municipal governments and the community service NPO to administer such funds.

The permanence and growth of NPO will be dependent on the trust that donors, funding entities and service consumers develop regarding the effective and healthy use that the NPO is giving to their contributions. This trust is also dependent on the perception that the governance of the organization is stable and trustworthy. This trust will allow the NPSO to grow and strengthen their contribution to the improvement of the quality of life of the nation in two different dimensions: providing employment and providing quality and effective services to the community.

The elements are interdependent. The potential of NPSO as an alternate sector contributing to economy depends on the sustainability of funds/income. This sustainability of funds / income depends on the trust of stakeholders, which is related to the trustworthiness of the NPO. The trustworthiness is directly related to the perceived effectiveness of the NPO. This flow of elements is what leads us to this research work on effectiveness and governance models for NPSO.

Stronger NPSO in Puerto Rico will contribute significantly to the island's economy and quality of life. This research contributed by identifying the governance models used in Puerto Rico by the NPSO, providing a methodology to calculate organization effectiveness in NPSO, raising the questions regarding factors to address effectiveness of NPSO, and thus, in the overall, help NPSO in Puerto Rico to become more consistently effective in providing the services that the community needs. The consistency and visibility of such effectiveness to donors and service consumers will

maintain the funds repetitive and will allow NPSO to grow stronger. Figure 2 depicts this research’s contribution goal as described above.

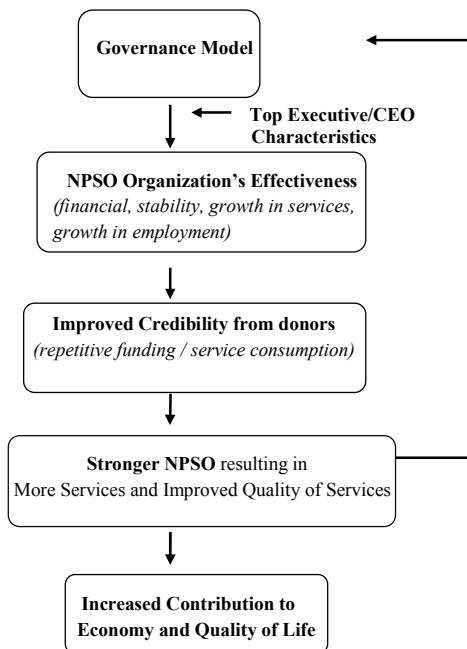


Figure 2. Research Contribution to Economy.

The research findings are applicable to any other economy system that can grow through the contribution of NPO.

Research Model

This research was based on the model shown in Figure 3. This model depicted the relationship among the governance models, considered independent variables, and the NPSO effectiveness, considered the dependent variable. The research hypotheses addressed the relationship between the variables. Due to the impact that a top executive has in the performance of any organization, the characteristics of the executive were monitored as moderating variables.

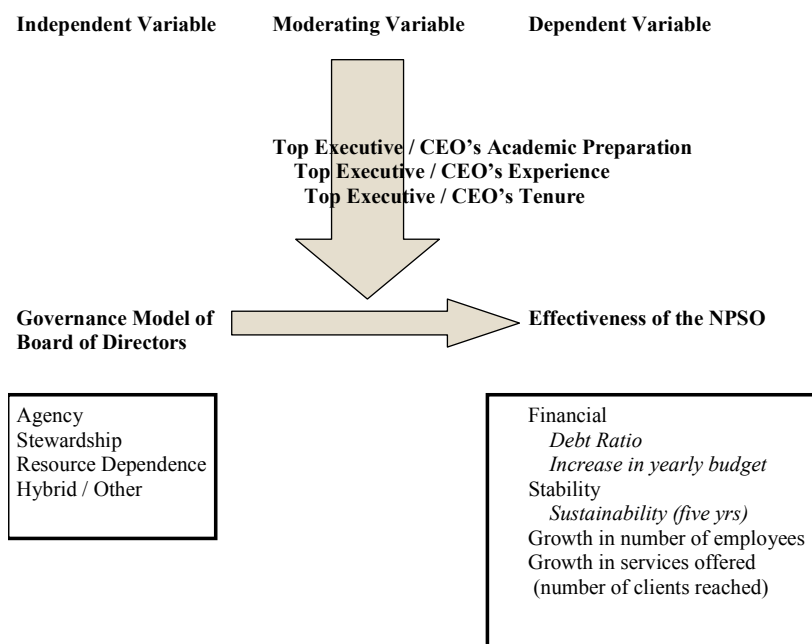


Figure 3. Proposed Relationship Model among dependent, independent, and moderating variables.

Dependent Variable

In this research, the dependent variable was a measure of the effectiveness of the NPSO. For the purpose of this research, the effectiveness was defined in three dimensions:

1. Financial indicators (Debt ratio, budget increase and financial condition at the end of the year).
2. Stability of the organization (growth in quantity of employees in the last five (5) years)
3. Reach of the services (growth in amount of clients per year for the last five (5) years)

Independent Variable

The independent variable was the governance model that the Board of Directors of the NPSO has predominantly used for the last five (5) years. Besides the three main models of for-profit corporate literature (agency, stewardship and resource dependence), the research confirmed the existence of Hybrid models.

Moderating Variables

Three dimensions of the top executive's positions were considered as moderating variables:

1. College academic preparation (any college degree was considered as appropriate for this research. Future research may distinguish between technical and management degrees).
2. Experience in the core business of the organization (experience in the same type of industry even if in for-profit organizations was considered. The purpose was to identify the executives who have proven skills related to the same core business, i.e. school administration, hospital administration, psychological backgrounds in the case of addiction treatments, etc.).
3. Tenure of the executive (years in the position).

Constructs

The constructs that built the model on Figure 3 were For-Profit governance models (agency, stewardship and resource dependence), CEO (referring to top executive position, not a specific title) characteristics, and NPSO effectiveness.

Governance Models

Agency model. Based on the control nature of this model and the description of the theory in Chapter II, the boards with a predominant agency governance model focus on audit and direct monitoring of the top executive's management activities. These boards are involved directly in all the management decisions and provide the guidelines for the top executive to comply. The board has performance evaluation criteria for the top executive, overlooks, and even overrides, if they feel appropriate, all the executive's decisions. The top executive is not typically a member of the board, and even if he/she attends the board meetings, it is only for informational purposes, not allowed to vote in decisions.

Stewardship model. The boards predominantly using this model are the ones that focus on the development of the executives' skills and the overall organizational managerial growth. The board is an advisor and counselor and empowers the executive as a means to achieve the common goals. The decisions are made in collaboration and the top executive may be a voting member of the board. The intervention of the board in management issues is only in the interest of collaboration and counseling.

Resource dependence model. The key role of this type of board is resource provider. It does not intervene in management activities, except to contribute with their experience and expertise. The resources provided by the board include reputation, experience, expertise, counsel, advice, and links to other organizations, networking and environmental scanning.

CEO Characteristics

The CEO's business knowledge and experience was expected to have an influence over the organizations' effectiveness. Being the top executive official, he/she would moderate the effect of the Board's management practices. Shen (2003), referring to For-Profit Organizations, concluded that the board governance models are highly dependent on the capabilities and skills of the CEO and the maturity of the Board / CEO relationship. He concluded that the CEO / Board relationship is an evolutionary condition.

Although no literature has been found regarding CEO's role in the NPO, this study proposed that in the presence of qualified, experienced top executives, the Board's control function (agency model) is less effective because it tends to hinder the performance of the executive and adds bureaucracy to the decision making process, making it slower and cumbersome. This is reinforced by the voluntary nature of board members, which do not necessarily consider business or administration capability as the board member's selection criteria. In these cases, the role of the board should lean towards stewardship and resource provider roles.

On the other hand, in the presence of top executives with no experience and no specific business knowledge, the control role (agency model) would be more effective. The CEO's capability and experience was measured in terms of academic preparation, experience and tenure and were considered moderating variables.

NPSO Effectiveness

Effectiveness is perceived and measured from different perspectives, both in For-Profit Organizations as well as in Not-for-Profit Organizations. Herman and Renz

(2004), argued that organizational effectiveness is a function of goal setting and goal accomplishment. Their approach to effectiveness was a goal model. Using a different perspective, Yuchtman and Seashore (1967) approached organizational effectiveness using a system resource approach. They treated organizational effectiveness as an organization's ability to exploit its environment to acquire scarce and valued resources. Thus, this approach incorporated financial measures, such as revenues, to the effectiveness concept. To complicate the concept, Herman and Renz (2004) proved that effectiveness has elements that are subjective to the particular stakeholder who is evaluating it. In the case of NPO, Herman and Renz (2004) state that organizations have multiple stakeholders (clients, employees, individual funders as well as government or foundation funders, licensing and accrediting bodies, vendors and board of directors) and all of them may have different criteria when evaluating effectiveness of the organization. Regardless of the specific criteria in the eyes of different stakeholders, Herman, Renz and Heimovics (1997) concluded that board and organizational effectiveness are related. Gordon (2002) compiled a list of thirteen (13) empirical studies of effectiveness in NPO, all of them using different variables for effectiveness. His own research was focused in governance as a precursor of effectiveness, where effectiveness was a measure of decision-making behavior.

In this research, a combination of key elements that addresses organizational effectiveness was used. Using Herman, Renz and Heimovics (1997) approach, a goal related measurement was used. NPSO goals are in general, to provide as many services as possible at the lowest cost in order to reach the low-income social groups. Thus, a measurement of variation of amount of serviced individuals throughout the last five years

was used. If the amount of “clients” had increased throughout the last five years, it was indicative of goal effectiveness. On the same line, the amount of employment that the organization is providing is a consideration of its effectiveness to the country’s economy. An increase in the amount of employees over the last five years was also an indication of effectiveness.

The second criterion used is aligned with Yutchman and Seashore’s (1967) model in which financial outcomes will be considered. Due to the not-for-profit nature of the organizations being investigated, the financial element will be based on the amount of debt accumulated by the organization (in proportion to its income) and the rate of income used to provide services in comparison to the income used for administrative functions. Effective organizations were, for the purpose of this study, those who have increased the service goals without having to incur in debts. The ratio of administrative expenses to direct services cost should be minimal.

The third component of effectiveness used in this research was a measure of the organization’s growth and sustainability. Evidently, an organization may do well in the two previous components described, financial and goal achievement, in a short term. The ability to sustain the components throughout time is also an indication of the effectiveness. In order to incorporate this element in the concept, all the components were evaluated within a five-year’s period to show sustainability.

In summary, effective organizations, for the purpose of this research were those which:

1. Increased the amount of serviced individuals over the last five years, (showing improvement of goal achievement).

2. Increased the amount of employment over the last five years (showing increased contribution to the economy as well as organizational stability and sustainability).
3. Improved previous elements without compromising the organization's financial health with debt by maintaining a low ratio of administrative expenses to direct service expenses, and by increasing the year's budget throughout the last five years.

Summary of Hypothesis

- Ho¹ Board of Directors of NPSO in Puerto Rico are governed by models similar to those described in the literature in For-Profit Organizations (agency model, stewardship model, resource dependent model).
- Ho² There is a direct significant relationship within the governance model used by NPSO in Puerto Rico and its effectiveness.
- Ho^{3a} The academic preparation of the top executive is a moderating variable between the governance model and the effectiveness of the NPSO.
- Ho^{3b} The experience of the top executive in the core organization's function in the position is a moderating variable between the governance model and the effectiveness of the NPSO.
- Ho^{3c} The tenure of the top executive is a moderating variable between the governance model and the effectiveness of the NPSO.
- Ho^{4a} In the presence of top executives with college academic background, experience in the core organization's function and more than two (2) years of tenure, the Boards with agency models (Boards with strong decision

making and auditing roles) are less effective than those Boards with stewardship or resource provider models. In this case, the effectiveness order (from most effective to less effective) would be:

Stewardship or Resource Dependence



Agency

Ho^{4b} In the presence of top executives with no college academic background, low or no experience in the core organization's function and low tenure, Boards with agency models are more effective. In this case, the effectiveness order (from most effective to less effective) would be:

Agency



Stewardship or Resource Dependence

CHAPTER II

LITERATURE REVIEW

Governance Models in For- Profit Literature

Boards of Directors are the governing body of incorporated NPO, as well as in For-Profit Organizations. This is a law requirement (Ley General de Corporaciones de PR de 1995). These Boards of Directors have a lot in common with their counterparts in the For-Profit Organizations (Taylor, 2005). They also differ in some fundamental ways (Colley, et al., 2003; Miller, 2003). Even though the purpose of the NPO is not the personal wealth, the Board has to achieve it's service goals in the most efficient way, maximizing the resources in order to offer the best quality and the greatest quantity of services provided. They do not respond to stockholders, but they do respond to the parent/originating institution or individual and to stakeholders among which are funding groups and donors. Similar to For Profit corporations, stakeholders may include suppliers, employees, government agencies and clients. In the same way that For-Profit Boards vary in their composition, structure, styles, rules and policies, NPO Boards also, have their variations. NPO Boards delegate the direct administration/management to executives who have the responsibility of the operation of the organization, just the same as for-profit Boards. In the case of NPO, the top executive responds to the Board for the achievement of operating goals and the Board responds to the parent/originating institution or individual for the achievement of the originating goals/vision as well as to the donors. A fundamental difference between the two types of Boards is that NPO Boards do not obtain any profits or compensation from their service in the Board. Their contribution is voluntary. This has a great influence in the availability and the selection

process of Board members. Table 3 below, summarizes the similarities and differences among NPO Boards and For Profit Boards using Colley, et al. (2003), Gordon (2002), Houle (1997), Ingram (1992), Moore and Ryan (2006), Miller (2003), Drucker (1990) as building stones. The items in italics represent the differences, while the similarities are in block letters.

Table 3

Board Comparison Summary. The items in italics represent the differences among the two types of organizations, while all similarities are shown in block letters.

Comparison Element	For-Profit Organizations	Not-For-Profit Organizations
Objective of the Board	<i>Increase profits for the stockholders.</i>	<i>Maximize income in order to provide the most quantity of services.</i>
Primary Authority	<i>Stockholders</i>	<i>Founding institution or individual / donors.</i>
Top Executive	Responds to the Board. Receives a salary/ benefits.	Responds to the Board. Receives salary/benefits.
Board Compensation	<i>Profits from stocks or stock options.</i>	<i>Members are volunteers – may receive some privileges on the services provided by the NPO.</i>
Top Executive Compensation	Depends on the norms and criteria established by the Board (performance compensation based on evaluation criteria).	Depends on the norms and criteria established by the Board (performance compensation based on evaluation criteria).

Continued

Table 3 (continued)

Comparison Element	For-Profit Organizations	Not-For-Profit Organizations
Responsibilities and functions of the Board	<p>Fiscal Responsibility.</p> <p>Development of company policies.</p> <p><i>Fulfill stockholder's expectations.</i></p> <p>Establish networks within the relevant industry / market.</p> <p>Development and monitoring of company's strategic plan.</p> <p>Top Executive Selection.</p> <p>Definition of Top Executive's compensation package.</p> <p>Organizational Design.</p> <p>Decisions on acquisitions, mergers, product diversification, new markets, new products, investments.</p>	<p>Fiscal Responsibility.</p> <p>Development of company policies.</p> <p><i>Fulfill founder / donors expectations.</i></p> <p>Establish networks within the relevant industry / market.</p> <p>Development and monitoring of company's strategic plan.</p> <p>Top Executive Selection.</p> <p>Definition of Top Executive's compensation package.</p> <p>Organizational Design.</p> <p>Decisions on acquisitions, mergers, product diversification, new markets, new products, investments.</p> <p><i>Fund Raising.</i></p>
Stakeholders	<p>Employees, suppliers, clients or consumers, regulating agencies, credit organizations, community groups</p>	<p>Employees, suppliers, clients or consumers, regulating agencies, credit organizations, community groups, <i>Volunteer workers, Donors, Founding individual or organization</i></p>

Continued

Table 3 (continued)

Comparison Element	For-Profit Organizations	Not-For-Profit Organizations
Board Members	<i>Selected by stockholders</i> based on composition strategy. Internal or external.	<i>Selected by governing institution or</i> <i>individual</i> based on composition strategy. Internal or external. <i>Based on availability.</i>

(Table built based on literature from Colley, et al. (2003), Gordon (2002), Houle (1997), Ingram (1992), Moore and Ryan (2006), Miller (2003), and Drucker (1990)).

The business literature (Wasserman, 2006; Shen, 2003; Lynall, Golden & Hillman, 2003; Baliga, Moyer & Rao, 1996; Barkema & Gómez-Mejía, 1998; Baysinger & Butler, 1985; Daily, 2005; Daily & Dalton, 1992; Daily & Dalton, 1993; Kesner, 1987; Kosnik, 1987; Molz, 1988) is rich in information about the relationship among variables and elements that influence the effectiveness of Boards in relation to the governance processes of the For-Profit Organizations.

Three major theories are recognized in the For-Profit governance literature: the agency model, the stewardship model and the resource dependency model.

Agency Theory

Agency theory (Berle & Means, 1932; Fama & Jensen, 1983; Johnson, Daily & Ellstrand, 1996; Zahra & Pearce, 1989) arises from the premise that agents' (in this case the top executives of the organization) goals are in conflict with the goals of the principals (stockholders) who are represented by the Board. Top executives may have several different titles, but regardless of the title, they are the operational heads of the organization. The For-Profit literature usually refers to the CEO (Chief Executive

Officer), but in smaller organizations the title may be manager, executive director or other. This top executive has a salary and benefits directly associated to the performance goals of the organization and may be or not part of the Board. The agency theory posits that in the moment of conflict, the agent will tend to make the decisions that most favor himself, even above the interests of the stockholders. The supporters on this model perceive the main function of a Board as controlling, supervising and monitoring the executive's performance in order to protect the interests of the stockholders (Dalziel & Hillman, 2003; Beekun, Stedham & Young, 2000; Eisenhardt, 1989; Jensen & Meckling, 1976; Mizuchi, 1983). The agency Board guards the interests of the stockholders by monitoring the CEO, actively participating in the operational decision making process, monitoring the strategy implementation, planning CEO succession and evaluating and rewarding CEO and top managers.

A board which functions under the agency model leads by hands-on management. They continually audit and intervene in the top executive's management process. In this model, the top executive would not be part of the board, at least not a voting member. His/her role is to execute the Board's decisions and strategy and will be evaluated as such. The recent scandals about companies who failed to detect and stop the misbehavior of their executives, as the well known case of Enron, reinforce the agency theory (Gibelman, Gelman & Pollack, 1997).

NPO's do not have stockholders to be accountable to, but as mentioned previously, the Board is accountable to the foundation principles, founding institution or individual, and moreover, should be accountable to the donors who trust them for the best use of their contributions. These stakeholders are the principals that resemble the

stockholders of For-Profit organizations. The Not-for-Profit boards which rule under this model will, similar to For-Profit organizations, continuously audit and regulate the top executive's performance. This board will define the strategic plans for the organization and will assess its progress towards achieving the goals. It will also review in detail the financial progress / reports of the organization and intervene in personnel policies and benefits. The agency boards perceive themselves as the guardians of the organization's vision, that is, their primary role is assuring that all decisions and actions are in alignment with the organization's vision / mission.

Stewardship Model

The stewardship model supports that top executives are stewards who in most cases are aligned with the objectives of the principals (Donaldson, 1990; Davis, Schoorman, & Donaldson, 1997). Those who support this model believe that the key function of the Board is to support and develop the top executive in the necessary skills and resources to achieve the common goals. Training and mentoring are then, key elements in the relationship between the Board and the executive (Hendry, 2002; Wasserman, 2006). In this model, empowering of the top executive / manager is designed to maximize steward manager's potential performance (Shen, 2003). Hendry (2002), recognized that there may be situations in which it is more important for principals to invest resources in mentoring or training to improve management competence, than spending in agency costs.

Under this model the Board acts as a mentor to the top executive (Shen, 2003). The decisions are shared (usually the top executive is a voting member of the board) and

the strategic plans are developed by both. The top role of the board is to develop the executive's leadership skills and collaborate in his/her overall professional growth.

Sundaramurthy and Lewis (2003) contrast the Agency Model with the Stewardship Model describing the Agency model as a control system, while the stewardship model is classified as a collaboration system. The first one is an individualistic approach, while the second one is a collectivistic approach. The first one is based on goal conflict and distrust, while the second one is based on goal alignment and trust.

Resource Dependence Theory

The third major model in the literature presents the Board as a resource provider, so it is known as "Resource Dependence Theory". Under this concept, the main responsibility of the Board is to provide resources to the organization in order to achieve the desired, common goals (Hillman & Daziel, 2003; Boyd, 1990; Daily & Dalton, 1994; Gales & Kesner, 1994; Hillman, Cannella, & Paetzold, 2000; Pfeffer, 1972). The scope of resources is not limited to financial resources (which in the NPO would result in activities associated with fundraising). The scope also includes intangible resources such as the development and upholding of company's image and reputation, experience, support, counseling, networking, development of external valuable relationships with other institutions and the contribution to the development of strategies key to the company's future.

This board's top role is not to intervene in the management process of the organization, but to provide anything that could be thought of as strength to the firm. (Wernerfelt, 1984). Hillman and Daziel (2003) present the board as providers of human

capital (experience, expertise and reputation) and relational capital (networking and links with other external organizations).

Some of the roles of the board are bolstering of public image, provision of expertise and internal firm information, administer advice and counseling, link the firm to important stakeholders / entities, provide or smooth access to capital, build external relations, diffuse innovation, and aid in the formulation of strategy based on external industry knowledge. Zahra and Pearce (1989), summarize the roles in two broad ones: strategy and service.

Under this model, a board supports the top executive in his/her decisions and strategic plans. The decisions are primarily made by the top executive with some level of approval, if any, from the board.

Several other models are identified, to a lower extent, in the literature. Examples are the *Institutional Theory* (Beekun, Stedham & Young, 2000), which refers to a board following the institutionalized norm or “industry practice”, and the *Social Network Theory*, which refers to a Board directly associated with accessing and maintaining the necessary networks to support the organization. None of these two were included in this research because the Institutional Theory is more a description of how are the organization’s practices and models selected, and the last one is a derivation of the Resource Dependence Theory (Lynall, Golden & Hillman, 2003). This work addressed the above first three models as the key models.

Governance in Not-For-Profit Organizations

Not-for-Profit literature also addresses governance practices, (Brown, 2002; Inglis & Weaver, 2000; Hallock, 2002; Henry & Harms, 1987; Kaplan, 2001; Herman & Renz,

2004). The literature reviewed, although recognizing the similarity among the governance elements and needs in both types of organizations (NPO and For-Profit), does not contemplate the applicability of the mentioned For-Profit governance models to the NPO Boards, with the only exception of Judith Miller (2002) and Alexander and Weiner (1998). Miller recognized that For-Profit governance models could be used as a starting point to understand the behavior of NPO, and used the Agency, Resource Dependence and Institutional theory as basis for the description of the NPO governance practices. She observed the board practices of twelve (12) Not-for-Profit organizations in US as they related to the board monitoring activities. The focus of the research was on board practices in NPO. She did not link the practices to effectiveness. She argued that regardless of the similarities and applicability of agency elements in Not-for-Profit boards, there is not a perfect fit, which she relates to the service nature of the NPO organizations. Alexander and Weiner (1998) argued that competition for resources have driven NPO to adopt management and governance practices from the For-Profit counterparts, and that this is driving the NPO away from their existing purpose.

This lack of correspondence between the governance models in NPO and For-Profit organizations is what lead to the first hypothesis of this research:

Ho¹ Board of Directors of NPSO in Puerto Rico are governed by models similar to those described in the literature in For-Profit Organizations (agency model, stewardship model, resource dependent model)

NPO governance literature has developed its own set of models, unique for NPO boards. Most of them can be correlated to the For-Profit models based on the core board practices and procedures that distinguish them.

Alexander and Weiner (1998) refer to two models: philanthropic and corporate. Their philanthropic model sets emphasis on asset and mission preservation and informal management accountability to the board, characteristics that can fall under the For-Profit stewardship model. Their corporate model is characterized by active participation of management in the board, formal management accountability to board and emphasis on strategic and entrepreneurial activity. These characteristics can be associated with an agency model.

Holland (2002), does not identify a specific model, but focuses on board accountability based on six sets of practices: setting clear expectations and standards, policies related to conflict of interests, identification and focus on priorities, strong two way communication with constituents, assessment of meetings and board effectiveness and experimentation of new approaches. These practices can relate to an agency board.

Mordaunt and Cornforth (2004) concluded, after case study evaluations, that boards often play an important hands-on role in an organization's failure or turnaround. They seem to support an agency approach although they do not specify governance models.

Gill, Flynn and Reissing (2005) used traditional governance, policy governance and results-based governance to develop their Governance self Assessment Checklist (GSAC). Their traditional board is one where the functions of the board parallel the responsibilities of management and these are exercised through a structure organized around primary management functions. This description seems to fit the agency model, where the board will be directly involved, monitor and assess the management function. The policy governance model they use for their work is Carver's Policy Governance

Model (Carver, 1990). In this model, the board governs by setting policies related to organizational ends limitations on executive means, board-CEO relationships and style of governance and monitors compliance with these policies. The board liberates and empowers the CEO to act as within the policies' boundaries. This is a predominantly agency board, although if the board sets a policy and then moves to other functions letting the executive/CEO manage the organization as long as it is within the policies, we could see some elements of stewardship model associated with it. The third model used by Gill, Flynn and Reissing is the results-based governance. In this model, the focus of governance is on the board, as opposed to management. The board monitors progress and results achieved on approved objectives. This is a model also consistent with stewardship model.

Bradshaw, et al., (1998) define four models: policy, entrepreneur, constituency and emergent cellular. The policy governance model, as described previously, was developed by Carver in 1990, and can be viewed as an agency model that can evolve into a stewardship model. The entrepreneurial model is more associated to the resource dependence model, the constituency model with the agency model and the emergent cellular model can be associated with the stewardship model.

Gordon (2002), focused his research on the traditional governance model (highly associated with agency model) and the policy governance model, already described.

Colley, et al. (2003) recognizes three types of not-for-profit boards: the governing board (ultimate board function is authority and accountability, similar to their for-profit counterparts), the advisory board (primary function is to give counsel, not to govern) and the workgroup board (board governs and at the same time serves as the workforce). As

can be seen, the governing board is primarily agency while the advisory board is stewardship or resource dependence.

Interestingly, some investigators have addressed the possibility of For-Profit Organizations learning from mechanisms used by public governance (Benz & Frey, 2007). The similarities between the Boards' roles in both sectors gave origin to the questions addressed in this research. The following table (Table 4), summarizes governance models in For-Profit literature and in the Not-for-Profit literature and links them based on their descriptions in literature.

Table 4

Relationship between Governance Models in For Profit and Not-for-Profit Literature

For Profit Governance Models	Not-For-Profit Governance Models
Agency	Corporate; Board Accountability; Traditional; Policy; Constituency; Governing Board
Stewardship	Philanthropic; Policy; Results-based; Emergent Cellular; Advisory Board
Resource Dependence	Entrepreneur; Advisory Board

Not-for-Profit Effectiveness

Many researchers agree that boards that effectively carry out their governing duties contribute to increased organizational effectiveness (Chait, Holland & Taylor, 1996; Sheehan, 1996). This lead to the second hypothesis of this research:

Ho² There is a direct significant relationship within the governance model used by NPSO in Puerto Rico and it's effectiveness.

Even though there is agreement that there is a relationship between the governance duties and the effectiveness, there is little consensus on how to measure such effectiveness. The mechanisms to address effectiveness in for-profit organizations are defined mostly in terms of financial outcomes. Coles, Williams and Sen (2001) examine the relationship of governance mechanisms to performance, but the focus was for-profit organizations and the effectiveness indicators were all somehow related to finance measurements.

Effectiveness in NPO has different dimensions than For-Profit organizations and the approaches to measure it have been diverse and have provided no consensus among scholars and practitioners (Gordon, 2002). Mordaunt and Cornforth (2004) declare that success, failure and *normal performance* in NPO are relative concepts that depend on the expectations of the different stakeholders. Bradshaw, Murray and Wolpin (1992), used three types of objective measures for organizational effectiveness: input effectiveness (success in obtaining essential resources), throughput effectiveness (efficiency in the use of resources) and output effectiveness (success in product or goal attainment). In terms of board performance, which is sometimes commingled with the concept of organization performance, they measured two objective dimensions (growth in budget and ratio of deficit to budget), and two subjective dimensions (mission effectiveness and reputation). Gill, Flynn and Reissing (2005), when developing their Governance Self Assessment Checklist, also used a combination of board effectiveness measures and organizational effectiveness measures. Gordon (2002), after compiling a list of thirteen (13) different approaches used in empirical studies of NPO effectiveness from 1982 to 1999, chose to focus effectiveness in terms of board decision-making behaviors. Among the many

variables he collected in his list are: implementation and maintenance of policies, social prestige, correct management procedures, criteria for board and CEO, board procedures, financial success, productivity measures, commitment to organizational power structure, performance measures aligned with mission, common vision and fundraising.

Hypothesis 3a, 3b and 3c addressed the role of the CEO characteristics in the governance model relationship.

Ho^{3a} The academic preparation of the top executive is a moderating variable between the governance model and the effectiveness of the NPSO.

Ho^{3b} The experience of the top executive in the core organization's function in the position is a moderating variable between the governance model and the effectiveness of the NPSO.

Ho^{3c} The tenure of the top executive is a moderating variable between the governance model and the effectiveness of the NPSO.

No literature was found in relation to the governance topic for Not-for-Profit Organizations in Puerto Rico. There is, however a need for effective NPO Board of Directors and training and development on board practices as expressed in the 2006 study of NPERCI. In the study, 50% of the participant organizations expressed their need for tools on recruiting and maintaining effective Boards; 57% recognized the importance of the Board's role.

If governance models used by NPSO in Puerto Rico could be linked to the degree of effectiveness of such organizations, then we would have been able to suggest a

governance model pertinent and helpful to these organizations and thus contribute to the growth of Puerto Rico's economy. This is what lead to Hypothesis 4a and 4b:

Ho^{4a} In the presence of top executives with college academic background, experience in the core organization's function and more than two (2) years of tenure, the Boards with agency models (Boards with strong decision making and auditing roles) are less effective than those Boards with stewardship or resource provider models. In this case, the effectiveness order (from most effective to less effective) would be:

Stewardship or Resource Dependence



Agency

Ho^{4b} In the presence of top executives with no college academic background, low or no experience in the core organization's function and low tenure, Boards with agency models are more effective. In this case, the effectiveness order (from most effective to less effective) would be:

Agency



Stewardship or Resource Dependence

CHAPTER III

METHODOLOGY

Research Model and Hypotheses

The research questions and objectives were addressed by the testing of the hypotheses which depict the different relationships between the variables in the research model. Figure 4 incorporates the hypotheses in the research model and summarizes the variables relationships that were sought in the research.

Independent Variable Moderating Variable Dependent Variable

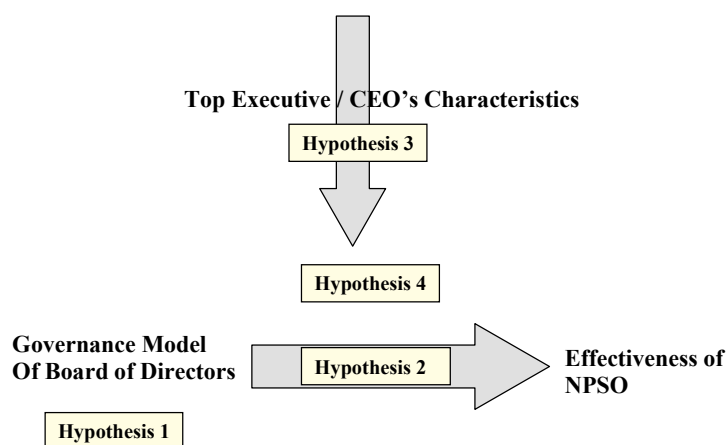


Figure 4. Research Model showing hypotheses relationship.

The hypotheses tested for the research conclusions were:

- Ho¹ Board of Directors of NPSO in Puerto Rico are governed by models similar to those described in the literature in For-Profit Organizations (agency model, stewardship model, resource dependent model)
- Ho² There is a direct significant relationship within the governance model used by NPSO in Puerto Rico and its effectiveness.

- Ho^{3a} The academic preparation of the top executive is a moderating variable between the governance model and the effectiveness of the NPSO.
- Ho^{3b} The experience of the top executive in the core organization's function in the position is a moderating variable between the governance model and the effectiveness of the NPSO.
- Ho^{3c} The tenure of the top executive is a moderating variable between the governance model and the effectiveness of the NPSO.
- Ho^{4a} In the presence of top executives with college academic background, experience in the core organization's function and more than two (2) years of tenure, the Boards with agency models (Boards with strong decision making and auditing roles) are less effective than those Boards with stewardship or resource provider models. In this case, the effectiveness order (from most effective to less effective) would be:

Stewardship or Resource Dependence



Agency

- Ho^{4b} In the presence of top executives with no college academic background, low or no experience in the core organization's function and low tenure, Boards with agency models are more effective. In this case, the effectiveness order (from most effective to less effective) would be:

Agency



Stewardship or Resource Dependence

Research Design

This research was developed using a hypothetical- deductive methodology in order to determine a possible correlation between the governance models used by NPSO in PR and the organizations' effectiveness as per the research model explained in Chapter I (Figure 3). The research problem was a result of the observation and experience of the investigator while participating and collaborating in several NPSO Boards of Directors in PR. Comparison of the theory with existing literature lead to the development of a theoretical framework. From this theoretical framework, hypotheses were developed by deductive reasoning. These hypotheses are then structured into the research process for validation. This method is parallel to a scientific methodology, where observation leads to theory and hypotheses followed by a structured research to corroborate the hypotheses.

This research limited its scope to elements related to governance of Not-for-Profit Service Organizations (NPSO) in Puerto Rico. That is, those NPO in PR which provide services to the general community at low or no cost. As indicated previously in this work, NPO are very diverse and can be classified according to different parameters. In general, NPO are classified based on the nature of their mission: corporations based on individual's contributions for charitable purposes (trusts and foundations may fall in this general category), professional or sports associations, common interest associations (religious, scientific, literary, educational, artistic associations or even tenants in a common residential complex), and corporations dedicated to services and community welfare. These categories may further be classified using other parameters.

For the purpose of this research, the NPSO selected were limited to NPO which provide services of social interest and welfare of the community: shelters, psychological

assistance, counseling, rehabilitation, therapy and support groups, legal orientation, and the like. Even though some religious groups also provide services to the community, this research did not include churches as such, due to the inability to differentiate the ones which provide social services and the ones that only provide religious support.

Governance procedures of churches may insert different variables in the proposed model. NPSO with governmental ties and reporting relationships were not included to avoid the variable of government influence in the governance process. Hospitals, universities and colleges were not included either due to unique elements in their governance process regarding the administrative versus technical decision making policies and politics. In addition, hospitals and universities are driven by market forces and do compete for clients, which is a significant difference with the social service NPO. Since the research was related to the governance elements of a Board of Directors and the Top Executive of the organization, only organizations incorporated as NPO in the PR Department of State were included.

A questionnaire was developed with questions addressing governance practices, characteristics of the Top Executive and effectiveness trends of the organizations. The design of the questionnaire was comparable to an interview protocol. Although questions were specific in their content, this content was ample enough to provide a wide overview of the characteristics of the board, the top executive and the governance process itself. It resulted in an extensive (31 questions) document.

The questionnaire, once approved by the Research Review Board (IRB) of *Universidad del Turabo*, was sent to five NPO in order to validate the correctness of the content, the appropriateness of the questions to address the variables sought, the ease of

understanding of the questions and general feedback from respondents. In this validation group, the questionnaires were sent indistinctively to board members or top executives based on opportunistic considerations (availability and personal network with the investigator). The respondents to these five validation questionnaires confirmed that the questions were appropriate, easy to understand to persons within the NPO environment, and correct in their content. They also expressed that the questions addressed important factors in the governance life of an NPSO and that it brought up insights they had not thought of before.

The feedback from the validation group provided the data for the content validation of the questionnaire using Lawshe's (1975) quantitative approach to content validity. From the thirty one (31) questions of the instrument, eighteen (18) were directly related to the variables under study (Board's role, Top Executive's Role, Organization's effectiveness index). The other thirteen (13) were descriptive of the organization and directed to the understanding of the respondents characteristics. The five experts ("Content Evaluation Panel") provided applicable and appropriate feedback based on their knowledge of the NPO management and governance elements and the effectiveness criteria for this type of organizations. As Lawshe (1975) points, the questions were all related to observable, non abstract behavior (tasks, agenda, measureable indicators). The Content Validity Ratio (CVR) for each question, using Lawhe's formula ($CVR = \frac{n_e - Ne}{Ne}$) was 0.99. Using this CVR for each question, the calculated overall CV Index for the entire questionnaire was 0.99. The content validity is defined as "the extent to which members of a Content Evaluation Panel perceive overlap between the test and the job

performance domain” (Lawshe, 1975). The questionnaire was validated for content with a CV Index of 0.99.

The experts in the validation group were also asked to report the time consumed in responding to the questionnaires. Interestingly, the responding Top Executives reported a period of approximately 30 minutes, while the responding Board members reported more than two hours and they had to consult some of the questions with the Top Executive of their organization. Based on such feedback, the questionnaires for the research were sent to the Top Executive of the organizations in order to facilitate the response process and thus, increase the response rate. As will be addressed later in the Recommendations section of Chapter V, it would be of further value in a later research to address differences among governance questionnaires when responded by the Top Executive and when responded by members of the Board.

Sample Selection

The organizations for the research were identified from the *Directorio de Instituciones sin Fines de Lucro de PR*, compiled by Non-Profit Evaluation and Resource Center, Inc. (NPERCI) in 2007. NPERCI is a not-for-profit organization in PR whose mission is to provide education and developmental tools to other NPO in PR. The list contained 536 NPO in PR with the corresponding addresses, telephone numbers, description of services provided and in some cases a contact name. The list is mainly composed of organizations dedicated to services and community welfare. It does not contain churches, credit unions or trusts.

From the 536 organizations in the list, the ones associated with government, the universities, the hospitals, and the unincorporated organizations were eliminated.

Organizations with less than five years of operation were not considered either. Five years was selected as a threshold to establish stability of the organization and avoid the variables related to newly organized institutions. This left a total of 307 organizations within the scope of the research. The questionnaire was mailed to the 307 organizations' Top Executive including a cover letter explaining the purpose and nature of the research, an Informed Consent Form, the questionnaire document and a preaddressed / prepostaged returning envelope. Twenty two (22) questionnaires were returned due to unknown addressee. Three (3) of them were determined to have incorrect address, were corrected and re-sent. The remaining nineteen (19) could not be contacted either by phone or by email to identify the reason of unknown addressee. The organizations may have moved or discontinued the services. A possible follow up research could identify if the reason these organizations were not reachable is related to their dissolution due to lack of effectiveness and the governance model they used to have while active. Three (3) of the respondents returned the questionnaire but reported that it was not applicable to them because they did not have operating Board of Directors but were a service of a government agency. This left a total of 285 questionnaires effectively mailed to organizations within the scope of this research. After intensive telephone follow up, fifty (50) usable questionnaires were obtained. This represents a 18% of the NPSO universe delimited by the characteristics selected for the research. Fifty (50) organizations provided ample information about their governance processes as well as elements of their effectiveness that contributed the data for this research. Previous dissertation research on NPSO boards selected a more limited number of organizations even when using a personal interview procedure (Miller, 2003; Gordon, 2000).

The responding organizations were diverse in their scope of service provided; their size and budget (refer to Figures 6 to 10). This allows results to be relevant to a broad range of NPSO boards. Brower, Abolafia, and Carr (2000) contend that it is important to “intentionally sample for variation and richness” that “seeks out the variety and complexity of social contexts”.

Instrument

The thirty one questions included in the questionnaire were geared towards collecting information within four main categories. The first set of questions was developed in order to collect descriptive information of the organizations. This descriptive information, although not to be used in the research model analysis, was useful in determining the composition of the sample and the applicability of the data to the NPSO universe in Puerto Rico.

The second set of questions collected information to be used in the determination of the organization’s governance model. Data was collected regarding the Boards’ predominant roles in the organizations’ governance activities, the Top Executives’ predominant roles in the organizations’ operations and their interrelationship with the Board, and Boards’ most common meeting agenda topics. The data collected with these questions was codified using a coding methodology suggested by Strauss and Corbin (1990), which was the same methodology used by Miller (2003) in her Ethnographic Analysis of Nonprofit Board Culture. The first step was open coding. Using Strauss and Corbin (1990) concept, a systematic comparison of FPO governance models with NPO governance elements was done, using literature typology for Agency, Resource based and Stewardship governance models. This open coding phase led to identification of

expected / characterizing behaviors for each model. This step was then followed by a selective coding phase. This last coding process allowed the selection of the core categories to compound the research variable and relate it to other related categories. With this coding process the responding organizations were successfully classified within the governance models based on the literature description elements for for-profit organizations and the applicable similarities to NPSO. The following table (Table 5) summarizes the product of the codification process used for governance model.

Table 5

Codification process product

Governance Model	Focus	Top Executive/CEO Primary Role	Board Primary Role	Board Agenda	Relationship between CEO & Board
Agency	Separation of Board roles and Top Executive/CEO role	Report to the Board issues that require financial, operational or human resources decisions.	Monitor and oversee the Top Executive/CEO activities.	Evaluation and approval of the Top Executive/CEO report of operations	CEO is not part of the Board. Does not have a vote in items discussed by the Board.
	Control and fiscalization	Administer a Strategic Plan and a Budget previously approved by the Board	Hands- on decision making	Evaluation and decision making regarding financial performance and organization's operational deviations	Board has a formal performance evaluation criteria for the CEO

Continued

Table 5 (continued)

Governance Model	Focus	Top Executive/CEO Primary Role	Board Primary Role	Board Agenda	Relationship between CEO & Board
Resource Dependence	Link the organization with internal and external resources	Lead organization's daily operations. Responsible for the decision making related to the daily operations and human resources	Provide resources as necessary for the organization's success in its mission	Presentation and discussion of support activities for the organization Fund raising concerns Networking activities	There are specific requirements to become a member of the Board which is directly related with the resources to be provided by the member
Stewardship	Managerial development and delegation	Develop and implement Strategic Plan in alignment with Board guidelines Prepare and implement organization's budget according to policies and Board guidelines	Provide managerial development and support to the Top Executive Provide top level guidance for Strategic Plan and Budget	Review and discussion of organization policies Review and discussion about legal and social changes impacting the organization	Board functions as a support group for the Top Executive. Only intervenes at micro level when requested by Top Executive.

A third set of questions collected information related to the characteristics of the Top Executive/CEO. Data was collected regarding academic preparation, tenure on the position and previous experience in similar management positions prior to assuming the actual position.

The fourth set of questions collected information geared towards the determination of an effectiveness index for the responding organizations. The effectiveness index was determined using data about budget trend over five years, trend on the number of employees over five years, trend on the number of clients reached in the last five years, and financial indicator trends (end of year condition against budget, total budget trend, debt ratio and trend, actual economic condition and percent of administrative expenses within the total budget). These elements were selected using key measurable elements within the performance effectiveness concept of a NPO. With these data, an effectiveness index was calculated for each responding organization.

Figure 5 below shows the relationship of the research model, the model variables and the constructs for each variable.

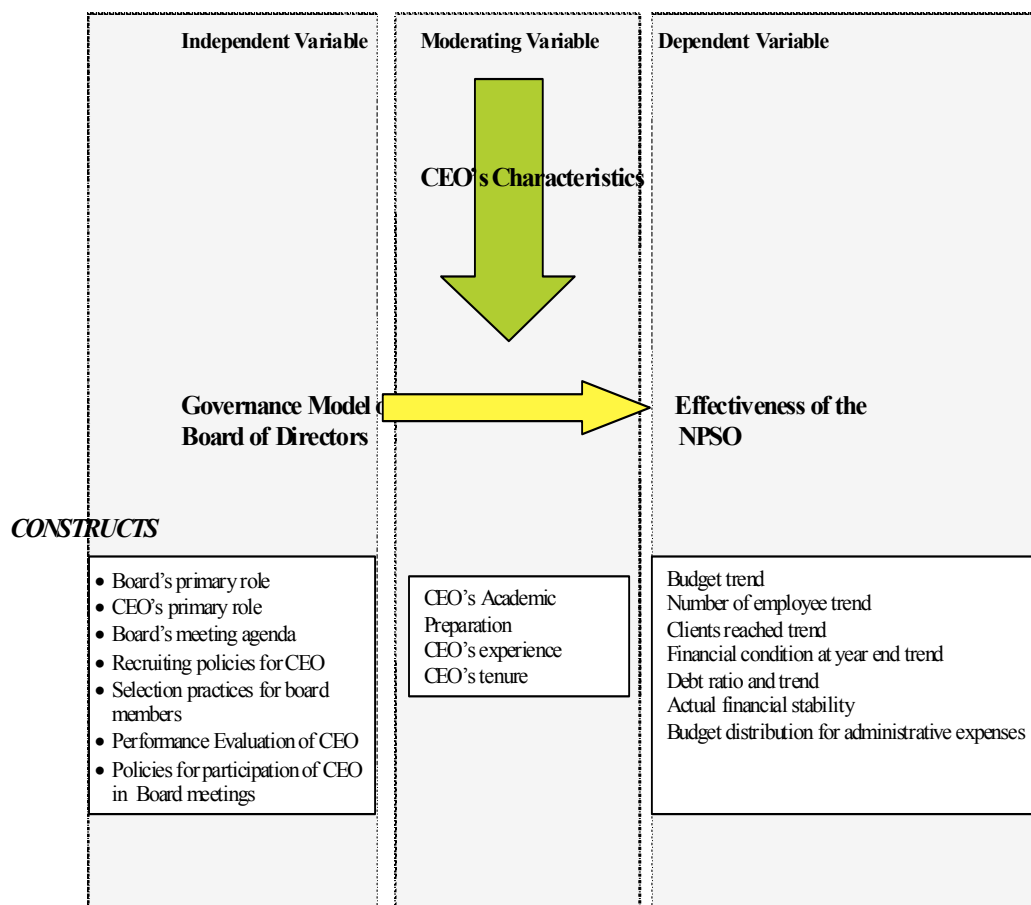
INVESTIGATION MODEL

Figure 5. Relationship between Research Model, Variables and Constructs.

Variable and construct operationalization

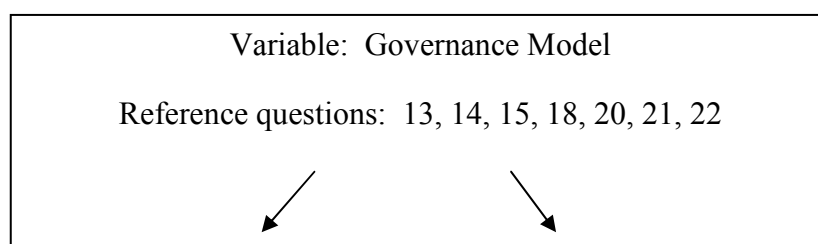
The following tables (Tables 6 to 8) summarize the way in which each question of the instrument contributed to the determination of the governance model of each organization and the effectiveness index composition. Once the variables were coded based on the descriptions in the table, each responding NPSO was classified regarding its predominant governance model and its effectiveness index. The effectiveness index was calculated using a value of “1” for the answers with positive trends, suggesting effective organizations (refer to Table 7), “2” to those answers which did not identify a trend (response was “more or less the same throughout the past five years”) and three to those

with negative trends. Thus, the effectiveness index ranged in values from “1” to “3”, where “1” is an organization that has a consistent positive trend in all elements considered throughout the last five years, and “3” would be an organization with a negative trend in all the elements throughout the last five years.

After the classification was completed, statistical analysis of the variables was performed in order to identify significant correlations among the variables. All statistical analysis was done using SPSS tool.

Table 6


Variable and Construct Operationalization for Governance Model



Description of constructs	Answer interpretation
<p>Agency</p> <p>Based on a control nature.</p> <p>Focused on audit and direct monitoring of the top executive’s management activities.</p> <p>Board involved directly in all the management decisions.</p> <p>Board provides the guidelines for the top executive to comply.</p>	<p><u>Question 13</u> - Key roles of the Chief Executive in Agency Boards are represented by alternatives 3, 5 and 6: <i>report</i> issues to the Board for their decision, <i>consult</i> with the Board any deviation from their guidelines and instructions, <i>administer</i> the budget previously approved by the Board.</p> <p>Stewardship boards have Chief Executives whose key roles are alternatives 4, 7: <i>develop and implement</i> strategic plan, <i>develop and administer</i> operational budget.</p>


Continued

Table 6 (continued)

Variable: Governance Model Reference questions: 13, 14, 15, 18, 20, 21, 22 	
Description of constructs	Answer interpretation
<p>The board has performance evaluation criteria for the top executive. Board overlooks, and even overrides, if they feel appropriate, all the executive's decisions.</p> <p>The top executive is not typically a member of the board, and even if he/she attends the board meetings, it is only for informational purposes, not allowed to vote in decisions.</p>	<p>Resource Dependence Top Executive roles are represented by alternatives 1, 2: <i>lead</i> daily operations, <i>decision making</i> regarding finances and human resources.</p> <p><u>Question 14</u> – The recruitment of the Chief Executive by the Board is indicative of an Agency Board. On the contrary, Recruitment of Chief Executive by other group than the Board is indicative of either a Resource Dependence or a Stewardship Board.</p>
<p>Stewardship model</p> <p>Focused on the development of the executives' skills and the overall organizational managerial growth. The board is an advisor and counselor and empowers the executive as a means to achieve the common goals.</p>	<p><u>Question 15</u> – A formal performance evaluation process of the Chief Executive by the Board is indicative of an Agency Board. No formal performance evaluation for the Chief Executive is indicative of either a Resource Dependence or a Stewardship Board.</p>

Continued

Table 6 (continued)

Variable: Governance Model Reference questions: 13, 14, 15, 18, 20, 21, 22 	
Description of constructs	Answer interpretation
<p>The decisions are made in collaboration and the top executive may be a voting member of the board.</p> <p>The intervention of the board in management issues is only in the interest of collaboration and counseling.</p>	<p><u>Question 18</u> – Administrative and/or academic requirements for member boards are indicative of an Agency Board. A requirement of related business knowledge and experience is indicative of a Stewardship or Resource Dependence Board. A requirement of network or public image supports a Resource Dependence model.</p>
<p>Resource dependence model</p> <p>The key role of board is resource provider. (reputation, experience, expertise, counsel, advice, networking and environmental scanning and links to other organizations)</p> <p>It does not intervene in management activities, except to contribute with their experience and expertise.</p>	<p><u>Question 20</u> – A typical agenda of an Agency Board meeting is represented by alternatives 1, 4: <i>evaluate and approve</i> the Chief Executive's report and <i>evaluate and make decisions</i> regarding the budget and finances of the organization. Alternatives 5 and 6 support a Stewardship Board: <i>plan the professional development</i> of the organization's management group including the Chief Executive, <i>provide/discuss information</i> regarding law and social changes and its impact over the services offered. Alternatives 2, 3</p>

Continued

Table 6 (continued)

Description of constructs	Answer interpretation
	<p data-bbox="841 688 1435 890">support a Resource Dependence Board: board members report <i>their support activities</i> for the organization, discussion and planning of <i>fund raising</i>.</p> <p data-bbox="841 961 1484 1436"><u>Question 21</u> – An Agency Board would <u>not</u> allow the Chief Executive to be part of the Board, attend to the Board meetings, participate in the discussion of items, nor vote in the Board items. (A pure Agency Board would answer all alternatives as NO). Boards that allow <i>direct interaction, participation and vote</i> in the Board meetings are indicative of either Resource Dependence or Stewardship models.</p>
	Continued

Table 6 (continued)

Description of constructs	Answer interpretation
	<p data-bbox="841 684 1468 1272"><u>Question 22</u> – A prioritization of alternatives 1, 4, 5 are indicative of an Agency Board: <i>decision making, audit, evaluation</i>. Alternatives 2, 6, 7 are indicative of Stewardship models: <i>identify Chief Executive needs, collaboration with Chief Executive for development and communication of strategic plan, work on a development plan for Chief Executive</i>. Alternatives 3, 8, 9 are indicative of a Resource Dependence Board: <i>fund raising, facilitate networking, contribute with individual business strengths</i>.</p>

Table 7

Variable and Construct Operationalization for Organization's Effectiveness

<div style="border: 1px solid black; padding: 5px; margin: 0 auto; width: fit-content;"> Variable: Organization's Effectiveness Reference questions: 24, 25, 26, 27, 28, 29, 30, 31 </div>	
Description of Constructs	Answers interpretation
Total Budget Trend for the last five years	Question 24 – A budget that has increased throughout the last five years is indicative of effectiveness, a budget that has decreased throughout the last five years is indicative of weakness in the financial condition and a potential erosion on the organization's capacity to deliver the services on their mission.
Trend on number of employees for the last five years	Question 25 - An increased number of employees was indicative of positive effectiveness, while a decreased number was indicative of non effectiveness. It can be argued that a decreased number of employees may be a product of many different situations, including being more effective in the use of the employees, or using more volunteers, and it is true. Nevertheless, in the overall, over a five year period a decreased number of employees indicates that the organizations has not grown sufficiently as to need or allow added employees. Since the question refers to a period of five (5) years, one-time events are weed out indicating a significant trend.

Continued

Table 7 (continued)

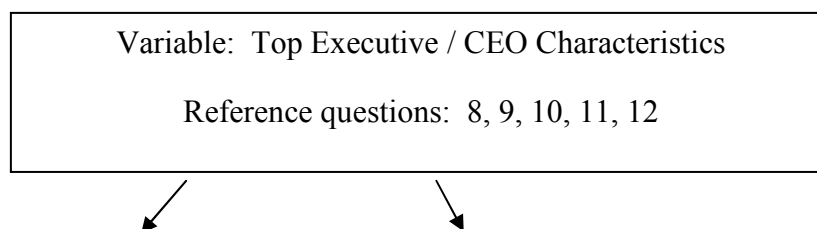
<div style="border: 1px solid black; padding: 5px; margin: 0 auto; width: fit-content;"> Variable: Organization's Effectiveness Reference questions: 24, 25, 26, 27, 28, 29, 30, 31 </div>	
Description of Constructs	Answers interpretation
Trend on number of clients reached for the last five years	Question 26 – Since the reason for a NPSO to exist is service, an increased number of clients reached (clients being the ones who receive the service, whether paying or not for it), an increased number of clients throughout the last five years is indicative of effectiveness.
Trend on year end financial condition	Question 27 – Eventhough a NPSO does not exist to make profit, the usual balance against budget at the end of the year is indicative of the effectiveness of the budget administration, as well as the stability of the organization. A pattern of ending the year with a negative balance against budget is indicative of financial instability and weakness to provide the desired services.
Debt ratio and trend	Questions 28 and 29- Some NPSO reported a policy of no debts allowed (which means they are not allowed to take loans or their assets are all under the financial structure of the umbrella corporation, thus showing a zero asset / debt ratio. Thus, although a zero or non existing debt ratio cannot be inferred to mean effectiveness, the contrary, a high debt ratio is indicative of non effectiveness and a limitation for future increase / expansion of services.

Continued

Table 7 (continued)

<div style="border: 1px solid black; padding: 5px; margin: 0 auto; width: 80%;"> Variable: Organization's Effectiveness Reference questions: 24, 25, 26, 27, 28, 29, 30, 31 </div>	
Description of Constructs	Answers interpretation
Actual financial condition	Question 30- Respondents were asked to classify their actual financial condition among alternatives such as; stable and strong, a challenge of equilibrium, or in imminent danger. The responses are self explanatory: an organization in imminent danger is evidently not effective.
Amount of budget assigned to administrative expenses	Question 31 – Respondents were asked to classify the percent of the organization's total budget which is assigned to administrative expenses. For an organization whose mission is to provide service at low or no cost, the budget should be allocated to maximize the services to provide, and the higher the allocation to administrative expenses, the less effective in achieving their mission. A desired threshold was not found in the literature. The investigator classified percentages over 25% within the non effective range.

Table 8

Variable and Construct Operationalization for Top Executive/CEO Characteristics

Description of Constructs	Answers interpretation
Tenure of Top Executive	Question 8 – Although the question was open in order to obtain the most descriptive information, for the analysis of the hypotheses, the answers were classified as top executives with two (2) or more years in the position, and top executives with less than two (2) years in the position.
Academic Preparation of Top Executive	Question 9 – The question provided alternatives ranging from Associate Degree (less than a BA) to Doctorate degrees. It also provided an open alternative for responses out of above categories. For the hypothesis testing, bachelor, master and doctorate degrees were grouped as “Top executives with academic preparation”. Those with less than a college bachelor degree were grouped apart.
Experience of Top Executive	Questions 10, 11 and 12 – The combination of the three questions gave a complete picture of the years of experience of the top executive prior to assuming the actual position in the NPSO. Those top executives with two or more years of experience in similar level positions prior to assuming the actual position, were classified as experienced top executives for the purpose of the hypothesis testing

Data Analysis

Once the data was codified, the first step was to calculate and determine the research model variables: governance model (independent variable), effectiveness index (dependent variable) and the Top Executive (CEO) characteristics (tenure, experience and academic preparation; Refer to Figure 3, Proposed Relationship Model among dependent, independent, and moderating variables)

Once the variables were determined for the responding organizations, statistical analysis of the correlations among the variables was evaluated using SPSS in order to test Hypotheses 3 and 4.

First, frequency charts were evaluated on all descriptive questions, and also for some of the questions leading to variable determination. These frequency charts allowed the investigator an integrated, wholesome picture of the characteristics of the responding organizations.

After frequencies and descriptive statistics were evaluated, linear regression analysis were made among the key variables and also among several individual questions in order to identify any significant correlation among the data. As will be explained in more detail in Chapter IV, no significant correlation was found to support that governance model or Top Executive characteristics are significant factors in the organization's effectiveness.

After the linear regression analysis were done and evaluated, an independent t-test was performed within the research variables in order to identify significant differences among the groups. No statistical difference was found in the analysis. In order to further evaluate the possibility of a relationship, the organizations were divided

into two groups according to the effectiveness index, and an analysis of means was performed (one way ANOVA) to identify significant correlations between the means of both groups and the research governance model variable. No significant correlation was found.

Finally, the means of the two Top Executive/CEO groups (Level 1 and Level 20) were analyzed against the governance models and the effectiveness index (ANOVA) in order to identify significant correlations among them in order to test Hypothesis 4. No significant relationship was found.

The details of the results of each analysis are shown in Chapter IV.

CHAPTER IV

FINDINGS

General Organization Characteristics

The following distribution charts (Figures 6 to 10) depict the characteristics of the organizations which participated in the research.

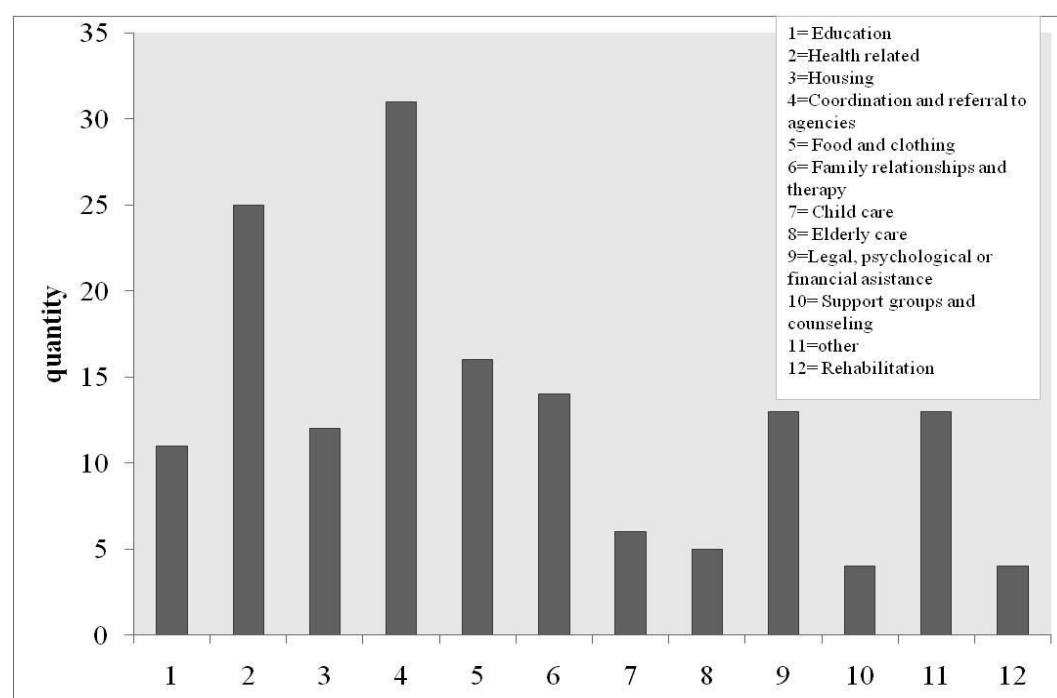


Figure 6. Frequency distribution of type of services provided by respondents.

Figure 6 shows the spectrum of services provided by the organizations that participated in the research. Education (pre-school and elementary), health related (health conditions support or educative groups), housing (shelter for homeless, victims of violence, abandoned children), coordination and referral to other support agencies (mainly referrals to government agencies), food and clothing (for homeless), family relationships and therapy, child care, elderly care (either day care or permanent care),

legal, psychological or financial assistance, support groups and counseling for different personal or family needs, rehabilitation services and others. This spread of services is useful to support the applicability of the research within the NPSO in PR.

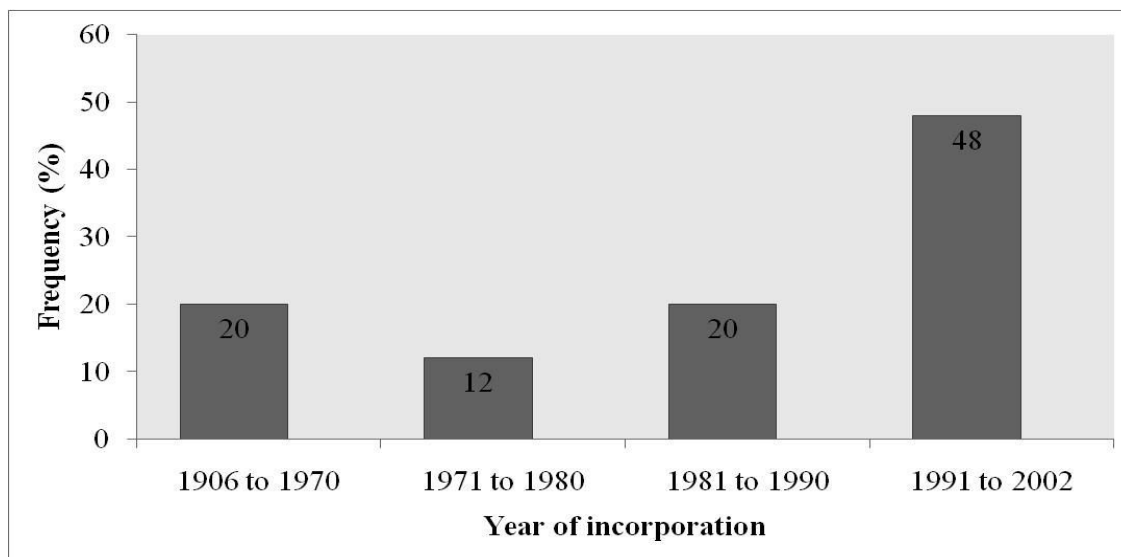


Figure 7. Frequency Distribution of Year of Incorporation of Respondents.

As shown in Figure 7 above, the responding organizations ranged from 102 years old to 5 years old. This was part of the design of the research, since the research wanted to address effectiveness of mature organizations. Recently organized organizations may have different variables affecting their effectiveness which are more related to experience in the business than to governance models. The threshold of five (5) years was arbitrarily selected by the investigator to identify “mature” organizations.

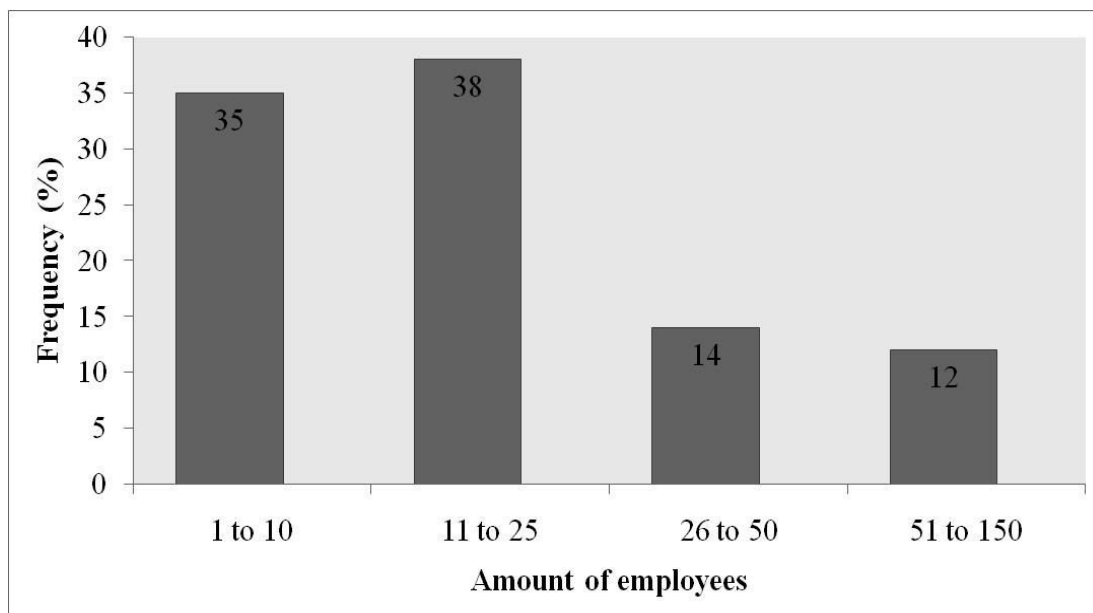


Figure 8. Frequency Distribution of Number of Employees of Respondents.

Figure 8 depicts the diversity of the respondents regarding organization size. Although different size organizations are represented in the research, it is evident that most (73%) of the responding organizations have 25 or less employees. This is positive within the scope of this research, because it makes the sample representative of all the NPSO group, but it also opens the door to possible future researches that differentiate the NPSO governance models and effectiveness among *big* organizations and *small* organizations.

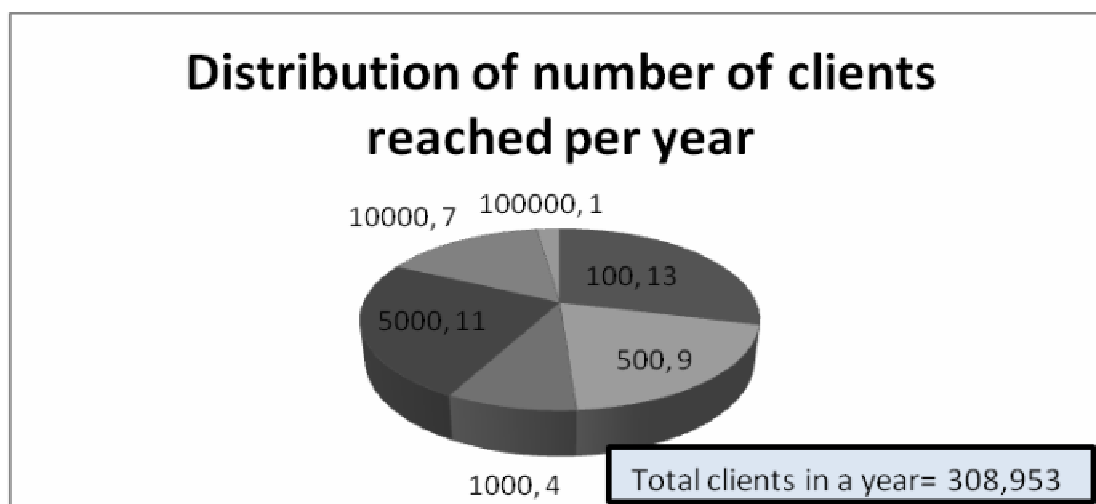


Figure 9. Distribution of number of clients reached per year.

The amount of individuals serviced during a year is a measure of the size of the organization, but it is also highly related to the type of service offered. Those NPSO which offer individualized services show lower *clients* serviced than NPSO which service groups. Even the type of service (i.e. shelter versus support groups) produces a high variability. The concept of client is used in this context to refer to persons or organizations reached with the service offered. It does not limit to paying clients (as would in a routine business context), but it also include those receiving the service free of cost. The importance of this distribution chart is again to support the diverse composition of the sample and thus, it's representativeness within the NPSO group.

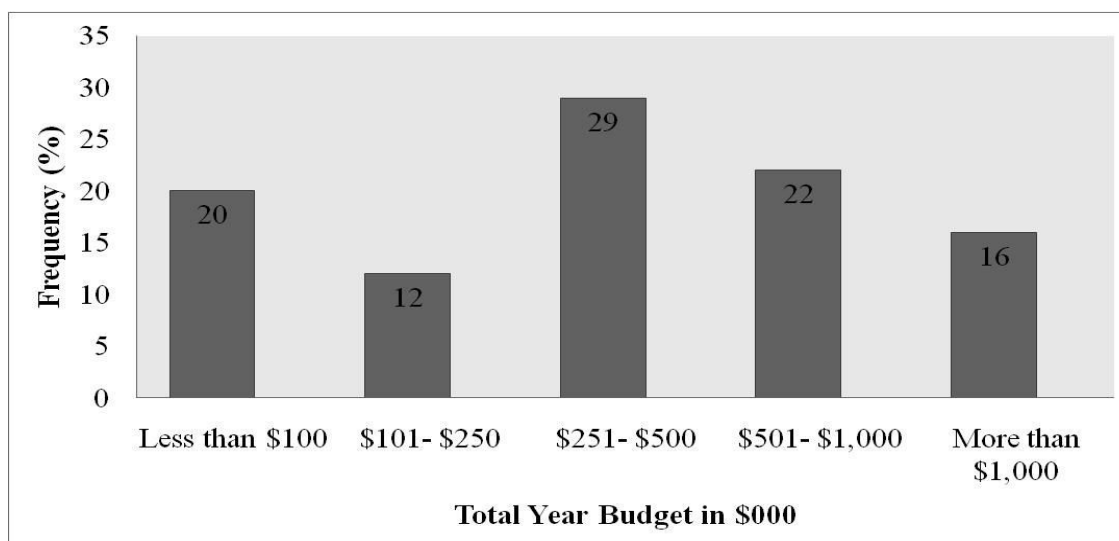


Figure 10. Distribution of Respondents' Total Year Budget.

The previous chart (Figure 10) shows the distribution of the year budgets of the responding organizations. This is only a descriptive chart to allocate the responding organizations according to their size or contribution. The amount of the year budget is not a measure of the effectiveness of the organization because it is dependent on the type of services offered and thus cannot be compared among unequals for the purpose of this research. In the analysis section, the budget trend is going to be related to the effectiveness. In our sample, 20% of the organizations had a budget of less than \$100,000, while 16% had a budget over \$1,000,000. The diversity within those two categories can be seen in the chart.

Top Executive / CEO Characteristics

The following charts (Figures 11 to 14) show the characteristics of the elements related to the top executive of the responding organizations.

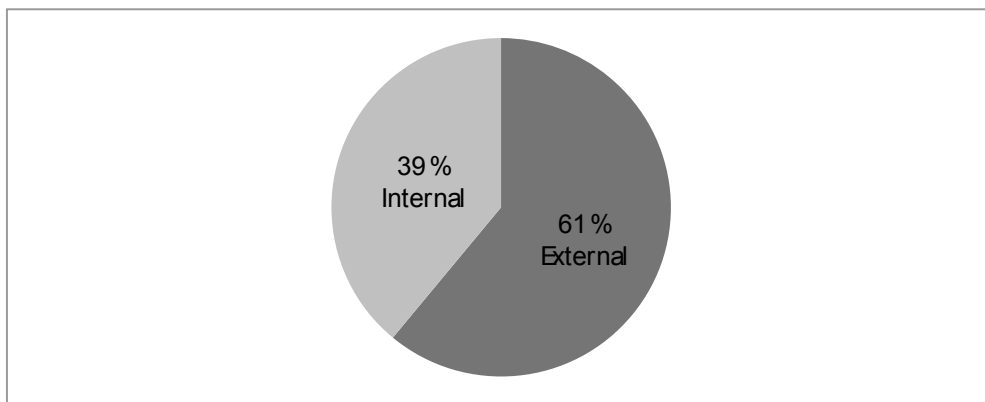


Figure 11. Frequency Distribution of Internal versus External Top Executives / CEO.

Figure 11 above shows that 61% of the responding organizations hired their top executives from outside, while 39% selected them from people already inside the organization. In the for-profit literature, this is a common review element when investigators are looking into board effectiveness and agency controls for investment strategy and power relationships between board and executive. Within the scope of this research, this is only a descriptive element.

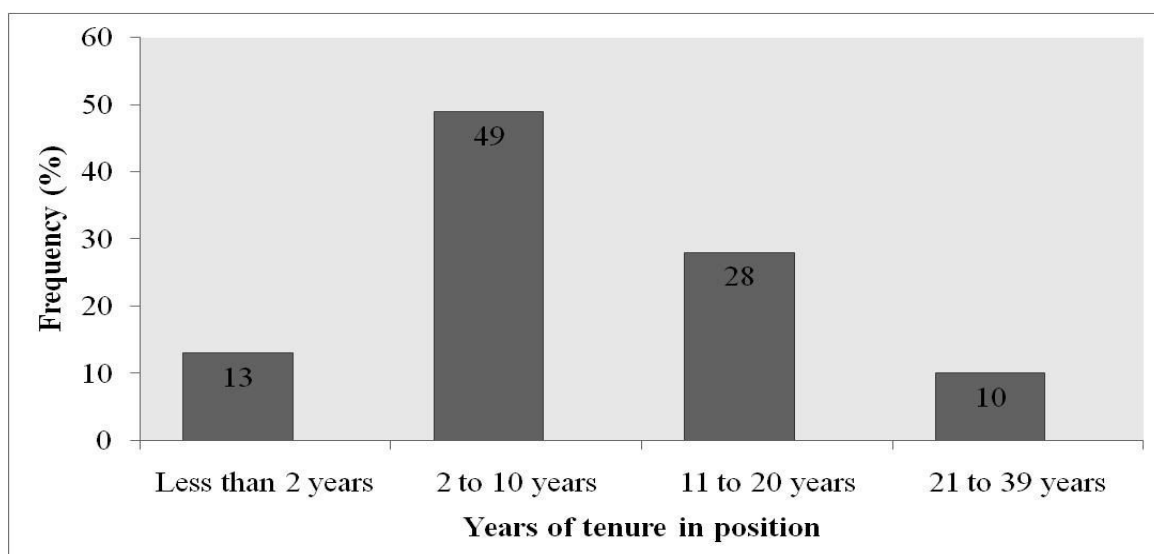


Figure 12. Frequency Distribution of Tenure of Top Executive.

Figure 12 above shows the distribution of tenure years of the organization's top executive. Within the responding organizations, the mean tenure of the top executive was 9 years, with a range from 0 (less than one year in the position) to 39 years. Thirteen percent (13%) of the top executives in the sample had less than two years in the position. This is one of the elements hypothesized to be a moderating variable in the proposed model. As explained before, within the proposed model, a seasoned top executive (two or more years in the position) will positively influence the effectiveness of the organization when given the freedom to do so, while his/her potential influence may be hindered by a controlling board such as in an agency governance model.

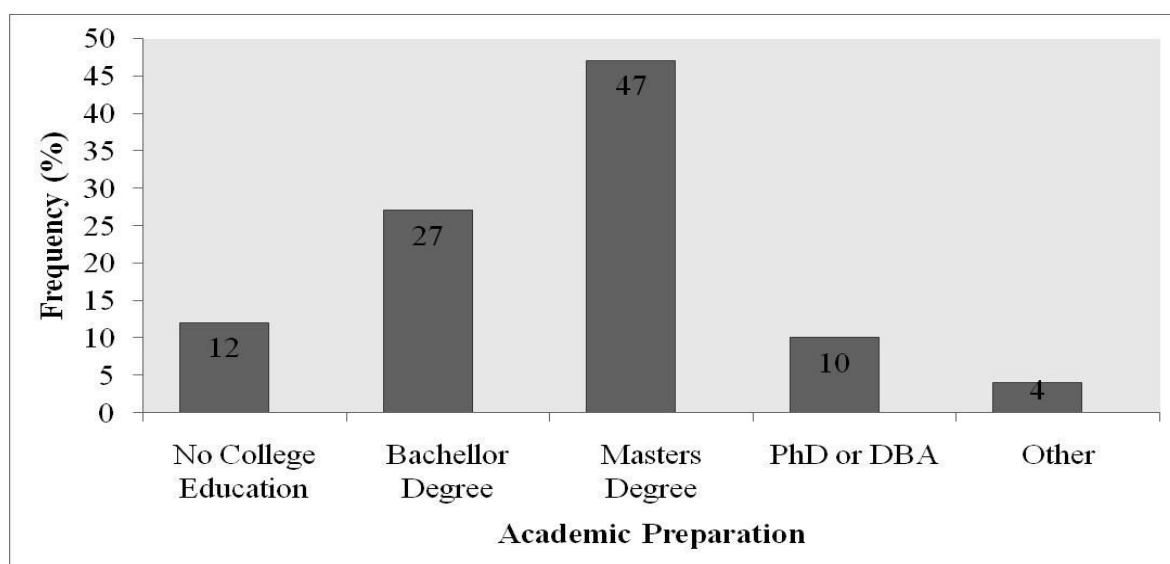


Figure 13. Frequency Distribution of the Academic Preparation of Top Executive.

The distribution of the academic preparations of the top executives in the sample (Figure 13 above) show that 12% had no college degree, 27% had a bachelor degree, 47% had a masters degree, 10% had a doctorate degree and 4% have particular licenses or certificates related to the service given awarded by non academic boards. The academic preparation of the top executive is also an element within the model proposed

in this research (Refer to Figure 3). For the purpose of this research, the specific area of preparation was not considered. Future research may look into possible differences among administration degrees and other disciplines. Since the research instrument was mailed to Top Executives / CEO of the organizations, there may be a relationship between the amount of respondents and the high percentage of Top Executives with academic degrees. The hypothesis ties academic preparation, tenure and experience of the top executives as positively influencing the organization's effectiveness.

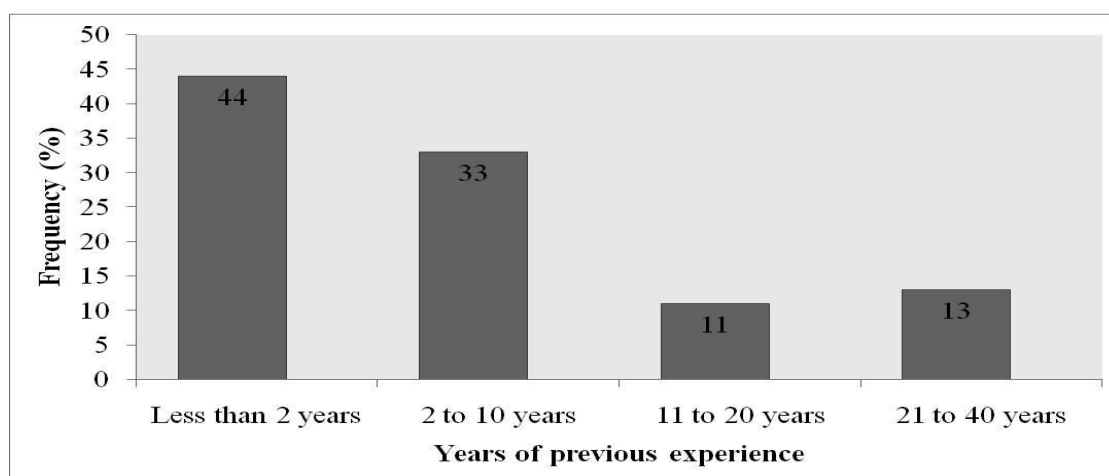


Figure 14. Frequency Distribution of Previous Experience of Top Executive.

Along with tenure and academic preparation, the overall experience that a top executive has in the areas related to the mission of the NPSO was hypothesized to be of positive influence in the effectiveness of the organization. Two (2) years or more were arbitrarily selected as the threshold to designate an experienced top executive. For the purpose of this research, experience was defined as years in a similar position level prior to coming to the current position. The type of business from which the experience years were accumulated was not considered, only the similarity on the management level. The above chart (Figure 14) shows that the top executives in the sample ranged from 0 (less

than one year) to 40 years. Forty four percent (44%) of the top executives in the sample had less than 2 years of experience in similar positions before coming into this position.

Board Composition and Practices

The next set of characteristics (Figures 15 to 20) is related to the Board composition and practices. These are only descriptive charts based on the questions used to later identify the predominant governance model of the board.

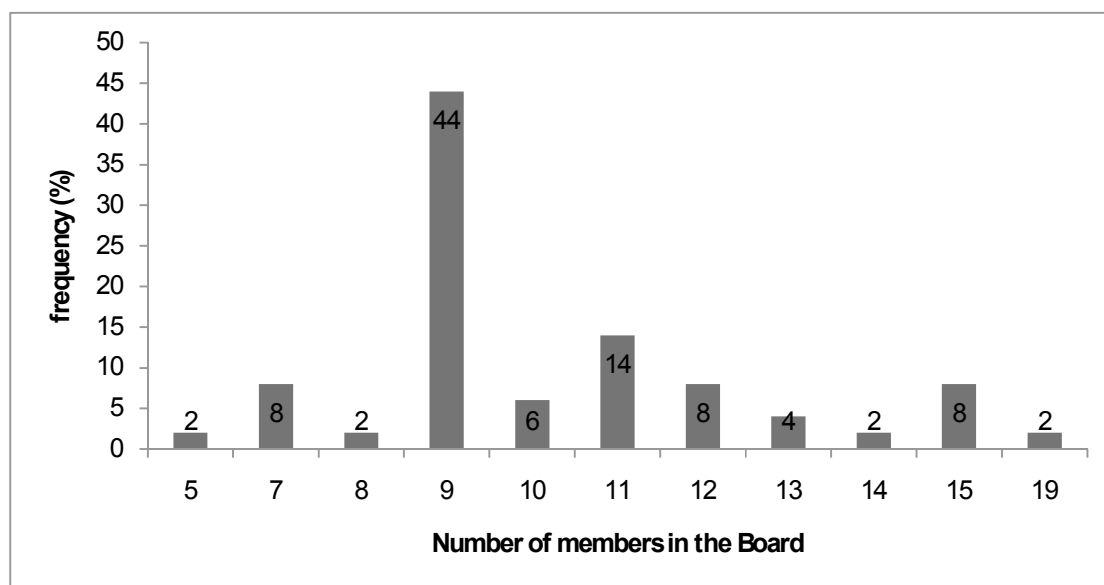


Figure 15. Distribution of Number of Members in the Board of Directors.

The most frequent (44%) number of board members was nine (9), followed by 14% boards with eleven (11) members. The generalized wisdom is that the number of members should be an odd number (although 16% of the sample had even number of members) in order to avoid ties when voting for decisions. The number of members ranged from five (5) to nineteen (19).

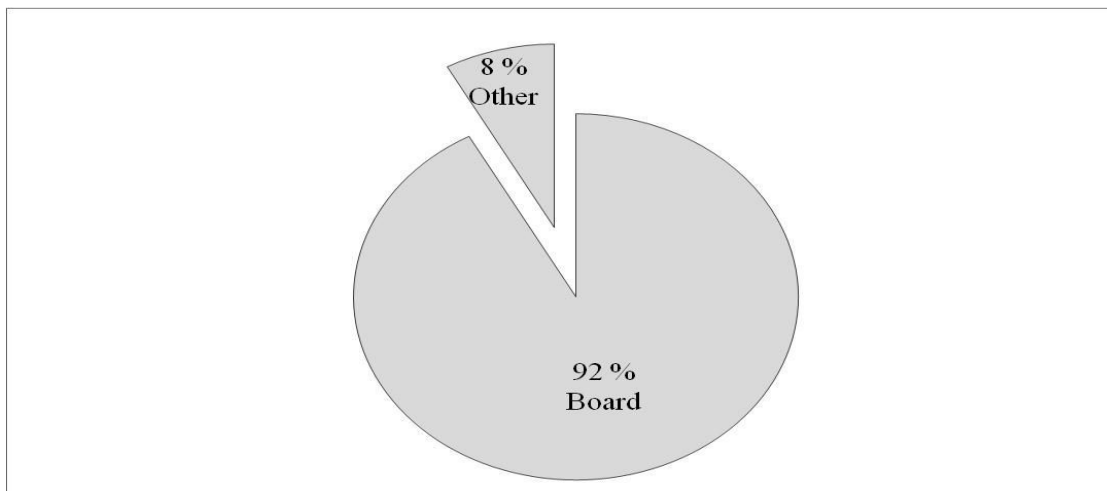


Figure 16. Distribution of Recruiting Body for Top Executive / CEO.

The recruitment and hiring process of a top executive is an indication of the governance model used by the organization and the level of authority of the Board in the relationship with the top executive. The chart above (Figure 16) shows that in 92% of the organizations in the sample, the top executive is recruited and hired by the Board. In the other 8% of the responding organizations the top executive was selected in a general assembly, designated by a community group or simply appointed by the founding president.

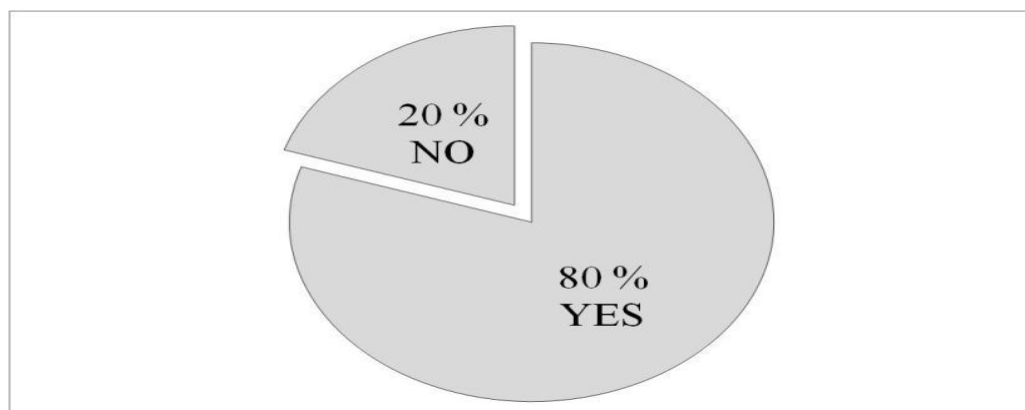


Figure 17. Distribution of Responses Regarding Existence of a Formal Performance Evaluation Process for the Top Executive / CEO.

A controlling Board (agency model) will always have a formal performance evaluation of the top executive. This is one of the mechanisms to assure that the top executive is aligned with the mission of the organization, and that is performing according to the expectations and guidelines of the Board. Eighty percent (80%) of the responding organizations have formal evaluation processes for the top executive.

The research did not evaluate the applicability and appropriateness of the Performance Evaluation Method. For the purpose of this research, the intent to evaluate the performance of the Top Executive by the Board is enough to support an Agency governance model.

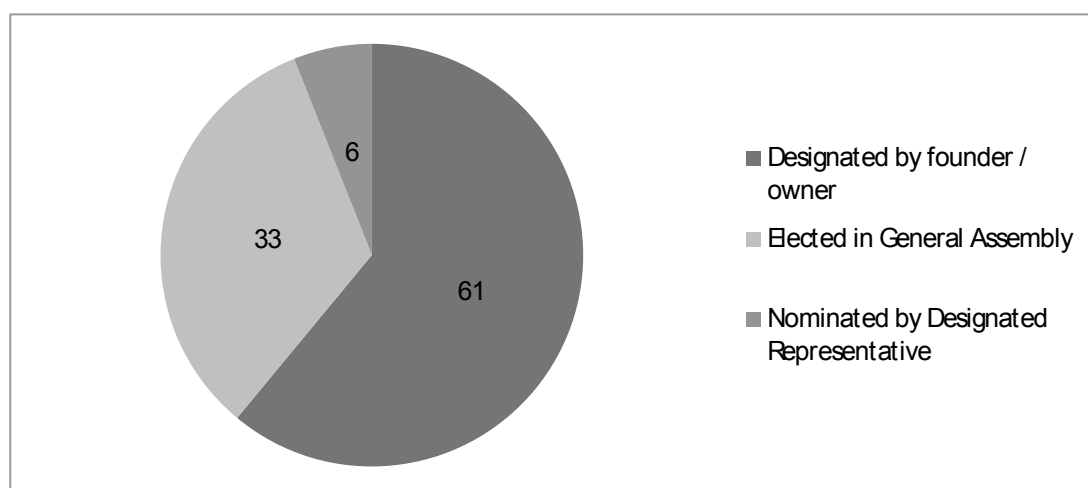


Figure 18. Distribution of Board Selection Processes.

All responses to the question on how are the Board members elected (Figure 18) could be categorized in three groups: elected by an assembly (either of the members of the organization, the members of an umbrella organization, or the members of a community group), elected by representatives from an umbrella organization (maybe a nominating committee), or designated by an individual (the founder or the president). Interestingly the majority (61%) of the responding organizations reported that the founder

or the president is the one appointing the Board members. A thirty three percent (33%) of the organizations select their Board members in a general assembly of members or community. This question provided insight into the responding organizations practices, although it was not considered for the categorization of the governance model. It ties with the next question regarding to the requirements to become a board member.

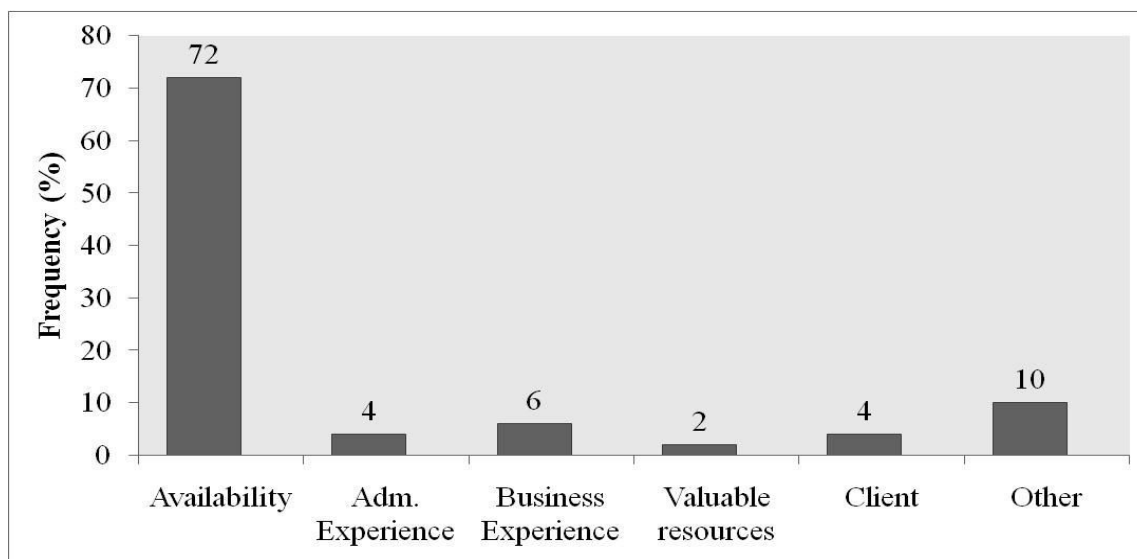


Figure 19. Distribution of Requirements for Board Membership.

A very important question regarding the predominant governance model of the Board has to do with the requirements to become a Board member. An agency Board will look for members with administrative experience or with experience in the area of services provided by the organization. These types of members will add to the Board's capabilities to monitor closely the organization's activities and the top executive's performance. A Board with a predominant resource-based model, will look for members with specific resources or skills needed for the growth of the organization or members with network connections that may contribute with such resources to the well being of the organization. The distribution of responses shown in Figure 19 above, depicts that the

key requirement to become a Board member in 72% of the responding organizations, is availability of volunteers and generally accepted moral values. The following category (6%) is a requirement of experience and knowledge of the service given by the organization (i.e. Social Worker if it is a shelter service, Counseling, if it is a support group). Administrative experience is only a requirement for four percent (4%) of the group. Another four percent (4%) requires a number of their Board members to have been recipients of the service provided and two percent (2%) require members to have community standing (image / networking). Among the other category (10%), some require that a number of the Board members be part of the founding family. Due to the not-for-profit nature of the organizations in the research, and the volunteer characteristics of board members, it is expected to have availability as a key element for board member selection. The high number of members selected by availability and moral values could be a downside to the Board's efficiency in any of the governance models. It would be interesting for future research to address the impact of this composition element to the effectiveness of the management / board processes.

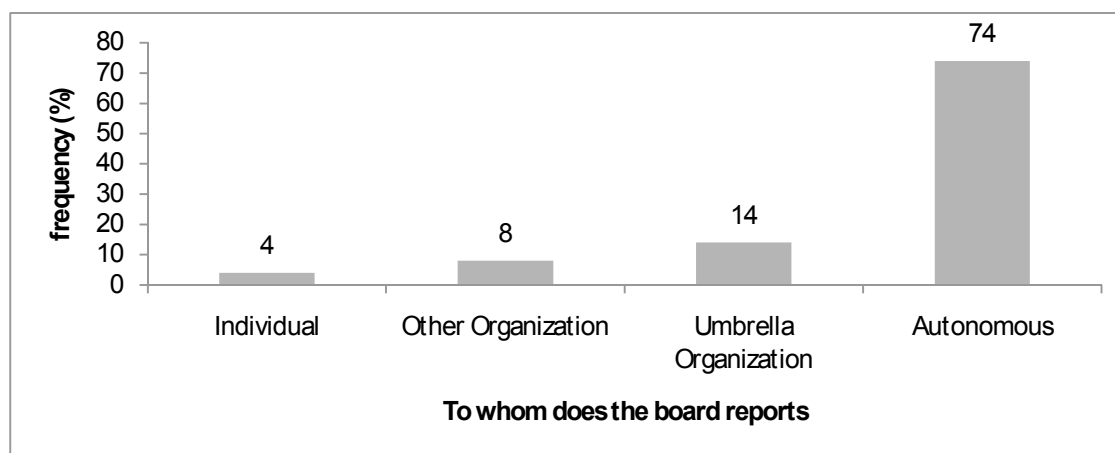


Figure 20. Distribution of Board Reporting Responsibility.

The question regarding to whom does the Board respond, show predominantly autonomous Boards (74%). A 14% responds to an umbrella organization, 8% to another organization, and 4% respond to individuals (usually the founder). This was a question used for descriptive purposes.

Characteristics related to the effectiveness of the organizations

The following set of charts (from Figures 21 to 28) shows the characteristics of the responding organizations to the questions related to effectiveness. This section only shows the frequency of the responses for descriptive purposes. In the analysis section of this document (Chapter IV), it will be explained how the effectiveness index was developed from these questions.

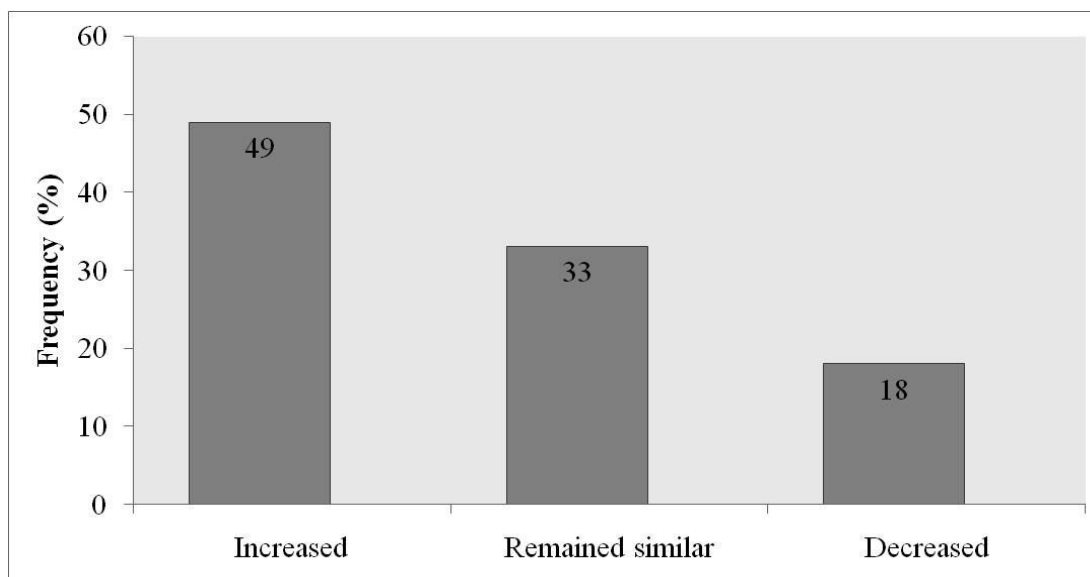


Figure 21. Distribution of Budget Trend for the Last Five Years.

The question was designed so that the respondents identified the organization's total budget trend during the last five years: the total budget has increased, has remained more or less the same, or has decreased. An increased budget was indicative of positive effectiveness, while a decreased budget was indicative of non effectiveness. It can be

argued that a decreased budget may be a product of many different situations, some of which are out of the control of the organization, and it is true. Nevertheless, in the overall, a decreased budget indicates that the organizations has not been able to overcome such situations (which has a relation with the board's actions) and thus, the organization is loosing it's ability to deliver it's mission. Because NPO are organizations dedicated to provide services, a decreased budget is always in opposite direction to their mission. Since the question refers to a period of five (5) years, one-time events are weed out indicating a significant trend. The distribution of the answers (Refer to figure 21 above) showed that 49% of the responding organizations had increased total budgets throughout the last five years, 33% have remained more or less the same, while 18% have experienced a reduction on their total year budgets.

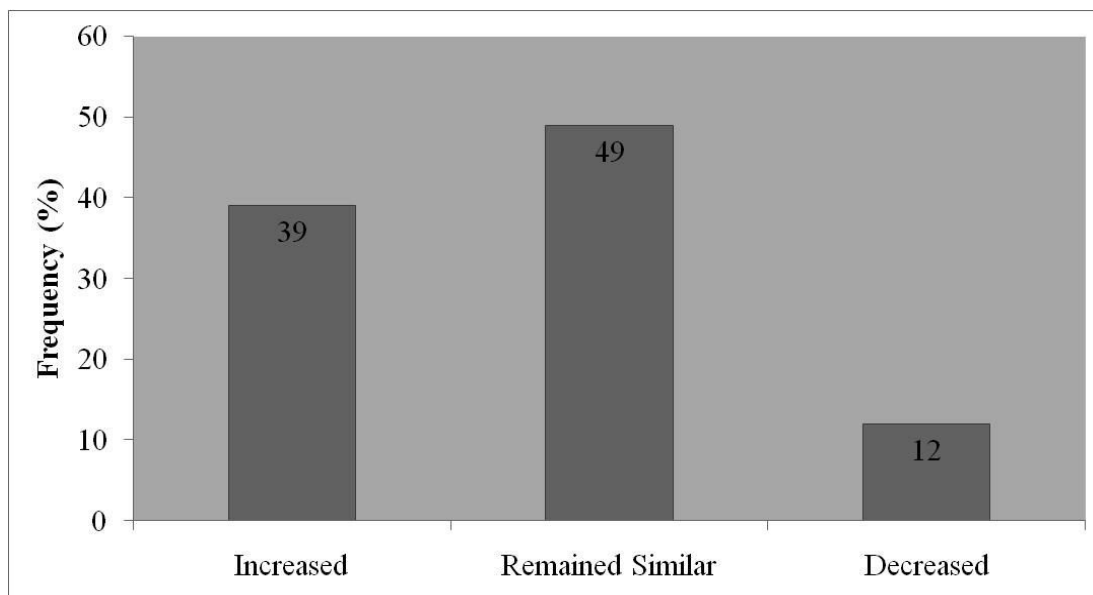


Figure 22. Distribution of Number of Employees Trend for the last Five Years.

The question about number of employees' trend (Figure 22) was designed so that the respondents identified the organization's number of employees trend during the last

five years: the total number of employees has increased, has remained more or less the same, or has decreased. Volunteers were not considered in this question due to the added variables introduced by the availability, preparedness, evaluation and community served of the volunteer force. An increased number of employees was indicative of positive effectiveness, while a decreased number was indicative of non effectiveness. It can be argued that a decreased number of employees may be a product of many different situations, including being more effective in the use of the employees, or using more volunteers, and it is true. Nevertheless, in the overall, over a five year period a decreased number of employees indicates that the organizations has not grown sufficiently as to need or allow added employees. Since the question refers to a period of five (5) years, one-time events are weed out indicating a significant trend. For the effectiveness index calculation, this question is combined with other items to address all possible conditions. The distribution of the answers (Refer to Figure 22 above) showed that 39% of the responding organizations had increased total number of employees throughout the last five years, 49% have remained more or less the same, while 12% have experienced a reduction on their employee base. This distribution, when compared with the question about the total budget trend (Figure 21), shows that organizations are not consuming their budget increases in hiring more employees, which supports the reason why both questions have to be included in the effectiveness determination and why a third component, trend on people served, is necessary in the determination.

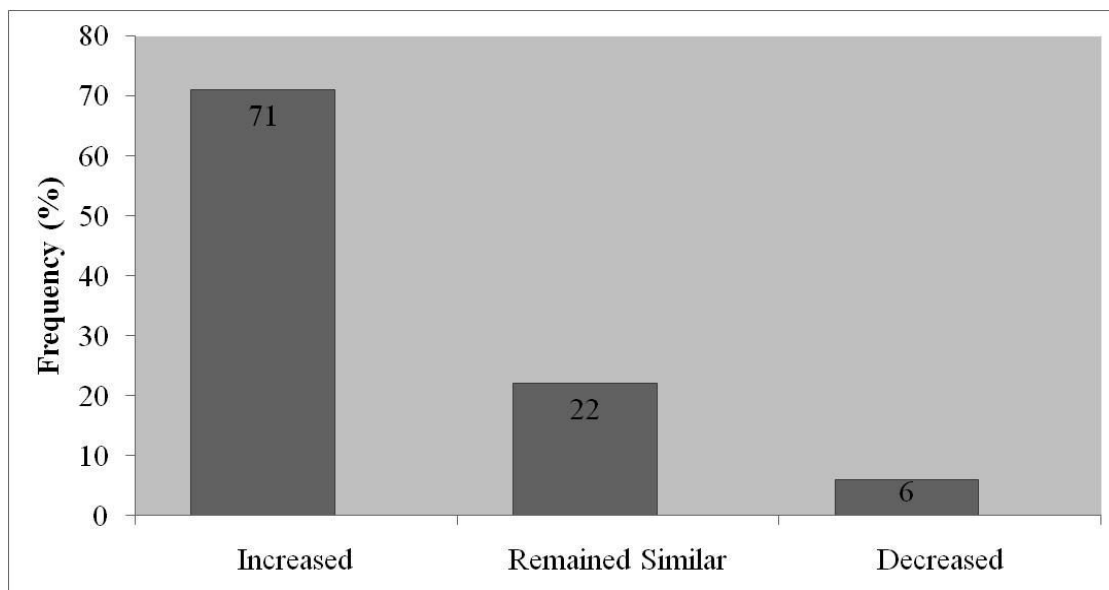


Figure 23. Distribution of Number of Clients Reached Trend for the last Five Years.

The question about clients served (Figure 23) was designed in order to incorporate in the effectiveness determination the fact that NPSO exist to provide a service to the community. Their mission is to reach the chosen community with a service, thus an increased trend in persons reached is indicative of effectiveness of the organization. Throughout this research, clients were defined as persons receiving the service regardless if they are paying for the service or the service is at no cost. The concept *client* is used in a high level concept similar to the one used in Total Quality Management environment. The question explored the trend of clients served over a five (5) year period in order to eliminate the one-time, temporary, environment, community or organization's situations. The distribution shows that 71% of the organizations have increased their client base during the last five (5) years, 22% have remained more or less the same and 6% are serving fewer clients than five years ago.

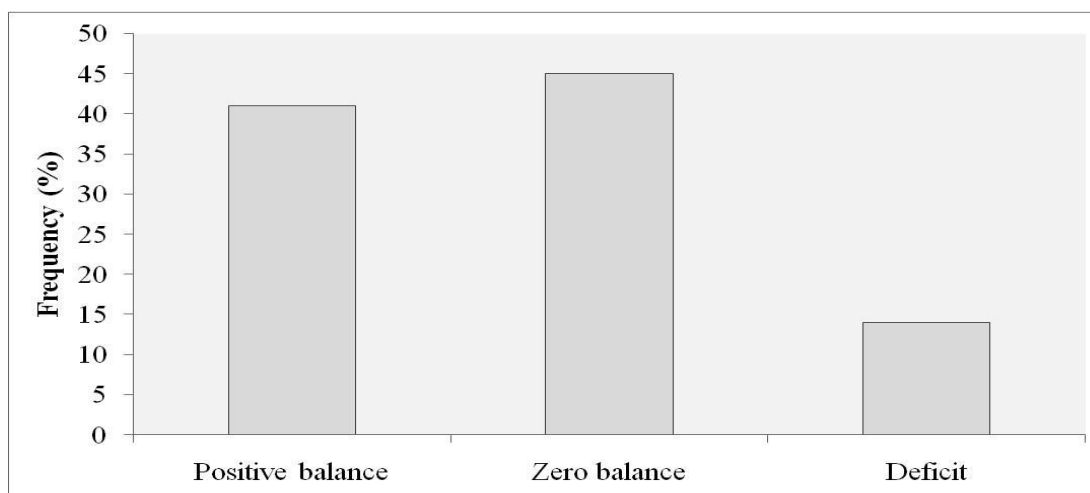


Figure 24. Distribution of Year End Budget Results Trend for the last Five Years.

The organizations were asked to assess their usual financial condition at the end of the year: do they usually end the year with a surplus (positive balance between income and expenses) in the budget, close to zero balance (use up all the budget), or end the year with negative numbers (deficit against overall budget) (Figure 24). This element contributes to understand the financial stability of the NPSO, but it cannot be used as the sole criteria for effectiveness due to particular characteristics of NPSO. The NPSO exist to provide a service, thus using up all their income to provide the service is somewhat part of the design of many such organizations. In fact, some of the NPSO have policies regarding ending the year in zero, so that they are not perceived as making income (which would deny their no-for profit nature). Nevertheless, saving some of the income for future organizations needs and for increasing services, indicates a positive consideration for effectiveness. On the other hand, ending the year with deficit (in a five year trend) is indicative of dangerous financial conditions which will eventually result in the organization's inability to provide the desired services. The distribution of the responses showed that 41% of the organizations usually end the year with positive

numbers, 45% end in zero or close to zero (which is consistent with the policy related to non-profit perception), and 14% reported that they usually end the year in negative numbers.

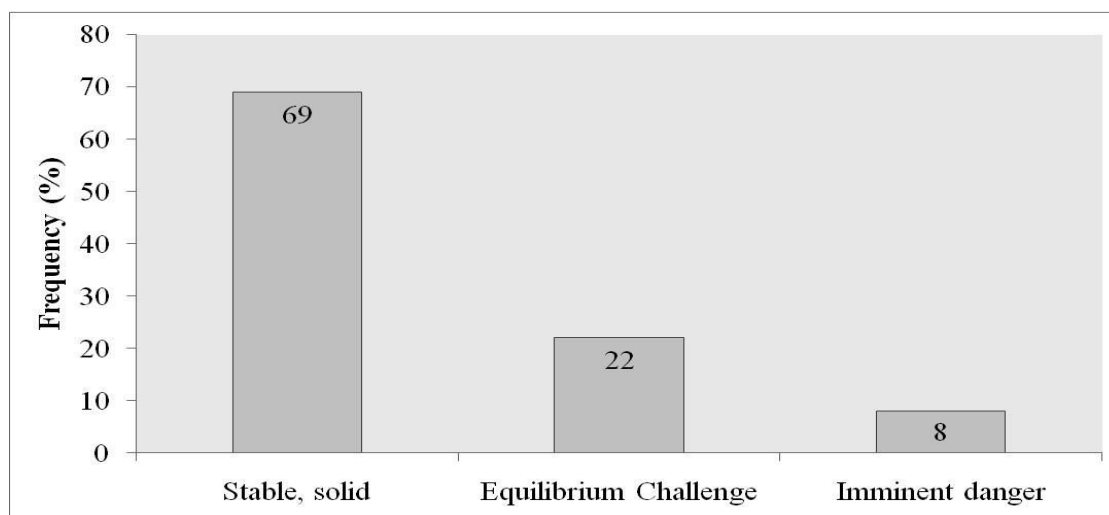


Figure 25. Distribution of Financial Condition at the End of Last Year.

Very related to the previous question about the usual year end condition against budget, is the question about how would the respondents classify their actual financial condition based on last year's ending numbers. This question provides an additional assessment beyond the trend on the last years: it provides the assessment of actual financial situation. The question was designed so that respondents classify their actual financial situation as solid and stable, a tightrope (continuous equilibrium challenge) or imminent danger. As shown in previous chart (Figure 25), the distribution of responses was 69% solid, stable conditions, 22% in an equilibrium challenge, and 8% reported to be in imminent danger. When compared with the data in Figure 24, it is evident that from the 14% whose trend is usually negative, only 8% classifies their actual situation as in imminent danger. It is not known if the actual condition assessment is due to an extraordinarily bad year, or is a consequence of accumulated trend of negative results.

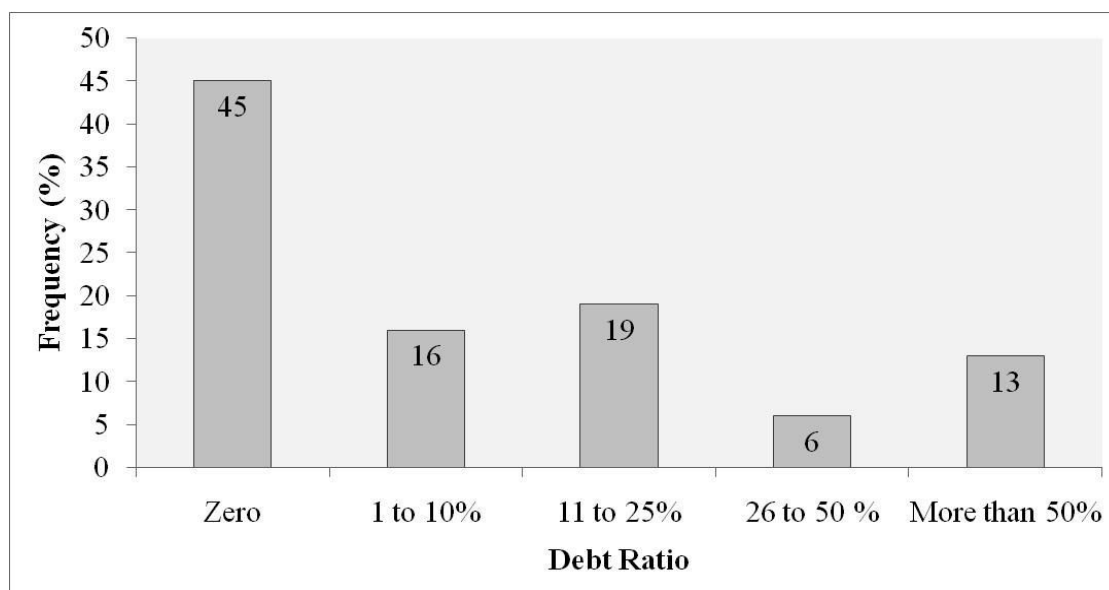


Figure 26. Distribution of Debt Ratio.

The distribution on responses regarding the debt ratio of the organization is shown in Figure 26 above. In NPSO, this question has to be taken within the context of the organization's policies. Some NPSO reported a policy of no debts allowed (which means they are not allowed to take loans or their assets are all under the financial structure of the umbrella corporation, thus showing a zero asset / debt ratio). Thus, although a zero or non existing debt ratio cannot be inferred to mean effectiveness, the contrary, a high debt ratio is indicative of non effectiveness and a limitation for future increase / expansion of services. This is not the same as in for profit organizations, where debt may be due an investment / leverage financial strategy. In NPSO, debt ratios are directly related to the services provided and because there is no investment strategy due to the non profit nature, they have a negative weight on the organization's stability. The distribution of answers, show that 45% of the organizations have either zero, or non applicable debt ratios. The rest of the group was distributed as follows: 22% of the responding

organizations have debt ratios between one (1%) and fourteen (14%) percent, 13% of the responding organizations have between 20% and 25% of debt ratio, 13% of the organizations have between 31% and 55% of debt ratio, and the remaining 6% of the group reported debt ratios between 127% and 213%. The organization that reported 127%, was one of the organizations that classified itself as being in imminent danger (refer to Figure 25). Surprisingly, the organization with the 213% classified itself as in equilibrium challenge. An acceptable or norm threshold for NPO debt ratio could not be found in the literature. Nevertheless, common sense indicates that organizations with more than 50% debt ratio are non effective in the management of their income and assets.

The question on current Debt Ratio was complemented with a question regarding Debt Ratio Trend in the last five (5) years, for those organizations reporting a debt ratio. The distribution of the answers is shown in Figure 27 below.

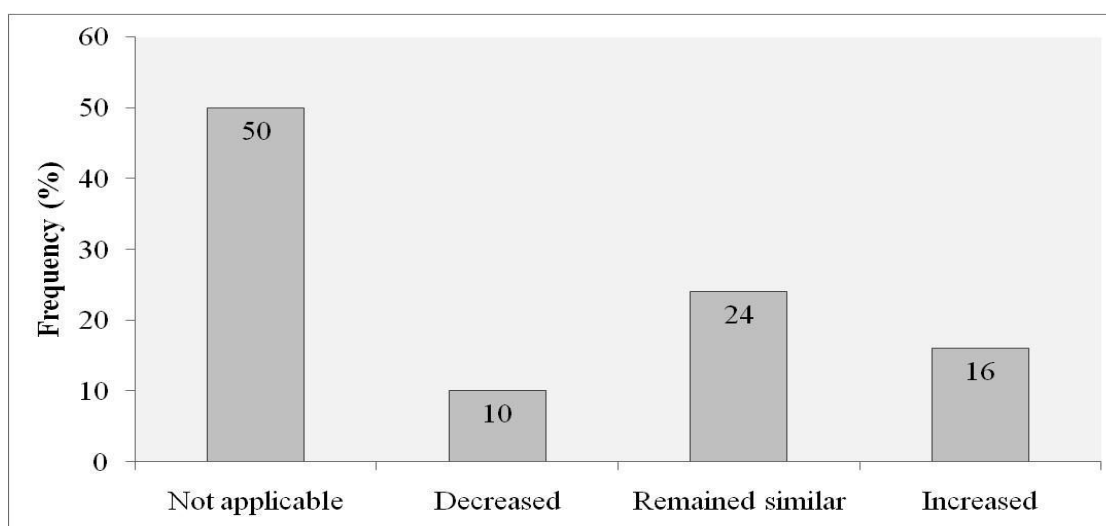


Figure 27. Distribution of the Debt Ratio Trend for the Last Five Years.

As per above Figure 27, a 50% of the respondents did not know the trend of their debt ratio or did not respond to the question, 10% reported that it has decreased over the

last five years, 24% said that it was more or less the same, and 16% said that the ratio has increased over the last five years.

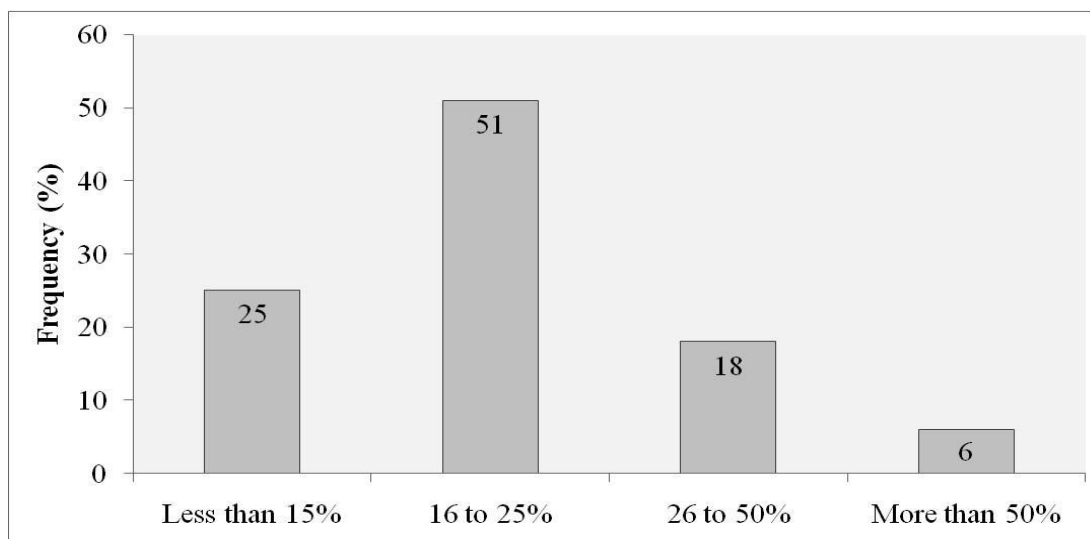


Figure 28. Distribution of Percent of Budget Allocated to Administrative Expenses.

The final question associated with effectiveness requested the participants to say how much of their total annual budget is used in administrative expenses (not directly used in providing the services they exist for). The chart above (Figure 28) shows that 25% of the organizations assigned less than 15% of their year budgets to administrative expenses, 51% assigned between 16 and 25%, 18% assigned between 26 and 50% and 6% assigned more than 50% of the budget to administrative expenses. Again, a threshold was not found in the literature as to which is the norm or the acceptable guideline for NPO, but evidently more than 25% is indicative of ineffective use of the budget when the organization's nature and reason for existence is the provision of services at no or low cost.

Determination of research model variables

Governance Model – Independent variable. The governance model predominantly used by each organization was determined from the practices and norms reported in relation to board roles, top executive-CEO roles, typical board meeting agenda topics, and managerial relationship between the board and the top executive (Refer to Table 6). The governance models found were distributed as shown in Figure 29 below.

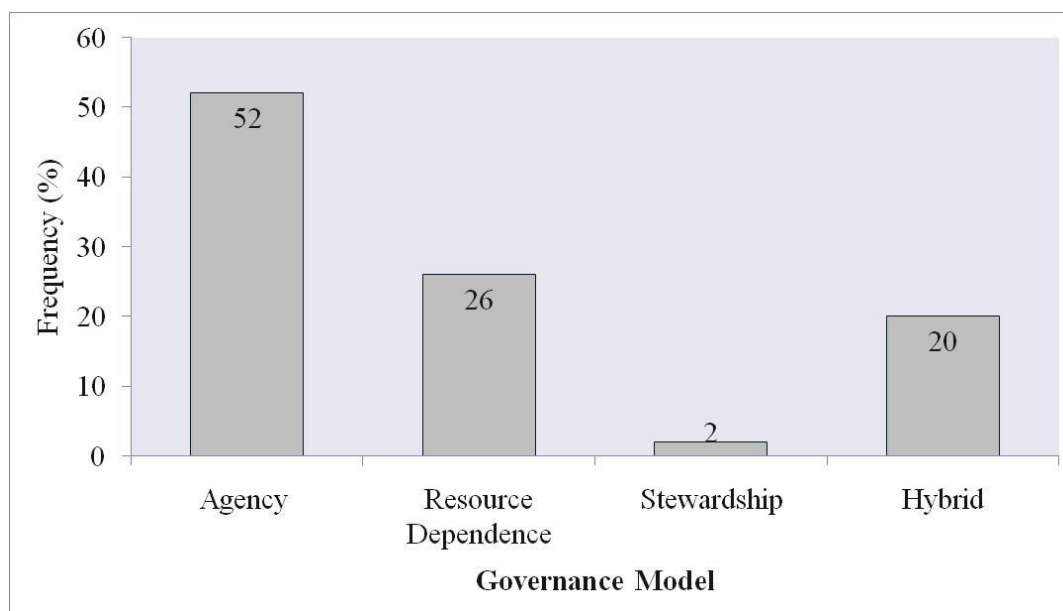


Figure 29. Governance Model Distribution.

As shown in Figure 29 above, it was determined that twenty six percent (26%) of the responding NPO have a predominant Resource Dependence governance model, fifty two percent (52%) has a predominant Agency governance model, two percent (2%) has a predominant Stewardship governance model and twenty percent (20%) has a Hybrid model. This means that an eighty percent (80%) of the responding organizations, showed governance models which were successfully classified within the major For Profit

Governance Models. The twenty (20%) determined to be Hybrid, had a mixed composition of elements from the three models, with no one predominant. The most frequent model used by the NPO in the research is the Agency Model. This finding is indicative of the concern of boards in maintaining control over the operations and decisions affecting the NPO.

In general, respondents identified boards' intervention in the development and communication of the organization's strategic plan as the most frequent Board role, followed by the evaluation of the implementation of the approved strategies and the fiscalization of the financial practices in the organization. Overall, the predominant Top Executive roles reported were, aside from the responsibility of the daily operations of the organization, the responsibility to report to the Board the issues that require economic, operational and human resources decision making. The most frequent Board meeting agenda topics was the evaluation and decision making regarding the organization's financial status, followed by the evaluation and approval of the Top Executive's operation's report. Responses indicated that generally the Top Executive, although in most cases attend the Board Meetings, is not part and does not have a vote during such meetings.

Effectiveness Index – Dependent Variable. As previously discussed in the Methodology (Chapter III), an organization effectiveness index includes the following elements: year budget, budget balance at year end, amount of employees, amount of clients reached, last year's financial condition, and percent of total budget allocated to administrative expenses. The first four elements mentioned were evaluated based on a five year trend. The organizations were asked to identify if these elements had increased,

decreased or remained similar throughout the last five years. Absolute values were not considered because the size of the organizations was not an element within the research model and as mentioned previously, absolute numbers would include different variables due to the difference in the nature of service of the organizations. The five year trend allows the investigator to assess if the organization is moving in the right direction smoothing out any one-time, non prevailing occurrence. The remaining two elements included in the effectiveness index were an assessment of last year's year end financial condition (respondents were asked to classify the organization's condition based on last year's financial results (stable and solid, in a tightrope as an equilibrium challenge or in imminent danger) and an estimate of how much of the organization's total budget is dedicated to administrative expenses. NPSOs exist to provide services, at low or no cost to a need community, thus this question incorporates in the effectiveness analysis, the effectivity of the budget/ income / funding utilization. The effectiveness index includes all the parameters important to an NPO: services provided (measured as clients reached), growth of the organization (measured in terms of amount of employees as well as total budget increase), financial stability (measured as financial condition at year end) and effectivity of budget allocation to attain the organization's mission.

Debt ratio was originally going to be included in the effectiveness index calculation, since an extraordinary debt ratio, and the inability to manage it over time represents a threat to the existence of the organization, or at very least, an impact in the potential to continue providing the services which are the organization's nature.

Although a 50% of the responding organizations did report a debt ratio (Refer to Figure 24), even if it was zero, and reported a debt ratio trend, the fact that half of the

respondents did not answer the question would mislead the effectiveness index if the questions were included in the calculation. The debt ratios and trends were included as descriptive data for the ones which responded to it (Refer to Figures 24 and 25), but were not included in the effectiveness index calculation. As this question required a specific figure and knowledge of financial data, it may have been that the responding individuals did not have the information readily available, and thus preferred to leave it in blank. On the other hand, some of the respondents did report a zero debt ratio, but explained that it was an organization policy not to incur in debts, thus it is not representative of a financial condition, but rather of a predetermined policy. The information obtained from the debt ratio is also embedded in the answer to the financial condition of the organization at last year end, so the element is not lost from the index.

The codification of the questions was made so that an organization with an effectiveness index of “1.0” corresponds to an organization where all the elements considered were in the correct trend for the last five years (showing improvement, growth and stability). A “3.0” would represent an organization where all the elements considered were in the undesirable trend for the last five years (showing reduction, decline and instability). The calculations yielded indexes within those two limits. The following chart (Figure 30) shows the distribution of the effectiveness indexes among the responding organizations.

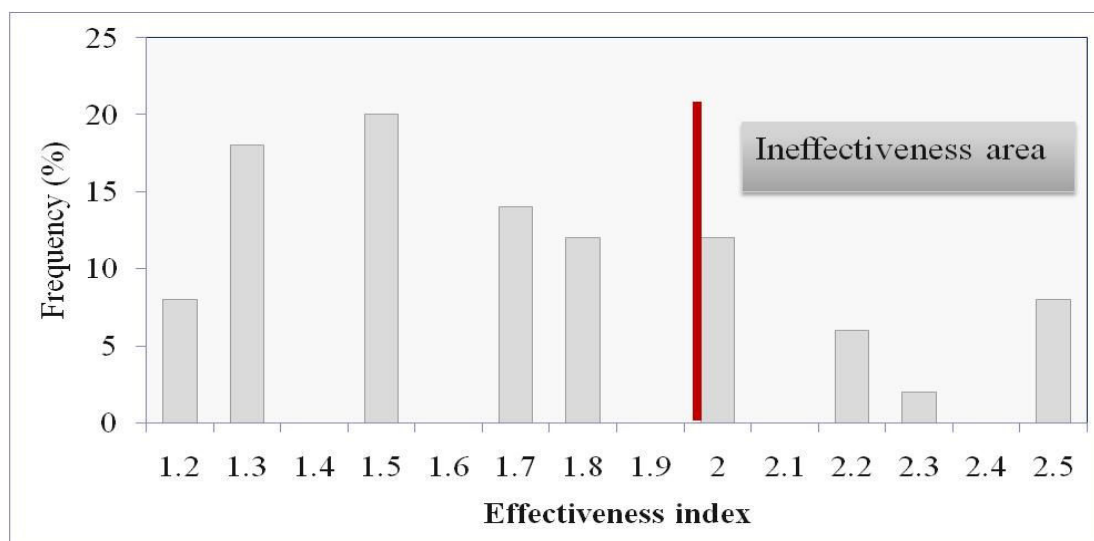


Figure 30. Distribution of Effectiveness Index among respondents.

A number two (2) in the questions coding, was an answer of “remains more or less the same throughout the five years”. Thus, an index over “2” represents an organization with various levels of ineffectiveness. The median for the Effectiveness Index Distribution (Figure 30 above) was 1.70 showing that most of the organizations were within the range of effectiveness.

Top Executive – CEO Characteristics. For the moderating variable of the model, a Top Executive (CEO) with two (2) or more years of experience in the area, two (2) or more years of tenure in the organization and a college degree (regardless of the college degree, as long as it is a bachelor degree or more) was coded as a CEO level “1”. Any Top Executive (CEO) out of this group, was coded as a CEO level “2”. The distribution of Top Executives into level “1” or “2” was as follows:

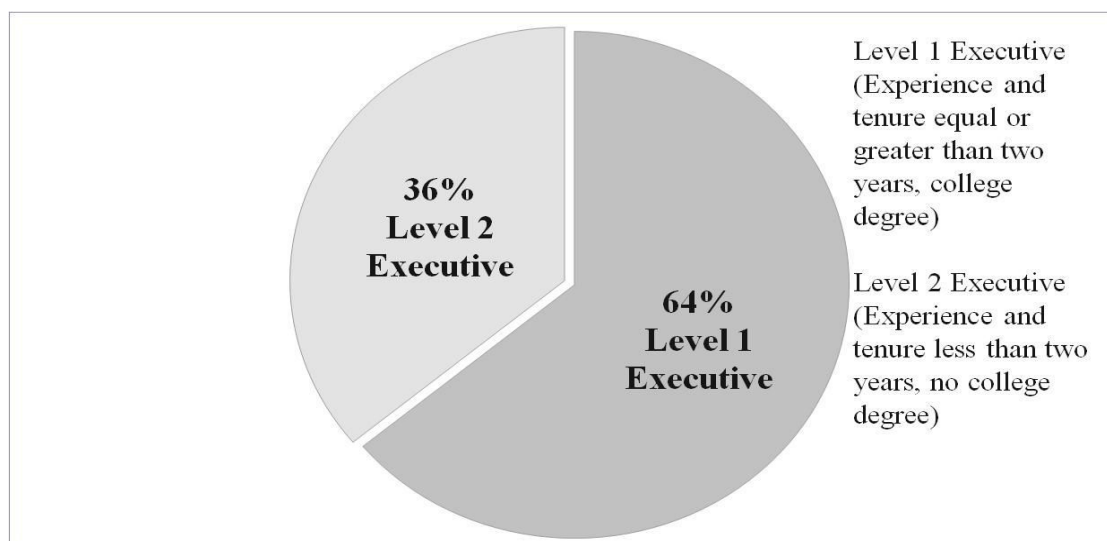


Figure 31. Distribution of Top Executives/CEO by Level.

Once the three research variables were defined, (Refer to Figures 29, 30 and 31 above), the hypotheses were then tested.

Hypothesis analysis results

Ho¹ Board of Directors' of NPSO in Puerto Rico are governed by models similar to those described in the literature in For-Profit Organizations (agency model, stewardship model, resource dependent model).

As can be shown in Figure 29, this hypothesis is accepted. The NPSO surveyed show predominant governance models similar to those described in the literature in For-Profit Organizations. The most frequent model found was the Agency Model (52%). This reflects that the majority of the NPSO Boards in PR have a control management mode, intervening directly with the organization's operations, decision making, directly overseeing the financial performance of the organization, and performance of the Top Executive. The percentage of Hybrid models found (20%) shows that some organizations have developed governance models of their own, combining characteristics

of the three models to a level where it is not possible to identify a predominant model. This can be a result of institutional mimetism, where the organization (either Board of Directors, Top Executive, ruling organism, or all of them), copy the practices and policies of surrounding organizations as they see fit to their roles and mission, developing a mixed governance model of their own.

Ho² There is a direct significant relationship within the governance model used by NPSO in Puerto Rico and its effectiveness.

In order to test the significance of the governance model as predictor of the organization's effectiveness, a linear regression was performed between the governance models (independent variable) and the effectiveness indexes (dependent variable). The results, as shown below (Table 9), do not support any statistical significance. A value of 0.007 for R-Square combined with a p-value of 0.28 indicates that the Governance Model Variable is not a significant contributing factor to the Effectiveness Index.

Table 9

Table of Mean, Std. Deviation, Pearson Correlations and R² Matrix for Effectiveness Index and Governance Model (dependent and independent variables)

Variable	Variable name	Mean	Std. dev.	Pearson Correlation 1	Pearson Correlation 2	p value	R ²
1	Effectiveness Index	1.7	0.4	1.00	-0.08	0.28	.007
2	Governance Model	2.2	1.0	-0.08	1.00		

n= 50

An independent t-test was performed in order to determine the difference in the means from the two groups. As shown in the data below (Table 10), there is not significant difference among the means of the two groups, supporting the same conclusions obtained from the linear regression.

Table 10

Independent T-Test results for Effectiveness Index and Governance Model Variables

		t-test for Equality of Means					95% Confidence	
		t	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Interval of the Difference	
						Lower	Upper	
Effectiveness Index	Equal variances assumed	1.113	48	.271	.12465	.11196	-.10045	.34975
	Equal variances not assumed	1.122	36.171	.269	.12465	.11111	-.10065	.34996
Governance Model	Equal variances assumed	-.598	48	.553	-.18403	.30763	-.80256	.43450
	Equal variances not assumed	-.565	29.846	.576	-.18403	.32575	-.84944	.48138

Based on the data obtained from linear regression (Table 9) and independent t test between both variables (Table 10), the hypothesis is rejected. There is no significant difference in the effectiveness index among the organizations with different governance models. Thus, the governance model is not a significant contributor to the variances within effectiveness indexes.

Ho^{3a} The academic preparation of the top executive is a moderating variable between the governance model and the effectiveness of the NPSO.

Statistical analysis was run in order to look for significant correlations between the academic preparation of the Top Executive (CEO) and the effectiveness index. The results (see Table 11 below) do not support that the academic preparation of the Top Executive has a significant correlation with the effectiveness index. An R-Square value of 0.04 combined with a p-value of 0.09 indicates that the Academic Preparation of the Top Executive/CEO is not a significant contributing factor to the Effectiveness Index.

Table 11

Table of Mean, Std. Deviation, Pearson Correlations and R² Matrix for Effectiveness Index and Academic Preparation of Top Executive/CEO

Variable	Variable name	Mean	Std. dev.	Pearson Correlation 1	Pearson Correlation 2	p value	R ²
1	Effectiveness Index	1.7	0.4	1.00	-0.20	0.09	.04
2	Academic Preparation of Top Ex./CEO	2.7	1.0	-0.20	1.0		

n= 49

Ho^{3b} The experience of the top executive in the core organization's function in the position is a moderating variable between the governance model and the effectiveness of the NPSO.

Statistical analysis was run in order to look for significant correlations between the experience of the Top Executive (CEO) in similar and related positions and the

effectiveness index. The results (see Table 12 below) do not support that the experience of the Top Executive has a significant correlation with the effectiveness index. An R-square value of 0.00 combined with a p-value of 0.50 confirms that the Previous Experience of the Top Executive/CEO is not a significant contributor to the Effectiveness Index.

Table 12

Table of Mean, Std. Deviation, Pearson Correlations and R² Matrix for Effectiveness Index and Previous Experience of Top Executive/CEO

Variable	Variable name	Mean	Std. dev.	Pearson Correlation 1	Pearson Correlation 2	p value	R ²
1	Effectiveness Index	1.7	0.4	1.00	0.00	0.50	.00
2	Previous Experience of Top Ex./CEO	8.0	11.0	0.00	1.00		

n= 46

Ho^{3c} The tenure of the top executive is a moderating variable between the governance model and the effectiveness of the NPSO.

Statistical analysis was run in order to look for significant correlations between the tenure of the Top Executive (CEO) and the effectiveness index. The results (see Table 13 below) do not support that the tenure of the Top Executive has a significant correlation with the effectiveness index. An R-square of 0.01 confirms that Tenure of

the Top Executive/CEO is not a significant contributor to the Effectiveness Index.

Hypothesis 3 was rejected in all its parts.

Table 13

Table of Means, Std. Deviation, Pearson Correlations and R² Matrix for Effectiveness Index and Tenure of Top Executive/CEO

Variable	Variable name	Mean	Std. dev.	Pearson Correlation 1	Pearson Correlation 2	p value	R ²
1	Effectiveness Index	1.7	0.4	1.00	0.11	0.24	.01
2	Tenure of Top Ex./CEO	9.5	8.6	0.11	1.00		

n= 47

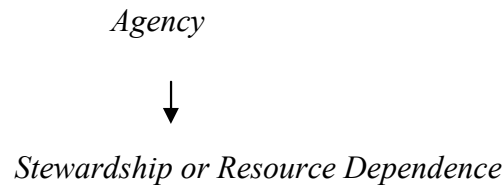
Ho^{4a} In the presence of top executives with college academic background, experience in the core organization's function and more than two (2) years of tenure, the Boards with agency models (Boards with strong decision making and auditing roles) are less effective than those Boards with stewardship or resource provider models. In this case, the effectiveness order (from most effective to less effective) would be:

Stewardship or Resource Dependence



Agency

Ho^{4b} In the presence of top executives with no college academic background, low or no experience in the core organization's function and low tenure, Boards with agency models are more effective. In this case, the effectiveness order (from most effective to less effective) would be:



Hypotheses 4a and 4b, were tested together. An independent t test was performed to determine the difference in the means from the two groups and determine any significant contribution of the Top Executive/CEO groups (Level 1 Executive and Level 2 Executive) with the effectiveness index and the governance model.

The results, as shown in Table 14 and 15 below do not support the hypothesis, in either of its parts. Since there is not significant difference among the groups when considering the Top Executive/CEO characteristics (two CEO groups: level 1 and level 2), the rest of the hypothesis (the effectiveness of one governance model over the other in the presence of either of the two Top Executive/CEO groups) is automatically rejected.

Table 14

Table of Means and Std. Deviation for Effectiveness Index and Governance Model Relationship against the Top Executive/CEO Characteristics

	CEO Level	N	Mean	Std. Deviation
Effectiveness Index	1.00	32	1.7	.38
	2.00	18	1.6	.37
Governance Model	1.00	32	2.1	.96
	2.00	18	2.3	1.18

Table 15

ANOVA Relationship Results for Effectiveness Index, Governance Model and Top Executive /CEO Characteristics

		Sum of Squares	df	Mean Square	F	Sig.
Tenure of executive	Between Groups	9.878	1	9.878	.130	.720
	Within Groups	3413.867	45	75.864		
	Total	3423.745	46			
Academic preparation of exec	Between Groups	.795	1	.795	.849	.361
	Within Groups	43.981	47	.936		
	Total	44.776	48			
Previous experience of exec	Between Groups	12.974	1	12.974	.105	.748
	Within Groups	5451.026	44	123.887		
	Total	5464.000	45			
Governance model	Between Groups	.153	1	.153	.139	.711
	Within Groups	52.567	48	1.095		
	Total	52.720	49			

In summary, the results of the hypotheses were as shown in Table 16 below.

Table 16

Summary of Hypothesis Testing Results

Hypothesis Number	Hypothesis	Result
1	Board of Directors' of NPSO in Puerto Rico are governed by models similar to those described in the literature in For-Profit Organizations (agency model, stewardship model, resource dependent model).	Accepted
2	There is a direct significant relationship within the governance model used by NPSO in Puerto Rico and its effectiveness	Rejected
3	3a. The academic preparation of the top executive is a moderating variable between the governance model and the effectiveness of the NPSO	3a. Rejected
	3b. The experience of the top executive in the core organization's function in the position is a moderating variable between the governance model and the effectiveness of the NPSO.	3b. Rejected
	3c. The tenure of the top executive is a moderating variable between the governance model and the effectiveness of the NPSO	3c. Rejected

Hypothesis	Hypothesis	Result
Number		
4	4a. In the presence of top executives with college academic background, experience in the core organization's function and more than two (2) years of tenure, the Boards with agency models (Boards with strong decision making and auditing roles) are less effective than those Boards with stewardship or resource provider models	4a. Rejected
	4b. In the presence of top executives with no college academic background, low or no experience in the core organization's function and low tenure, Boards with agency models are more effective	4b. Rejected

CHAPTER V

CONCLUSIONS

Conclusions

The hypotheses testing, as described in previous chapter, demonstrate that the governance models used in the For-Profit world are also applicable and used in the Not-For-Profit world. Agency model, characterized by its controlling focus, is the most common model used by NPSO in Puerto Rico, followed by NPSO with Hybrid models, which have a mix of all the governance models used as framework for this research. It seems that in the interest of achieving the service mission, the Boards of the NPSO have identified the need to overlook and control the operations and financial performance of the organizations as one of their primary roles. The existence of Hybrid models also suggest that NPSO, in their pursue of governance guidelines and environmental scanning among their equals, probably as part of a benchmarking system, have copied aspects of different models, developing their own systems. Evidently, although there is difference in the nature of the mission of For-Profit and Not-for-profit organizations, the governance elements are applicable to both of them in pursuing their specific goals. Not-for-profit organizations can, and are, learning from the For-Profit sector and implementing, as they see fit, the elements that may be useful for them.

Contrary to the expectations of the investigator, as reflected on hypotheses 2, 3 and 4, there is no evidence that the governance model is a significant contributor to the effectiveness of the organization. The Top Executive / CEO characteristics are not a significant factor in such effectiveness, either. Interestingly, several of the questionnaires provided comments from the Top Executives regarding their own opinions that the

effectiveness of the organizations they lead could be improved if the role of the Board changed. This perception is not supported by the research findings.

The obvious implication of this conclusion is that there must be other factors, not included in the scope of this research, which are driving the effectiveness of the NPSO in Puerto Rico. Understanding such factors is essential to the growth of the NPSO in Puerto Rico and the potential increased contribution to the island's economy.

Reviewing the research model in the light of the hypotheses results, it becomes evident that one element which was not considered in the research and hypothesis testing was the consistency between the intended governance model and the actual governance model delivery. This is the same as saying that there is a gap between intent and action, between theory and performance. The organization's intent could favor one governance model, but that does not assure that the model is executed appropriately. An NPSO may have, as example, an Agency Governance Model in theory: the Board's role is focused on controlling and fiscalization of the decision making process and financial elements. All Board members, Top Executives, and organization groups may be aware and in agreement with such role. But, the Board members may not be knowledgeable or experienced in decision making tools and practices or on financial data interpretation. Thus, intent is not supported by desired action. This research may be repeated adding a set of questions which validate the actual delivery of the model (Refer to Recommendations later in this Chapter). The same would be true for Top Executives who have the tenure, experience and academic preparation but may not be delivering accordingly. Gordon's (2002) methodology for assessing Board effectiveness may be

incorporated to the research model in order to only consider organizations whose governance model is supported by their execution.

Research Contributions

This research contributes in many valuable ways to both, the academic environment and the Not-for-profit business environment. The biggest contribution of all is the raise of a new set of questions regarding governance and effectiveness in NPSO. Having proved that there is a crossover of governance practices among For-Profit and Not-for Profit organizations, this research opens the door to the evaluation of many other existing or potential crossovers, not only in the governance elements, but also in the management practices. NPSO should scan best demonstrated practices not only in equals in the Not-for-Profit world, but also within the For-Profit industries.

In the academic environment, it has four major contributions: (1) it adds normative information about the governance practices in the NPSO, which is scarce in the academic literature (Ostrower & Stone, 2001); (2) links the For-Profit and Not-for-Profit literature in a way that has not been done before; (3) adds a new empirical definition to effectiveness interpretations in the NPO (Gordon, 2000); (4) opens research avenues regarding factors precluding NPSO organizational effectiveness.

In the NPO business environment, it has two major contributions: (1) it proves that governance practices are applicable form For-Profit Organizations to Not-for-Profit organizations, opening the door to NPO to seek for other applicable elements, (2) provides a new method for objectively measuring effectiveness in a NPSO. What can't be measured, can't be improved, thus being able to measure effectiveness is a contribution to improvement mechanisms in NPSO. The key element of this

effectiveness measurement is that it integrates the financial aspect, not in the profit concept, but as the important element to be able to deliver the service mission and the growth in the delivery of the mission, which is the existential nature of a NPSO. With this concept a NPSO can develop a practical scorecard to monitor its' effectiveness and adapt it to their strategic and continuous improvement plan. The effectiveness index can provide a data base for researchers as well as for investors /funders who want to have a visibility over the NPO to which they are contributing.

Research Limitations

This research was limited to NPSO, which is only one group under the Not-for-Profit umbrella. As indicated in the Methodology section, other groups under the NPO were not included in order to avoid the inclusion of other moderating variables. Nevertheless, those other moderating variables may prove useful to understand the factors that preclude effectiveness in NPSO.

Since there is no existing database for NPSO governance elements in Puerto Rico, and all NPSO have different meeting schedules and norms, the research was limited to the submission of questionnaires by mail. Interviews and visits to Board meetings could have contributed additional elements for the research.

One of the key limitations of this research is that it did not consider the level of agreement between the governance model that the organizations think they use, and what they do in reality. For the purpose of this research, it was assumed that boards perform in accordance with the governance model characteristics that they pursue. In reality, board may not be performing according to their own description. Since boards' experience,

tenure and knowledge was not considered among the variables, a question regarding board effectiveness in delivering the model is unanswered.

Recommendations

As mentioned previously, this research raised a new set of questions and opened the door to added avenues of research. Some of the potential areas to investigate are:

1. Add a management performance index for both, the Board and the Top Executive / CEO in order to validate the delivery of the governance model. That is, if financial fiscalization by Board is key role, evaluate how well is the Board equipped (preparation and experience) to perform the role and how do they manage the role. Link Gordon's (2000) Boards' effectiveness to Organization's effectiveness defined in this research.
2. Consider Board Life Cycle Stage as a variable. Shen (2003), suggested that Boards governance models evolve over time. Thus, it may be that the factor contributing to the effectiveness of the NPSO is not the governance model, but the governance model in relation to the maturity of the organization and the maturity of the Board.
3. Consider Board members' experience and tenure as a variable.
4. Consider Board and Top Executive/CEO skills on management practices as a variable. This would need to evaluate the CEO and Board academic preparation and experience specifically within business administration.
5. Evaluate possible differences in responses regarding Top Executive/CEO and Board roles if respondents are Top Executives and if they are Board members.
6. Differentiate between small organizations and big organizations.

A significant potential from this research is the development of a database with Effectiveness Index per organization. This database would not only be useful for future research, but would also be a decision making tool for funding individuals or groups.

REFERENCES

- Alexander, J.A. & Weiner, B.J. (1998). The Adoption of the Corporate Governance Model by Nonprofit Organizations. *Nonprofit Management & Leadership*, 8 (3), 223-242.
- Arrington, B., Gautam, K. & McCabe, W. (1995). Continually Improving Governance. *Hospital & Health Services Administration*, 40 (1), 95-110.
- Baliga, B.R., Moyer, R.C. & Rao, R.S. (1996). CEO Duality and firm performance: what's the fuss? *Strategic Management Journal*, 17, 41-43.
- Barkema, H.G., & Gómez-Mejía, L.R. (1998). Managerial compensation and firm performance: a general research framework. *Academy of Management Journal*, 41, 135-145.
- Baysinger, B.D. & Butler, H. (1985). Corporate governance and the board of directors: performance effects of changes in board composition. *Journal of Law, Economics and Organization*, 1, 101-124.
- Beekun, R., Stedham, Y. & Young, G. (2000). Boards of directors and the adoption of a CEO performance evaluation process: Agency -and Institutional- theory perspectives. *Journal of Management Studies*, 37 (2), 2322-2380.
- Benz, M. & Frey, B.S. (2007). Corporate governance: what can we learn from public governance? *Academy of Management Journal*, 32 (1), 92-104.
- Berle, A., & Means, G. (1932). *The modern corporation and private property*. New York: Macmillan.

- Boyd, B. (1990). Corporate linkages and organizational environment: A test of the resource dependence model. *Strategic Management Journal*, 34, 805-826.
- Bradshaw, P., Murray, V. & Wolpin, J. (1992). Do nonprofit Boards make a Difference? An Exploration of the Relationships Among Board Structure, Process and Effectiveness. *Nonprofit and Voluntary Sector Quarterly*, 21 (13), 227-249.
- Bradshaw, P., Hayday, B., Armstrong, R., Levesque, J. & Rykert, L. (1998). Nonprofit Governance Models: Problems and Prospects. *ARNOVA Conference, Seattle Washington*.
- Brower, R.S., Abolafia, M.Y., & Carr, J.B. (2000). On improving qualitative methods in public administration research. *Administration & Society*, 32, 363-397.
- Brown, W. (2002). Inclusive Governance Practices in Nonprofit Organizations and Implications for Practice. *Nonprofit Management & Leadership*, 12 (4), 369-385.
- Caribbean Business (2005, June 2). Hard Decisions Required for Economic Transformation. pp. 16-21.
- Carver, J. (1990). *Boards that Make a Difference*. San Francisco: Jossey-Bass.
- Chait, R., Holland, T. & Taylor, D. (1996). *Improving the performance of governing boards*. Phoenix, AZ .The Orix Press.
- Coles, J.W., Mc Williams, V. B. & Sen, N. (2001). An examination of the relationship of governance mechanisms to performance. *Journal of Management*, 27, 23-50.

- Colley, J.L.Jr., Doyle, J.L., Logan, G.W., & Stettinius, W. (2003). *Corporate Governance*. NY: McGraw Hill.
- Daily, C. (1995). The relationship between board composition, leadership structure and bankruptcy reorganization outcomes. *Journal of Management*, 21(6), 1041-1056.
- Daily, C. M. & Dalton, D.R. (1992). The relationship between governance structure and corporate performance in entrepreneurial firms. *Journal of Business Venturing*, 7, 375-386.
- Daily, C. M. & Dalton, D.R. (1993). Board of Directors: leadership and structure control and performance implications. *Entrepreneurship Theory and Practice*, 17 (3), 65-81.
- Daily, C. M. & Dalton, D.R. (1994). Bankruptcy and corporate governance: The impact of board composition and structure. *Academy of Management Journal*, 37, 1603-1617.
- Daily, C., & Dalton, D. (1994). Corporate governance and the bankrupt firm: An empirical assessment. *Strategic Management Journal*, 15, 643-654.
- Dalziel, T. & Hillman, A. (2003). Boards of directors and firm performance: integrating agency and resource dependence perspectives. *Academy of Management Review*, 28 (3), 383-396.
- Davis, J.H., Shoorman, F.D., & Donaldson.I., (1997). Toward a stewardship theory of management. *Academy of Management Review*, 22, 20-47.

- Donaldson, L., (1990). The ethereal hand: Organizational economics and management theory. *Academy of Management Review*, 15, 369-381.
- Drucker, P. (1990). *Managing the non-profit organization: principles and practices*. New York. HarperCollins Publishers.
- Eisenhardt, K. (1989). Agency theory: An assessment and review. *Academy of Management Review*, 14, 57-74.
- Estudios Técnicos, Inc.* (2004). Estudio de las Organizaciones sin Fines de Lucro en PR, 2002.
- Fama, E., & Jensen, M. (1983). Separation of ownership and control. *Journal of Law and Economics*, 26, 301-325.
- Flynn, B.B.& Skakibara, S. (1995). Relationship between JIT and TQM: Practices and performance. *Academy of Management Journal*, 38 (5), 13-25.
- Gales, L., & Kesner, I. (1994). An analysis of board of director size and composition in bankrupt organizations. *Journal of Business Research*, 30, 271-282.
- Gibelman, M., Gelman, S.R. & Pollack, D. (1997). The Credibility of Nonprofit Boards: A view from the 1990s and Beyond. *Administration in Social Work*, 21(2), 21-40.
- Gill, M., Flynn, R.J. & Reissing, E. (2005). The Governance Self-Assessment Checklist. An Instrument for Assessing Board Effectiveness. *Nonprofit Management & Leadership*, 15 (3), 271-294.
- Gordon, M.M. (2002). Comparing Effectiveness of Traditional and Policy Governance Nonprofit Boards. *Dissertation Walden University*. UMI 9989727

- Green, J.C. & Griesinger, D.W. (1996). Board Performance and Organizational Effectiveness in Nonprofit Social Service Organizations. *Nonprofit Management and Leadership*, 6 (4), 381-402.
- Gutiérrez, E. (2001). El Futuro sobre el tapete: tres escenarios y una provocación. *Asamblea Anual de la Asociación de Economistas de Puerto Rico*.
- Gutiérrez, E. (1996). *La Economía de la Dependencia, la Polarización y la Marginación Social: Una Alternativa*
- Hallock, K.F. (2002). Managerial Pay and Governance in American Nonprofits. *Industrial Relations*, 41 (3), 377-404.
- Henry, G.T. & Harms, S.W. (1987). Board Involvement in Policy Making and Administration. *Public Administration Review*, (March-April), 153-159.
- Hendry, J. (2002). The principal's other problems: Honest incompetence and the specification of objectives. *Academy of Management Review*, 27, 98-113.
- Herman, R.D. & Renz, D.O. (1997). Multiple Constituencies and the Social Construction of Organizational Effectiveness. *Nonprofit Management & Leadership*, 26 (2), 185-206.
- Herman, R.D. & Renz, D.O. (2004). Doing Things Right: Effectiveness in Local Nonprofit Organizations, A Panel Study. *Public Administration Review*, 64 (6), 694-704.
- Herman, R.D., Renz, D.O. & Heimovics, R.D. (1997). Board Practices and Board Effectiveness in Local Non Profit Organizations. *Nonprofit Management and Leadership*, 7(4), 373-385.

- Hillman, A., Cannella, A., & Paetzold, R. (2000). The resource dependence role of corporate directors: Strategic adaptation of board composition in response to environmental change. *Journal of Management Studies*, 37, 235-256.
- Holland, Thomas. (2002). Board Accountability, Lessons from the Field. *Nonprofit Management & Leadership*, 12 (4), 409-428.
- Houle, C. (1997). *Governing boards: a publication of the National Center for Nonprofit Boards*. San Francisco, CA: Jossey-Bass Publishers.
- Inglis, S. & Weaver, L. (2000). Designing Agendas to Reflect Board Roles and Responsibilities. *Nonprofit Management & Leadership*, 11 (1), 65-77.
- Ingram, R. (1992). *Ten basic responsibilities of nonprofit boards*. Washington, D.C.: National Center for Nonprofit Boards.
- Jackson, D.K. & Holland, T.P. (1998). Measuring the Effectiveness of Nonprofit Boards. *Nonprofit and Voluntary Sector Quarterly*, 27(2), 159-182.
- Jensen, M., & Meckling, W. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3, 305-360.
- Johnson, J., Daily, C., & Ellstrand, A. (1996). Boards of directors: A review and research agenda. *Journal of Management*, 22, 409-438.
- Kaplan, R.S. (2001). Strategic Performance Measurement and Management in Nonprofit Organizations. *Nonprofit Management & Leadership*, 11(3), 353-369.
- Kearney, A.T. (2006). Management Consultants. *PR 2025 Study*.

- Kesner, I.E. & Dalton, D.R. (1985). The effect of board composition on CEO succession and organizational performance. *Quarterly Journal of Business and Economics*, 42, 3-20.
- Ketchen, D.J., Combs, J.G., Russell, C.J., Shook, C., Dean, M.A., Runge, J., Lohrke, F.T., Naumann, S.E., Haptonstahl, D.E., Baker, R., Beckstein, B.A., Handler, C., Honig, H. & Lamoureux, S. (1997). Organizational configurations and performance: A meta-analysis. *Academy of Management Journal*, 40 (1), 223.
- Kosnick, R.D. (1990). Greenmail: a study of board performance in corporate governance. *Administrative Science Quarterly*, 32, 163-185.
- Lawshe, C.H. (1975). A Quantitative Approach to Content Validity. *Personnel Psychology*, 28, 563-575.
- Ley Núm. 131 (2003). *Ley para Autorizar al Gobierno del Estado Libre Asociado de Puerto Rico a contratar con las Organizaciones Comunitarias y de Base Religiosa y otras Organizaciones Seculares con o sin Fines de Lucro*. San Juan, PR: Estado Libre Asociado de Puerto Rico.
- Ley Núm. 144 (1995, 10 de agosto). *Ley General de Corporaciones de Puerto Rico*. San Juan PR: Estado Libre Asociado de Puerto Rico.
- Liker, J.K. & Morgan, J.M. (2006). The Toyota Way in Services: The Case of Lean Product Development. *Academy of Management Perspectives*, 20 (2), 5-20.
- Lynall, M. D., Golden, B. R., Hillman, A. J. (2003). Board Composition from adolescence to maturity: A multitheoretic view. *Academy of Management Review*, 28 (3), 416-431.

- Mehri, D. (2006). The Darker Side of Lean: An Insider's Perspective on the Realities of the Toyota Production System. *Academy of Management Perspectives*, 20 (2), 21-42.
- Miller, J.L. (2002). The Board as a Monitor of Organizational Activity, The Applicability of Agency Theory to Nonprofit Boards. *Nonprofit Management & Leadership*, 12, 4.
- Miller, J.L. (2003). An Ethnographic Analysis of Nonprofit Board Culture: How Board Members Enact a Repertoire of Skill. *Dissertation submitted to the University at Albany, State University of New York. UMI Microform 3080087.*
- Mizruchi, M. (1983). Who controls whom? An examination between management and boards of directors in large American corporations. *Academy of Management Review*, 8, 426-435.
- Molz, R. (1988). Managerial domination of boards of directors and financial performance. *Journal of Business Research*, 16, 235-249.
- Moore, M.H. & Ryan, W.P. (2006). A Framework for Analyzing Nonprofit Governance and Accountability Policies and Strategies. *The Hauser Center for Nonprofit Organizations, Harvard University. Working paper 33.3*
- Mordaunt, J. & Cornforth, C. (2004). The Role of Boards in the Failure and Turnaround of Non-Profit Organizations. *Public Money & Management*, (August), 227-234.
- Mroczkowski, T., Hanaoka, M. (1997). *Academy of Management Executive*, 11 (2), 57-67.

- Nahavandi, A. & Aranda, E. (1994). Restructuring teams for the re-engineered organization. *Academy of Management Executive*, 8 (4), 58-68.
- Nina, D. (2003). Corporaciones sin Fines de Lucro, o ¿Tercer Sector.com? *Revista Ley y Foro de Colegio de Abogados de PR*, Año 3 (3).
- Non Profit Evaluation and Resource Center, Inc. (2006). *Estudio de Necesidades de las Organizaciones sin fines de lucro en PR*.
- Ostrower, F. & Stone, M.M. (2001). Governance research: Trends, gaps, and prospects for the future. Paper presented at the National Meeting of the Association for Research on Nonprofit Organizations and Voluntary Action. Miami, Fl.
- Parkin, M. (1995). *Microeconomía* (1ra ed. en español/. Mexico: Addison-Wesley Iberoamericana, S.A.
- Pfeffer, J. (1972). Size and composition of board of directors. *Administrative Science Quarterly*, 17, 218-228.
- Pfeffer, J. (1972). Size and composition of corporate boards of directors: The organization and its environment. *Administrative Science Quarterly*, 17, 218-228.
- Sheehan, R. Jr. (1996). Mission accomplishment as philanthropic organization effectiveness: key findings from the excellence in philanthropy project. *Nonprofit and Voluntary Sector Quarterly*, 25(1), 110-123.
- Shen, W. (2003). The dynamics of the CEO-Board relationship: an evolutionary perspective. *Academy of Management Review*, 28(3), 466-476.

- Strauss, A.L. & Corbin, J. (1990). *Basics of qualitative research: Grounded theory procedures and techniques*. Newbury park, CA: Sage.
- Sundaramurthy, C., Lewis, M. (2003) Control and Collaboration: Paradoxes of Governance. *Academy of Management Review*, 28 (3), 397-415.
- Taylor, K. (2005). Changing Expectations for Nonprofit Governance. *Association Management*, (January).
- Wasserman, N. (2006). Stewards, agents, and the founder discount: executive compensation in new ventures. *Academy of Management Journal*, 49 (5), 960-976.
- Yuchtman, E. & Seashore, S. (1967). A System Resource Approach to Organizational Effectiveness. *American Sociological Review*, 32 (6), 891-9903.
- Zahra, S., & Pearce, J. (1989). Boards of directors and corporate financial performance: A review and integrative model. *Journal of Management*, 15, 291-244.

APPENDIX A
INSTRUMENT COVER LETTER

20 de septiembre de 2007

Directores de
Instituciones Sin Fines de Lucro
Puerto Rico

Estimado Director (a):

Por mucho tiempo he trabajado de cerca con instituciones sin fines de lucro en Puerto Rico y tengo un interés especial en contribuir a su crecimiento y fortalecimiento.

Actualmente estoy completando mi grado de Doctorado en Gerencia en la Universidad del Turabo, Gurabo, PR. Mi tesis, requisito final del grado, es una investigación sobre los modelos de gobernabilidad de las Juntas Directivas de instituciones sin fines de lucro en Puerto Rico. Me propongo identificar cuál es el modelo de gobernabilidad de Juntas Directivas que está asociado con mayor efectividad de dichas instituciones y de esa manera contribuir al mejoramiento de las mismas.

Para llevar a cabo dicha investigación, le estoy enviando el siguiente cuestionario, incluyendo una Hoja de Consentimiento. Si después de llenar la Hoja de Consentimiento, decide participar en la investigación, necesito que el cuestionario sea completado por el ejecutivo de más alto nivel de la institución (Director Ejecutivo, Gerente o título similar). Estoy incluyendo aproximadamente 500 instituciones en Puerto Rico en esta investigación, su aportación contestando el cuestionario será para el beneficio común de todos. Como indico en la Hoja de Consentimiento, la información será mantenida confidencial en todo momento.

Estoy incluyendo un sobre pre-dirigido para que pueda enviarme la Hoja de Consentimiento firmada y el Cuestionario completado. Si le es más sencillo, en lugar del correo podría devolverlo por fax o por correo electrónico a las direcciones que indico más adelante. Si tiene alguna pregunta o duda respecto al cuestionario o el proceso, no dude en llamarme a los teléfonos que indico más adelante.

Si están interesados, una vez terminada la investigación, les proveeré una copia de los resultados libre de costo.

Su ayuda al contestar el cuestionario será de beneficio a ustedes y a otras instituciones sin fines de lucro en Puerto Rico que desean mejorar su efectividad y aprender más sobre sus estructuras de gobernabilidad.

Gracias anticipadas por su ayuda,

Ana M Viader

Ana María Viader
Tel. 787-364-9443
Fax. 787-745-1115

Correo electrónico: joryana@coqui.net



Ana G. Mendez University System
Institutional Review Board (IRB)

Protocol No. 03-001-09
Approval Date Sept. 5, 2007
Expiration Date Sept 5, 2008
Signature Rebecca Trujillo

APPENDIX B
INFORMED CONSENT LETTER

**Sistema Universitario Ana G. Méndez
Universidad del Turabo
Escuela de Administración de Empresas**

Consentimiento Informado

Título: "Governance Models as Precursors of Effectiveness in Not For Profit Service Organizations in Puerto Rico"

Nombre del Investigador: Ana M. Viader

Nombre del Mentor: Dra. Maritza Espina

Esta hoja de consentimiento puede contener palabras que usted no entienda. Por favor, pregunte al investigador encargado o cualquier personal del estudio para que le explique cualquier palabra o información que usted no entienda claramente. Usted puede llevarse a su casa una copia de este consentimiento para decidir si participará o para consultar con su familia o amigos antes de tomar su decisión.

I. Introducción

Usted ha sido invitado a participar en un estudio de investigación. Antes de que decida participar en el estudio, por favor, lea este consentimiento cuidadosamente. Haga todas las preguntas que tenga, para asegurarse de que entiende los procedimientos del estudio, incluyendo sus riesgos y beneficios.

II. Propósito del Estudio

El propósito de este estudio es identificar cómo las prácticas de gobernabilidad de las Juntas Directivas influyen en la efectividad de las Organizaciones sin fines de lucro en Puerto Rico. Las conclusiones de la investigación ayudarán a las Juntas Directivas de dichas instituciones a identificar y aplicar aquellas prácticas que hayan demostrado ser de ayuda para lograr efectividad y de esta manera contribuir al mejoramiento continuo de dichas organizaciones.

III. Participantes del Estudio

Estaremos enviando cuestionarios a aproximadamente 300 Organizaciones sin fines de lucro de servicio en Puerto Rico.

IV. Procedimientos

Si acepta participar en esta investigación, solo tendrá que completar el cuestionario que se incluye. El participar en esta investigación le tomará aproximadamente 30 minutos que será el tiempo de completar el cuestionario.

V. Riesgo o Incomodidad

Esta investigación no conlleva ningún riesgo para usted o su organización. Por el contrario, su organización podrá beneficiarse de los resultados de ésta, en la medida en que obtendrá y podrá aplicar prácticas que contribuyan al mejoramiento de la organización.



Ana G. Mendez University System
Institutional Review Board (IRB)

Protocol No. 03-001-07
Approval Date Sept. 5, 2007
Expiration Date Sept. 5, 2008
Signature Rebecca Trujillo

VI. Beneficios del Estudio

Los resultados de esta investigación serán de beneficio para la organización que usted representa. La información sobre prácticas y modelos de gobierno de las Juntas Directivas que puedan ayudar a mejorar la efectividad de su organización, será de beneficio para su organización, así como para la economía del país en la medida en que la organización pueda contribuir más efectivamente a la sociedad.

VII. Incentivo al Participante

No hay incentivos para participar en esta investigación.

VIII. Privacidad y Confidencialidad

Su identidad será protegida ya que todos los datos serán codificados al momento de recibirse y no podrán ser asociados con ninguna de las organizaciones participantes. Los cuestionarios serán enumerados en orden de recibo y entrados en una base de datos utilizando solo la identificación numérica asignada. De esta manera, todos los datos, análisis, evaluaciones y conclusiones se llevarán a cabo sin utilizar los nombres de las organizaciones ni de sus oficiales. Solamente la investigadora (Ana M. Viader) tendrá acceso a los datos. La hoja de consentimiento podrá ser una manera de identificar al participante. Sin embargo, estas hojas serán almacenados por separado de los cuestionarios por el período que dure terminar el informe final de la investigación. Una vez concluya el estudio todos los datos serán destruidos.

Los resultados de esta investigación pueden ser publicados en revistas científicas pero la identidad suya y la de su organización no será divulgada. La información puede ser revisada por la Junta para la protección de Seres Humanos en la Investigación (IRB siglas en inglés) del Sistema Universitario Ana G. Méndez. El IRB del SUAGM es un grupo de personas quienes realizarán la revisión independiente de la investigación según los requisitos de las regulaciones. Su información será mantenida tan confidencial como sea posible bajo la ley. Esta autorización servirá hasta el final del estudio, a menos que usted la cancele antes. Usted puede cancelar esta autorización en cualquier momento.

1. El Sistema Universitario Ana G. Méndez no provee alternativa de pago u otra forma de compensación por posibles daños relacionados con participación en la investigación. Por ejemplo salarios no devengados, pérdida de tiempo invertido o sufrimiento. Ninguna forma de remuneración económica será otorgada directamente a usted. Sin embargo, al firmar esta forma de consentimiento usted no renuncia a sus derechos legales.



Ana G. Mendez University System
Institutional Review Board (IRB)

Protocol No. 03-001-07
Approval Date Sept. 5, 2007
Expiration Date Sept 5, 2008
Signature [Handwritten Signature]

IX. Participación Voluntaria

Su participación en este estudio es voluntaria. Usted puede decidir no participar sin penalidad alguna. De usted decidir participar, puede retirarse del estudio en cualquier momento sin ninguna penalidad ni pérdida de beneficios. Durante su participación en este estudio, el Investigador Principal o su representante pueden solicitar que se retire del mismo.

X. Persona Contacto para Información

Si tiene alguna pregunta adicional sobre este estudio o sobre su participación en el mismo, o si entiende que ha sufrido alguna lesión por su participación en el estudio, usted puede comunicarse con:

Ana María Viader (investigadora principal)
787-364-9443
joryana@coqui.net

Dra. Maritza Espina (mentora de la investigación)
787-257-7373, extensión 3152
mespina@suagm.edu

Si usted tiene alguna pregunta sobre sus derechos como participante del estudio, puede contactar a la:

Oficina de Protección de los Seres Humanos en Investigación
Teléfono (787) 751-0178 ext. 7196
E-mail: cumplimiento@suagm.edu

XI. Consentimiento

He leído la información de esta hoja de consentimiento, o se me ha leído de manera adecuada. El contenido del estudio me ha sido explicado y todas las preguntas sobre el mismo han sido aclaradas.

Al firmar esta hoja acepto participar en el estudio y certifico que mi participación es voluntaria e informada.

Nombre del Participante
En letra de Molde

ANA M. Viader

Nombre del Investigador
En letra de Molde

Firma del Participante

Ana M Viader

Firma del Investigador

Fecha

20 de Septiembre, 2007

Fecha



Ana G. Mendez University System
Institutional Review Board (IRB)

Protocol No. 03-001-07
Approval Date Sept. 5, 2007
Expiration Date Sept. 5, 2008
Signature [Handwritten Signature]

APPENDIX C
RESEARCH INSTRUMENT

I. INFORMACIÓN GENERAL DE LA ORGANIZACIÓN

- 1) Año de incorporación o de comienzo de servicios (lo que fuese primero) _____
- 2) Servicios principales que brinda la institución (marque todas las alternativas que apliquen)
 - ____ Educación escolar
 - ____ Orientación o servicios de salud
 - ____ Servicios de Vivienda
 - ____ Coordinación y referido a agencias
 - ____ Distribución de alimentos y/o ropa
 - ____ Terapia y servicios a familia
 - ____ Cuidado de niños
 - ____ Cuidado de envejecientes
 - ____ Asistencia legal, psicológica o económica
 - ____ otros (especifique) _____
- 3) Número de empleados actualmente (no incluya voluntarios) _____
- 4) Cantidad de personas aproximadas que reciben sus servicios en un año _____

II. PREGUNTAS SOBRE EL OFICIAL EJECUTIVO (se refiere al individuo que ocupa la posición más alta y que trabaja a tiempo completo dentro de la organización)

- 7) ¿Cuál es el título del Oficial Ejecutivo? Marque una alternativa.
 - ____ Gerente
 - ____ Administrador
 - ____ Director
 - ____ Director Ejecutivo
 - ____ otro, especifique cuál _____
- 8) ¿Cuántos años lleva en la posición de Oficial Ejecutivo en la organización? _____
- 9) ¿Cuál es la preparación académica del Oficial Ejecutivo?
 - ____ Grado Asociado o equivalente
 - ____ Bachillerato en _____
 - ____ Maestría con concentración en _____
 - ____ Doctorado en _____
 - ____ otro, especifique cuál _____
- 10) ¿Cuántos años de experiencia tenía en posiciones similares o en organizaciones similares antes de entrar a esta posición? _____



Ana G. Mendez University System
Institutional Review Board (IRB)

Protocol No. 03-001-07
 Approval Date Sept. 5, 2007
 Expiration Date Sept. 5, 2008
 Signature Rebecca Fruegi

11) El Oficial Ejecutivo, ¿ocupaba otra posición en esta misma organización antes de ser ascendido a Oficial Ejecutivo?
___ Sí ___ No

12) Si la respuesta a la pregunta anterior fue NO, o sea que el Oficial Ejecutivo fue reclutado de fuera de la organización, ¿cuál era su puesto en la organización de donde vino? _____

13) Identifique los **tres** roles **principales** del Oficial Ejecutivo (haga una marca de cotejo, **escoja solamente tres**)

- ___ *Dirigir* las operaciones diarias de la organización
- ___ *Tomar decisiones* en cuanto a administración de recursos económicos y recursos humanos de la organización
- ___ *Reportarle* a la Junta de Directores los asuntos que requieran toma de decisiones económicas, operacionales o de recursos humanos
- ___ *Desarrollar e implementar* el plan estratégico de la organización
- ___ *Consultar* con la Junta de Directores cualquier desviación de directrices aprobadas para que éstos aprueben el plan correctivo
- ___ *Administrar* el presupuesto aprobado por la Junta de Directores
- ___ *Preparar y administrar* el presupuesto operacional de la organización

14) ¿Quién recluta al Oficial Ejecutivo? _____

15) ¿Existe un proceso formal de evaluación de rendimiento para el Oficial Ejecutivo?

Sí ___ No ___

III. PREGUNTAS SOBRE LA JUNTA DE DIRECTORES

16) ¿Cuántos miembros tiene la Junta de Directores? _____

17) ¿Cómo son electos? _____

18) ¿Qué requisitos hay que tener para pertenecer a la Junta de Directores?

19) ¿A quién (es) responde la Junta de Directores? (puede ser a un individuo, otra organización, organización sombrilla, o ser completamente autónoma)



Ana G. Mendez University System
Institutional Review Board (IRB)

Protocol No. 03-001-07

Approval Date Sept. 5, 2007

Expiration Date Sept. 5, 2008

Signature Rebecca Trujillo

20) ¿Cuál es la **agenda** típica (más común) de una **reunión de la Junta** de Directores? Identifique los elementos más comunes y los que se consideran más importantes. (Puede marcar uno o dos, no más de dos)

- Evaluación y aprobación de un informe del Oficial Ejecutivo
- Informe de los miembros de la Junta con respecto a sus actividades de apoyo a la organización
- Discusión y planificación de actividades de levantamiento de fondos
- Evaluación y toma de decisiones respecto al estado presupuestario y financiero de la organización
- Plan de desarrollo profesional de personal de la organización incluyendo al Oficial Ejecutivo
- Información sobre cambios en leyes y cambios sociales y su impacto sobre los servicios ofrecidos.

21) Organice los roles de la Junta de Directores en orden de mayor prioridad a menor prioridad. (Asigne el número 1 al rol principal y más frecuente que su Junta lleva a cabo; asigne el número 10 al rol menos frecuente, y distribuya los roles intermedios de acuerdo a su prioridad y frecuencia)

- Toma decisiones respecto a las operaciones y el día a día de la organización
- Identifica áreas en las que el Oficial Ejecutivo necesita apoyo personal para proveerle los medios
- Planifica y lleva a cabo actividades relacionadas con levantar donaciones u obtener fondos gubernamentales
- Fiscaliza las operaciones y prácticas de contabilidad de la organización
- Evalúa la implementación y desarrollo de las estrategias aprobadas
- Colabora con el Oficial Ejecutivo en el desarrollo y comunicación del plan estratégico de la organización
- Planifica y lleva a cabo un plan de desarrollo para las destrezas del Oficial Ejecutivo
- Busca y sirve de facilitador para: establecer y mantener contactos sociales valiosos a la organización, asistir a actividades de relaciones públicas asociadas con la organización, actividades relacionadas con la promoción e imagen de la organización
- Aporta de su conocimiento y experiencia profesional para el fortalecimiento de la organización (ejemplo: si la organización fuese una escuela, alguien de la Junta aporta su experiencia como desarrollador de currículos para ayudar a evaluar los cambios en currículos de la escuela)
- otro – especifique _____



Ana G. Mendez University System
Institutional Review Board (IRB)

Protocol No. 03-001-07
 Approval Date Sept. 5, 2007
 Expiration Date Sept 5, 2008
 Signature Rebecca Trujillo

22) Respecto al Oficial Ejecutivo:

- Es parte de la Junta de Directores? Si No
- Asiste a las reuniones de la Junta? Sí No
- Tiene voz en los asuntos discutidos? Sí No
- Tiene voto en los asuntos a decidir? Sí No

IV. PREGUNTAS SOBRE EJECUTORIA DE LA ORGANIZACIÓN

23) El presupuesto de la organización para este año es:

- a) Menos de \$100,000
- b) Entre \$100,000 y \$250,000
- c) Entre \$250,000 y \$500,000
- d) Entre \$500,000 y \$1,000,000
- e) Mas de \$1,000,000

24) Este presupuesto ha:

- a) Ha aumentado en los últimos 5 años
- b) Ha disminuido en los últimos 5 años
- c) Se ha mantenido más o menos igual en los últimos 5 años

25) El número de empleados:

- a) Ha aumentado en los últimos 5 años
- b) Ha disminuido en los últimos 5 años
- c) Se ha mantenido más o menos igual en los últimos 5 años

26) El número aproximado de clientes (personas que reciben el servicio de la organización ya sea que paguen por él o que sea gratis):

- d) Ha aumentado en los últimos 5 años
- e) Ha disminuido en los últimos 5 años
- f) Se ha mantenido más o menos igual en los últimos 5 años

27) Usualmente, al terminar el año presupuestario, su organización:

- a) Ha gastado más que lo recibido en ingresos y donaciones (termina el año con deuda)
- b) Ha gastado menos de lo recibido en ingresos y donaciones (termina el año con un sobrante)
- c) Termina el año más o menos en balance de ingresos y gastos



Ana G. Mendez University System
Institutional Review Board (IRB)

Protocol No. 03-001-07
 Approval Date Sept. 5, 2007
 Expiration Date Sept. 5, 2008
 Signature Rebecca Trujillo

28) ¿Cuál es su razón de deuda aproximada ("Debt ratio" = \$ deuda total dividido entre \$ activos totales) (deuda= todos los préstamos, hipotecas y otros compromisos de pago; activos= el valor de todas las propiedades, cuentas de bancarias, certificados de ahorros y otros) _____

29) La razón de deuda de la pregunta anterior,

- a) Ha aumentado en los últimos 5 años
- b) Ha disminuido en los últimos 5 años
- c) Se ha mantenido más o menos igual en los últimos 5 años
- d) No sé

30) ¿Cómo clasificaría su condición económica al cierre del año pasado?

- a) En peligro inminente
- b) En la cuerda floja = un ejercicio de equilibrio
- c) Estable
- d) Cómoda

31) ¿Qué por ciento aproximado de su presupuesto anual total, se dedica a gastos administrativos (no se usan para el servicio directo que se provee)?

- a) Más del 50%
- b) Entre 25% y 50%
- c) Entre 15% y 25%
- d) Menos del 15%

Si quiere incluir copia del último estado financiero de la organización, o cualquier literatura relacionada a las preguntas de este cuestionario, puede incluirla. Esto sería de mucha ayuda, se mantendría en la misma confidencialidad que el resto de la información, pero no es indispensable.

¿Hay alguna información relacionada a sus procesos de gobernabilidad (responsabilidades y/o ejecutoria de la Junta de Directores y/o Oficial Ejecutivo) que crea importante mencionar y que aportaría a la investigación?



Ana G. Mendez University System
Institutional Review Board (IRB)

Protocol No. 03-001-07

Approval Date Sept. 5, 2007

Expiration Date Sept 5, 2008

Signature Rebecca Trujillo

¿Le parece que la investigación será de utilidad a su institución?

¿Tiene alguna sugerencia para investigaciones futuras?

¿Está interesado en recibir una copia de los resultados de la investigación una vez se complete? _____

Gracias por su colaboración.



Ana G. Mendez University System
Institutional Review Board (IRB)

Protocol No. 03-001-07

Approval Date Sept. 5, 2007

Expiration Date Sept 5, 2008

Signature Rebecca Fringe