

2015 Survey on Board of Directors of Nonprofit Organizations



STANFORD
BUSINESS

GRADUATE
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ROCK
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FOR
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STANFORD UNIVERSITY

In collaboration with BoardSource and GuideStar

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TABLE OF CONTENTS



Executive Summary and Key Findings 1

Review of Findings/Demographic Information 4

Methodology 24

About the Authors 25

About Stanford Graduate School of Business,
the Rock Center for Corporate Governance,
BoardSource, and GuideStar 26

Contact Information 27

Executive Summary and Key Findings



Many Nonprofit Boards Need Significant Improvement

The skills, resources, and experience of directors are not sufficient to meet the needs of most nonprofit organizations.

Board processes fall short.

Over a quarter of nonprofit directors do not have a deep understanding of the mission and strategy of their organization. Nearly a third are dissatisfied with the board's ability to evaluate organizational performance. A majority do not believe their fellow board members are very experienced or engaged in their work.

"Many nonprofit organizations pursue worthy missions," says David F. Larcker, James Irvin Miller Professor of Accounting at Stanford Graduate School of Business and coauthor of the study. "Our research finds that, unfortunately, too often board members lack the skill set, the depth of knowledge, and the engagement required to help their organizations succeed. Nonprofit boards would greatly benefit from a more rigorous process for setting goals and measuring performance."

"Nonprofit organizations need to do a better job attracting board members with substantive, relevant experience who will deeply and personally embrace the mission of the organization," adds William F. Meehan III, Lafayette Partners Lecturer for 2013-2015 in Strategic Management at Stanford Graduate School of Business and coauthor of the study. "They need individuals with the depth of knowledge to set explicit goals, develop sound strategies, and hold the executive director or CEO accountable for performance."

"Individuals join nonprofit boards because they want to make a difference and contribute to the mission of the organization," adds Nick Donatiello, Lecturer in Corporate Governance at Stanford Graduate School of Business. "Holding personal financial contributions aside, the biggest contribution they can make is to help their board implement sound governance practices: reliable financial reporting, concrete organizational performance targets, CEO performance evaluation, board development and succession plans, and fulfilling other basic and fundamental obligations that come with directorship."

In fall 2014, Stanford Graduate School of Business, in collaboration with BoardSource and GuideStar, surveyed 924 directors of nonprofit organizations about the composition, structure, and practices of their boards. "This extensive survey provides highly informative empirical data which underscores what many of us have been observing based on personal experience. In order for a nonprofit to achieve great impact, it needs a great board. And most nonprofit boards fall far short," adds Meehan.¹

Key Findings Include:

Too Many Directors Lack a Deep Understanding of the Organization

Over a quarter (27 percent) of nonprofit directors do not believe that their fellow board members have a strong understanding of the mission and strategy of their organization. A third (32 percent) are not satisfied with the board's ability to evaluate the performance of the organization.

While almost all (92 percent) say that their board reviews data and information to evaluate organizational performance, many are not comfortable with the quality of that data. Forty-six percent of directors have little to no confidence that the data they review fully and accurately measures the success of their organization in achieving its mission.

Over half (57 percent) of nonprofit boards do not benchmark their performance against a peer group of similar organizations.

"Rigorous performance measurement is the bedrock of good governance," says Meehan. "How can the board claim to understand whether its initiatives are successful unless it is measuring their impact? Start with a mission-focused theory of change. Outline a logic model that shows a clear connection between your initiative and the desired outcome. And then rigorously measure performance."

¹ For more on this topic, see: Kim Starkey Jonker and William F. Meehan, *From Intentions to Impact: A Guidebook for Nonprofit Leaders, Board Members, and Philanthropists* (Stanford University Press, forthcoming).

Most Lack Formal Governance Structure and Processes

Nonprofit boards stand to gain from the adoption of sound governance practices in areas such as financial reporting and audit, succession planning, and CEO and board evaluations. A significant minority (42 percent) do not have an audit committee. Many rely on monthly bank statements to monitor financial performance.

Two thirds (69 percent) do not have a succession plan in place for the current executive director or CEO. Three quarters (78 percent) could not immediately name a successor if the current executive director or CEO were to leave the organization tomorrow. On average, nonprofit directors estimate that it would take 90 days to find a permanent replacement.

Most (80 percent) claim to formally evaluate the performance of the executive director. However, a significant number (39 percent) do not establish explicit performance targets against which his or her performance is measured.

Over a third (36 percent) of nonprofit boards never evaluate their own performance.

Many Directors Are Not Engaged, Do Not Understand Their Obligations

Two-thirds (65 percent) do not believe that the directors on their board are very experienced, based on the number of additional boards they serve on. Almost half (48 percent) do not believe that their fellow board members are very engaged in their work, based on the time they dedicate to their organization and their reliability in fulfilling their obligations.

About half (47 percent) of nonprofit directors believe that their fellow board members understand their obligations as directors well or very well.

Fundraising Is Seen as a Central Obligation

Nonprofit directors rank fundraising very high relative to their other obligations as directors. Forty-five percent of nonprofits require directors to fundraise on behalf of the organization. Among those that do, 90 percent of directors believe that fundraising is as important or more important than their other obligations as directors.

While many nonprofit organizations (46 percent) do not require directors to donate each year, almost all directors (92 percent) personally do so.

Less than half (42 percent) of nonprofits have a “give or get” policy that requires each board member to donate a minimum amount each year or raise that amount from others. The minimum “give or get” varies by size of the organization, and averages \$1,000 for small nonprofits (operating budget less than or equal to \$500,000) and \$5,000 for large nonprofits (operating budget greater than or equal to \$5 million).

“Fundraising is an important obligation for many directors,” observes Donatiello. “However, it should not distract from other core duties, such as ensuring that the organization is well managed, the strategy sound, finances healthy, and contingency plans in place to deal with unexpected disruptions.”

Most Directors Are Satisfied with the Performance of Their Executive Director/CEO

Almost all directors (92 percent) believe that the executive director understands the mission and strategy of the organization very or extremely well. Eighty-seven percent are satisfied with his or her performance. Few believe that their executive director is overcompensated, with 51 percent stating that their executive director is appropriately paid and 42 percent stating that he or she is slightly or very underpaid.

Executive directors primarily have previous work experience in the nonprofit sector. Over half (59 percent) worked in the nonprofit industry immediately prior to becoming the head of their organization. Only 14 percent had immediate prior work experience in a for-profit organization. Twelve percent are the founder of their organization. In terms of education, almost two thirds (60 percent) have a master’s degree or higher.

... and with the Performance of Their Board and Organization

A significant majority (85 percent) of nonprofit directors are moderately or very satisfied with the performance of their organization. Satisfaction levels are also high for the quality of financial reporting (82 percent) and financial health (70 percent) of the organization.

Most directors believe their board is correctly sized (56 percent) or only slightly too large (12 percent) or slightly too small (24 percent). These results hold true across organizations of various size.

Approximately half (52 percent) say that their organization has a “board within a board” where a subset of directors has an outsized influence on board decisions. Two thirds of these (67 percent) are a formal executive committee, while one third (33 percent) reflect an informal dynamic that evolved over time. Among those organizations with a “board within a board,” 74 percent say it improves board functionality and decision making.

A quarter (28 percent) of directors report that the founder of the organization currently serves as a fellow board member. Of these, 68 percent say that the founder is very involved in management and 78 percent say the founder is very involved as a board member of the organization. The vast majority (90 percent) believe that the founder has a positive or very positive impact on the success of the organization.

Still, Most Nonprofit Boards Have Serious Challenges

Over two thirds (69 percent) of nonprofit directors say their organization has faced one or more serious governance-related problems in the past 10 years. Forty percent say they have been unable to meet fundraising targets. Twenty-nine percent have experienced serious financial difficulty. A quarter (23 percent) have asked their executive director to leave or had to respond to an unexpected resignation. Sixteen percent say they have had extreme difficulty attracting qualified new board members.

“The value of good governance shows up in results,” says Professor Larcker. “Ultimately, nonprofits will want to implement more reliable processes and procedures to ensure their organizations succeed. Good governance will almost certainly help nonprofit directors maximize their contribution to their social mission.”

To improve governance and board-level performance, the authors recommend that nonprofits incorporate the following:

Recommendations:

1. Ensure your organization’s mission is focused and its skills and resources are well-aligned with it.
2. Ensure your mission is understood and embraced by the board, management, and other key stakeholders.
3. Establish explicit goals and strategies directly tied to achieving your mission.
4. Develop rigorous performance metrics that reflect those goals and strategies.
5. Hold the executive director accountable for meeting those performance metrics and evaluate his or her performance with a sound, objective process.
6. Compose your board with individuals with the skills, resources, generosity, diversity, and dedication that address the needs of the organization. This includes ensuring that there is a small group of committed and cohesive leaders.
7. Define explicitly the roles and responsibilities of board members to best leverage their leadership, time, and resources.
8. Establish well-defined board, committee, and ad hoc processes that reflect your organization’s needs and context and ensure optimal handling of key decisions and responsibilities.
9. Regularly review and assess each board member’s leadership contributions as well as the board’s overall performance. This includes ensuring that board members view their time as well spent.²

² These recommendations are consistent with those put forth by Meehan in previous work. See Kim Jonker and William F. Meehan III, “Better Board Governance,” *Stanford Social Innovation Review* webinar (May 21, 2014); and Kim Jonker and William F. Meehan III, “A Better Board Will Make You Better,” *Stanford Social Innovation Review* (March 5, 2014).

Review of Findings/Demographic Information



Demographic Information

1. What is the nature of your organization's primary activities?

Results for all respondents	Percent
Education or research	25
Social or legal services	16
Arts or culture	11
Health services	10
Foundation	5
Civic, social, or fraternal organization	5
Religious organization	4
Other	24

2. What are the main sources of funding for your organization?

Results for all respondents	Percent
Charitable contributions	71
Self-generated fees or revenue	52
Foundations	41
Corporate philanthropy	34
Federal, state, or local governments	32
Grant-making public charities	25
Federated funds	3
Other	5

Results might not equal 100% due to rounding.

3. How many years has your organization been in existence?

Results for all respondents

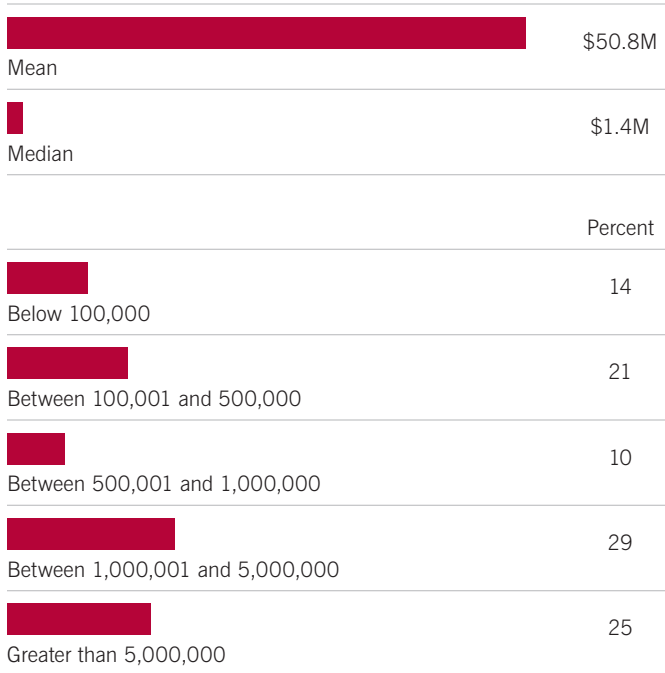
	37
Mean	
	25
Median	
	Percent
	11
5 or fewer	
	13
Between 6 and 10	
	29
Between 11 and 25	
	28
Between 26 and 50	
	19
Greater than 50	

	Results for nonprofits with operating budget < \$500K	Results for nonprofits with operating budget > \$500K and < \$5M	Results for nonprofits with operating budget > \$5M
Mean			
Median			
			Percent
5 or fewer			
Between 6 and 10			
Between 11 and 25			
Between 26 and 50			
Greater than 50			

Results might not equal 100% due to rounding.

4. What is the approximate annual operating budget of your organization?

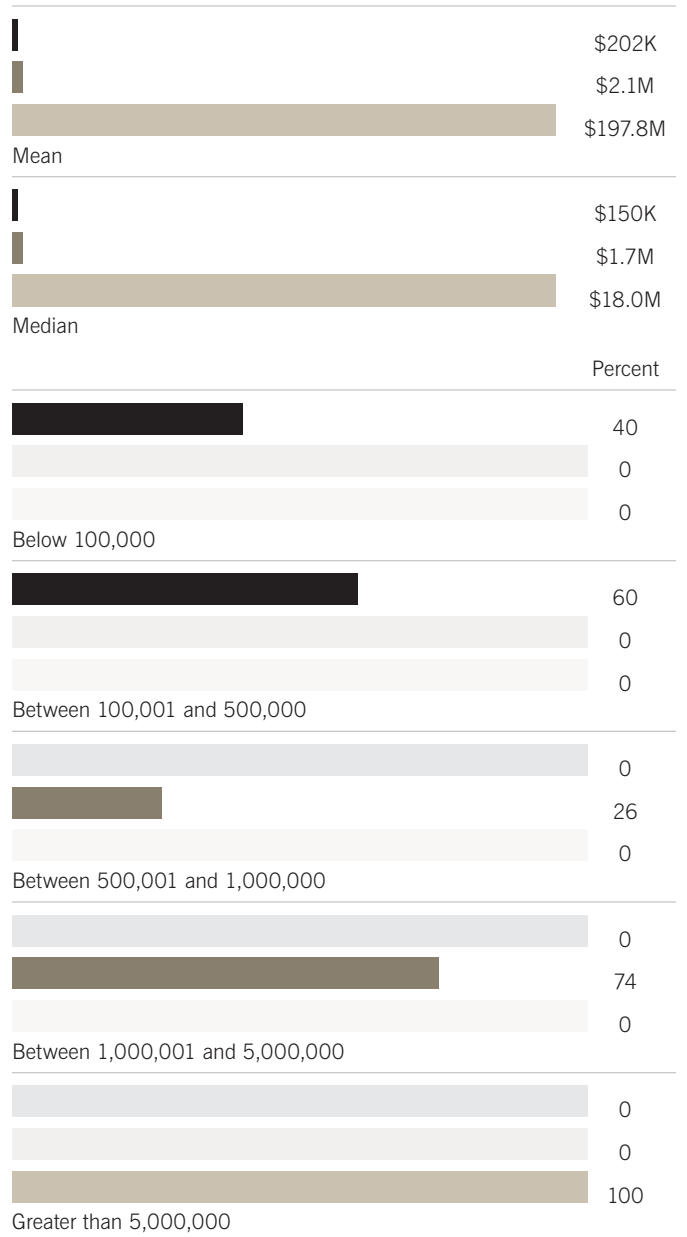
Results for all respondents



Results for nonprofits with operating budget < \$500K

Results for nonprofits with operating budget > \$500K and < \$5M

Results for nonprofits with operating budget > \$5M



5. How has your organization’s operating budget changed over the last five years?

Results for all respondents	Percent
Increased by more than 25 percent	26
Increased between 1 and 25 percent	41
Stayed about the same	16
Decreased between 1 and 25 percent	7
Decreased by more than 25 percent	2
I don’t know	4
Not applicable (organization is less than 5 years old)	3

6. What were the main motivations behind your decision to join the board of this organization? (Select all that apply)

Results for all respondents	Percent
To serve the organization and contribute to its success	86
To contribute to society	53
Because the organization asked me to join	43
To advance my personal interests	25
To advance my professional interests	24
To fulfill a need to volunteer	18
To make professional connections	16
To make personal connections	12
Other	12

Structure of the Board of Directors

7. How many directors serve on the board of your organization?

Results for all respondents	Percent
Mean	15
Median	12
Results for nonprofits with operating budget < \$500K Results for nonprofits with operating budget > \$500K and < \$5M Results for nonprofits with operating budget > \$5M	
Mean	10
Median	9
Mean	15
Median	12
Mean	21
Median	18

Results might not equal 100% due to rounding.

7a. In your opinion, is the present number of directors...

Results for all respondents	Percent
Much too large	4
Slightly too large	12
About the right number	56
Slightly too small	24
Much too small	4

Results for nonprofits with operating budget < \$500K
 Results for nonprofits with operating budget > \$500K and < \$5M
 Results for nonprofits with operating budget > \$5M

	Percent
Much too large	2
	4
	7
Slightly too large	4
	14
	21
About the right number	59
	52
	55
Slightly too small	28
	27
	14
Much too small	7
	3
	3

8. How well does the board understand the mission and strategy of the organization?

Results for all respondents	Percent
Extremely well	33
Very well	40
Moderately well	21
Slightly well	5
Not at all well	1

9. Which of the following best describes the level of agreement among board members about the mission and strategy?

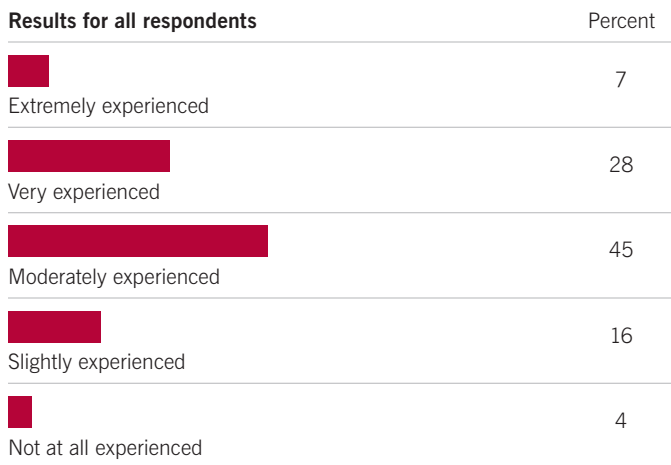
Results for all respondents	Percent
Strong agreement	46
Agreement	44
Neutral	7
Disagreement	3
Strong disagreement	0

10. How well do the members of your board understand their obligations as directors?

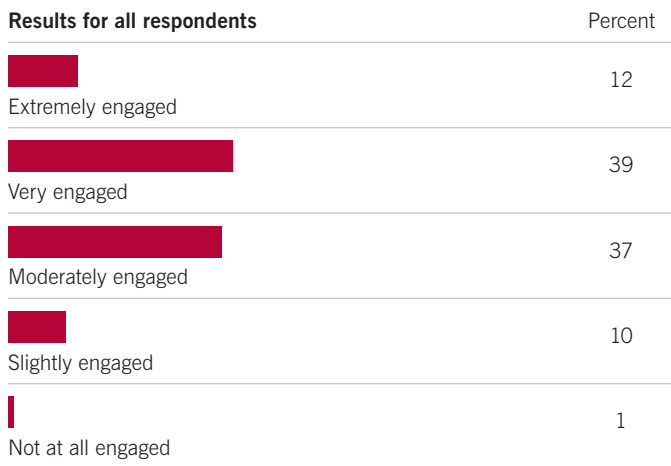
Results for all respondents	Percent
Extremely well	12
Very well	35
Moderately well	38
Slightly well	10
Not at all well	4

Results might not equal 100% due to rounding.

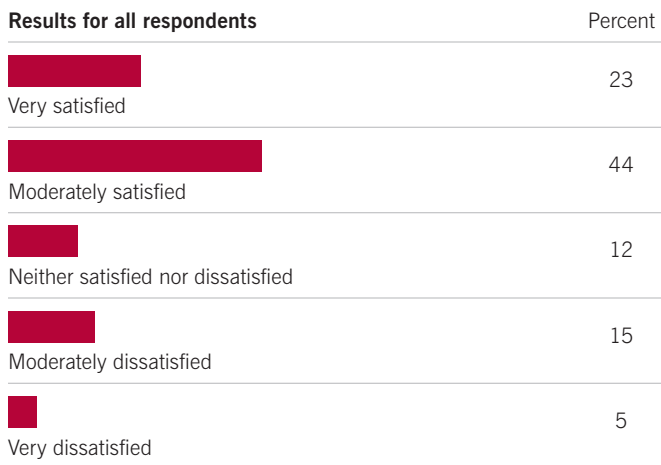
11. How experienced are the directors on your board—based on the previous and current number of additional boards that they serve on?



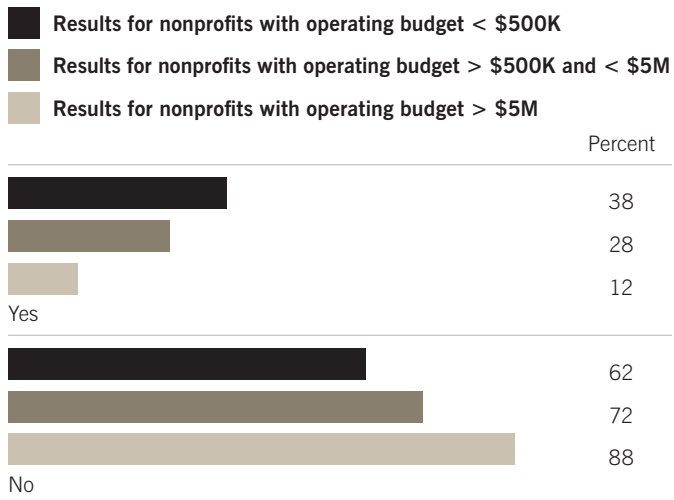
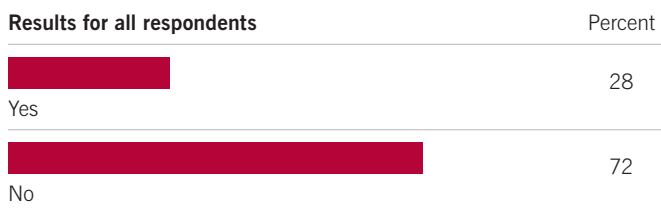
12. How engaged are the directors on your board—based on the time they dedicate to your organization and their reliability in fulfilling their obligations?








13. How satisfied are you with the board's ability to evaluate the performance of your organization (i.e., the extent to which it is achieving its mission)?








14. Does the founder of your organization currently serve as a member of the board?








14a.[if yes]: How involved is the founder in the management of the organization—based on the amount of time that he or she devotes to its daily operations?

Results for all respondents	Percent
 Extremely involved	55
 Very involved	13
 Moderately involved	9
 Slightly involved	16
 Not at all involved	7

14b.[if yes]: How involved is the founder as a board member of the organization—based on the amount of time that he or she devotes to board-related matters?




Results for all respondents	Percent
 Extremely involved	48
 Very involved	30
 Moderately involved	15
 Slightly involved	6
 Not at all involved	1

14c.[if yes]: What impact does the founder have on the success of the organization?



Results for all respondents	Percent
 Very positive	70
 Somewhat positive	20
 Neither positive nor negative	5
 Somewhat negative	4
 Very negative	1

The term “board within a board” describes a dynamic where a subset of directors has an outsized influence on board decisions. This might include an executive committee—either formal or informal—that acts on behalf of the whole board.

15. Does your organization have a “board within a board”?

Results for all respondents	Percent
 Yes	52
 No	45
 I don't know	3

15a.[if yes]: Is this a formal “board within a board” (i.e., executive committee role) or an informal “board within a board” (i.e., just happens)?

Results for all respondents	Percent
 Formal	67
 Informal	33

15b. [if yes]: Does this structure improve board functionality and decision making?

Results for all respondents	Percent
Yes	74
No	15
I don't know	10

Informal "board within a board" only

Results for all respondents	Percent
Yes	62
No	26
I don't know	12

16. Does the board of your organization review data and information to evaluate the performance of the organization?

Results for all respondents	Percent
Yes	92
No	7
I don't know	2

17. Are these data financial or nonfinancial?

Results for all respondents	Percent
Financial only	12
Nonfinancial only	2
Both financial and nonfinancial	86

18. How confident are you that these data fully and accurately measure the success of your organization in achieving its mission? (On a scale of 1 to 5, with 5 being "extremely confident" and 1 being "not confident at all")

Results for all respondents	Percent
Mean	3.5
Median	4.0
% with confidence level less than or equal to 3	46%

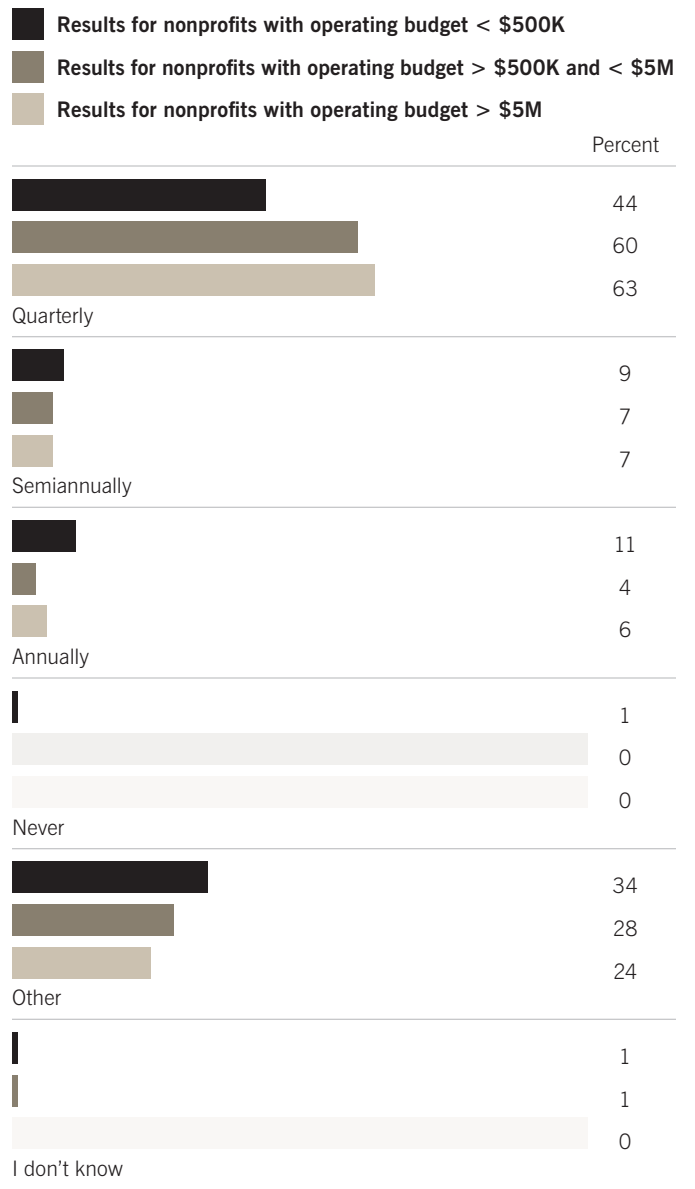
19. How often does the board review the strategy of the organization?

Results for all respondents	Percent
More frequently than annually	15
Annually	44
Every two years	16
Other	14
Never	6
I don't know	5

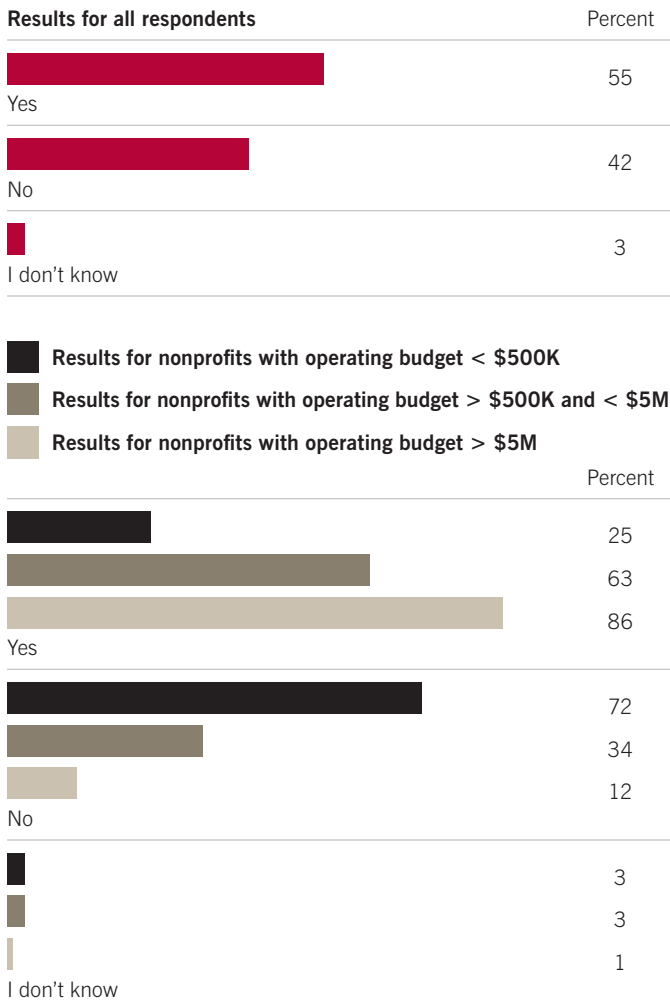
20. How often does the board review financial statements of the organization?

Results for all respondents	Percent
Quarterly	55
Semiannually	8
Annually	8
Never	0
Other	29
I don't know	1

Note: "Other" is predominantly monthly, bank statements

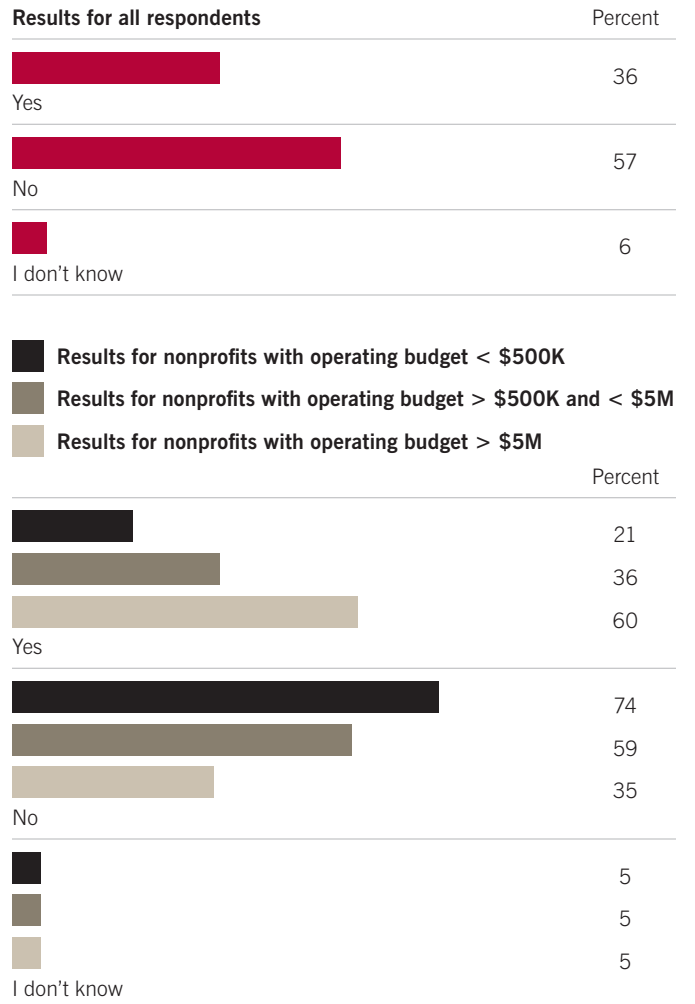


21. Does your board have an audit committee?

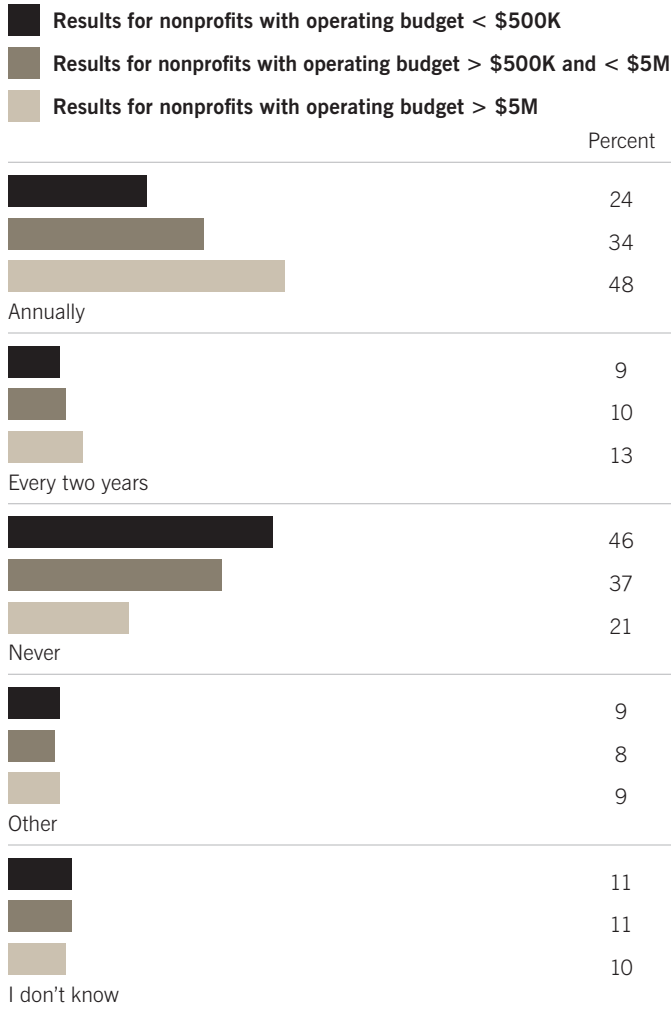
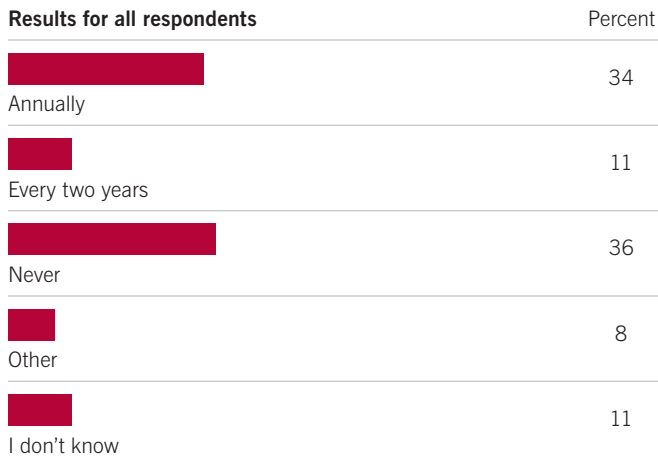


Benchmarking is the process by which your nonprofit board practices are compared to those of other nonprofits, to identify potential improvements and other comparative benefits.

22. Does your organization benchmark its performance against a peer group of similar organizations?

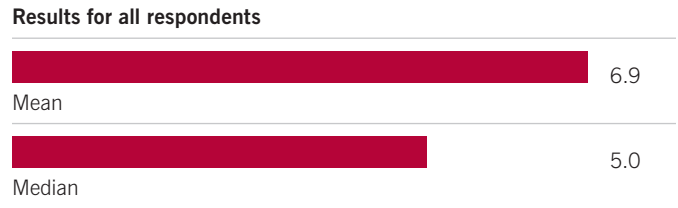


23. How often does the board evaluate its own performance?

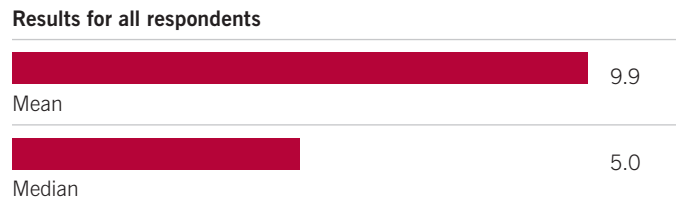


Executive Director/Chief Executive Officer

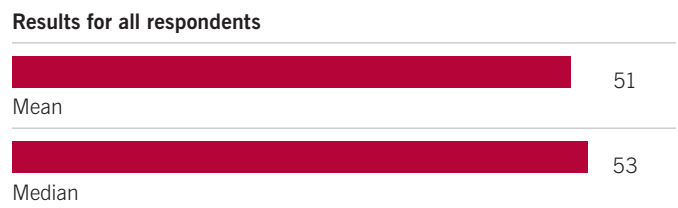
24. How many years has the current executive director/CEO held the executive director position at your organization?



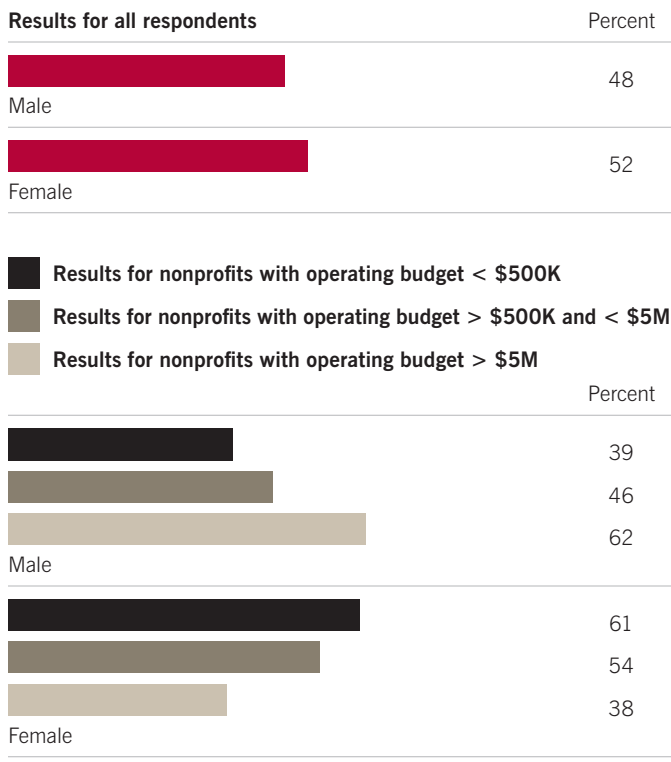
25. How many years has the current executive director/CEO been employed at your organization?



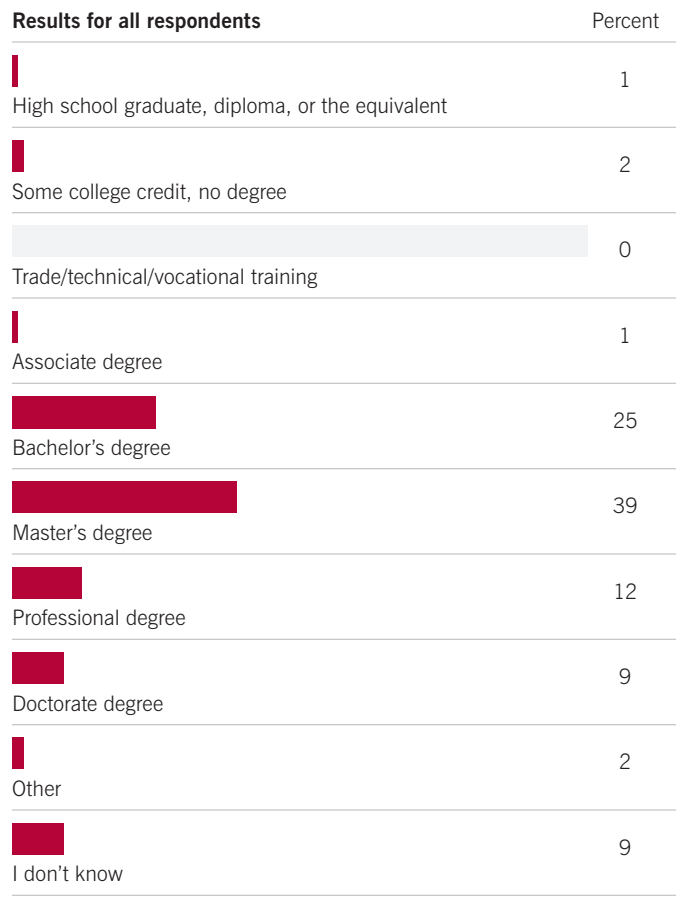
26. What is the (approximate) age of the executive director/CEO?



27. What is the gender of the current executive director/CEO?



28. What is the highest level of education that the current executive director/CEO has achieved?



Results might not equal 100% due to rounding.

29. Which of the following most closely describes the work experience of your executive director/CEO immediately prior to becoming the head of your organization?

Results for all respondents	Percent
Founder of your organization	12
Employee (below CEO) within your organization	15
Executive director/CEO at another nonprofit	22
Employee (below CEO) at another nonprofit	22
CEO at a for-profit organization	4
Employee (below CEO) at a for-profit	10
Other	15

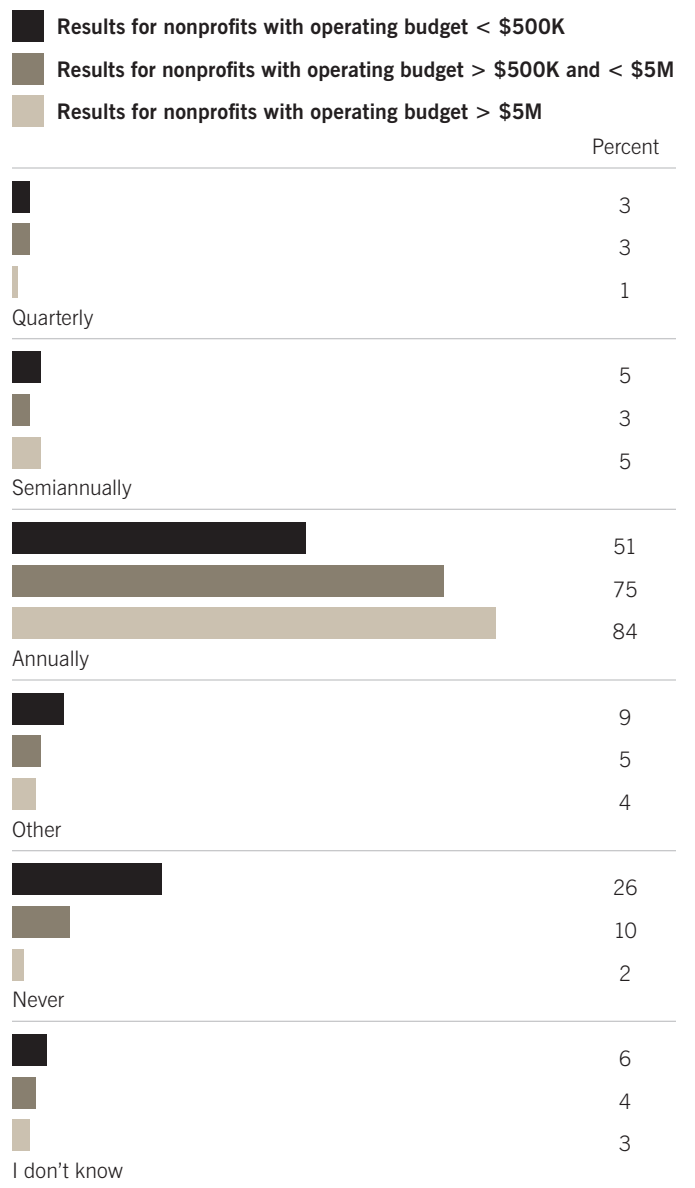
30. How well does the executive director understand the mission and strategy of the organization?

Results for all respondents	Percent
Extremely well	73
Very well	19
Moderately well	5
Slightly well	2
Not at all well	0
I don't know	1

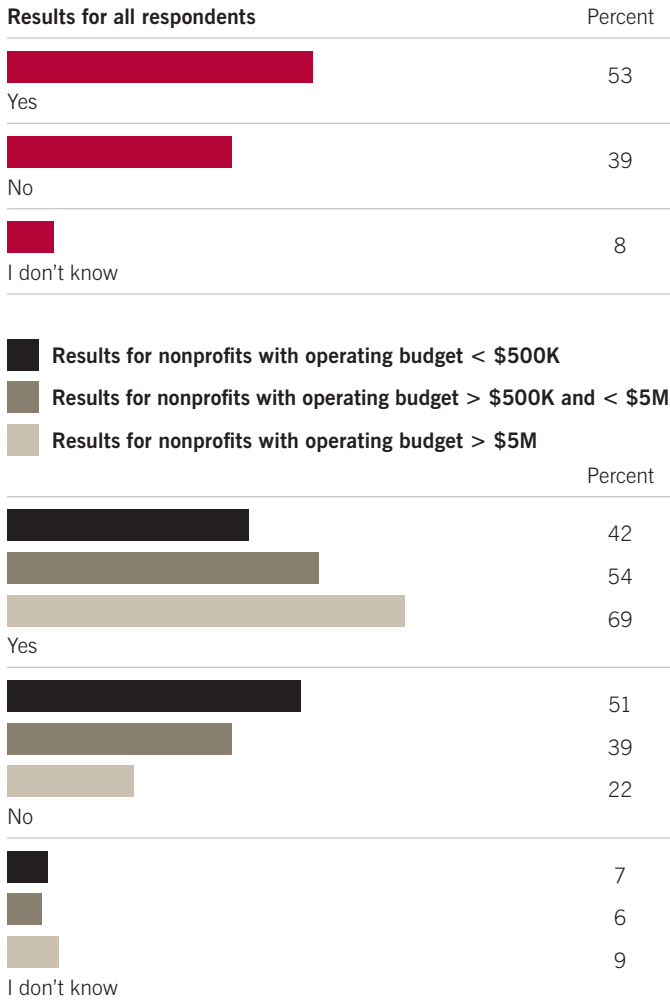
	Results for nonprofits with operating budget < \$500K	Results for nonprofits with operating budget > \$500K and < \$5M	Results for nonprofits with operating budget > \$5M	Percent
Extremely well	67	76	81	
Very well	18	20	14	
Moderately well	7	3	4	
Slightly well	3	1	0	
Not at all well	2	0	0	
I don't know	2	0	1	

31. How often does the board of your organization formally review the performance of the executive director?

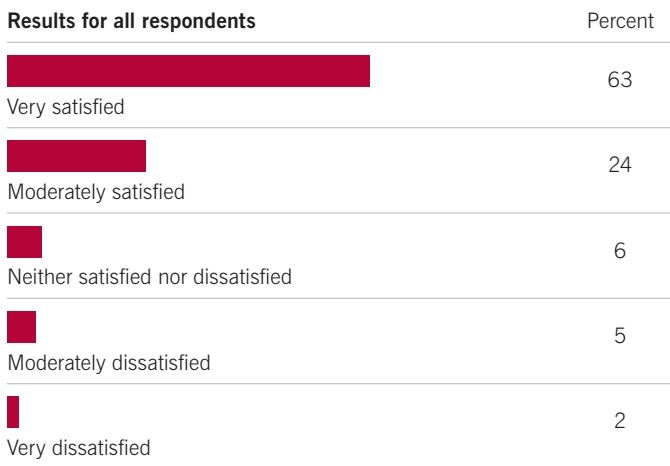
Results for all respondents	Percent
Quarterly	2
Semiannually	4
Annually	68
Other	6
Never	14
I don't know	5



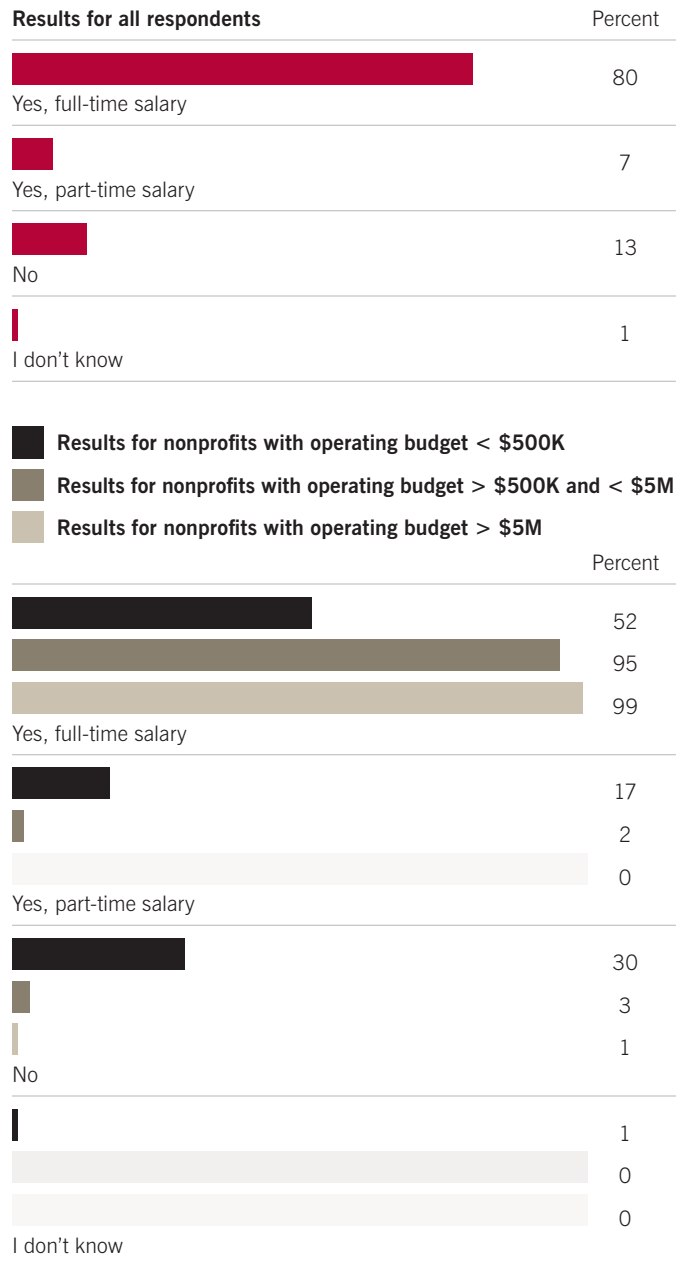
32. Does the board establish performance targets for the executive director at the beginning of the year?



33. How satisfied are you with the performance of the executive director?

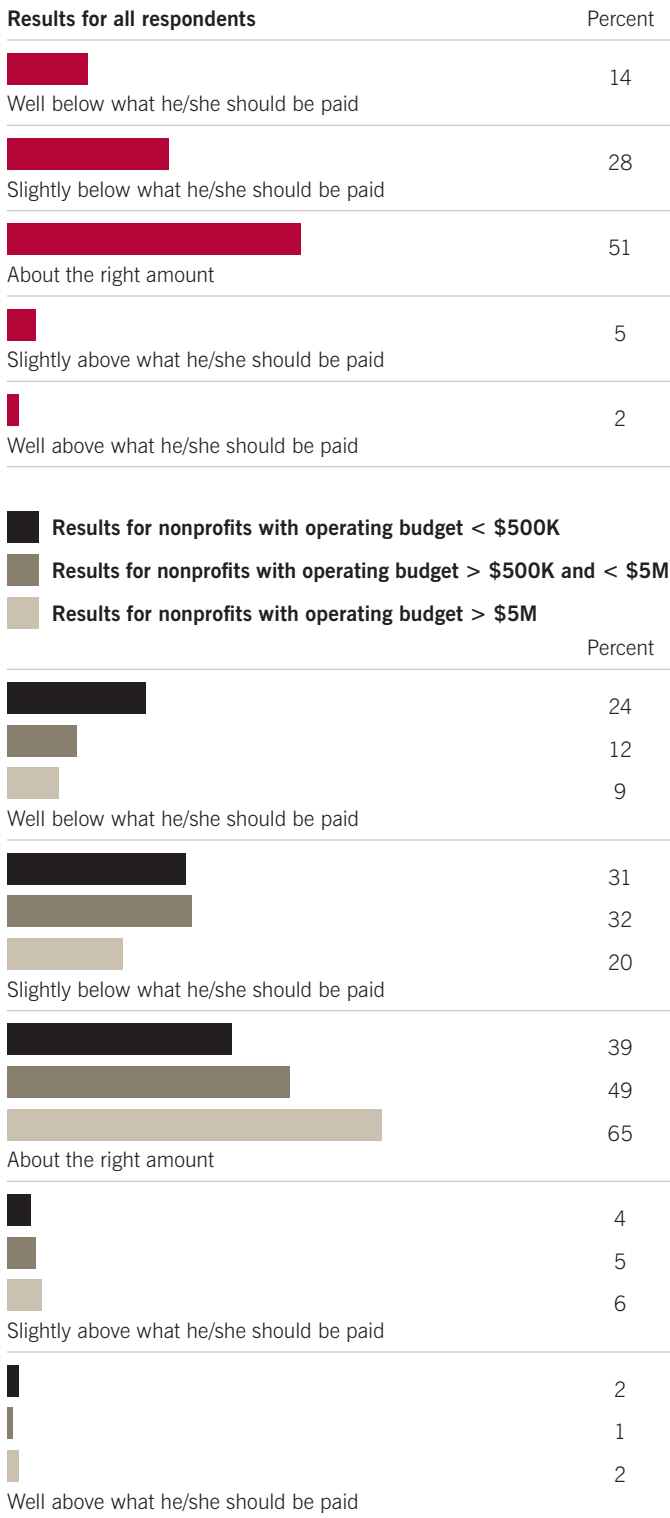


34. Does the executive director/CEO receive a salary?

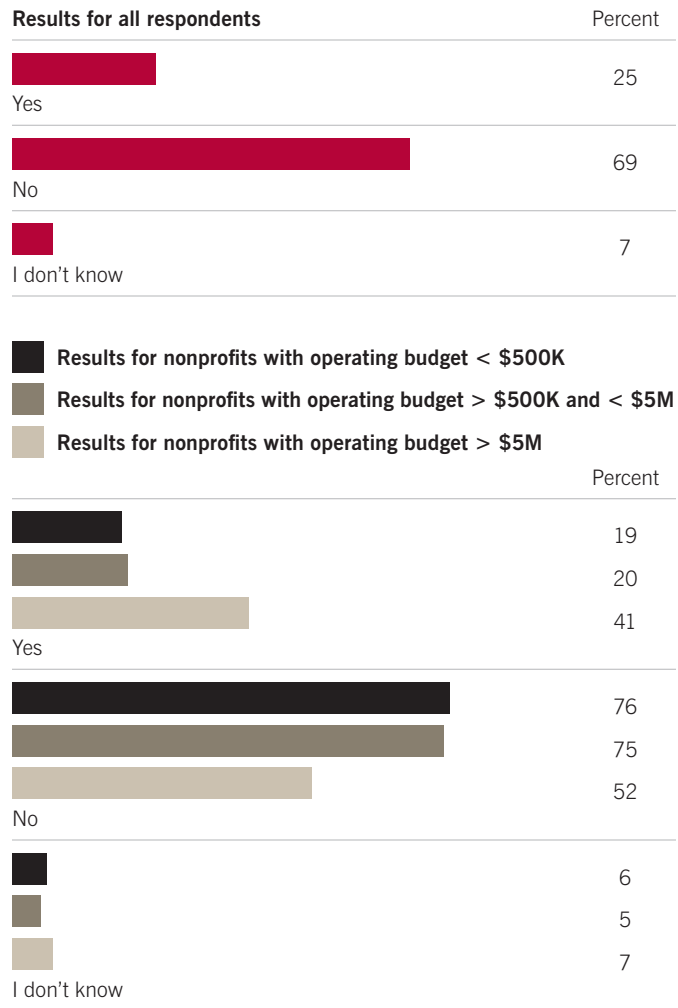


Results might not equal 100% due to rounding.

34a.[if yes]: In your opinion, is this salary...

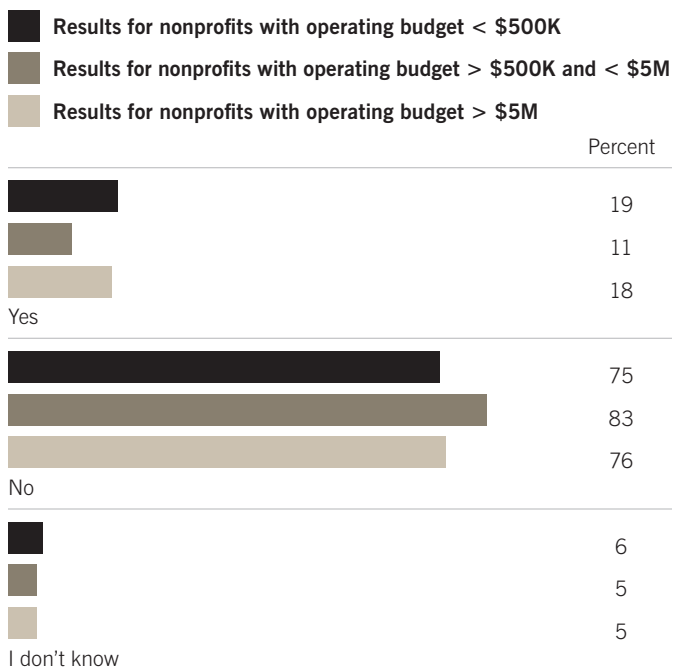
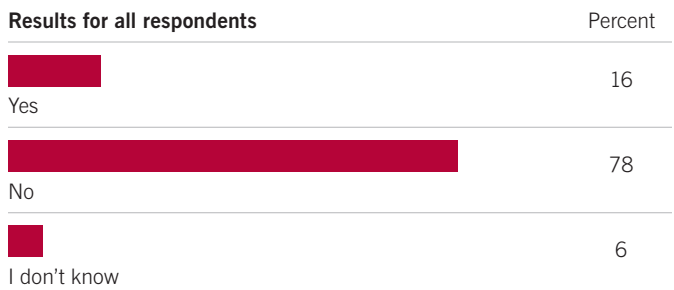


35. Does your organization have a succession plan in place for the executive director/CEO?

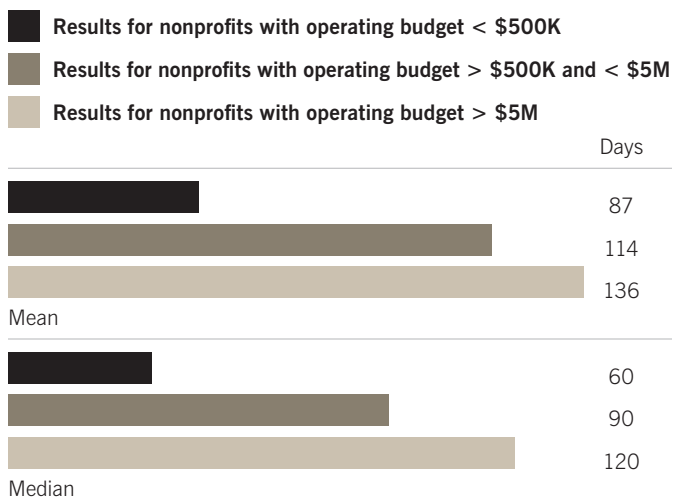
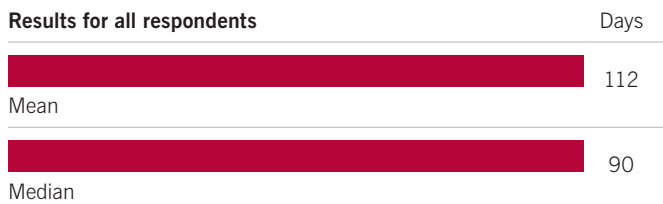


Results might not equal 100% due to rounding.

36. If your current executive director/CEO were to leave the organization tomorrow, could you immediately name a permanent successor?

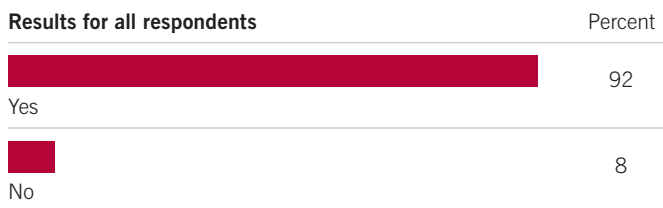


37. If your current executive director/CEO left tomorrow, how long would it take for the board to name a permanent successor (in days)?

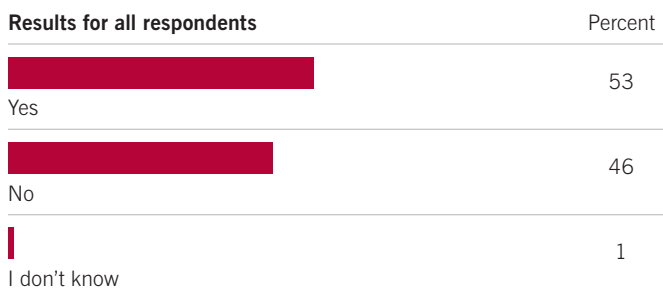


Donations and Fundraising

38. Do you personally donate to your organization?



39. Does your organization require that directors donate to it each year?



39a.[if yes]: Does your organization have a “give or get” policy that requires each board member to donate a minimum amount each year or raise that amount from others?

Results for all respondents	Percent
Yes	42
No	58

39b.[if yes]: What is the “give or get” minimum that you are required to achieve?

Results for all respondents	
Mean	6,336
Median	2,500
Max	100,000

Results for nonprofits with operating budget < \$500K
 Results for nonprofits with operating budget > \$500K and < \$5M
 Results for nonprofits with operating budget > \$5M

Mean	2,142
	5,609
	11,706
Median	1,000
	2,500
	5,000
	10,000
	30,000
Max	100,000

40. Are directors of your organization required to fundraise on behalf of the organization?

Results for all respondents	Percent
Yes	45
No	54
I don't know	1

40a.[if yes]: How important is fundraising relative to your other obligations as a director of this organization? (On a scale of 1 to 5, with 5 being “the most important” and 1 being “not at all important”)






Results for all respondents	
Mean	3.8
Median	4.0
% with importance level greater than or equal to 3	90%

Organizational Performance






41. How satisfied are you with the performance of your organization?

Results for all respondents	Percent
Very satisfied	41
Moderately satisfied	44
Neither satisfied nor dissatisfied	4
Moderately dissatisfied	10
Very dissatisfied	1















42. How satisfied are you with the financial health of your organization?

Results for all respondents	Percent
 Very satisfied	34
 Moderately satisfied	36
 Neither satisfied nor dissatisfied	9
 Moderately dissatisfied	16
 Very dissatisfied	5

43. How satisfied are you with the quality of financial reporting at your organization?

Results for all respondents	Percent
 Very satisfied	51
 Moderately satisfied	31
 Neither satisfied nor dissatisfied	8
 Moderately dissatisfied	7
 Very dissatisfied	3

44. Which of the following problems or difficulties has your organization experienced in the last 10 years? (Select all that apply)

Results for all respondents	Percent
 Inability to meet fundraising targets	40
 Serious financial difficulty	29
 Extreme difficulty attracting one or more new board members	16
 Executive director asked by the board to leave	12
 Unexpected resignation of the executive director	11
 Board member asked by colleagues to leave	7
 Unexpected resignation of a large number of board members	5
 Serious accounting restatement	4
 Fraud by internal employees or directors	4
 Serious litigation	3
 Serious threat to tax-exempt status	1
 Other	13
 None of these	31
 % that selected three or more	21

Other Demographic Information

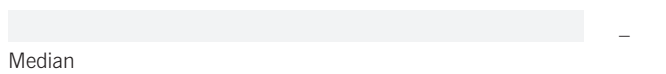
45. What is the total number of nonprofit boards you serve on (including the one covered by this survey)?

Results for all respondents



46. What is the total number of for-profit boards you serve on?

Results for all respondents



47. Do you believe that serving on a nonprofit board opens up opportunities to serve on a for-profit board?

Results for all respondents Percent



Methodology



In fall 2014, the Stanford Graduate School of Business, in collaboration with BoardSource and GuideStar, surveyed 924 directors of nonprofit organizations about the composition, structure, and practices of their boards.

About the Authors



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David F. Larcker is the James Irvin Miller Professor of Accounting at Stanford Graduate School of Business; director of the Corporate Governance Research Initiative; and senior faculty of the Arthur and Toni Rembe Rock Center for Corporate Governance. His research focuses on executive compensation and corporate governance. Professor Larcker presently serves on the Board of Trustees

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About Stanford Graduate School of Business, the Rock Center for Corporate Governance, BoardSource, and GuideStar



About Stanford Graduate School of Business

The Corporate Governance Research Initiative (CGRI) at Stanford Graduate School of Business.

The Corporate Governance Research Initiative focuses on research to advance the intellectual understanding of corporate governance, both domestically and abroad. By collaborating with academics and practitioners from the public and private sectors, we seek to generate insights into critical issues and bridge the gap between theory and practice. Our research covers a broad range of topics that include executive compensation, board governance, CEO succession, and proxy voting.

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The Center for Social Innovation (CSI) at Stanford Graduate School of Business.

CSI is dedicated to creating social and environmental change in the world. Through research, education, and experiential learning, CSI strengthens the capacity of individuals and organizations to develop innovative solutions for poverty alleviation, access to healthcare and education, sustainable development, environmental protection, human rights, and more. We envision a networked community of leaders actively working across frontiers, sectors, and disciplines to build a more just, sustainable, and prosperous world.

<http://csi.gsb.stanford.edu/>

About The Rock Center for Corporate Governance

The Arthur and Toni Rembe Rock Center for Corporate Governance is a joint initiative of Stanford Law School and Stanford Graduate School of Business. The Center was created to advance the understanding and practice of corporate governance in a cross-disciplinary environment where leading academics, business leaders, policy makers, practitioners, and regulators can meet and work together.

www.rockcenter.law.stanford.edu

About BoardSource

BoardSource is a recognized leader in nonprofit board leadership and serves as the national voice for inspired and effective board service. It provides leadership and support to a growing network of more than 100,000 nonprofit leaders, and offers an extensive range of tools and resources to increase board effectiveness and strengthen organizational impact.

<https://www.boardsource.org/>

About GuideStar

GuideStar is the world's largest source of information on nonprofit organizations. More than 7 million people use GuideStar data every year. GuideStar data is used to make more intelligent decisions about the social sector. These decisions drive social innovation and help make the world a better place.

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