DEPENDING ON THE INDEPENDENT: AN ANALYSIS OF BOARD INDEPENDENCE IN SOCIAL VENTURES (SUMMARY)

Sophie C. Bacq
Northeastern University, USA, s.bacq@neu.edu

David Gras
Texas Christian University, USA

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GOVERNANCE

DEPENDING ON THE INDEPENDENT:
AN ANALYSIS OF BOARD INDEPENDENCE IN SOCIAL VENTURES

Sophie Bacq, Northeastern University, USA
David Gras, Texas Christian University, USA

Principal Topic

Board independence—the proportion of board members “with no personal or professional relationship to the firm or firm management” (Daily & Dalton, 1993: 69)—has been a salient and enduring facet of organizational research for decades. Building upon agency theory precepts, scholars have generally argued for a positive effect of board independence on executive monitoring and firm performance. However, the vast majority of work on board independence resides within the context of large and well-established for-profit organizations. We study the effect of board independence on performance within nonprofit organizations. Notably, since nonprofits do not have shareholders, they are technically “owned” by Society and the notion of principal is ill defined. Thus, the agency theory assumption that agents report to principals and act in favor of their interests does not hold. Yet, we expect that when an independent board emerges to monitor the agent, agency costs decrease and the survival rate of the organization increases. Further, we expect that social entrepreneurship—the degree to which nonprofits engage in the sale of goods and services (Gras & Mendoza-Abarca, forthcoming)—will positively moderate this relationship.

Method

We employ Cox proportional hazard models and panel regressions to test our hypotheses on a sample of roughly 20,000 Canadian charities, based on data from 2005 to 2010. We capture social venture performance through organizational survival (ceased filing the tax form), and agency costs through the amount of administrative expenses incurred by the organization.

Results and Implications

On the whole results indicate that higher board independence both decreases administrative costs and increases the survivability of nonprofits. Moreover, higher levels of social entrepreneurship strengthen both of these relationships. Thus, we find that the agency theory entails a degree of applicability to the nonprofit sector and that the more business-like the nonprofit, the more agency theory expectations hold. We formulate several important future research questions to extend this fruitful line of inquiry. Moreover, with regard to practice, we identify a salient predictor of new social venture performance and provide a useful benchmark in the extent to which independent board members should be employed.

CONTACT: Sophie Bacq; s.bacq@neu.edu; (T): 617-373-4161; Northeastern University, D'Amore-McKim School of Business, 360 Huntington Avenue, Boston, MA 02115, USA.