Interlocking directorates in the nonprofit sector: ‘small world’ characteristics and governance

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As in all kinds of organizations, the role of nonprofit (NP) boards can be considered as being complex and even paradoxal from different perspectives (Cornforth, 2003). On the one hand, NP boards need to be composed of members with a well considered mix of expertise concerning the organizations’ activities and objectives, and on the other hand, they need to represent in a democratic way the involved stakeholders (Middleton, 1987).

This complex role of the board in a nonprofit organization (NPO) complicates the selection of new board members. Therefore, many NPOs often have to rely on a limited group of potential candidates, a large number of them already being board members in similar or partner organizations. This creates the phenomenon of networked organizations linked through ‘interlocking directorates’ (Dooley, 1969), referring to directors being member of at least two different boards. In order to analyze this NPO board network, it can be assessed based on the particular characteristics of ‘small world’ networks (Watts, 2003). In general, small world networks are described as networks in which ideas, thoughts, information, practices, etc. can move fast among the actors involved in such networks (Davis et al., 2003).

Our two main research questions are: (1) Is the NPO board network a ‘Small World’? and (2) What are the NPO characteristics that explain the existence of such interlocking directorates?

The sample to investigate both research questions is composed of data supplied by the Belgian National Bank and the Belfirst Database, developed by Bureau van Dijk. Data was collected for 952 ‘very large nonprofit organizations’ (according to Belgian law classification), comprising 9155 board positions, taken up by 7529 directors.

Assessing the ‘smallness’ of a network finds its origin in the seminal experiment of Milgram in 1967 (Watts, 2003), discovering that people are on average connected to any other person in the world through six interpersonal connections. To determine the ‘smallness’ of networks, Watts and Strogatz (1998) propose a Small World statistic, taking into account (1) the average path length between nodes in the network, and (2) the average clustering with other nodes. Recently a break-through contribution was made by Conyon and Muldoon (2006) developing a new method of assessing the smallness of networks, adapted to the particular features of board networks. In the present paper both assessment methods are used.

The results confirm that the NPO sector in Belgium is indeed a ‘small world’. However, it seems that average clustering is relatively larger than expected, while average path length between nodes is not as short as expected. Based on Jackson and Rogers (2005), these findings can be explained because of (1) the possible low cost for network actors to form and sustain links with similar organizations and (2) relatively higher costs for linking with less similar organizations. Jackson and Rogers (2005) state that low costs for linking with similar organizations leads to high clustering (which is the case for our network) and that low costs for linking with less similar organizations leads to shorter path lengths (which is not the case for our network).
As to our second research question, we tested for similarities concerning activities and governance practices between organizations that are linked through an interlocking directorate. Several organizational indicators on (1) principal-agent problems, (2) funding of the organization, (3) organizational activities and (4) reporting practices, are tested. Therefore we used the Moran’s I and the Geary’s C statistics, borrowed from geography but considered useful for any similarity analysis in social science (Hanneman, 2005). Results indicate that similarities concerning funding structure and organizational activities are significant for linked organizations, while no significant relationships are found for principal-agent problems and reporting practices.

This study provides a first insight on the features of a NPO board network on the similarities between linked organizations. Further research will focus on the dynamics of network formation and the actual diffusion of practices, information and ideas through existing NPO board networks.

References


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