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### When the Law Shapes Nonprofit Boards: The Key Role of Local Stakeholders

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## **When the Law Shapes Nonprofit Boards: The Key Role of Local Stakeholders**

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### Abstract

The study provides a comprehensive test of the relationships between dimensions of community representation within nonprofit organizations, focusing on Italian Bank Foundations where the community is considered the main stakeholder by law. In order to investigate what governance mechanisms increase substantive and symbolic representation, the study adjusts Guo and Musso's (2007) framework by considering several formal mechanisms for appointing board members and the residence of board members as a new aspect of descriptive representation. Data collected through a content analysis and an e-mail survey show that formal mechanisms contribute to substantive representation, while descriptive and participatory arrangements enhance symbolic representation. In addition, this study explores the moderating influence of local stakeholders in appointing board members, offering a wider point of view on the relationships among the five dimensions of representation.

*Keywords:* Representation, Foundations, Stakeholder Influence, Community, Italy,

More than two decades ago, Cnaan (1991) questioned the extent to which nonprofit organizations (NPOs) rooted in the community were democratic, concluding that there was an evident discrepancy between their potential and actual level of democracy. That question is still central in nonprofit governance research because this discrepancy often continues to exist (Swindell, 2000), fostering a view of NPOs “not as public-spirited philanthropies but as self-serving entities that pursue the interests of their top officials and board members” (Weisbrod, 1997, p. 545). Although empirical studies are scarce, two streams of research have investigated the democracy of NPOs by considering, respectively, the participative and representative capacities of their boards (Guo, Metelsky, & Bradshaw, 2014). Scholars focusing on participatory democracy emphasized the importance of engaging the community in decision-making processes and making nonprofit boards more responsive to community needs (Brown, 2002; Checkoway & Zimmerman, 1992; Freiwirth, 2007; Harrison & Mort, 1998; LeRoux, 2009; Saxton, 2005). As Cornforth (2004) noted, boards that incorporate stakeholders’ viewpoints are expected to respond better to broader social interests. Moreover, AccountAbility (2011) claimed that engaging stakeholders and being responsive to their concerns result in effective management and an increase in performance. The representative democracy stream of research focused on the process of selection of board members as decision-makers for the community (Abzug & Galaskiewicz, 2001; Iecovich, 2005; Kissane & Gingerich 2004). As noted by Pitkin (1967), representation is a controversial, vague, and multi-dimensional concept. Despite this, the more their boards are truly representative of the community, the better NPOs “might serve as training grounds for democracy” (Zimmermann, 1994, p. 401).

By considering participation and representation to be interconnected in the context of nonprofit governance, Guo and Musso (2007) proposed a comprehensive conceptual

framework that bridges the above two streams of research, using five forms of representation: substantive, symbolic, formal, descriptive, and participatory. Answering Guo and Musso's (2007) call for empirical research, our study tests their representational model focusing on Italian bank foundations (IBFs), a particular kind of grant-making NPO where the community is regarded as the main stakeholder by law.

IBFs originated from the privatization of public savings banks, which were community-owned credit institutions with a strong vocation of solidarity toward the territory in which they operated. The so-called Amato Law of 1990 (Law no. 218 of July 30) separated philanthropic undertakings from lending activities, and created 88 community-owned IBFs (Jassaud, 2014). In light of their aims, IBFs must use the income derived from the management of their endowments exclusively for the development of the territories in which they are rooted (Anheier, 2001). Moreover, the law indicated that their main stakeholder is the community and established that their board of trustees must represent the community's interests. We demonstrate how this different NPO context, where community representation is required by law, gives new insights regarding representational dimensions, mechanisms, and local stakeholders' influence on governance. These insights could be helpful for nonprofit governing bodies and government authorities that aim to increase the representational legitimacy in NPOs, such as the recent example of the Spanish government (Law no. 26/2013) that defined the maximum limit of public sector representation (less than 25%) in foundations' boards.

The remainder of this paper is organized as follows. In the next section, an overview of studies on community representation within nonprofit boards is used to develop our research question. Next, we explain our hypotheses drawing from prior literature and considering the specific characteristics of the IBF context for each dimension of representational legitimacy and their related measures. Then, we describe the statistical model considered for the analysis

and list the variables on which the model is based. After presenting the main findings of the analyses undertaken, we discuss our findings and the study's main contributions and limitations, and provide suggestions for further research.

### **Conceptual Framework and Research Question**

While there is a general scholarly agreement that nonprofit boards should embody and represent community interests (Iecovich, 2005; Smith & Lipsky, 1993), little is known about the capacities of NPOs to effectively achieve this. Only a few studies have assessed NPOs' representation abilities, providing mixed results (Brown, 2002; Guo & Musso, 2007; Guo & Zhang, 2013; LeRoux, 2009; Swindell, 2000).

Most of the models presented to explain differences of representation in NPOs were based on Pitkin's (1967) identification of four different dimensions of representation: substantive, symbolic, formal, and descriptive. *Substantive representation* means to "act for" others, and occurs when board members act in the interests of the represented community in a manner that is responsive to it through proper agendas, policies, and activities. *Symbolic representation* indicates the leadership's ability to "stand for" the interests of the represented community, and occurs when the community and constituents trust an organization as their legitimate representative. *Formal representation* is based on formal mechanisms that establish the way board members are selected (e.g. elections) and stay in charge (e.g. rights of recall and term of office). Finally, *descriptive representation* occurs when "a representative body is distinguished by an accurate correspondence or resemblance to what it represents" (Pitkin, 1967, p. 60), and is concerned with a board whose members have socio-economic and demographic characteristics similar to those of the organization's constituencies.

Ragab, Blum, and Murphy (1981) considered formal, descriptive, and substantive representation, as well as actual representation, which is the time an organization devotes to the community's most severe problems. Cnaan (1991) summarized 10 criteria for analyzing

the level of representativeness of NPOs: free open elections, members' participation, informed membership, accountability to constituents, due process, level of similarity, similarity in perceived needs, *cui bono*, successful advocacy, and competition among NPOs.

More recently, Guo and Musso (2007) presented a useful framework for analyzing varieties of representation in NPOs. They extended Pitkin's (1967) conceptualization by adding a fifth dimension called *participatory representation*, which occurs when there is a direct and active involvement of community in organizational activities. This dimension of representation involves a set of different participatory mechanisms that vary along "a continuum with respect to the degree to which constituents and the community have the real power" to affect the organizational decision-making process (Guo & Musso, 2007, p. 315).

Guo and Musso's (2007) framework also highlights the relationships among the five representational dimensions. Substantive and symbolic representations are outcome measures of the organization's "representational legitimacy" (Guo & Musso, 2007, p. 311), which occurs when it is engaged in external representational activities and the board acts or stands for the constituents' interests. Conversely, formal, descriptive, and participatory representations are capacity measures of representational legitimacy, which contribute to achieve substantive and symbolic representation through a set of different representational mechanisms. Guo and Musso (2007) called for more in-depth studies to empirically test the framework and enrich the mechanisms and related measures in order to "clarify the extent to which different types of representational arrangements (e.g. formal, descriptive, participatory arrangements) seem to promote substantive and symbolic representation" (p. 323).

Responding to their call, Guo and Zhang (2013) examined the relationships among the five representational dimensions within Chinese NPOs. They provided a validation of Guo and Musso's (2007) framework and found evidence supporting a positive relationship between capacity measures of representational legitimacy and their outcomes.

Despite the inclusiveness of Guo and Musso's (2007) framework, the authors underlined that different contexts could provide different findings. Testing this framework with IBFs, in light of their community ownership, our study underlined how two adjustments of the model are required.

As the first adjustment, we focus on the mechanisms for appointing board members. IBF statutes note three possible ways to choose board members, which can be mixed: direct designation by stakeholders, list of candidates proposed by stakeholders, and appointment by the expiring board of trustees. For the second adjustment, we consider the role of board members' residences. The law (Legislative Decree no. 153/1999) deeply intervenes on representational arrangements in an attempt to improve the representational legitimacy of IBFs, requiring that at least half the board members have been residents in the same territory for at least three years. Consequently, we enrich Guo and Musso's (2007) framework by shaping the descriptive representation dimension in two different items, which are considered separately: (1) demographic descriptive representation (DEM\_DESCR), based on the commonality of socio-economic and demographic characteristics between community and board members; and (2) territorial descriptive representation (TERR\_DESCR), based on the residence of board members within the territory in which the foundation operates.

Moreover, Guo and Musso's (2007) framework is enhanced by exploring the different weight of local stakeholders in appointing IBF board members, that is defined by law, requiring an equilibrium among them. As noted by Freeman and Reed (1983), stakeholders in a wide sense are "any identifiable group or individual who can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives" (p. 91). In light of this definition, we consider local stakeholders as the groups of stakeholders operating in the same territory of the organization, which could influence or be influenced by its activities. Based on a content analysis on the 88 statutes of IBFs, [citation



deleted for revision] identified the following groups of local stakeholders with appointment powers: public sector organizations; cultural, educational, and research organizations; trade and professional associations; civil society organizations; expiring board of trustees; other residual stakeholders. These findings lead us to explore the influence of those groups in choosing board members as a potential moderator that could enhance or buffer the relationship between capacity and outcome measures of representation in IBFs. Figure 1 depicts the adjustment of Guo and Musso's (2007) framework in this study.

[Insert Figure 1 Here]

By focusing on IBFs, our concern is to analyze if and how the adjusted capacity measures affect representational legitimacy. We thus formulate the following research question: When the community is on board by law, do governance mechanisms increase representational legitimacy?

### **Hypotheses**

Considering the representational mechanisms studied in previous literature, we build our hypotheses.

First, we investigate the relationship between formal representation and representational legitimacy. Guo and Musso's (2007) framework states that formal representation contributes to NPOs achieving substantive and symbolic representation because the selected board members are expected to take care of the interests of the community who appointed them, and to respect its values and principles. Bramble (2000) observed that the degree to which leaders act in the interests of community members (substantive representation) depends on the existence of formal provisions that hold leaders accountable. Nevertheless, formal mechanisms do not necessarily lead to substantive representation. Similarly, Cnaan (1991) noted that formal arrangements are the hallmark of all democratic organizations and ensure that appointed officials act in the interests of the

community who appointed them. However, he warned that formal mechanisms would not safeguard substantive representation if they do not function effectively. In this regard, Brown (2002) observed that the decline in the level of substantive representation within Australian unions depended on a decrease in the effectiveness of formal representation. Conversely, Guo and Zhang (2013) found that no correlation existed between formal representation and substantive and symbolic representation in the Chinese context because formal arrangements probably did not function effectively in the NPOs they studied.

Formal mechanisms for appointing IBF board members (direct designation by stakeholders, list of candidates proposed by stakeholders, appointment by the expiring board of trustees) are required by law and regulated in detail within the statutes to ensure that the board acts in the community's interests by promoting its socio-economic development. We thus expect that formal arrangements contribute to substantive representation. Since the law and statutes require board members' integrity and good reputation as formal requisites for safeguarding the foundation's image, we suppose that formal arrangements contribute also to symbolic representation. These considerations lead to the following hypotheses:

*H1a: Formal representation (FOR\_TOT) is positively associated with the level of substantive representation (SUB\_TOT).*

*H1b: Formal representation (FOR\_TOT) is positively associated with the level of symbolic representation (SYM\_TOT).*

The second relationship we investigate is between descriptive representation, and substantive and symbolic representations. Previous studies that focused on the relationship between descriptive and substantive representation provided mixed results. Ragab et al. (1981) found that, despite a great similarity with residents, neighborhood organizations' leaders differ in perceiving the severity and urgency of neighborhood problems. It follows that a high level of descriptive representation does not have a role in promoting the

organization's capacity to act in the community's interests. Conversely, Cnaan (1991) observed that it is more likely that board members and constituencies share the same problems and seek common solutions when descriptive representation occurs. By reviewing the literature on democracy in neighborhood organizations, Cnaan (1991) found that leaders who "are not typically community members but the local elite" (p. 624) operate according to their own interests while neglecting residents' concerns, thus confirming that the level of similarity between nonprofit officials and community members contributes to substantive representation. Guo and Zhang's (2013) findings confirmed a strong correlation between descriptive and substantive representation. In addition, they highlighted that descriptive representation leads also to high levels of symbolic representation. By investigating the linkage between descriptive and symbolic representational dimensions, Abzug and Galaskiewicz (2001) found that community-dominated boards might be considered symbols of local identities because they "adopt customs, habits, ideologies, values, and beliefs of these groups as their own" (p. 53), thus performing an important role in legitimating NPOs. Kissane and Gingerich (2004) concluded that outsider nonprofit directors might limit the organization's ability to establish trust in their communities. Similarly, Iecovich (2005) highlighted that a board that represents various constituencies with different interests and identities has a significant impact on its organization's legitimacy, especially in terms of its worthiness.

While previous studies investigated descriptive representation especially in terms of socio-economic and demographic commonalities between community and board members, territorial descriptive representation based on the residence of board members is found to have a pivotal role in ensuring that the IBF acts by knowing the territory's interests. We thus expect that IBFs are better able to address the issues of most importance to the community if board members live in the same territory, because they are closer to the actual problems of

residents. Moreover, the origin of IBFs from public savings banks with the aim of promoting the territory's social, cultural, and economic development led us to presume that IBFs might be regarded as a legitimate representative and symbol of local identities. We thus expect that board members, who mirror the community in terms of socio-economic and demographic characteristics (demographic descriptive representation) and reside in the same geographical area (territorial descriptive representation), enhance the community's trust in the organization. Based on these arguments, the following hypotheses are tested:

*H2a: Demographic descriptive representation (DEM\_DESCR) is positively associated with the level of substantive representation (SUB\_TOT).*

*H2b: Demographic descriptive representation (DEM\_DESCR) is positively associated with the level of symbolic representation (SYM\_TOT).*

*H3a: Territorial descriptive representation (TERR\_DESCR) is positively associated with the level of substantive representation (SUB\_TOT).*

*H3b: Territorial descriptive representation (TERR\_DESCR) is positively associated with the level of symbolic representation (SYM\_TOT).*

The third relationship we investigate is between participatory representation, and substantive and symbolic representation. The findings from previous researches suggest that appropriated participatory mechanisms might affect an organization's substantive representation. The studies reviewed by Cnaan (1991) demonstrated a trend of minimal resident participation in neighborhood organizations, because including residents in decision-making processes was viewed "as costly and as an unwelcome and added burden" (p. 621). This low degree of participation diminished the organizations' capacity to respond to the needs of the community. Similarly, Bramble (2000) noted that a low degree of participatory representation sets strict limits on substantive representation. He found that the most significant result of a decline in participatory representation of Australian unions has been the

decline in the level of substantive representation. Swindell's (2000) findings confirmed a positive correlation between the participatory and substantive representational dimensions.

By examining the opportunity for residents to participate in decision-making, he concluded that organizations that allow residents to voice their concerns are better able to address the issues of most importance to the community. Brown (2002) noted that inclusive boards, which foster stakeholder engagement into decision-making processes, were more sensitive to community needs. Similarly, Saxton, Guo, and Brown (2007) recommended that organizations strive to implement more participative and inclusive practices for improving their representativeness and to ensure that "the issues of greatest importance to both the organization's leadership and its core constituents are in conformity" (p. 149). Guo and Zhang (2013) confirmed the positive relationship between participatory and substantive representation. Their findings provided evidence that participatory representation in Chinese NPOs had a positive and significant impact on the levels of symbolic representation as well. They noted that the more constituents are directly involved in decision-making, the more they trust the organization as their legitimate representative. In light of these previous studies, we formulate the following hypotheses:

*H4a: Participatory representation (PART\_TOT) is positively associated with the level of substantive representation (SUB\_TOT).*

*H4b: Participatory representation (PART\_TOT) is positively associated with the level of symbolic representation (SYM\_TOT).*

## **Research Method and Measurement of Variables**

### **Data Collection**

The data collection was carried out in two ways. First, a content analysis on statutes of the 88 IBFs was conducted to investigate formal representation mechanisms for appointing board members, labeling three distinct mechanisms described in the documents

(Krippendorff, 2012). Second, we collected data regarding the other representational dimensions through a survey based on a self-administration method to get the perceptions of respondents (Oppenheim, 2005). The initial research population we studied includes every bank foundation operating in Italy (88 IBFs) in 2014. Since Guo and Zhang (2013) call for multiple informant surveys to gain better insights on the relationships among the various representational dimensions, our units of analysis are people covering different roles within the foundations' organizational structure. We submitted our survey to the presidents and top managers of the 88 IBFs, since they have an overall view of their organization's governance and related features and activities (Smith, 1972). As a result, 176 potential respondents (88 presidents and 88 top managers) composed our final data set.

In the first phase of the survey, we pilot tested the questionnaire with 10 former members of IBFs (2 presidents, 8 top managers) to check the questionnaire's readability and relevance. This allowed us to clarify (or delete) redundant items, making the questionnaire easily understandable by our target respondents. In the second phase, we sent an online questionnaire to our respondents by e-mail (Oppenheim, 2005) using addresses retrieved from the IBFs' websites. In order to obtain a higher response rate, we solicited the responses by using telephone calls. We received 94 responses, with a redemption rate of 54%.

## **Measures**

The current study investigates community representation within nonprofit boards by considering the representational capacity measures and the representational legitimacy measures of the organization. Four independent variables are used to measure representational capacity: formal representation, demographic descriptive representation, territorial descriptive representation, and participatory representation. The dependent variables measuring representational legitimacy are substantive and symbolic representation. In addition, the study explores the influence of stakeholder groups in appointing board

members as a potential moderator in the relationship between capacity and outcome measures. Table 1 summarizes the variables and how they are measured.

[Insert Table 1 Here]

**Formal representation (FOR\_TOT).** Formal representation was assessed by analyzing the statutory provisions regarding formal arrangements for appointing board members. Previous literature (Guo & Zhang, 2013) usually focused on the election of board members and measured formal representation using a dummy variable that highlights the presence or the absence of that mechanism. Since IBFs do not hold elections, we considered three additional mechanisms under which the process of designation occurs. The analysis of statutes showed that foundations always formalize at least one of the following mechanisms:

- Direct designation by stakeholders: Local stakeholders directly designate the members of the board of trustees;
- List of candidates proposed by stakeholders: Local stakeholders propose a list of candidates, and the outgoing board of trustees chooses a member from each proposed shortlist;
- Appointment by the board of trustees: The outgoing board of trustees co-opts the new members of the board.

We treated each item as a distinct dummy variable that equals 1 when the statutes provide for the appointing mechanism specifically considered, 0 if otherwise. Since each foundation can simultaneously adopt different mechanisms for appointing board members, we measured formal representation by combining the three dummy variables in a structured categorical Likert scale variable (FOR\_TOT), ranging from 1 (all members are appointed by the board of trustees) to 7 (all members are directly designated by stakeholders) (see Appendix). At the lower level, local stakeholders do not have any power in the designation of

board members. This power increases in presence of lists of candidates and direct appointment.

**Demographic descriptive representation (DEM\_DESCR).** Based on Guo and Zhang (2013), we asked participants about the board's ability to reflect the socio-demographic characteristics of the community (e.g. gender and age). Demographic descriptive representation was assessed asking by respondents to indicate their level of agreement on a five-point Likert scale ranging from 1 (I strongly disagree) to 5 (I strongly agree).

**Territorial descriptive representation (TERR\_DESCR).** We asked respondents how much they agree with the idea that resident board members reflect better the characteristics of the community that lives within the territory in which the foundation operates. Territorial descriptive representation was assessed by asking respondents to indicate their level of agreement on a five-point Likert scale ranging from 1 (I strongly disagree) to 5 (I strongly agree).

**Participatory representation (PART\_TOT).** We measured the participation of community members in decision-making using an existing scale (Guo & Zhang, 2013) consisting of seven items. Board members indicated their level of agreement on a five-point Likert scale ranging from 1 (I strongly disagree) to 5 (I strongly agree). A composite index was calculated using the average of the scores assigned to each value by the respondents.

**Substantive representation (SUB\_TOT).** Substantive representation is the first dependent variable of our model. Based on Guo and Zhang (2013), board members were asked to indicate their level of agreement on three items on a five-point Likert scale ranging from 1 (I strongly disagree) to 5 (I strongly agree), relating to the organization's ability to act in the community's interests. As in PART\_TOT, it was calculated by averaging the scores assigned to each value by the respondents.



**Symbolic representation (SYM\_TOT).** Symbolic representation is the second dependent variable of our model and was measured using an existing scale (Guo & Zhang, 2013) that consisted of three items. Board members indicated their level of agreement on a five-point Likert scale ranging from 1 (I strongly disagree) to 5 (I strongly agree). Again, an average score was determined.

**Stakeholder influence (Moderator effects).** Stakeholder influence investigates the weight of stakeholders in appointing board members. The weights are drawn from [deleted for revision], who performed a content analysis of IBF's statutes to measure the percentage of board members appointed by six categories of stakeholders. In our analysis, we consider as relevant public sector organizations, cultural, educational and research organizations, trade and professional associations, and civil society organizations. The two residual categories (board of trustees and 'other') are not significant in light of the low frequency revealed by the previous study.

## **Method**

In order to assess reliability, we used two different methods. First, the internal consistencies were assessed. The normalized Cronbach's alpha for the six items (FOR\_TOT, DEM\_DESCR, TERR\_DESCR, PART\_TOT, SUB\_TOT, and SYM\_TOT) was 0.894, much better than the minimum value of 0.7 suggested by Cortina (1993). Second, the value of Cronbach's alpha for each of the six items was also examined, in order to check whether the exclusion of any item could improve the overall alpha value. We noted that none of them increased the Cronbach's alpha value, so we maintained all the items presented in our model. The Explorative Factor Analysis was not done in light of previous results reached by Guo and Zhang (2013). We employed Ordinary Least Squares (OLS) regression, assuming that data are continuous and not enclosed artificially. We also tested the influence of four control

variables: gender, age, and residence of board members, as well as board size. None of these factors was found to be relevant.

Moreover, we included the moderator effect of the stakeholders' influence that enhances or buffers the relationship between capacity and outcome measures of representation in IBFs. Specifically, we used a moderation called "two-way interaction" (Dawson, 2014, p. 3), because it is straightforward and accurate. Hence, moderation effects are typically discussed as an interaction between factors or variables, where the effects of one variable depend on levels of the other variable in analysis (Fairchild & MacKinnon, 2009). In re-elaborating Garcia, Schmitt, Branscombe, and Ellemers' (2010) model, Hayes (2013) explained that "moderation analysis is used when one is interested in testing whether the magnitude of a variable's effect on some outcome variable of interest depends on a third variable or set of variables" (p. 360). In other words, Moderator variables (Mn) affect the strength and/or direction of the relation between a predictor (Xn) and an outcome (Yn), enhancing, reducing, or changing the influence of the predictor (Aiken & West, 1991). In this case, the regression is between the single independent variables (Xn) multiplied by each single moderator (Public, Cultural, Trade, and Civil Soc.) and the dependent variable ( $X_n * M_n \rightarrow Y_n$ ). In order to analyze the moderator effect, we adopted the Hayes (2013) model, where the bootstrapping method was applied on 5000 samples with a level of confidence for all confidence intervals (CI) in output of the 95%.

### **Findings**

In order to better describe the results of our model presented in Figure 1, we divided our hypotheses into two categories based on the dependent variable (SUB\_TOT and SYM\_TOT). In the first category, we analyzed the relationship between the capacity measures of representational legitimacy and substantive representation, while in the second

category we considered the relationship between the capacity measures and symbolic representation. Table 2 shows the results of the OLS regressions.

[Insert Table 2 Here]

Reconsidering our model in Figure 1, not all the hypotheses are significant. Hence, it was possible to redesign it in Figure 2 inserting only the relevant regressions (in bold).

[Insert Figure 2 Here]

As shown in Figure 2, there are only five significant regressions: two with the substantive representation (SUB\_TOT) and the other three with the symbolic representation (SYM\_TOT).

We did not find a significant positive relation for H1b, H2a, and H4a, but the other five hypotheses (H1a, H2b, H3a, H3b, and H4b) were significant. However, H3a was negatively correlated, which means that territorial descriptive representation is negatively associated with the level of substantive representation.

Focusing on these five significant regressions (H1a, H2b, H3a, H3b, and H4b), we analyzed the magnitude effect of the four moderators (INFL\_PUBLIC, INFL\_CULTURE, INFL\_TRADE, and INFL\_CIVIL) through Hayes' (2013) model. In only two regressions, the moderation effect was significant. Table 3 shows the effect (enhancing, buffering, or not effect) of each moderator on the magnitude of the two relationships between TERR\_DESCR, or PART\_TOT (independent variables) and SYM\_TOT (dependent variable).

[Insert Table 3 Here]

According to Hayes (2013) and Dawson (2014), we divided the moderation effect into three influence levels (Low, Average and High effect) depending on the 95% of the confidence interval. Low influence indicates the magnitude effect of the moderator on the regression when its strength is low (CI 95% lower limit), whereas high influence of the moderator means that its strength is really high (CI 95% upper limit). The average influence

is the point estimate, which means that the magnitude effect of the moderator on the regression is medium. Figure 3 summarizes the significant moderation effect (in bold) on the two regressions.

[Insert Figure 3 Here]

### **Discussion and Conclusions**

Exploring the relationships among representational legitimacy dimensions in the IBFs, we have provided adjustments of Guo and Musso's (2007) framework. We enriched it by giving relevance to different mechanisms for designating board members and adding a new dimension of "territorial descriptive representation." Using this adjusted model, our findings provide evidence that formal arrangements contribute to substantive representation, while descriptive and participatory arrangements enhance symbolic representation. In addition, we explored the influence of local stakeholders as a moderator in the relationship between various representational dimensions.

Following Guo and Musso (2007), we found that formal representation is positively associated with the level of substantive representation (see Table 2). Formal representation, redefined to consider different combinations among three mechanisms of appointment, shows that, when board members are directly designated by stakeholders, the board of trustees acts properly in the community's interests. This emphasizes the importance of formal governance arrangements in achieving substantive representation (Bramble, 2000; Brown, 2002; Cnaan, 1991), which in our case was in great part provided by the Italian Government. In addition, it also suggests that mechanisms of direct designation lead to the selection of board members with a higher awareness of the needs to be met than in other mechanisms of appointment, such as list of candidates or cooptation by the outgoing board.

In accordance with Guo and Zhang (2013), the study found no significant correlation between formal and symbolic representation. This implies that appointing mechanisms are

not a lever, that could be useful for gaining the community's trust and confidence in the organization, even when the law requires integrity and reputation of the appointed board members. These findings highlight that when the nonprofits search for increasing trust and legitimacy, they need to implement governance mechanisms of descriptive and participatory representation.

Following Guo and Musso (2007), we found that demographic descriptive representation is positively associated with the level of symbolic representation. The commonality of socio-economic and demographic characteristics between community and board members enhances the community's trust in the foundation's ability to represent its interests. This confirms the idea that community-dominated boards are considered symbols of local identities (Abzug & Galaskiewicz, 2001). Despite previous evidence (Guo & Musso, 2007; Guo & Zhang, 2013), the IBF experience shows that demographic descriptive representation does not have a role in promoting substantive representation. Our findings suggest that the commonality of demographic characteristics between community and board members enhances the foundation's ability to "stand for" the community's interests but does not necessarily improve its ability to "act for" pursuing them.

Thanks to our second adjustment of including territorial descriptive representation in the model, we found that the residence of board members plays a pivotal role in increasing representational legitimacy. The results confirm that territorial descriptive representation is significantly associated with both substantive and symbolic representation. This means that the residence of board members within the territory in which the foundation operates plays a role in determining the ability to "act for" and "stand for" the interests of the community. However, the territorial descriptive representation has a negative influence on substantive representation. We conclude that the law provision, which requires that at least half of the board members be residents, is counter-productive, and reduces the capacity of the

foundations to act in their communities' interests. These findings suggest a risk that resident board members could be a vehicle of individual interests. Conversely, territorial descriptive representation feeds the community's trust in the foundation in an extremely significant way.

Findings from the regression provide mixed results concerning the relationship between participatory representation and representational legitimacy measures. According to prior literature (Guo & Musso, 2007; Guo & Zhang, 2013; Harrison & Mort, 1998), participatory mechanisms influence symbolic representation in IBFs, confirming that the more the community is directly involved in decision-making, the more it trusts the organization as its legitimate representative. However, the results show that participatory representation does not influence substantive representation. Community involvement in the decision-making processes does not seem to be significant for increasing the coherence between community needs and the actions developed by the organization (Guo & Marietta, forthcoming). This suggests that the law provisions regarding formal arrangements prove to be sufficient for ensuring that board members are sensitive to community needs and act to meet them, while a high level of participatory representation improves only the community's trust in the board.

Enriching Guo and Musso's (2007) framework by exploring the influence of local stakeholders in appointing board members, we found that the percentage of members appointed by each local stakeholder plays a significant role as a moderator in reinforcing or hampering the positive relationship between territorial descriptive and participatory mechanisms on one hand, and symbolic representation on the other. The influence is different among the four stakeholder groups that we considered. Focusing on the linkage between territorial descriptive and symbolic representation, we can observe that when public sector organizations appoint board members the influence is positive (see Table 3, first row). The effect of civil society organizations is similar (see Table 3, fourth row). Otherwise, when we

consider the weight of culture, education, and research organizations, the influence is negative if this group appoints few board members and positive when the group has the faculty of appointing the majority of them (see Table 3, second row). As indicated in Table 3, cultural, educational, and research organizations are the organizations whose increasing participation in appointing board members could enhance the already significant relationship between the residence of board members and the trust in the NPO. Conversely, the influence of trade shows a buffering impact (see Table 3, third row), particularly when trade and professional organizations appoint a relevant number of board members.

By considering the general effect of moderators (first part of Table 3) on the relationship between territorial descriptive representation (TERR\_DESCR) and symbolic representation (SYM\_TOT), the findings suggest us to decrease the number of members appointed by the public sector and to increase the influence of cultural organizations. The results of the analysis reinforce our belief that the presence of resident board members appointed by public sector as well as cultural and civil society organizations enhances the trust in the foundations, because these groups of stakeholders are closer to the actual problems of the community.

By analyzing the relationship between participatory (PART\_TOT) and symbolic representation (SYM\_TOT) in the second part of Table 3, the results show that when the percentage of members appointed by public sector organizations is high, the moderator's influence becomes negative and buffers the positive relationship between participatory and symbolic representation. In addition, the findings suggest that when civil society organizations appoint few board members, the trust derived from participatory mechanisms decreases. Conversely, the increasing magnitude of civil society organizations in appointing board members enhances the positive effect of inclusive participatory arrangements on the organization's ability to "stand for" the interests of the community. The data analysis

suggests also that the effect of trade and professional associations remains always negative, while the role of cultural associations is not relevant in enhancing trust through participatory mechanisms. The findings warned that a high percentage of board members appointed by public sector organizations or by trade and professional associations buffers the role of participatory practices in gaining symbolic representation. This means that, when the majority of members are linked with the public sector, the community perceives an increasing participation in decision-making processes as negative. This is a consequence of the community's concern that the inefficiencies and delays of Italian public sector (Borgonovi, Fattore, & Longo, 2009) contaminate the foundation's decisional processes. These findings are supported by the recent experience of Spain where the government by law (Law no. 26/2013) limits the presence of public representatives.

It must be noted that trade and professional associations always have a negative impact on the relations between territorial descriptive and symbolic representation, on one hand, and between participatory and symbolic representation, on the other. This could be justified by considering that this group of stakeholders represents prevalently economic and not social interests. On the contrary, our findings reveal that cultural and civil organizations have a potential positive influence in raising the symbolic representation. This stakeholder group is naturally linked with the social needs of the local community.

In conclusion, by testing the representational model of Guo and Musso (2007), this study enhances the knowledge of which governance mechanisms could increase substantive and symbolic representation when the community is on board by law. In this way, within the law's reference frame, the self-regulation activity could shape the better mix of governance arrangements.

Three relevant insights for increasing the representational legitimacy of NPOs emerge from our study. First, moving from a more detailed set of formal mechanisms for appointing



board members, the study traces different scenarios resulting in different mixes of designation mechanisms that impact the representational legitimacy of the organization, and specifically substantive representation. Enhancing the number of board members directly designated by local stakeholders or selected within lists proposed by them contributes to increase substantive representation. No other governance mechanism beyond formal representation seems to affect the ability of the organization to act for the interests of the community.

When the community is on board by law, measuring demographic and territorial descriptive representation separately offers a second insight. The residence of board members plays a pivotal and controversial role in explaining representational legitimacy. On one hand it increases symbolic representation, helping the organization to be trusted as a symbol of local identities, while on the other hand it decreases substantive representation and the organization's ability to "act for" the community.

Third, the weight of different local stakeholders in appointing board members contributes to the impact of territorial descriptive and participatory representation on representational legitimacy. The Italian experience highlights that when the community is on board by law it is necessary for each NPO's statute to seek a balance among local stakeholders. The findings suggest that the balance could be obtained by decreasing the number of board members appointed by public sector organizations and trade and professional associations, and increasing the percentage of members appointed by cultural and civil organizations. This could be a useful insight for government authorities and nonprofit governing bodies for drawing governance mechanisms able to improve representational legitimacy in NPOs.

There are some limitations of this study. Our research is based on data collected through a content analysis of statutes and an e-mail survey. Semi-structured interviews

carried out in further researches may give us new insights that better explain both the negative relationship between territorial descriptive representation and substantive representation, and the effects of moderators on the levels of representation. Although we submitted our survey to presidents and top managers, multiple informant surveys could help to gain additional insights on what governance arrangements would increase representational legitimacy. Specifically, future research should collect data on the executives and on local stakeholder groups called to appoint board members.

The path is open to new research studies that explore governance mechanisms through the lens of representation. This research is a step forward on this path, giving new insights on representational legitimacy mechanisms and underlining the pivotal influence that stakeholders appointing board members have in achieving legitimacy in both a substantive and symbolic way.

## Appendix

FOR\_TOT as structured categorical Likert-scale variable

Direct designation by stakeholders	List of candidates proposed by stakeholders	Appointment by the board of trustees	Likert Scale Value
1	0	0	<b>7</b>
1	1	0	<b>6</b>
0	1	0	<b>5</b>
1	0	1	<b>4</b>
1	1	1	<b>3</b>
0	1	1	<b>2</b>
0	0	1	<b>1</b>

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Table 1

*Description and Measurement of Variables*

Variable	Description	Scale	Author
Formal representation (FOR_TOT)	Mechanisms for board member selection.	Likert scale from 1 to 7	New to this study
Demographic descriptive representation (DEM_DESCR)	Board members have socio-economic and demographic characteristics similar to those of the organizational constituencies.	Likert scale from 1 to 5	Guo & Zhang (2013)
Territorial descriptive representation (TERR_DESCR)	Board members reside in the same territory in which the organization operates.	Likert scale from 1 to 5	New to this study
Participatory representation (PART_TOT)	Direct and active involvement of community in organizational activities.	Likert scale from 1 to 5	Guo & Zhang (2013)
Substantive representation (SUB_TOT)	Board members act in the interests of the represented community.	Likert scale from 1 to 5	Guo & Zhang (2013)
Symbolic representation (SYM_TOT)	The community trusts an organization as its legitimate representative.	Likert scale from 1 to 5	Guo & Zhang (2013)
STAKEHOLDER INFLUENCE	Weight in appointing board members, referring to four groups of local stakeholders: 1. Public sector (INFL_PUBLIC) 2. Culture education and research (INFL_CULTURE) 3. Trade and professional associations (INFL_TRADE) 4. Civil society organizations (INFL_CIVIL)	Percentage (from 0 to 100%)	[deleted for revision]



Table 2

*Results of the OLS Regressions*

Regression	R <sup>2</sup>	$\beta$	Sign.	Accepted / Not Accepted
FOR_TOT → SUB_TOT (H1a)	0.34	0.087	0.0001	<b>Accepted</b>
DEM_DESCR → SUB_TOT (H2a)	0.37	0.042	0.63	Not Accepted
TERR_DESCR → SUB_TOT (H3a)	0.30	-0.10	0.0001	<b>Accepted</b>
PART_TOT → SUB_TOT (H4a)	0.55	0.032	0.602	Not Accepted
FOR_TOT → SYM_TOT (H1b)	0.23	-0.048	0.62	Not Accepted
DEM_DESCR → SYM_TOT (H2b)	0.26	0.188	0.011	<b>Accepted</b>
TERR_DESCR → SYM_TOT (H3b)	0.519	0.49	0.0001	<b>Accepted</b>
PART_TOT → SYM_TOT (H4b)	0.518	0.497	0.0001	<b>Accepted</b>

Table 3

*The Magnitude of the Moderation's Effects*

<i>Regression</i>	<i>Moderator</i>	<i>Low Influence</i>	<i>Average Influence</i>	<i>High Influence</i>
TERR_DESCR → SYM_TOT (H3b)	INFL_PUBLIC	+ (***)	+ (***)	+ (**)
	INFL_CULTURE	- (**)	- (***)	+ (***)
	INFL_TRADE	Constant. (***)	- (***)	- (***)
	INFL_CIVIL	Constant. (***)	+ (***)	+ (***)
PART_TOT → SYM_TOT (H4b)	INFL_PUBLIC	+ (***)	+ (***)	- (***)
	INFL_CULTURE	Constant. (***)	Constant. (***)	Constant. (***)
	INFL_TRADE	- (***)	- (***)	- (***)
	INFL_CIVIL	- (**)	+ (***)	+ (***)

\*(p<0.05); \*\*(p<0.01); \*\*\*(p<0.001)

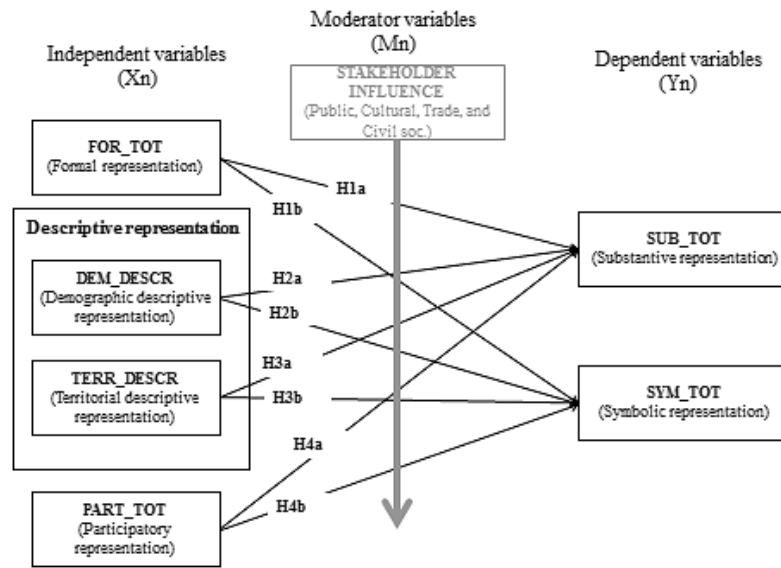


Figure 1. Our representation framework based on Guo and Musso's (2007) framework.

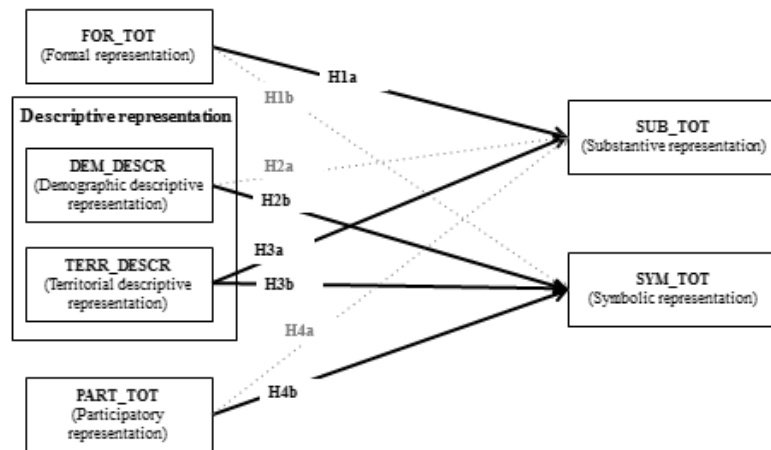


Figure 2. Relevant regressions within the model.

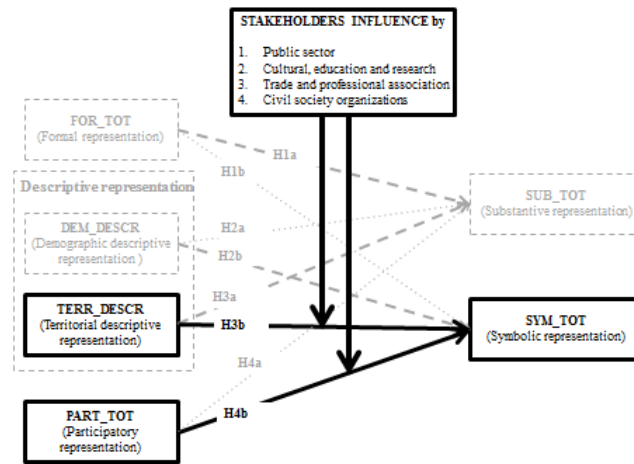


Figure 3. Significant moderation effects on the regressions.