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GOVERNANCE NETWORKS:
INTERLOCKING DIRECTORSHIPS OF CORPORATE AND NONPROFIT BOARDS

INTRODUCTION

An era of globalization brings greater interconnectedness and interdependence between previously separate groups and individuals. In Castells’ (2000) *The rise of the network society*, he emphasizes the ever increasing importance of networks as governance becomes more fluid in this global era. Network theory is receiving greater attention in the literature and has been lauded as “an exceptionally powerful analytic tool” (Riles cited in Frankham, 2006, p. 661). Evans (2001) has asserted that to further understand the potential of networks “detailed empirical research is now required” (p. 549). Hence this article contributes to the literature about networks and governance, empirically and conceptually, using an analysis of inter-organizational networks of directors in one Australian state as the springboard.

Our study draws on Alexander’s (1998; 2003; 2005) research on the growing nature of governance networks in Australia and examines connections between board directors of private companies and nonprofits in Western Australia (WA). Perth, its capital city, offers an interesting site for the study of this phenomenon of governance networks due to its relative isolation from other major cities in Australia and its status as a state with a booming mining economy.

In WA, the dramatic growth in nonprofits has led to increasing interest by the government and academics in the composition and general decision-making of their boards. The first incorporated associations in WA were recorded in 1896 upon the passing of enabling legislation and steadily grew in numbers until about 30 years ago when dramatic growth
occurred. With this growth, greater pressure has been exerted on their regulatory framework (Huntly, 1996). In 2006, it was estimated that there were 15,260 active associations in WA with more than 100,000 Western Australians sitting on their boards (Australian Bureau of Statistics, 2006-07). When the state government tabled its Associations Incorporation Bill in 2006, Patrick Walker, Consumer Protection Commissioner, stated that “Community expectations of voluntary associations and the people who run them have changed in the past two decades as have the size and complexity of incorporated associations” (Department of Consumer Protection, 6 February 2007). As a result of the growing complexity of their operations, these nonprofit boards are increasingly inviting company directors on to their boards to assist them in negotiating their challenging environment.

This article reports on phase one of a research project that empirically mapped the interconnectedness of board directors in the private and public sectors in WA and examined the wider implications of these networks. Phase two is a qualitative investigation of the roles and effectiveness of company directors on nonprofit boards. To our knowledge, no Australian studies have researched the linkages between corporate directors and nonprofit organizations and their effect on the governance of economic and social institutions.

The remainder of this article describes the background literature on networks and governance; the approach to network analysis employed in this study; and the findings presented as governance network figures. It concludes with a discussion about the findings’ potential implications for building social capital and trust across key institutions in society.

**BACKGROUND: NETWORKS AND GOVERNANCE OF CORPORATIONS AND NONPROFITS**

Rhodes (1997) produced some of the significant early work on network theory. He characterized ‘interorganizational networks’ by: blurred boundaries between interdependent
public and private organizations; exchange of resources (money, authority, information, expertise) to achieve goals; interactions negotiated between participants on the basis of trust; and new accountability relationships. He also emphasised that in developing the concept of networks “the task has scarcely begun, in either theory or practice” (1997, p. xiv). More recently, Fataar (2006) maintained that one of the strengths of network analysis is that it can accommodate both loose and tight structures (allowing simultaneously for fluidity and order), as well as focusing on both formal and informal interactions between private and public actors. In applying network theory to specific settings in the United Kingdom (UK), Ball and Exley focused on the generation and circulation of key ideas, networks which straddle different sectors and the flow of discourses (especially in relation to innovation and enterprise), thereby “providing solutions to intractable social problems” (2010, p. 151).

Considine (2005) highlighted that networks are diverse in nature, with the strength, pattern and use made of network linkages varying widely, and that network activity between key actors can both help and hinder the processes and outcomes of organizations. Also relevant to this research, Considine maintains that “to adequately account for the way ideas, resources or decisions are influenced by these networks, we need to be able to map both the organizational and the personal [links] on to the same framework” (2005, p. 139).

A few key studies over the past fifty years have described the cohesive interpersonal networks that interlock the economic, political and civil sectors of leadership in different countries. C. Wright Mills’ (1956) classic study of America’s top leaders found that they controlled key national decisions. Through membership network analysis, Domhoff (1998) discovered that individuals serving as directors on the same corporate boards formed interpersonal networks. In a comparative study of Australia, the United States (US), and
Western Germany, Higley et al. (1991) found the existence of densely connected circles of several hundred top leaders in each nation. Additionally, Unseem (1984), in a study of corporate directors in the US and UK, demonstrated the key role held by an inner circle of directors with interlocking directorships in leading corporations and nonprofit boards.

Moore, Sobieraj, Whitt, Mayorova, and Beaulieu (2002) extended this type of analysis and found three trends which affected the nonprofit sector in the US: “(1) the increased size of the sector, (2) the changing structure of nonprofit organizations and (3) the growing interpenetration between the state, the economy, and civil society” (2002, p. 729). They noted a blurring of the boundaries between the state, the market and civil society. Consequently, nonprofit organizations frequently act as independent contractors for the state and have turned to market strategies in an effort to increase revenues. Moore et al. (2002) explored whether certain types of nonprofit organizations were more tightly integrated than others with business leaders and concluded that substantial linkages existed across all types of nonprofit organizations.

In Australia, research studies have described networks between boards of directors (Alexander, 2003; Nicholson, Alexander and Kiel, 2004). Alexander (2003) confirmed the growing nature of these networks in a 20 year study that found their interpersonal networks in 1996 were broader, more cohesive and more densely connected than those in 1976. Using resource dependence theory and social network analysis, Nicholson et al. (2004), in comparing Australia and the US, mapped the role of directors in providing access to resources and measured the patterns of relationships and information flows between board directors. They found that the levels and reach of corporate network activity were roughly similar across the two countries. They suggested that interlocking directorates were likely to
be conduits for diffusing norms and managerial innovations and creating a convergence of viewpoints. A study in the US by Pusser, Slaughter and Thomas (2006) mapped the interlocking nature of university councils and governing bodies of corporations, using concepts and techniques from network theory. They noted the pressure on American universities to develop corporate models for their boards of trustees and to raise substantial amounts of income from private sources. The ability of university boards to raise funds and adopt corporate models would be aided by the fact that of the 662 university trustees on the boards of the 20 research universities they studied, there were 413 who were also members of corporate boards. They discovered that private universities in the US were more interconnected to the corporate world than public universities. They concluded that these networks need to be more extensively studied and theorized.

Harris and Helfat (2007) focused on internal linkages between individual directors and their effect on board decision making. They suggested future research should: 1) identify the demographics of board members; 2) map the social network structure of board members; and 3) analyse the relationships between board member networks and board decision outcomes.

Brown (2007) used Hillman and Dalziel’s (2003) concept of “board capital” to test empirically the competence of boards. Board capital consists of the expertise or human capital that board members have and their relational capital or social networks. His study recognized the importance of board capital in contributing to board performance but felt that more research on identifying the desirable competencies for nonprofit board members would be very useful. Van Slyke (2003) called attention to the importance of networks in
New York state nonprofit organisations when funding was under attack. He found that board members used their contacts with public officials to restore funding.

Provan, Fish and Sydow (2007) turned their gaze externally with a review of inter-organizational networks. They proposed that studying whole networks has important implications for individual network members, firms, and nonprofit organizations. They concluded that previous research on whole networks has left many important questions unanswered and that researchers should seek to understand how whole networks operate, how they are best structured and managed.

Thus, the literature reveals multiple calls for more research on governance networks and emphasizes the need for empirical work. The analysis in this article is based on looking at individual directors and not at organizations per se so this network analysis differs from some others (Provan and Milward, 1995; Alter and Hage, 1993) that researched the effectiveness of networks of organizations. The purpose of these studies was to determine whether integrated systems of community agencies could provide services to clients better than individual agencies or government. In contrast, our work centers on individuals’ networks serving on the boards of nonprofit organizations and corporations. Our long-term aim is to assess the influence of corporate directors on nonprofit boards and the degree to which governance of these boards is altered through corporate directors serving on these boards. In this article, we are investigating the governance networks between for-profit and nonprofit boards, referring to the linkages between individuals sitting on governing bodies and the social networks that are created between these individuals.


**METHOD: NETWORK ANALYSIS**

Our research draws on the work of Alexander (1998; 2003; 2005) and uses Borgatti’s (2011) social network analysis software (NetDraw) to ascertain the extent to which there were overlapping directorships between corporations and nonprofit organizations in 2006 in the relatively isolated state of WA. We hypothesized that the interlocking nature of the directors would be denser in Perth than in other Australian capitals due to its distance from other major cities. This latter consideration could be substantiated with further research.

To obtain the names of directors on company and nonprofit boards in WA, research was undertaken in three stages. First, we drew up a list of companies headquartered in Perth that were on the list of the Top 300 companies on the Australian Stock Exchange (ASX) in 2006. Our seed group consisted of all WA companies that appeared on the Top 300 companies. There were 41 companies on this list that were headquartered in Perth. To protect the anonymity of directors, no individual names were used; instead lines were drawn between organizations having common directors. Second, we obtained the names of the 231 directors of these companies from their webpages. In their profiles, these directors listed the other WA companies (outside the Top 300 ASX) and 26 nonprofits in WA on which they served. Third, we drew up a list of nonprofits registered in WA as incorporated associations and obtained from their webpages the directors on their boards. Through a cross-checking exercise of these directors and the boards they served on, we obtained the raw data that was entered into an Excel spread sheet and then inserted into NetDraw.

In terms of deciding which nonprofits should be included in our study, we drew on Huntly’s (1996) eight categories of incorporated associations: 1) religious and educational bodies; 2) literary, scientific, artistic and musical bodies; 3) sporting, recreation and amusement
Governance networks

societies; 4) community, social, and cultural groups; 5) political, historical, heritage and environmental protection groups; 6) breeding, agricultural and horticultural societies; 7) trade, professional, industry and alumni associations; 8) health services, hospitals, aged care and retirement homes and senior citizen associations. We then decided to eliminate three nonprofit groups that would have obvious links to corporate directors: Australian Institute of Company Directors, Chamber of Commerce and Industry, and Western Australian Motor Industry Foundation.

NetDraw allows for a number of analytical procedures to be undertaken to determine the kinds of shared relationships among the board directors of organisations entered into the software program. By using Freeman’s (1977) measure of ‘betweenness’, we could determine the degree of interlocking directorships that existed among WA companies in the ASX Top 300 and nonprofits.

The ideas about social networks, and identifying who are the central actors, comes from sociological studies of human communication which date back to studies under the direction of Bavelas (1948) at the Group Networks Laboratory at the Massachusetts Institute of Technology in the late 1940s. Identifying the number of links there were between these actors became an important structural attribute of these social network studies because it identified how important a person was within a social network.

Those directors with a high degree of ‘betweenness’ or interlocking connectedness were “in the thick of things” and a person who is in such a position would begin to see himself or herself as a major channel of information. According to Freeman (1978/79), they would have the sense of being in the mainstream of information flow in the network. A person with a low degree of ‘betweenness’ would be isolated from direct involvement with most of the others.
in the network, and relatively cut off from active participation in the on-going communication process.

**FINDINGS**

The findings are presented as two network figures to visually represent the measure of ‘betweenness’ of board directors. The degree to which more than one person from a board sits on another company board or nonprofit organization is represented by thicker lines. Figure 1 depicts the interpenetrating directorships of WA’s ASX Top 300 companies (red squares) with other Australian ASX Top 300 companies (blue circles); and Figure 2, the interpenetration of directorships between the ASX Top 300 companies (red squares) and nonprofit organizations in WA (green triangles).

Of the 41 WA companies listed on the ASX Top 300, 22 of their directors had connections with 51 companies, 30 of which were in the Eastern states. Three companies had the largest squares: WA Newspapers, Wesfarmers and Woodside. Two of these have the most interlocking directorships: WA Newspapers (10 directors, five from WA companies and five from Eastern states companies) and Wesfarmers (9 directors, two from WA companies and seven from Eastern states companies). Woodside was the next largest square with six links (five Eastern states and one WA). The next level of squares included Iluka (four Eastern states and one WA), Great Southern Plantations (four WA and one Eastern state) and Oceana Gold (two WA and one Eastern state Bank).

Our findings parallel those of Alexander’s (1998) study of the largest 250 Australian companies in 1992. He found that there was a concentration and centralization of big business with the largest public companies at its core. In our network analysis, four of the six
Figure 1. Western Australia Companies in ASX Top 300 with Links to Australian Companies

Square = WA ASX Top 300
Circle = ASX Top 300
Line width: thin = 1 link, thick = 2 links
WA companies with the largest squares or greatest interconnectedness were in the top 10 based on their total assets in millions of dollars in 2006. Two (WA Newspapers, Wesfarmers) of the three central companies were diversified in their holdings; the third one, Woodside, was in the resources sector. Wesfarmers and Woodside were by far the wealthiest companies with more than three times the total assets of any of the others listed in the top 57 companies. Two other companies, Iluka and Oceana Gold were also in the resources sector and Great Southern was a diversified agribusiness investment company. It is interesting to note that five of the six companies had directors with links to either WA Newspapers or Wesfarmers. Oceana Gold was connected to other resource companies and to the National Australia Bank which was the most central of the Australian ASX companies with connections to both Wesfarmers and Woodside in WA and Qantas Airways, nationally. Other resource companies formed their own connections outside the centrality of the big companies.

Figure 2 shows the links between directors in WA companies in the ASX Top 300 with links to WA’s nonprofit organizations and the links that these nonprofits have with each other. Table 1 shows the acronyms for these nonprofit organizations that include health funds, hospitals, cultural, heritage and sporting organizations, foundations, private colleges and universities. There are 18 nonprofits in Figure 3 and all of them have links with at least one of the 16 ASX Top 300 companies. Some had more than one link (thicker lines) producing 35 nodes in total. Great Southern Plantations had the most links, followed by the Home Building Society, then WA Newspapers and Wesfarmers. There are two nonprofits with the greatest number of links: The University of Western Australia (six company directors and five nonprofit directors) was the largest triangle followed by Perth’s International Arts Festival (four company directors and three nonprofit directors). As is evident in Figure 2, most
Figure 2. Western Australia Companies in ASX Top 300 with Links to Other Western Australia Nonprofits

Square = WA ASX Top 300
Triangles = Nonprofits
Line width: thin = 1 link, thick = 2 links
nonprofits have a mixture of links with companies and other nonprofits. The exceptions are two of the smaller triangles that had links with companies but not with other nonprofits: WA Opera Company linked with four companies and Hospital Benefit Fund linked with two companies.

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<th>Acronyms of the Nonprofit Organizations with links to Top companies in WA</th>
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A longitudinal study of the connections among companies and between companies and nonprofits would reveal whether there is a trend toward greater interpenetration as Alexander (2003) discovered with Australian companies. However, there is no research, to our knowledge, which identifies the same phenomenon for the nonprofit and private sectors.

Like Alexander’s (2005) description of Brisbane’s networks as a ‘small world’, Perth is also a ‘small world’ where prominent citizens sitting on the boards of big companies and community organizations are confined to a relatively distinct group of well-known directors. The affiliation networks they create are simultaneously the links between organizations and between their directors. By studying these links in a city like Brisbane, Alexander (2005) suggests that it can be the beginning of a community-power study to identify decision-making elites. The key connectors are people with multiple memberships across a range of boards. In Alexander’s study (2003) of the 250 largest Australian companies, he saw what he called the ‘collectivization’ of Australian business, where the interpersonal networks became broader, more cohesive and more connected and more concentrated in Australia than in the US with a much smaller and more powerful circle of investors working in a smaller capital market. From this study of WA companies headquartered in Perth, a city similar in size to Brisbane, the individuals in the social networks between companies and nonprofits are likely to form its power elite.

From these figures that show the names of the companies as nodes, it is impossible to see their individual composition. However, one of the striking statistics from our study is the dearth of females on these boards. In this group of 231 corporate directors only 14 directors or 6 percent were females. Not only is there a tight circle of elites in WA but most of these are males.
Moore and Whitt (2000) found similar results in Louisville (US) when they researched the most influential positions in nonprofit organizations. They deemed those who sat on three boards simultaneously as the Big Linkers who made up the inner circle of nonprofit board members and built up their ‘board capital’ to have more power in the community. They found that those boards with high budgets and those seen as most prestigious were typically led by men who found they were able to forge valuable social and business ties through these board memberships.

Of growing concern in Australia is the lack of women on boards and WA has the worst record of any of the states with nearly 70 percent of its companies without any female directors. According to the Equal Opportunity for Women in the Workplace Agency (2008), women held only 8.3 percent of board director positions compared with countries like US (14.8%), Canada (13.0%) and UK (11%). A question to pursue in phase two of this study is whether obtaining positions on high profile nonprofit boards might lead to directorships on corporate boards through developing ‘board capital’ and the trust of these mainly men who serve on both boards.

**CONCLUDING DISCUSSION**

Network theory can be a powerful analytic tool in researching governance, especially as it can identify both formal and informal interactions between private and public actors (Fataar, 2006), when the blurring of the public-private divide is a characteristic of this global era. The findings of our network analysis show how board directors of top corporations in the relatively isolated state of WA are interconnected with each other and with the boards of nonprofit organizations through corporate actors holding multiple directorships. Dense governance networks – within the corporate sector and between corporations and nonprofits
Governance networks – potentially provide a conduit for the flow of information, advice and emotional support for risk taking (Hoang and Antoncic, 2003), all of which are ascribed greater importance in a rapidly changing global knowledge era.

Our findings to date raise wider implications for governance networks that should be of interest beyond this particular research site. While we are not intending to generalize, these wider questions are likely to provide ‘food for thought’ in other contexts.

**Advantages of Corporate-Nonprofit Board Networks**

Governance networks between corporate and nonprofit boards could be particularly critical for nonprofit organizations as they increasingly have to compete for scarce funds at a time when governments are trying to reduce the reliance of nonprofits on state revenue. Pusser, et al. (2006) found that universities were reaching out to company directors to assist them with their more complex external environments and for additional resources. In the UK, Deloitte (2011) found that 100 of UK’s largest businesses collectively made community investments of more than £1.4 billion to nonprofits.

For nonprofits, interlocking directorships with top companies can also be a source of human capital, as corporate directors can bring knowledge from the commercial world to improve the effectiveness of nonprofit governance. In a study of business influences on the nonprofit sector, Griggs (2003) found that as governance becomes more complex and multidimensional, nonprofits need to balance their social goals with commercial realities.

It is important to recognize, though, that the benefits of corporate-nonprofit interlocking board directorships are not confined to the nonprofit sector as, for example, corporations can stand to gain reputational and marketing benefits from their work with nonprofit organizations, in particular demonstrating good ‘corporate citizenship’. Therefore, at an initial
glance corporate-nonprofit board interlocks might be seen as a win-win situation for both
types of organizations; however, interlocking directorships might also have the potential to be
counterproductive for good governance.

Disadvantages of Corporate-Nonprofit Board Networks

Considine (2005) reminds us that networks between key actors can both help and hinder
the processes of organizations. Some of the challenges arising from corporate-nonprofit
governance networks are worthy of investigation. First, the existence of interlocking board
directorships between corporate and nonprofit organizations does not necessarily guarantee
the flow of information across these sectors. As Pusser et al. (2006) emphasize, we also need
to ask “what flows across the links?” before we can begin to understand the implications of
governance networks.

A second issue is the extent to which any knowledge that does flow along governance
networks can be successfully transferred from one context to another. Two inherent dangers
emerge from the uncritical transfer of knowledge between different boards. One is the
possibility of greater convergence of governance structures and processes across different
types of organizations, which may well undermine creativity and risk-taking (Nicholson et al.,
2004), which is commonly held as crucial for the development of a global knowledge
economy/society. Another is the potential for a clash of cultures within boards, between
directors who bring different experiences to the table. For instance, if corporate directors on
nonprofit boards do not fully understand the nonprofit’s goals or the greater difficulty of
measuring long term non-economic outcomes (in contrast to the relative ease of measuring
the economic ‘bottom line’), these corporate directors could undermine the effectiveness of
achieving a nonprofit’s long term social goals.
A final issue is that the economic-oriented ideology of corporations and social-oriented ideology of nonprofits are not only different but they are also not equal; there are embedded power differentials between these ideologies. Arguably, economic priorities have taken precedence over social concerns as globalization has accelerated during the last 30 years. The near hegemonic status of neo-liberal ideology – particularly marginalizing social justice ideology – suggests that where corporate and nonprofit interests collide in governance networks, it is more likely that economic concerns will prevail. Vidovich (2007) argues that insufficient attention to power relationships is a weakness of network theory in general, and that while networks have the potential to democratise governance processes, there is also a need to bring more critical perspectives to examining the potential role of governance networks in exacerbating social inequalities.

Social Capital and Trust

Building social capital and trust across different types of institutions in society could be a potential benefit of these interlocking directorships. The concept of trust is receiving increasing attention in the literature. Tierney (2006) offered an extended analysis of the characteristics of trust, building on the earlier work of sociologists Coleman and Bourdieu, explaining that social capital is the foundation for trust. Where social capital is “the actual or potential resources developed within a network of more or less institutionalized relationships of mutual acquaintances” (2006: 83). Tierney constructs a ‘grammar of trust’ consisting of nine frames: a repeated interaction; a dynamic process; an end; an exchange; utilizing faith; taking risk; an ability; a rational choice; and a cultural construction. To briefly elaborate, trust develops over repeated interactions between parties, but conversely, a single interaction can cause trust to be destroyed. It is a dynamic process through which complexity can be reduced because it can enable expectations about what will occur. It can also be an end, in a cyclical
manner whereby the process of trusting can generate an outcome of more trust. It is basically an exchange or a reciprocal relationship between parties which goes beyond a particular event and can be seen as faith that another party will fulfill their part of an agreement. Trust involves taking a risk that another party will do as expected. It is an ability that is learned over time rather than being innate. The last two frames constitute an overarching language to conceptualize trust, with rational choice focusing on how individuals align themselves to a structure, whereas a cultural construction conceives of more fluid social organizations.

Along a similar vein, Van Houtte (2007: 826) synthesized a definition of trust as “confidence that expectations will be met” and delineated five dimensions of trust as competence, honesty, openness, reliability and benevolence. Hoang and Antoncic argued that “trust also affects the depth and richness of exchange relations” (2003: 170), especially when it comes to the flow of information in governance networks. Pusser et al. (2006: 750) argue that interlocking directorships “constitute a form of organizational social capital” that increases trust between board members and across boards, and that the board members’ familiarity and experience with one another in multiple settings increases trust.

In essence, building social capital and trust can help to facilitate effective governance networks between and within different types of organizations. Equally though, when trust is undermined, governance is likely to become less effective and potentially the source of negative consequences (Vidovich and Currie, 2011). Thus, trust is a central concept in turning interlocking governance into long term assets for private and nonprofit organizations. We would hypothesize that building economic and social capital in concert with each other will optimize social cohesion in challenging times, when research is pointing to globalization exacerbating the gap between advantaged and disadvantaged, within and between countries.
Further Research

This study was limited to a particular Australian state at a particular point in time. Although we need to begin with localized patterns of interlocks to gain depth of understanding about governance networks in situ, further research could extend to different contexts. The isolation of WA along with its high reliance on mining as the foundation of its economy (in contrast to a more diversified economy) may well heighten the density of interlocking directorships among companies and also between these companies and nonprofits. Comparative research on governance networks in different jurisdictions is required to develop broader understandings about context-specific variations in governance patterns. Furthermore, longitudinal studies are required to investigate changes in board interlocks over time. Thus, expanding research to different places and times would provide a stronger foundation for theory building.

The next phase of our research examines in more detail the membership and influence of corporate directors on nonprofit boards. The project will provide greater insights into the question of ‘what flows across the links?’ of governance networks (Pusser et al., 2006). Through case studies of nonprofit boards that include corporate directors, we can ascertain the type of intra-board relationships that occur between these private and public actors, the kind of influences the corporate directors bring and their impact on nonprofit governance practices. Harris and Helfat (2007) suggested that a board is a social network unto itself and that intra-board relationships influence critical decisions for organizations. Thus studying intra-board relationships would help understand why boards make the decisions they do. To conclude, we echo the call of Hoang and Antoncic (2003) for more longitudinal and qualitative research on governance networks as well as more theory building.
REFERENCES


