

# EFFECTIVENESS, ACCOUNTABILITY AND UNDERSTANDING BOARD CHARACTERISTICS OF NON-PROFIT ORGANISATIONS IN MALAYSIA

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## ABSTRACT

*Non-profit organisations (NPOs) exist to fulfil the needs of societies that cannot be reached by the government and profit centres. Their ultimate goal is to create social values by solving social problems. In order to fulfil this social mission, it is vital for the NPOs to be effective. NPOs are associated with effective Board of Directors because they are the backbone for organisational success. Of late, there are growing media reports on mismanagement and diversion of NPOs funds. Despite having Board of Directors as trustees in NPOs, mismanagement is still on the rise. Previous findings suggest that NPOs' board characteristics can be divided into two groups - (1) board characteristics that enhance NPOs' effectiveness and (2) board characteristics that reduce NPOs' effectiveness. Hence, this study aims to examine selected board characteristics of Malaysian NPOs. The selected board characteristics are board size, board engagement, board efficiency, board commitment, board with political connection and board professionalism. Using content analysis of NPOs registered under the Companies Commission of Malaysia (CCM), this study finds that, in general, the number of members on the board is seven. Board efficiency and engagement indicate that less than 50% of the members are committed in generating funds for the NPOs. However, results on board commitment indicate that board members are committed in managing their organisations efficiently. In relation to politically affiliated board members and professional affiliation, the results are 44% and 14% respectively. In summary, the findings provide insights on the characteristics of Malaysian NPOs' board members in. It also provides a basis for future research in*

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*examining the influence of board characteristics on effectiveness as well as other areas of concern in NPOs.*

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## INTRODUCTION

Non-profit organisations (NPOs) are generally defined as societies, associations, charities, and other voluntary organisations that are formed for the purpose of contributing to society through their social value creation. Social values refer to specific outcomes which focus on reducing or eliminating unfavourable conditions in order to improve the beneficiaries' economic standards of living (Kroeger & Weber, 2015; Martin & Osberg, 2007; Westall, 2009). It is also perceived as the outcome of solving social problems (Kendall & Knapp, 2000). Amongst issues addressed by NPOs are homelessness, elderly care, youth and unemployed single mothers. In order to fulfil these social missions, it is crucial that NPOs deliver their social services effectively.

Donors and other fund providers place higher trusts on effective NPOs because these NPOs are expected to have higher accountability and deliver higher quality of social services (Ebrahim, 2003; Gill, Flynn & Reissing, 2005; Berg & Månsson, 2011). However, this trust is violated when media reports on ineffective NPOs made the headlines: "*Datuk among 50 quizzed by MACC over funds abuse in Kelantan flood victims' home project*" (New Straits Times, 2016); "*Singapore Pastor arrested for funds for wife's pop career*" (Bloomberg Businessweek, 2012); "*Malaysian Paralympic Council writes off RM3.8m in company run by its President*" (The Sun Daily, 2012); "*Probe into Suaram status*" (The Star, 2012); "*Islamic orphanage centre carried out deviant Islamic teachings*" (Utusan Melayu, 2012); and "*Abuse of Tsunami aid*" (New Straits Times, 2006). These reports have raised concerns from the public on the role of board members in achieving their social mission as majority of the funds were from public donations. Most of these cases were associated with ineffective Board of Directors in managing the NPOs, such as mismanagement of funds, fraud, embezzlement and poor investment decisions by the NPO Board of Directors.

Previous studies provided evidence that various forms of Board of Directors' characteristics influence organisational effectiveness (Bai, 2013; Brown, 2005; Callen, Klein, & Tinkelman, 2003; Horváth & Spirollari, 2012; Newton, 2015; Wellens & Jegers, 2014). For example, Olson (2000) found that larger board size was able to acquire more resources, and, hence, enhance organisational effectiveness. In contrast, Board of Directors without side director ownership (Beasley, 1996), lower board meeting frequency (Horváth & Spirollari, 2012), and politically connected board (Hasnan, Rahman & Mahenthiran, 2013), were found to reduce organisational effectiveness. As such, the above findings highlighted that Board of Directors' characteristics can be divided into two groups: (1) board of directors' characteristics that reduce organisational effectiveness and (2) board of directors' characteristics that enhance organisational effectiveness.

The board characteristics in NPOs are further explained from two organisational theory perspectives. Firstly, managerial diversion theory (MDT), which provides the framework in explaining board members entrenchment effect. This is based on the argument that Board of Directors in NPOs are given less, or in some organisations, nil monetary incentives relative to for-profit organisations. They are more likely to divert their powers into personal rewards or some other benefits (Nichols, 1972, Otten & Heugens, 2008; Werner & Tosi, 1995). Secondly, resource dependence theory perspective (RDT), which proposes the positive attributes of board members in NPOs in promoting organisational effectiveness. In this context, Pfeffer and Salancik (1978) argued that board members' ability to manage organisational resources that can secure organisational survival, can lead to NPOs' effectiveness in delivering their social values. This infers that board member's ability to manage NPOs' dependency on external resources, such as the ability to innovate funding strategy, will enhance the NPOs' competitive advantage as well as sustainable provision of social objectives (Jaskyte, 2012).

In this study, six selected board characteristics of Malaysian NPO board members were examined: Board size, board engagement, board efficiency, board commitment, board with political connection and board professionalism. Hence, the preliminary findings of the study seek to provide more useful insights on the characteristics of Malaysian NPO board members.

The next section of this paper outlines the nature of Malaysian NPOs. The literature includes board characteristics that affect organisational effectiveness and the theoretical concepts associated with the board characteristics. This is followed by the presentation and discussion of study findings. Conclusions drawn from the study are presented in the last section together with suggestions for future research.

## **NON-PROFIT ORGANISATIONS (NPOs) IN MALAYSIA**

NPOs consist of societies, associations and voluntary organisations formed to fulfil public goods demand (Young, 2009). NPOs are also referred to as the third sector organisations, i.e. after public sector and private sector, due to their importance in (1) fulfilling the needs of society, which cannot be satisfied by government organisations and (2) its relevant contribution to the economic growth of the country. For instance, in 2007, the gross domestic product (GDP) of NPOs in Canada made a significant contribution of 7% to total Canadian economy. Another study, by the Centre for Civil Society Studies, revealed that, in 2013, the NPOs in Westchester County, New York, offered the highest job employment as compared to other profit sectors, such as construction, finance and wholesale trade industries, combined.

In Malaysia, there are two main regulatory bodies governing the NPOs, namely the Companies Commission of Malaysia (CCM) and the Registry of Societies (ROS). NPOs that are registered under the CCM are incorporated under the Companies Act 1965 as a company limited by guarantee (CLBG) for which all financial statements must be audited, while NPOs registered under ROS are regulated under the Societies Act 1966 and their financial statements are not subject to audit. However, audit is highly encouraged and usually done by the NPOs on a voluntary basis. Since CLBGs are not subjected to contribution of the share capital, NPOs are obliged to derive their donations or any form of revenue of RM 1 million within six months from the date of incorporation.

The main goal of all the registered NPOs, either under CCM or ROS, is not for profit maximisation but the noble intention of providing social services. NPOs play a major role in assisting the government in providing social services in many areas, such as the environment, humanitarian

aid, animal protection, education, the arts, social issues, charities, early childhood education, healthcare, politics, religion, research and sports (Ow, 2008). Their main source of revenue is from public donations and thus, “the generosity of the donors determines the survival of the NPOs” (Atan & Zainon, 2009). Therefore, high levels of public trust and confidence is a matter of concern in NPOs. According to the National Council for Voluntary Organizations (NCVO) (1996), public trust and confidence are important to (1) ensure public goodwill and maintain or increase support in the form of money and time donations, (2) promote voluntary association and build social citizenship, and (3) develop and maintain the political space in which to operate. Hence, in order to gain public trust and confidence, NPOs are required to be effective because donors and other stakeholders are drawn towards effective NPOs.

## LITERATURE REVIEW

### **Board Characteristics and Non-Profit Organisational Effectiveness**

Prior empirical findings suggested that the board can either influence the effectiveness of NPOs or reduce the effectiveness of NPOs (Aggarwal, Evans, & Nanda 2011; Bradshaw & Hayday, 1998; Callen, Klein, & Tinkelman, 2009; Preston & Brown, 2004). For example, according to Olson (2000), a larger board size promotes board diversity, which, in turn, leads to effective monitoring due to lesser managerial influence (Olson, 2000). Additionally, Pfeffer (1972) mentioned that a larger board size has more control over the external environment and is more able to attract more resources, and, hence, is seen to be capable of increasing organisational effectiveness. This is consistent with the resource dependence theory (RDT) by Pfeffer and Salancik (1978), which highlights that boards manage to secure resources, and, therefore, have the capability to enhance NPO effectiveness. On the other hand, politically connected board is expected to reduce NPO effectiveness. Due to their reputation, politically connected board members feel that should not be seen as failures (Kassem & Higson, 2012), and, therefore, are more likely to be involved in unfavourable activities such as cronyism and lobbying (Bushman, Piotroski, & Smith, 2004; Yu & Yu, 2012). Therefore, the RDT perspective proposes that board characteristics motivate organisational effectiveness in NPOs.

## **Managerial Diversion Theory and Non-Profit Organisational Effectiveness**

Viewed from related literature, managerial diversion exists in several forms such as self-dealing, sell assets to the firm at a higher price or buy assets from the firm at a lower price (non-arms length price), insider trading, embezzlement, high salaries and bonuses to the directors. Likewise, the diversion can also be in the form of facilities and services such as enchanting furnishing, beautiful secretaries, company owned motor vehicle, nepotism (board members are among siblings, relatives or favourable persons) and luxurious and expensive vacations and large expenditure transactions (Bebchuk & Jolls, 1999; Nichols, 1967; Shleifer & Vishny, 1997). Apart from these, Nichols (1967) also stressed that another way of diversion is when Board of Directors may divert the funds to other businesses owned by them. For instance, the report on Malaysian Paralympic (The Sun Daily, 2012) and the Singapore Pastor who used the charity funds to finance his wife's singing career (Bloomberg Businessweek, 2012).

Another form of managerial diversion is using 'spacemen' (Mironov, 2013). According to Mironov (2013), spaceman is a third party to whom the managers channelled the organisational fund for their fake services given. In Mironov's research, the spacemen were found to be the names of homeless people, or individuals who have lost their identification cards or individuals who sold their identification details. Therefore, the board will transfer business fund which looked like genuine payments to these spacemen. However, the study cannot determine as to whether the fund to the spacemen is returned to the board or for the spacemen's own consumption. These forms of diversions lead organisations to be less effective (Rasmusen, 1988) because uncontrolled managerial diversions of for-profit organisations would lead to the decrease in the organisations' profits and shareholders' value (Hovakimian, Li & Li, 2013). In the context of NPOs, managerial diversion would result in lesser or nil amount of the organisations' resources to create social values. For example, Kids Wish Network was declared as the worst American charity because for every one dollar of donation received, only three cents were given to charity whilst 97 cents were diverted to paying the solicitors. Therefore, with the existence of the diversion, organisations will become less effective and, as a result, fail to achieve their noble mission of servicing the society. Sadly, based on media reports, most of the diversions were committed by the board members.

## **Resource Dependence Theory and Non-Profit Organisational Effectiveness**

Effective boards are able to enhance their potential to attract scarce resources to the NPOs. Following this, earlier findings suggested that the resource dependence theory (RDT) is more applicable to the governance of NPOs because this theory explains how these external resources are able to influence the behaviour of board members (Mwenja & Lewis, 2009). According to the RDT (Pfeffer & Salancik, 1978), the focus concerns on how the external environment can influence the survival of an organisation. Organisations depend on the external environment in acquiring and maintaining their resources, enhancing the NPO governance process, and building and creating a good public image in fulfilling their social obligations (Miller-Millesen, 2003). However, this external environmental dependency is high with uncertainties and may jeopardize the survival of the firm. Therefore, this theory contends that an effective board can recognise and modify this dependency on the external environment so that the organisation is able to carry out its mission effectively. The role of the board is to adapt the dependency of the NPO on the external environment which is also perceived as the ability to enhance NPO efficiency. Hence, the perspective of this theory is appropriate in explaining the behaviour of the board in NPOs due to the reliance nature of NPOs on external events i.e. in sustaining their financial strength. For example, NPOs rely on external events to generate their resources, such as grants from government, private donations from corporations or individual donations.

The RDT is also used by researchers in explaining the role of the board in relation to financial vulnerabilities (Trussel, 2002), predicting bankruptcy (Gales & Kesner, 1994), examining compliance with accounting standards, disclosure of information (Verbruggen, Hubrussel, Ugent, & Hubrussel, 2011) and evaluating performance (Hillman & Dalziel, 2003). According to Zahra and LaTour (1987), there are four perspectives that can be used to explain the role of the board: (1) legalistic, (2) resource dependence, (3) class hegemony, and (4) agency theory. Among the four perspectives, resource dependence obtained strong empirical support by researchers.

## **METHODOLOGY**

### **Sample and Data Collection**

The sample consisted of 219 NPOs registered with CCM and had total assets of at least RM500,000 for the financial year 2011. The findings in this study were derived via content analysis of annual reports and Financial Information Forms. Annual reports contain information on board of directors, financial information and the organisational activities whilst the financial information form reports on the details of the organisational expenditure.

### **Board Characteristics and Organisational Effectiveness**

There were six selected board characteristics examined in this study, namely board size, board engagement, board efficiency, board commitment, board with political connection and board professionalism.

#### **Board Size**

Resource dependence theory (RDT) highlights the ability of board members to generate their important resources (Pfeffer, 1972) for organisational survival. Board size can be argued from the RDT perspective as it is a significant variable in controlling external environment (Considine, O'Sullivan & Nguyen, 2014; Davis & Cobb, 2010; Hillman, Withers, & Collins, 2009; Kabongo, Chang, & Li, 2013; Pfeffer, 1972; Verbruggen, Hubrussel, Ugent & Hubrussel, 2011). The concept of bringing pertinent resources into the organisation is relevant in determining the success of organisational effectiveness (Brown, 2005; Considine, O'Sullivan & Nguyen, 2014).

Larger board members with necessary expertise and capabilities are found to have the ability to induce more resources into the organisation (Aggarwal, Evans, & Nanda, 2011; Jensen, 1993; Harris, Petrovits, & Yetman, 2014; Pfeffer, 1972). Due to its ability to generate more resources, the advantages of having large board size are the ability to provide advances to finance their fixed operational costs (Aggarwal, Evans, & Nanda, 2011), likelihood to be independent and, therefore, can provide oversights by board members (Olson, 2000); making difficult financial decision-making (Zahra

& Pearce, 1989), tendency to have a more structured job descriptions that fosters effective board practices (Brown, 2005) and being better fundraisers (Harris, Petrovits, & Yetman, 2014). Although the advantages of larger board size are significant, it is difficult to coordinate larger board and hence, communication problems exist (Harris, Petrovits, & Yetman, 2014; Beasley, 1996). Thus, the board size was examined as a proxy of board characteristics in this study and was represented by the number of directors on the board (Andrés-Alonso, Azofra-Palenzuela & Romero-Merino, 2009).

## **Board Engagement**

The board of NPOs may engage in a variety of roles, such as in fundraising programmes, financial oversight, evaluating the CEO, planning and monitoring programmes, set organisational policies, and monitoring board performance. Furthermore, previous literature identified fundraising as an important element to attract more resources into the organisation (Callen, Klein & Tinkelman, 2003) and thus to promote organisational effectiveness. Without enough resources, NPOs cannot fulfil its mission and vision. Hence, board members need to be successfully engaged in the fundraising programmes to ensure sufficient resources are acquired. However, according to Ostrower (2014), only one third of the board took part in fundraising activities. This is due to lack of awareness among the board members on the importance of fundraising (Scaife, Williamson, & McDonald, 2013). In order to measure the board engagement in terms of fundraising roles, it is represented by programme expenses divided by total expenses (Epstein & McFarlan, 2011). The efficiency of the board in fundraising roles can be detected if the programme expenses are less than other expenses.

## **Board Efficiency**

Board competencies are generally associated with the human capital attributes possessed by the board members such as commitment, knowledge, skills, motivation and loyalty. These various attributes were evidenced to positively influence human capital efficiency in various forms of organisational strategies, i.e. the efficiency of the organisation; the value creation of the organisation; and the competitive advantage as well as performance (e.g. Barney, 1991; O'Donnell, 2009). This implies that board members can enhance their ability to take advantage of market

opportunities as well as to reduce potential threats effect. Similar to a study done by Holland and Jackson (1998), board efficiency in this study is measured by dividing the total revenue with the number of Board of Directors in the organisation.

### **Board Commitment**

NPOs are susceptible to various negative events such as embezzlements, mismanagement and diversions because their survival is based on public trust and compassion (Anne & Minogue, 2009). As such, a high level of accountability by the Board Of Directors is highly demanded. Bell (1993) suggested that board commitment is one of the important criteria to enhance accountability. The review of the board commitment literature found that board commitment is strongly associated with effective board (Axelrod, Gale, & Nason, 1990; Axelrod, 1994; Bell, 1993; Bright, 2001; Chait, Holland, & Taylor, 1996; Duca, 1996) and board effectiveness is the source of organisational effectiveness (Jackson & Holland, 1998). Preston and Brown (2004) posited that, in NPOs, board members' emotional commitment is positively related to organisational performance. Programme support or charitable commitment can be measured using the percentage of total expenses spent directly for the charitable purposes to total revenue in order to fit this study (Epstein & McFarland, 2011). Evidence of committed board in the organisations can be identified when the expenses are less than the revenue obtained as they were committed in focusing on the community needs and interests.

### **Board with Political Connection**

Political connected board refers to Board of Directors who are directly involved in politics or have other political connections and possess monopoly power or externalities (Shleifer, 1998). Politically connected board is seen to be able to enhance organisational value because they can attract more donations into the organisation (Goldman, Rocholl, & So, 2009) and can influence stock prices (Claessenset, Feijen & Leaven, 2006; Goldman, Rocholl, & So, 2009). However, most of the studies on politically connected board provide unfavourable findings. Based on the earlier findings, politically connected board were found to be involved in lobbying and cronyism as a favour of bribes, nepotism and political support

and, therefore, they exploited their controls over regulations (Bushman, Piotroski, & Smith, 2004; Yu & Yu, 2012). This is due to the reputation or status that the politically connected board holds and that the board is unable to appear as a failure (Kassem & Higson, 2012). Another example from Chen, Fan, and Wong, (2004) is that most of the non-performing organisations were managed by politically connected board as they preferred to engage in earnings management.

Helmig, Ingerfurth, and Pinzl, (2014) argued that in spite of proven as being ineffective and failed to accomplish the social mission, NPOs with politically connected board will still survive. This is because organisations, which consist of political connection board, are perceived as favourable organisations by the respective government and usually receive government assistance during financial crisis (Faccio, Masulis, & McConnell, 2006; Gul, 2006). Therefore, in order to get the assistance or support, politically connected board would be involved in corporate lobbying strategy (Yu & Yu, 2012). As a result, organisations that are managed by politically board members incur higher expenditure due to higher costs of lobbying and, subsequently, suffer higher level of debts (Chiu & Joh, 2004; Cull & Xu, 2005; Johnson & Mitton, 2003).

In this study, a board member is defined as being politically connected if he used the title of Tun, Dato' Sri, Puan Sri, Dato', Datin, Datuk, etc. The measurement used for boards with political connection in this study of NPOs is using the percentage of the Political Board Of Directors over the total number of directors. This method is similar to a study by Callen, Klein, and Tinkelman, (2003) where the background of the board members was collected from annual reports and analyzed into several categories including well-known individuals.

## **Board Professionalism**

Professionalism is defined as 'behaviours, aims or traits that typify a profession or a professional person' (Aramesh, Mohebbi, Jessri, & Sanagou, 2009). Board with professional background is anticipated to contribute new ideas, enhance creativity in problem solving and has a broad knowledge in a specific area (Hwang & Powell, 2004). In line with RDT perspective, a board with this profile would be able to generate its own resources without

external dependency (Pfeffer, 1972). Additionally, professional board status has greater access to control over organisational information (Kramer, 1985) and this leads to better board governance practices that can influence organisational effectiveness (Carpenter & Westphal, 2001).

Board with professional members are able to contribute on strategic directions of the NPOs that are pertinent to creating social values (Mwenja & Lewis, 2009), provide competitive advantage (Considine, O’Sullivan, & Nguyen, 2014), and has the ability to enhance stakeholders’ values (Garratt, 2003). As such, professionalism is derived from professional background of board members who possessed professional affiliation. The total number of board with professional background will be divided by the total number of members on the board. The definition and measurement of the selected board characteristics as highlighted earlier is summarised in Table 1.

**Table 1: Definition and Measurement of Board Characteristics**

Board Characteristics	Measurement	References
Board Size	Total number of board of directors.	Andrés-Alonso, Azofra-Palenzuela and Romero-Merino (2009); Brown (2005); Considine, O’Sullivan and Nguyen (2014); Harris, Petrovits and Yetman (2014)
Board Engagement	Programme expenses divided by total expenses	Epstein & McFarlan (2011)
Board Efficiency	Total revenue to total number of board members	Barney (1991); O’Donnell (2009)
Board commitment	Percentage of total expenses directly incurred for the charitable purposes to total revenue	Epstein & McFarlan (2011)
Board with political connection	Percentage of board members with political connections to total number of board members.	Hasnan, Rahman and Mahenthiran (2013); Helmig (2014)
Board professionalism	Percentage of board of directors with professional affiliations to total number of board of directors.	Considine, O’Sullivan and Nguyen (2014); Mwenja and Lewis (2009)

## FINDINGS

The data reported in Table 2 highlights the findings based on descriptive statistics of the selected board characteristics.

**Table 2: Descriptive Statistics of Selected Board Characteristics**

	Min	Maximum	Mean	Std Deviation
Board Size	2.00	50.00	7.2714	6.0474
Board Engagement	0.00	1.00	0.4512	0.38254
Board Efficiency (RM)	0.00	35,116,392.40	7.11194.48	2.650027.94
Board commitment	0.00	1.00	0.6667	0.4724
Board with political connection	0.00	1.00	0.4429	0.3610
Board professionalism	0.00	0.83	0.1438	0.1969

From Table 2, the value of mean for board size was found to be 7.2714 which indicates that the board size ranged from a minimum of 2.00 to a maximum of 50.00 with an average of 7 persons. The mean value of 7 is considered as fairly small board size but past literature suggested that it is preferable in order to enhance organisational effectiveness (Andrés-Alonso, Azofra-Palenzuela, & Romero-Merino, 2009; Brown, 2005; Considine, O'Sullivan, & Nguyen, 2014; Harris, Potrovits, & Yetman, 2014). For instance, large board may have communication problem among the board members and in turn reduce timely decision-making process.

The descriptive statistics on board engagement found that the mean is 45.12 per cent (%), from the range of 0.00 to 1.00. It infers that most NPOs had used fundraising to meet the stakeholders' need and interests. However, it is relatively low and can be associated with lack of awareness among the board members on the importance of fundraising (Scaife, Williamson, & McDonald, 2013). The recognition and promotion to be more financially independent by the NPOs in Malaysia has recently began in mitigating the current diminishing unrestricted funding coupled with increasing demand for social services.

Board efficiency's mean value of RM7.11194.48, ranges from RM0.00 to RM36,116,392.40. The mean value of board with leader support and commitment is 0.6667 with a minimum value of 0.00 to

maximum value of 1.00. These results indicate that the board members have the capability in enhancing organisational effectiveness. It is expected that with the right promotion and capability building by the relevant authorities in Malaysia, the non-profit sector can play a more significant role in enhancing the socio-economic development of the nation.

Finally, Table 2 reported that mean value of board with political connections is 0.4429 with minimum score of 0.00 to maximum score of 1.00. The mean value of board with professional affiliation is 0.1444 with minimum value of 0.00 to maximum value of 0.83. Overall, the findings indicated that some NPOs have 100% board members with political connection whilst others have 100% board with leader support and commitment. The results also highlighted that some of the NPOs have 83% board members with professional affiliation. These board characteristics are valuable to the NPOs. Through their strategic networking politically and/or professionally, they will be more able to manage the external environment affecting their organisations. For example, politically connected boards are perceived as more favourable organisations by the respective government and usually receive government assistance during financial crisis (Faccio, Masulis, & McConnell, 2006; Gul 2006).

## **CONCLUSION**

Effective organisations are highly associated with effective board members. Hence, the main objective of this study is to examine selected board characteristics of Malaysian NPOs that influence organisational effectiveness. Drawing from past studies, Board of Directors' characteristics can result in positive or negative influence on organisational effectiveness. Hence Board of Directors' characteristics can be divided into two categories (1) Board of Directors that can enhance organisational effectiveness and (2) Board of Directors that can reduce organisational effectiveness. Managerial diversion theory (MDT) suggests that the board has diverted their main intention of creating social values into personal gain and therefore this will reduce organisational effectiveness. In contrast, resource dependence theory (RDT) argues that board is able to enhance organisational effectiveness

because they can bring in more resources into the organisation since they have control over external resources. This study provides preliminary findings on selected board characteristics that influence organisational effectiveness. Six types of selected board characteristics were examined in this study, based on the sample size of 219 NPOs that are registered under CCM and ROS. The study found that the average number of board members is seven. While other board characteristics, such as board efficiency and engagement, are reported as less than 50% of board members being involved in generating funds for NPOs. Nevertheless, the findings indicated that board members in NPOs are committed in managing their organisations effectively. Additionally, the results found that 44% of the board members are politically connected whilst only 14% of the total board members have professional affiliations. Overall, the findings indicate that board members of Malaysian NPOs can potentially add value to organisational effectiveness and in turn relevant social impact to the beneficiaries.

The findings on this study provide valuable insights on the board characteristics of NPOs in Malaysia. However, this study focused only on preliminary findings. Therefore, there is a need to examine other board characteristics such as board tenure, experience and gender in future research. In addition, future studies should incorporate other research methods such as interviews and in depth case studies that may contribute to a more meaningful analysis of board characteristics and organisational effectiveness.

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