

**Racial Diversity and Organizational Performance
In the U.S. Nonprofit Sector**

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Abstract

Nonprofit organizations play an essential role in the American safety net, providing for basic needs and essential social services in diverse communities throughout the United States. Despite shifting demographics in the American population, nonprofit social service organizations remain surprisingly unrepresentative of the communities they serve. As such, nonprofits are facing increased demands for diversifying their boards, as the commitment to diversity is believed to begin at the top. At the same time, nonprofits face increased pressures for performance from their funding entities as well as the public. Using a mixed-method explanatory sequential design, this paper combines quantitative and qualitative data to fill a critical gap in the research related to nonprofit performance. Relying on data from a national survey, this paper first presents an analysis demonstrating a statistical link between racial diversity on nonprofit boards, and both objective (financial) and subjective (self-reported) measures of performance. The underlying mechanisms of the diversity-performance relationship is further elucidated through a multi-case comparison, based on document analysis and interviews with nonprofit CEOs and board chairs. This research has important implications for informing the funding community, including government agencies and foundations, about the tangible, measurable value of diversity, which may lead to more strategic investment of resources in charitable organizations.

Practitioner Points:

- Nonprofits lacking in diversity are constrained in their ability to access new resource networks, to formulate effective organizational strategies, and to market their services to diverse populations, all of which serve to limit organizational growth.
- Government organizations, foundations, and other institutional sources of funding that make grants or issue contracts to nonprofit organizations should take into account the diversity of nonprofit boards and executive leadership when awarding funds to these organizations. This analysis offers evidence that nonprofits with greater board diversity have greater sustainability and financial performance.
- Nonprofit leaders should work with their board chairs and executive leadership teams to examine the organization's diversity practices. Organizations should make it a priority to recruit for racial diversity at the board level, which can help to shape policy for the rest of the organization's diversity policies and practices. In places where nonprofits are challenged to recruit for racial diversity based on demographics of the region, nonprofits should strive to achieve other kinds of diversity on their boards.

Introduction

Nonprofit social service organizations play critical roles in communities across America, filling gaps in the social safety net by providing food, clothing, housing, and other basic needs, as well as job training, health care, family planning, mental health, and substance abuse treatment, among other services. Political theories of representation along with evidence from the human services literature suggest institutions providing these services are more likely to be viewed as trustworthy and their services more fully utilized when the staff and leadership of these organizations are racially reflective of the communities and clients they serve (McBeath et al 2014; Meyer & Zane, 2013). Yet, there is evidence that both staffing and leadership in these organizations remain surprisingly under-representative. Today's nonprofit workforce is roughly 82 percent white, and the lack of diversity is even more pronounced in nonprofit governance, where only 14 percent of board members nation-wide are people of color and roughly 30% of nonprofit service organizations lack a single board member of color (Schwartz et al, 2013).

With the demographic composition of the American population rapidly shifting, nonprofit organizations are facing increased demands for diversifying their boards. Many major foundations now require grant applicants to submit data on the racial composition of their boards, conveying a normative, institutional belief about the value of diversity. However, there is no clear articulation from foundation executives or program officers of why diversity matters. Indeed, many community-based organizations are "identity-based" meaning they are formed on the basis of a particular group identity such as race or ethnicity (for example, Asian Health Services, Arab-American Family Services, etc.), or form in order to serve a specific neighborhood or community that is predominantly inhabited by residents of a particular ethnic or racial group. This begs the question whether diversity itself is important for nonprofit performance, or whether simple proportional demographic representation should be the goal, as

political and public management theories of representation have suggested. Demographic representation in agency leadership has long been perceived as an important objective that public-serving organizations should strive for, on the assumption that such representation not only adds substantive value to the decision-making and governance process of the organization, but also carries symbolic importance, signaling to clients and community stakeholders the organization's commitment to under-represented people.

At the same time that nonprofits face increased demands for diversifying their boards, they have also encountered increased pressures for performance in recent years, both from their funding entities such as government and foundations, as well as the public. While government funding agencies and major foundations have expressed concern with the racial composition of their nonprofit contractors or grantees, they are arguably even more concerned with ensuring that their investment of public money or philanthropic dollars will yield satisfactory returns. As the nonprofit sector has grown and there are more organizations vying for limited government and foundation funds, the expectations for those receiving these funds to demonstrate strong performance outcomes has increased dramatically.

Clearly, diversity is not limited to race and ethnicity and measures of organizational performance are not limited to the financial and perceptual measures used to operationalize performance in this analysis. That said, this study takes an important first step toward empirically examining the link between diversity and nonprofit organizational performance, as measured by two key financial metrics as well as self-reports of performance by agency administrators. Drawing upon theories of representation and requisite variety, the aim of this research is to answer the following key questions: Does increased racial diversity on nonprofit boards enhance the performance of these organizations? If so, how? In other words, what are the underlying

mechanisms at work that may cause diversity to influence performance?

These questions are answered using a mixed-method explanatory sequential design, involving two phases. Phase I employs survey data from a random sample of nonprofit social service organizations across the US. Multivariate regression is used to examine the effects of racial diversity, along with organizational-level controls, on three measures of organizational performance: 1) percent change in revenue over a five year period, 2) percent change in organizational assets over a five year period, and 3) a seven-item index capturing administrators' perceptions of organizational performance. Results suggest that racial diversity on the board positively predicts not only self-reported measures of organizational effectiveness, but financial measures of performance as well. Phase II involved collection of qualitative data through an examination of nine organizational cases representing categories of no diversity, some diversity, and high diversity boards. The case analysis both confirms the quantitative results, but more importantly helps to answer the *how* and *why* questions about the diversity-performance link.

The next section of this paper will examine some of the theory that grounds the logic of this study, and reviews relevant literature. A discussion of the data, measures, and methodological approach is presented next, followed by a description of the results from the data analysis. The paper concludes with a discussion of the implications of the research findings and some proposed next steps for continued research into this important area of study.

Impacts of Diversity on Organizational Outcomes: A Literature Review

There have been few empirical studies examining the effects of racial diversity in nonprofits, although diversity has been considered by scholars with greater frequency than representation. Studying United Way funded agencies in Arizona, Daley and Marsiglia (2001) found that board diversity contributed to effective community problem solving and improved the

effectiveness of program/intervention design and implementation, although their definition of diversity was not linked to racial characteristics of clients served by the organization. Similarly, Brown (2002a) found that nonprofit board diversity contributes to enhanced organizational performance, especially in the area of political orientation, concluding that “racially diverse boards will be more sensitive to the interests and concerns of stakeholders.” (p. 17). Nonprofit board diversity is also considered to be an important goal of many nonprofit directors, but achieving diversity rests on organizational efforts to embrace inclusive governance practices and to take affirmative efforts to attain it (Brown 2002b).

There is a robust body of literature within the field of business management that brings evidence to bear on the ‘value in diversity’ argument. Among for-profit businesses, greater racial diversity on boards found to be associated with increased sales revenue, more customers, greater market share, and greater relative profits (Herring, 2009). In the banking industry, racial diversity on boards of directors has been linked to improved firm performance as measured by productivity, return on equity, and market performance (Richard, 2000). Similarly, team diversity has been found to be linked to performance of sales groups in the private sector (Jackson & Joshi, 2004). On the other hand, a meta-analysis by Kochan, et al (2003) found no direct effects of diversity on performance, but rather it may be aspects of the organizational context and group processes that account for diversity-performance relationships.

Theories of Diversity and Representation

While some theoretical perspectives such as the contact hypothesis and heterogeneity theory actually point to adverse effects of diversity on organizational functioning, the theory of complex adaptive systems, and its related assumption of requisite variety, provide important

theoretical lenses through which to view the positive impacts of racial diversity on nonprofit performance. Complex adaptive systems (whether biological species, psychological systems, sociocultural systems, or organizations) are open to energy or information, and they are open "internally" as well as externally such that the interchanges among their components may result in significant changes in the nature of the components themselves, with important consequences for the system as a whole (Weick, 1979; 1981). Complex adaptive systems require system variety in order to evolve. When limitations in systems occur, it is because the humans who operate and manage complex systems are themselves (as a group) not sufficiently complex to sense and anticipate the problems generated by those systems. This creates a problematic lack of requisite variety, because the variety that exists in the system to be managed exceeds the variety in the people who must regulate it (Ashby, 1956). When people have less variety than is requisite to cope with the system, they miss important information, their diagnoses are incomplete and their remedies are short-sighted and can magnify rather than reduce a problem.

Drawing from these lines of theory, nonprofit organizations can be viewed as complex adaptive systems, in which the variety that often exists in the system to be managed (organization or community) exceeds the variety in the people who must regulate it (the board). Diversifying an organization at the board level can increase the inherent variety in the system, and thus increase overall intergroup and interpersonal contact; as this variety grows this increased contact allows the organization to buffer against both internal and external complexities, decreases conflict, and promotes creative synthesis, allowing the structuring and re-structuring of an organization (whether knowingly or unknowingly) to aid in survival and evolutionary potential.

As the policy-making and oversight body of nonprofit organizations, board members often have substantial influence in setting organizational goals and priorities, and in determining how resources will be allocated to meet those goals. However board members bring different values, functional expertise, and social connections to their board role, and thus there are likely to be differences of opinion when it comes to setting organizational priorities. Thus, the composition of the board may be critical to determining nonprofit organizational performance.

Theories of representation also offer some insight into the positive benefits that racial representation may have for nonprofit organizational performance. Most of this research examining the effects of racial representation has been concerned with how the representation influences the accrual of benefits to the represented group, rather than the impacts of representation on organizational *performance* (for an important exception, see Pitts (2005) who examined both representation and diversity impacts on public organizational performance). The research is instructive however, in demonstrating that representation matters. A compelling body of evidence linking passive to active representation in public organizations demonstrates that demographic representation makes a clear difference in the enactment of policies designed to benefit specific groups (Wilkins and Kaiser, 2006; Kelly and Newman, 2001; Hale and Kelly, 1989). Some research for example, has demonstrated that when organizational structures permit higher levels of administrative discretion to those directly carrying out the work of the agency, policy outcomes favoring minority interests are more likely to result (Meier and Bohte, 2001; Sowa and Selden, 2003).

Racial representation among nonprofit boards may also have tangible consequences yet there has been far less research pertaining to these issues in the nonprofit sector. One study

directly examined the impact of racial representation of the African American community on nonprofit boards, and found that it led to higher levels of political advocacy and political effort on behalf of client groups by the organization, including registering and mobilizing clients to vote (LeRoux, 2009). However, the decisive evidence from the political science and public management research demonstrating the link between active and passive representation (Welch and Bledsoe; 1988; Sowa and Selden, 2003; Meier and Bohte, 2001; Meier, 1993) suggests that representation may bring broader organizational benefits as well. Thus, while there has been a general shortage of representation research in the nonprofit field, this large body of representation theory and research findings suggests that racial representation may result in similar kinds of benefits for nonprofit social service organizations and the clients they serve.

Based on these previous research findings related to the impacts of diversity on organizational performance, and following the logics of requisite variety theory and representation theories, it is hypothesized that nonprofits with greater racial diversity on their boards will fare better over time, as measured through both objective and subjective performance measures. We will now turn to a discussion of the methodological approach.

Methodology

This study employs a mixed-method explanatory sequential design, which is an appropriate methodological choice when one data source may be insufficient to explain certain phenomena or a need exists to explain initial results (Creswell and Plano Clark, 2011). The analysis was conducted in two phases. Phase I involved the collection and analysis of quantitative data which enable answering the question of whether and to what extent racial diversity is linked to nonprofit performance. Phase II involved the collection of qualitative data driven by the results of the first stage, and allows us to answer the questions of *how* and *why*

diversity affects organizational performance. As the research took place in two distinct phases, the discussion of the data, measures, and analytic procedures will be organized into two sections.

Data, Measures, and Analytic Procedure (Phase I)

The first phase of the study relied on a subset of data from the National Nonprofit Organizational Studies Project. The National Nonprofit Organizational Studies Project is a multi-module, web-based survey administered to Executive Directors of human service organizations that spanned the weeks of late 2012 and early 2013. The sampling frame was constructed using NTEE codes, with a common core of questions administered to all participants and varying question modules administered to different groups across the full sample. This study analyzes the subset of respondents who were administered the governance question module. Respondents are all Executive Directors or CEOs of 501c (3) nonprofit organizations with a primary mission of mental health, housing, workforce development, and family planning. The method for administering the survey conformed to standard research procedures for internet surveys (Dillman, 2008). Each respondent in the study sample received an initial letter through U.S. mail which introduced the study and provided details about how to participate. Each potential respondent was then sent an e-mail approximately one week later with a unique link to access and complete the survey. Multiple e-mail reminders were sent to non-respondents over an eight week period. The final response rate was 37% (n=241).

Measures

Dependent variables: Three dependent variables are used to measure nonprofit organizational performance: 1. Percent change in total *revenues* over the five year period leading up to the capture of the survey data (2006-2011), 2. Percent change in total *assets* over a five year period (2006-2011) and 3. An index comprised of seven items measuring the ED/CEOs

perceptions of organizational effectiveness. The data used to create the first two variables were obtained independently from the organizations, using the 990 reports publicly available in Guidestar. The third variable was created from a series of the survey questions asking respondents to rate the effectiveness of their organization on a scale of 1 to 5 (1= not at all effective, 5= completely effective) on seven different items: Achieving our core mission, making strategic decisions, increasing our organization's funding, meeting funders' performance expectations, raising public awareness of our cause using social media to communicate with our stakeholders, influencing policy or government decisions (local, state or national) that pertain to our mission. These seven items were combined to create an index capturing the EDs perceptions of organizational effectiveness ($\alpha = .708$). Given the widely varied methods for measuring organizational performance across the nonprofit literature, many scholars have emphasized the fact that performance is multidimensional and thus encourage the combining both objective and perceptual measures (Brown, 2000; Herman and Renz, 2004; Sowa, Selden and Sandfort, 2004). The measures used in this analysis adhere to this advice.

Independent variables: The key independent variable of interest in this study is racial diversity. Racial diversity on the board is calculated using an inverse Herfindahl index, which ranges from 0 to 1, where 0 equals no diversity, and 1 would indicate equal representation of each of the 5 racial groups inquired about on the survey (Black/African American, Hispanic, White, Asian/Pacific Islander, and Other/Mixed Race). The measure was created from a Hirschman-Herfindahl index, which is commonly used to measure revenue concentration in nonprofit studies (Fischer, Wilsker and Young, 2011), and is calculated by summing and squaring the proportion of each of different revenue sources reported by nonprofits (government, private contributions, commercial/earned income, etc.). Using this measure, values closer to zero

signal greater revenue diversity and values closer to 1 reflect greater revenue concentration. The same method was used to calculate racial diversity; however, the index was reversed in order to make the interpretation more straightforward. After the proportions of each different racial group were squared and summed, the scale was reversed by subtracting the HHI from 1.0, so that values closer to zero reflect greater racial concentration and values closer to 1 reflect greater diversity.

Six control variables are included in each model. One captures an individual-level attribute of the EC/CEO which may have a bearing on organizational performance. This is education level of the ED/CEO, which is measured as 1= high school diploma / GED, 2= some college, 3= bachelor's degree, 4= master's degree, 5= doctorate/JD. Four additional control variables tap into organizational attributes that may all positively influence performance: age of the organization, which can be considered a measure of stability, whether the ED/CEO founded the organization, which is sometimes linked with organizational growth (Block and Rosenberg, 2002), number of full-time equivalent employees which is a common indicator of overall of resources and capacity, and whether or not the organization is a member of its state nonprofit association, yes=1, no=0. Nonprofit associations function as important institutional influences on their members, as they function as vehicles for the dissemination of important policy and regulatory information and help to diffuse best practices throughout the sector. A final control variable is per capita income of the county in which the nonprofit is located, and this measure attempts to capture the quality of the resource environment. Presumably, nonprofits located in regions with higher incomes will have a higher probability of growing their budgets over time, and particularly the portion of income that comes from public support. Descriptive statistics for each of variables are presented in Table 1.

[Table 1 here]

Method of analysis

Given that all three dependent variables are continuous, all models are estimated using ordinary least squares regression (OLS). Robust standard errors are used to correct for heteroskedasticity common in cross-sectional analyses. We now turn to a description of the methods involved in the second phase of data collection and analysis.

Data, Measures, and Analytic Procedure (Phase II)

The second phase of the study involved a multiple case study. Nine nonprofit organizations, each representing a discrete case were purposively selected for analysis, three organizations in each of three categories representing 1) no diversity, 2) some diversity, and 3) high levels of diversity. No diversity is defined as having an all-white board of directors. Some diversity is defined as having a board with at least some representation by racial minorities – greater than zero but less than 20%, and high diversity is defined as having a board in which racial minorities are represented at levels of greater than 20% of the board. These organizational cases were selected from within the large central cities of Chicago and Detroit, along with two rural counties in Illinois and Michigan in an effort to ensure geographic diversity and account for variations in diversity levels within the local population. All organizations are 501(c)(3) human service providers with missions similar to those studied in Phase I.

The analysis of these nine cases relied on multiple data sources, publicly available financial statements, annual reports, websites, and personal interviews with Executive Directors and/or board members of these organizations. A total of 14 interviews were conducted across the nine cases, with at least one interview for each organizational case, and two organizational representatives participating in interviews for five of the cases. Among those interviewed, five were men, and nine were women, three were African American, one Latino, one Asian and the

remaining nine Caucasian. Interviews followed a semi-structured format with questions pertaining to board recruitment strategies, priorities, and challenges, along with question that relate directly to respondents' perceptions of diversity impacts. Interviews lasted anywhere from 30 to 90 minutes. Each interview was recorded and transcribed.

Method of analysis

The interview data were analyzed using the process of open coding prescribed by Glaser (1992), adhering to the procedure of coding for relevance with respect to conditions, interactions among the actors, strategies and tactics, and consequences (Strauss, 1987). Two individuals independently analyzed each interview transcript and identified concepts within various conditions, with the charge of searching for consistency of concepts among respondents' reports. Independent analysis of the transcripts and intensive analysis resulted in the emergence of three broad explanations relating to the question of why and how diversity impacts performance. These three themes distilled from the interview data help to shed light on the causal mechanisms at work beneath the diversity-performance linkage, and will be discussed in detail in the results section below, following the results of the quantitative analysis.

Results

The first purpose of this analysis was to determine whether racial diversity at the board level has any effect on nonprofit organizational performance. Does diversity matter for organizational outcomes? Table 2 displays the results of the Phase I analysis and provides some answers to this question.

[Table 2 here]

The results presented in the first column of Table 2 show the impact of racial diversity on total revenue growth (percent change in organizational revenues over a five year period). Racial

diversity on the board has a positive, statistically significant effect on increase in organizational revenues, ($p < .05$). For each unit increase in the nonprofit diversity index, organizational revenues increased by 49.3%, holding all other variables constant at their means. The current ED being a founder of the organization is also a factor that help to explain nonprofits' increase in revenues over time. When the ED is the founder of the organization, revenues increase by roughly 6.5% per year ($p < .01$). Executive Directors who are founders are typically powerful personalities who invest considerable time and energy in resource acquisition for the organization, both on and off the clock. These factors together account for 16.7% of the total variance in the model, as none of the other variables achieve statistical significance.

The results displayed in the second column of Table 2 reveal a similar effect of racial diversity on financial performance, when performance is measured as percent increase in organizational assets over a five year period. For each unit increase in the nonprofit diversity index, organizational assets increase by 95.2%, holding all other variables constant at their means ($p < .10$). When organizations hold a membership in their state nonprofit association, assets increase by 40.4% per year ($p < .05$). Nonprofit associations are important institutions for professional networking, capacity-building, peer learning, and disseminating and promoting best practices, and nonprofits that belong to these associations have significant growth advantages. The education level of the ED also accounts for some of the explanation of asset growth; for each unit increase on the ordinal-ranked education scale, organizational assets increase 44.9% ($p < .01$). Somewhat unexpectedly, organizational age is negatively associated with asset growth, with each year of age causing assets to decline 1.2% ($p < .10$). Collectively, these factors account for 10.9% of the variance in the model explaining nonprofit asset growth.

Finally, the results also show racial diversity to be a key factor in explaining administrative perceptions of organizational effectiveness. The results shown in column 3 of Table 2 show that for each unit increase in the board diversity measure, the ED's perception of organizational effectiveness increases 2.36 units ($p < .05$). Organizational size is also a positive predictor of administrative perceptions of effectiveness, with each additional full-time equivalent employee linked to .003 on the effectiveness index. ($p < .01$). Two additional variables achieve statistical significance, but have opposite effects than predicted. First, education level is negatively related to ED perceptions of performance ($b = -.841$; $p < .10$), suggesting that leaders with lower educational attainment tend to view their organization's performance more favorably than those with more education. Similarly, organizational age is negatively associated with ED perceptions ($b = -.021$; $p < .10$), meaning that ED's of older organizations are likely to rate their performance more critically than those of younger organizations. While the explanation for these counterintuitive findings is not entirely clear, one possibility is that the education and organizational age measures are tapping into professional experience, with newer, or less well-established organizations being directed by ED's who have not (or not yet) achieved higher levels of educational attainment. Taken together, these factors account for 9% of the total variance in the model predicting ED perceptions of organizational effectiveness.

The statistical significance of the racial diversity variable across all three models provides consistent evidence of a positive link between board diversity and nonprofit organizational performance. Clearly, racial diversity on the board is not the only factor that drives nonprofit performance. And organizational performance is multi-dimensional, so financial growth and executive self-reports are not the only (and perhaps not even the best) ways to measure it. That said, this is the first known study to combine objective and subjective measures of performance,

and establish a statistical link between racial diversity and these measures. Thus, this study succeeds in answering affirmatively the first research question “Does increased racial diversity on nonprofit boards enhance the performance of these organizations?” We now turn to the results of the second phase of the study to gain greater understanding of the dynamics at work when diversity exists on nonprofit boards, and to examine the answers to the questions of how and why diversity advantages nonprofit growth and performance.

Results Phase II

Before turning to the discussion of the causal mechanisms underlying the diversity-performance link, it is important to note the extent to which the nine organizational cases confirm the findings of the statistical analysis. The performance of the nine cases is generally consistent with the patterns that emerged from the Phase I study, with some important caveats and qualifiers. Analysis of 990 forms and annual reports (years 2012-2015) reveal that two of the three “high diversity” organizational cases experienced the greatest revenue growth of all nine cases, while the third had minimal growth. When the interview subjects at these high growth cases were asked about the causes, responses tended to focus on specific grants they were awarded or other resource opportunities that arose. When prompted about the role of the board in the organization’s financial success, respondents emphasized specific skills or connections or status held by board members, rather than race or any other type of diversity.

Among the “some diversity” cases, one had impressive growth, and two essentially remained stable, neither gaining nor losing a significant amount of income over the past few years. Among the “no diversity” cases, one had reported a loss of revenue on form 990 over two of three years, one remained no-growth/budget-stable, and one demonstrated significant financial growth. Worthy of note is that two of the three “no diversity” cases were situated in more rural

locales with very small non-white populations. The “no diversity” organization with high revenue growth is situated in a county that is 95% white and thus faces an unusually narrow prospect of having persons of color represented on the board. However, what is interesting about this case is that before any questions about board diversity were asked, the ED spoke with pride of her efforts to achieve gender balance on her board, commenting that ten years ago the board had been made up entirely of men but she had succeeded in reshaping the board into 40% women. She also discussed recent efforts to bring some younger people (mid-thirties) on to the board in an effort to capture some new skills and different generational perspectives. This suggests that perhaps diversity in general is the key and that all types of diversity are important, so nonprofits situated in regions with low levels of racial diversity should strive to attain diversity of other kinds on their boards (gender, age, sexual orientation, functional diversity, etc.)

Interview subjects representing all three categories of “high diversity” to “no diversity” organizations consistently reported that recruiting for specific skills to the board was their first priority, and that demographic diversity was a secondary consideration. A respondent from one of the “no diversity” organizations made a comment that was reflected by many others:

“We look for different professional backgrounds, for us that’s the most important thing”. Another respondent from one of the “some diversity” organizations stated,

“We’re a small board, a working board, so a lot of times for us, it comes down to replacing someone with a specific skill, like we lost our accountant so we need an accountant, and we need someone who can commit 20 hours a month, so while we’d like to get more diverse, we’re driven by, ‘can I get two of the three things we really need’ so it’s not that diversity is less important, sometimes it’s just less urgent.”

Finally, many interviews subjects, particularly those situated in regions with less racially diverse

populations expressed thoughts that suggested a sensitivity to the notion of tokenism. As one respondent representing a youth service organization stated:

“I can only think of one [non-white] person that I know fairly well in this town, he’s a really good guy but I wouldn’t ask him to be on my board, without a particular role in mind.”

A respondent from one of the ‘some diversity’ organizations stated.

“We’re [board members] all close enough we have the discussions ‘like, hey do we really need another white male on this board’ but at the same time we wouldn’t nominate someone [for the sake of diversity] without a clear idea of how we wanted them to contribute.”

In short, these comments suggest that nonprofit leaders are relatively tuned in to issues of inclusion, and generally do not seek out racial diversity simply for the sake of diversity; instead, racially diverse board members are sought under conditions when nonprofit leaders have a plan for new members to be engaged and full participants in the governance process.

We now turn to the critical question of *how* racial diversity on nonprofit boards might create the conditions for growth and enhanced organizational performance. The answer to this complex question can be distilled into three explanations: 1. Expansion of resource networks, 2. Enhanced problem-solving and strategic capability, 3. Increased consumer demand/expanded market share. Each of these explanations are elaborated upon below.

Expansion of resource networks

The most common theme that arose among interview subjects was that of networks, and specifically, the mention of personal networks and ways they might expand the pool of potential donors, or connections to people in the community in a position to provide financial support to

the organization. This simple quote from one of the “some diversity” cases summarizes the sentiments of several others, across cases:

“It all comes down to networks. More diversity means access to more networks.”

Another interview subject representing one of the “high diversity cases” put it this way:

“We work actively to make sure our board is diverse – we have board members that are African American, Hispanic, Middle Eastern, and we think that’s important, to get those groups sort of represented so you can tap into some of those different networks in the community.”

A respondent from one of the “no diversity” cases (had no-growth/budget stable, but is embedded in a region with a high degree of racial diversity):

“I think on some level we know we’re missing out, there’s this whole other part of the community we’re not reaching [as supporters] that we should, I think diversity helps with getting into these networks, but whenever board spots need filled a lot of times its easier to go back to our same circles of people.”

A board member for one of the “high diversity” cases who is African American and financially supports the organization she is on the board of, as well as other organizations in the community, made a comment that suggests people of color are paying attention to diversity and representation and are unwilling to leverage their own personal networks when they perceive that diversity has not been prioritized by an organization. This respondent described a three-part test she personally relies upon when determining whether or not make a charitable contribution to an organization (and whether to make an appeal to others):

“I don’t care how much good you’re doing in the community...in order for me to write you a check, and go to my friends and ask for support, you have to pass three tests: 1.

Are there people of color on your leadership team? 2. Are there people of color on your board? and 3. Can I see that you're making an effort to buy from the minority-owned businesses?"

Moreover, diversity appears to help leverage other types of connections that may financially benefit an organization beyond donor networks. One respondent described how they were able to 'get on the radar' of a local foundation that ultimately paved the way for an invitation to submit a proposal, based on a contact facilitated by one of the organization's board members of color. In short, personal networks of board members appear to play an important role in predicting organizational the performance. When nonprofits have highly diverse boards, they have access to a wider range of networks that can be accessed in service the organization's financial and overall well-being.

Enhanced problem-solving and strategic capability

Many of the participants expressed ideas that align with the 'requisite variety' principle that diversity is necessary for organizational evolution. A nonprofit lacking in board diversity (all one race or nearly) can be representative of its community, but the lack of diversity may ultimately constrain its field of information, cause it to miss important cues from the environment, and lead to incomplete diagnoses of problems and incomplete strategies for action.

This comment from one of the "some diversity" cases, exemplifies this point:

"With a more diverse group you get alternative ways to think and plan that might let you break out of your conventional way."

Another respondent from one of the "no diversity" no-growth/budget stable cases situated in a low diversity region, lamented the lack of opportunity to have diversity on her board, and observed ways she thought it could be helpful in deliberating organizational business:

“I think any time you get people in a room or around a table together who have different lived experiences you’re going to get a richer conversation, you’re probably going to learn something.”

This comment from a white board member at one of the “some diversity” cases also illustrates the point about how lack of diversity can limit an organization’s field of information and can constrain ability to effectively problem-solve:

“I think it’s important whenever you’re talking, or reaching out, or seeking opinions about certain things, that you’re doing so with an eye towards how each of those groups [served by the organization] will understand you’re your organization is doing, or how it may potentially impact those groups, and you may not be able to, from your own perspective, be sensitive to some of those things, so I think when you’re able to get all those opinions, and let a lot of different people inform what you’re doing, you’re going to be more effective.”

As these comments suggest, organizations that are lacking in diversity may miss important information from the environment, leading to incomplete diagnoses of problems and incomplete strategies for action. This point aligns directly with the perspective of organizations as open systems that require variety (diversity) in order for organizational evolution and growth to occur.

Expanded market share

A final explanation for the role of board diversity in nonprofit performance relates to competitive advantages in the marketplace. More diverse nonprofits appear better positioned to attract the largest shares of customers or clients from within a regional service market. While this was a somewhat unexpected theme to emerge from the interviews, it aligns with the reality that nonprofits today behave increasingly like for-profit firms in their efforts to grow and sustain

themselves. Given that earned income is the largest and fastest growing source of revenue in the nonprofit sector (McKeever and Pettijohn, 2014), it is perhaps unsurprising that some nonprofits view diversity as essential to their ability to effectively market their services and to attract client “customers.” Most of the comments related to this theme emerged from the “high diversity” cases, and to a lesser extent the “some diversity” cases. One (white) board member of a “high diversity” high-performing organization who worked in the for-profit sector (tech industry) at her day job, conveyed a distinct business orientation in her perspective on diversity:

“No question, diversity helps the bottom line. We figured this out in the corporate world a long time ago. It’s [diversity] beneficial because you have people on board and you’re connecting to more segments of the market.”

This comment from a respondent at another high-diversity case, conveys a similar point:

“We’re always thinking about our programming and thinking how do we offer things more people will want to come to, and to be successful with that you need to make it appealing to as many different groups as possible. I don’t know we could do that without our [diverse] board.”

Another Executive Director highlights the point about nonprofits’ ability to capture market share, especially in competitive markets where clients have choices. In this case, the Executive Director is referring to diversity on the front lines of service, but it conveys how clients of color may help to shape a market by consciously or unconsciously using representation as a factor in provider choice:

“In a place like [name of city] where people have a lot of choices, I think people rely a lot on word-of-mouth, and on some level people will want the places where they know there’s more staff who look like them.”

Overall the theme of increased market share aligns with the ‘value in diversity’ and ‘business case for diversity’ arguments so prevalent in the business management literature. As nonprofits become more competitive with one another as well as for-profit firms (Salamon et al, 2012), this tendency is perhaps natural. However, this fact combined with the growing number of MBAs hired to lead nonprofits presents a risk in which diversity is viewed by nonprofit leaders and board members primarily from an instrumental perspective rather than a fundamental matter of social equity and inclusion.

Conclusions and Implications

There is a growing concern in the nonprofit practice community and among institutional funders about the diversity gap in nonprofits. At the same time, nonprofits face increased pressures to demonstrate their effectiveness so as to merit continued funding and to maintain their trust and legitimacy in the eyes of the public. This study confronts both of these issues. The purpose of this research was to empirically examine the effects of racial diversity on nonprofit boards on various measures of nonprofit organizational performance. This study finds consistent evidence that racial diversity at the board level is valuable for nonprofits, with greater diversity being linked to annual revenue growth, asset growth, and greater perceptions of performance by agency administrators. This study further found that racial diversity works to advantage organizational growth through expanding resource networks, enhanced problem-solving and strategic capability generated by diverse life experiences, and by helping expand organization’s market share.

Clearly, diversity is not limited to race and ethnicity, and some nonprofit organizations may have diversity goals that aim to expand inclusivity not only of under-represented racial and ethnic minorities, but also members of the LGBT community, persons with disabilities,

generational diversity, religious diversity, and so on. The findings of this study support the requisite variety theory, and it is possible that *diversity in general*, and not just racial diversity, is what drives organizational processing of information and productive transaction with the resource environment in ways that aid organizational growth and evolution. As one case in this study demonstrated, organizational performance can be enhanced through efforts to achieve other types of diversity when local population demographics make the achievement of racial diversity more challenging. While most of the discussion about diversity (and lack thereof) in the nonprofit practice community relates to race and calls for greater attention to increasing racial diversity on boards, future studies of nonprofit board diversity would benefit from capturing a wider range of diversity variables that account for factors such as gender, sexual orientation, functional diversity, etc.

This study carries a number of limitations. The data used in this study captures board diversity at a single point in time. In reality, nonprofit boards are dynamic and membership is not stable over time. An ideal study would capture how changes in board diversity correspond to changes in financial performance (or other objective measures of performance) over time. Unfortunately, there is no ready source of data on nonprofit board demographics and representative samples must be captured through surveys which ask administrators to write-in detailed numerical information on board members. This type of data collection poses challenges in terms of resources and time, as well as decreased response rates when subjects are asked to provide information as opposed to simply checking boxes.

While finance data are publicly available, it is time consuming to seek/find this data on a set of nonprofits that has been surveyed, and especially for multiple years. There is also notable inconsistency in the availability of finance data for nonprofits over a consecutive period of years.

Another option considered for this analysis was to examine change in revenues and assets from the year the survey was collected to the three years afterward (2012-2014), but as of 2017, roughly a third of those surveyed in 2012 appeared to have merged with other organizations, ceased operations, or changed corporate names, posing challenges for tracking financial performance over time. It has also been observed that there is a great deal of volatility in nonprofit finances from year to year, so future studies may consider using a moving average over three or five years. There are also a variety of other financial metrics that could be used including, viability ratio (ratio of net assets to long-term debt), operating reserves, fundraising efficiency, or year-over-year donor growth and retention.

Of course, measures of organizational performance are not limited to how well the organization is doing financially, or how well administrators perceive their organization to be performing. Other indicators of performance can include clients' and other stakeholders satisfaction with services, diversity of funding over time, or how well the organization meets pre-specified performance targets or treatment goals (whether clients of nonprofit job training programs are able to find competitive employment or keep their job as measured at some time point after program participation, for example). This line of research could also be expanded by looking at diversity within the nonprofit workforce at various levels (street-level, supervisory, managerial, etc.) and its impact on performance, as this analysis is limited to capturing diversity and representation at the highest level (the governing body). In sum, it will be important for future research to replicate and build upon these findings, but it will involve an intensive commitment of time and resources.

While this study carries some limitations, this research has the potential to make an important contribution to the scholarly literatures on nonprofit diversity, representation, and

performance. Perhaps more importantly, the findings have direct implications for nonprofit administrators and board chairs tasked with the responsibility of board recruitment and development. Nonprofits lacking in diversity are constrained in their ability to access new resource networks, to formulate effective organizational strategies, and to market their services to diverse populations, all of which serve to limit organizational growth. Nonprofit leaders should work with their board chairs and executive leadership teams to examine the organization's diversity practices. Organizations should make it a priority to recruit for racial diversity at the board level, which can help to shape policy for the rest of the organization's diversity policies and practices. In places where nonprofits are challenged to recruit for racial diversity based on demographics of the region, nonprofits should strive to achieve other kinds of diversity on their boards.

The findings of this study also have implications for government agencies that fund nonprofit social service organizations, and the philanthropic/foundation community who also funds the work of these organizations. Institutional funders have become extremely preoccupied with finding solutions for enhancing the effectiveness of nonprofit service providers. The results of this study point to the positive return-on-investment that could be expected from directing more resources (both public and philanthropic) into nonprofit service organizations that are making diversity a priority. Government organizations, foundations, and other institutional sources of funding that make grants or issue contracts to nonprofit organizations may wish to consider taking into account the diversity of nonprofit boards and executive leadership when awarding funds to these organizations. The evidence presented here indicates that organizations that have prioritized diversity have greater sustainability and financial performance.

This study provides an important first step in establishing a link between racial diversity

on nonprofit boards and organizational performance. The study also demonstrates some of the specific ways that racial diversity aids in nonprofits' growth potential. Taken together, the findings of this study point to some important benefits and advantages of diversity in nonprofit governance. Ultimately, this study contributes the public debate on the value of diversity and representation in our charitable institutions, and offers some direction for other scholars interested in studying these issues.

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Table 1: Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
% Change in Revenue	198	26.54	59.58	-144.26	373.60
% Change in Assets	222	55.27	128.97	-97.18	963.15
ED Perceived Performance (index)	229	24.19	3.59	7.00	38.00
Board Diversity Index	221	0.24	0.22	0.00	1.00
ED Education Level	201	3.74	0.48	2.00	4.00
Founder	219	0.26	0.44	0.00	1.00
Organizational Age	241	32.81	17.21	1.00	94.00
Number of FTEs	241	94.98	183.41	0.00	1500.00
NP Association Member	239	0.49	0.50	0.00	1.00
Per Capita Income of County	241	27646.79	11172.64	9568.00	84236.00

Table 2:
Effects of Racial Diversity on Nonprofit Organizational Performance

	% change in revenues 2006-2011	% change in assets 2006-2011	ED/CEO perceptions of performance
Diversity index	49.378** (25.091)	95.244* (56.209)	2.368** (1.128)
ED education level	6.546 (15.536)	44.942 *** (10.124)	-.841 * (.472)
ED is founder	41.882*** (15.264)	9.046 (22.241)	.127 (.614)
Org age	.313 (.355)	-1.290* (.782)	-.021 * (.013)
Number of FTEs	.033 (.030)	-.032 (.027)	.003*** (.001)
Member of state NP association	1.006 (11.388)	40.410** (20.058)	.731 (.489)
Per capita income	-.000 (.001)	-.000 (.001)	-.000 (.000)
Constant	-52.871 (71.305)	-107.552** (44.481)	27.327*** (2.012)
Adjusted R^2	.167	.109	.090
Root MSE	54.429	120.4	3.293
F	1.59*	3.89***	3.09***
N of cases	159	176	184

***p<.01, **p<.05, *p<.10

