Literature Review and Accompanying Analysis of Diversity on a Nonprofit’s Board of Directors: Does Diversity Impact Organizational Effectiveness?

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Literature Review and Accompanying Analysis of Diversity on a Nonprofit’s Board of Directors: Does Diversity Impact Organizational Effectiveness?

An honors thesis presented to the Department of Public Affairs and Policy, University at Albany, State University of New York in partial fulfillment of the requirements for graduation with Honors in Public Policy and graduation from The Honors College

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May, 2017
Abstract

The potential benefits of diversity in board members are increasingly recognized in both diversity and public administration literature, in that the innovative ideas and diverse perspectives of board members may translate into business-related gains for the organization. Following a literature review and theories that discuss diversity on boards, the paper uses financial data from two nonprofit organizations in order to test the assertion that nonprofits with more diverse boards will show signs of greater organizational effectiveness. Results from several comparison ratios show a lower level of donations, but greater operating, fundraising, and programming efficiency, in a nonprofit with a more diverse board. Despite a limited sample size, findings suggest that the insights and perspectives that diverse nonprofit board members bring may allow them to think and plan strategically, and in doing so govern more efficiently towards the social purpose of their organization’s mission.
Acknowledgements

I would like to thank my thesis advisor Dr. Edmund Stazyk for assisting me in my research towards the completion of this Honors thesis. He has provided me with invaluable advice that has benefitted me both professionally and academically. I also had the pleasure of taking two of his courses, one at the undergraduate level, PAD 302, and one at the graduate level, PAD 506, and in both I was exposed to a variety of perspectives and insights on public management, some of which that I hope to use one day as a public manager.

I would also like to thank my family for their overwhelming support throughout my academic career. My mother is the strongest woman I know, and I am so lucky to call myself her daughter and to learn all that I have about perseverance, hope, and love, from her. I thank my father for his always being there for me to talk with when I need reassurance, and for providing advice even when I don’t think I need it (but actually do).

Lastly, I would like to thank Rockefeller College and the Honors College for providing me with challenging opportunities for professional and academic growth. I have had a wonderful time at this University and owe it to faculty who have pushed me to succeed and to always aspire for more.
Table of Contents

Abstract........................................................................................................................................... 2
Acknowledgements.......................................................................................................................... 3
Introduction...................................................................................................................................... 5
Board of Director Roles and Responsibilities .................................................................................. 7
Definition of Diversity and Related Terminology ........................................................................... 8
Origins of Diversity Management in the United States .................................................................... 9
Cases for Diversity............................................................................................................................ 10
Theories Supporting the Link between Boards and Organizational Performance ......................... 16
Primary Research on Hamilton Families and Raphael House ......................................................... 20
Fiscal Analysis Method and Supporting Hypotheses ....................................................................... 24
Results........................................................................................................................................... 27
Discussion...................................................................................................................................... 30
Conclusion...................................................................................................................................... 33
Appendix......................................................................................................................................... 35
Work Cited....................................................................................................................................... 37
Introduction.

Diversity of board members in organizations, for-profit and nonprofit alike, has been a topic of much discussion and debate in existing public administration literature. This paper will attempt to answer the question, what, if any, link exists between diversity on a nonprofit board and the organizational effectiveness of the nonprofit? Especially for nonprofits involved in service delivery, having enough funds to carry out their programs is a big concern. Their degree of financial health can help or hurt the nonprofit’s performance and service delivery goals. Therefore, this paper will view financial resource mobilization as positively related to organizational effectiveness. In order to best respond to the above research question, the paper will begin with a literature review of relevant topics, starting with laying out what exactly a board of directors exists for, what its standard roles and responsibilities are, and how these directly affect the nonprofit. This is important to clarify if one wishes to examine the potential impact of board diversity on organizational effectiveness. If there is indeed an impact, it should logically be related to the governance of the board.

Second, the definition of the term ‘diversity’ as it will be used in this paper will be clarified, because there are multiple ways of looking at this loaded word. An important distinction that will be discussed in this paper recognizes that ‘diversity’ is often confused or used interchangeably with ‘representativeness’, and so the difference between the two terms will be reviewed. While representation is important, especially in terms of nonprofits which often serve historically underrepresented groups of people, it does not always equate to the existence of a diverse environment. Therefore, the related terms representative bureaucracy, and the difference between active and passive representation will also be reviewed. Following this will
be a brief overview of the history of diversity and when it became important for organizations to begin embracing it.

There are scholars who claim that diversity of board members improves organizational performance, and often two cases are cited to back up this claim: the business case and the social justice case. A portion of this paper will be dedicated to examining these two important claims for board member diversity. Then, it will diverge in an explanation of the point of view of different scholars who view these cases as weak, and, thus, who do not view board of director diversity as a benefit to the organization’s effectiveness. The tactic of diversity management, used by many nonprofit organizations in order to create and foster an inclusive workplace, will also be reviewed as it is a practical method widely used by organizations in order to become more diverse, but which conversely appears to have its faults. The last bit of literature review will lay out three theories that directly link organizational performance and board diversity, including resource dependency theory, agency theory, and group/decision process models.

In order to apply all that has been learned by the literature review, the research will conclude with an analysis of two nonprofit organizations in the U.S. that work as service delivery vehicles for the homeless population. Each nonprofit’s board of directors will be examined using the information available on each organization’s respective website. Following this, their level of perceived diversity will be assessed, looking specifically at gender, race/ethnicity, and age. Once this has been analyzed, each nonprofit’s latest financial statement will be examined in order to see if there are any connections between the nonprofit’s perceived level of diversity and their effectiveness in service delivery. Organizational effectiveness for nonprofits is based on the fulfillment of their social responsibility, which roughly equates to how well they are fulfilling their mission. Examining their financial statements will allow for a clear
picture of their financial situation, which is a big indicator of how well they are performing in relation to their task of service delivery. Siciliano used three different performance indicators to evaluate organizational effectiveness: social, fiscal, and donations raised. At least two of these—fiscal information and donations—are easily examined using financial statements and reports.

**Board of Director Roles and Responsibilities.**

The basic definition of a board of directors is taken from Preston and Brown (2004), who define this entity as, “individuals from diverse backgrounds who volunteer their time on behalf of nonprofit organizations” (221). It is interesting to note that the adjective “diverse” is used to describe those who compose the board. But, what is it exactly that the board of a nonprofit is responsible for? Miller-Millersen, in her article published by Nonprofit and Voluntary Sector Quarterly (NVSQ), laid out the various roles of the board by different authors, which has been summarized in Figure 1. Among the many responsibilities of the board includes tasks such as establishing the organization’s mission statement, setting policies for the nonprofit to adhere to, assuring the presence of adequate financial resources, and approving and monitoring the nonprofit’s programs and services (Figure 1).

These above tasks are all ones related to governance, as the board of directors serves as the governing body of a nonprofit. While the organization’s paid employees are the managers who implement the mission, the board members are the body which sets that mission and makes sure that it is being followed (Williamson 2014). The importance of board members, then, relates back to the question of this paper, regarding the impact that a board of directors may have on the effectiveness of their organization or how well it achieves its desired mission. And since this goal is directly related to resource-allocation, this paper also views resource mobilization as positively related to organizational performance. Now that there is a clear idea of what a
nonprofit’s board of directors is responsible for, it is necessary to link this entity with its much-debated trait, diversity.

**Definition of Diversity and Related Terminology.**

The definition that, though broad, is most useful to begin this analysis of diversity comes from Cox (1994), who defines diversity as a collection of human differences and similarities, some of which are observable and some of which are not (246). These dimensions are largely related to those groups that are traditionally underrepresented, through dimensions like race or ethnicity. More recently, however, the definition has also come to include those characteristics that aren’t visible, such as sexual orientation, occupation, or socioeconomic status and economic status (Weisinger 11S). For the purposes of this work, the measurement characteristics used will be those which are visible, mainly, race and ethnicity, gender, and age.

A related yet misinterpreted term which is useful to connect to diversity, is “representativeness”. While “diversity” refers to the heterogeneity of a group using different dimensions such as those listed above, “representativeness” goes a step further and measures the degree to which an organization’s members mirror the demographic characteristics of those they serve (Weisinger 11S). This is the idea behind the theory of representative bureaucracy, coined by J. Donald Kingsley, though the term has evolved since his publication in 1944 (Sowa and Selden 701). This initial idea of the mirroring of people through demographic characteristics is also known as passive representation. A representative bureaucracy through passive representation was thought to allow citizens to feel connected to their government and the public organizations who are serving them. Since organization members would look similar to their constituents, this was thought to provide citizens with a symbol of equal access to government (701).
However, there were scholars who thought that this form of representation only went as far as a symbol of representation and didn’t produce any actual effects. Consequently, passive representation became an idea that would progress eventually into active representation. LeRoux and Perry (2007) define this active form as a process where bureaucrats move beyond passive representation, to actively advocate for and help further their constituents’ needs (4). This can be in the form of policy change, advocacy, or the like. It is important to note that this shift from passive to active representation doesn’t always occur, however, and so the goal is for organizations (including nonprofits) is to foster active representation because this is what has a positive impact on organizational culture and can assist in helping clients (4).

It is true now, more than ever, that towns and cities across the United States are very heterogeneous. Therefore, though “diversity” is a broader term which focuses solely on the degree of heterogeneity of an organization—regardless of the demographic composition of the people being served—inclusivity and representativeness both seem to be terms that can fit under the umbrella term of diversity. Active representation and inclusivity seem to be the next step to reach once an organization has accomplished a diverse makeup. The next segment of this section concerns when, and why, diversity in nonprofit and public organizations became important in the context of U.S. history.

**Origins of Diversity Management in the United States.**

The civil rights movement in the 1960s brought the concept of diversity to light in U.S. organizations. This began in 1961 with President Kennedy’s Executive Order 10925, which introduced the “affirmative action” program in order to address discrimination in federal agencies. Following that, Title VII of the Civil Rights Act of 1964 made discrimination of all employees, not just those in the federal government, illegal (Kelly and Dobbin 960). This
included discrimination on the basis of race, color, religion, sex and national origin. Affirmative action served as both a tool to address the new legal requirements brought on by the new civil rights legislation and it also provided organizations with a “moral imperative” to more actively seek out and hire people from underrepresented groups (Weisinger 9S). Today, this is done through alternative means, such as through the establishment of gender quotas, which will be discussed further in the business case section of this paper.

This idea of not just complying with diversity but embracing it, truly emerged with the Workforce 2000 report by Johnston (1987). In it, he predicted several major trends that the U.S. will see coming into the 21st century. One such trend was related to the shifting economic and demographic makeup of the U.S. He posed that due to the rapidly aging population and fewer young workers, minorities in the workplace would be essential for a continuous and qualified workforce. Not only this, but Johnston argued for investments in diversity so as to, “finally guarantee the equality of opportunity that has been America’s great unfulfilled promise” (140). This report was important as it got many to view diversity as something to strive for voluntarily, instead of just following as part of a rule or mandate (Weisinger 10S).

**Cases for Diversity.**

*Business Case*

Beginning with the aforementioned Civil Rights Act in 1964, it was seen that diversity could improve organizational performance. Gradually, organizations came to view diversity as something voluntary rather than what was simply being mandated, and so the business case for diversity emerged. This view also rests on the assumption that diverse members of an organization contribute creativity and innovation, all of which lead the organization to
“previously untapped markets” (Weisinger et al. 10S). Konrad (2003), in her article on workplace diversity, discusses the business case in detail, outlining arguments for it as well as its matching limitations. Below is a table that summarizes her parallel arguments, both for and against the business case (5-6).

<table>
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<td>1. There is a more diverse labor force in the U.S., and as such, businesses who seek talent need to recruit from these various demographics, as the white male population is shrinking.</td>
<td>The same managers who will hire this diverse labor force often ignore consequences such as stereotyping, prejudice, and discrimination both institutional and interpersonal, because raising these issues would be a threat to their authority.</td>
</tr>
<tr>
<td>2. Our global marketplace brings diverse customers, so it follows that businesses who hire a more diverse workforce will be more successful in selling to customers who are just as diverse.</td>
<td>This assumption serves to ‘ghettoize’ members of historically excluded groups, and in doing so these individuals are often limited to job titles where they represent their business to their individual communities.</td>
</tr>
<tr>
<td>3. Diverse individuals tend to outperform homogeneous groups regarding problem-solving and creativity, because of their more diverse knowledge, experiences, and perspectives.</td>
<td>This implies that a diverse organization is acceptable and desired only if it can outperform a homogenous group, or, that diversity is only desired in those organizations that need creativity and innovation.</td>
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Another critique regarding the business case for diversity that was not mentioned by Konrad but that which relates to for-profit business and nonprofits alike comes from Noon (2007), regarding short-term goals. The gains by diversity management or equal opportunity policies are often not realized until five to ten years in the future. Therefore, it is necessary for employers to have a long-term outlook in order to see the benefits, something often difficult for them to do. Reasons for this difficulty include needing to satisfy their shareholders with shorter-term goals or because the employer might have performance bonuses lined up for the completion of short-term goals (Noon 776). Nonprofit managers, while often following a vision statement that focuses on the future, also rely on short-term goals in order to carry out the day-to-day
functions of their organization. If the cost of implementing equal opportunity policies or
diversity training is high at the outset, this is less persuasive for managers of public and nonprofit
organizations alike, who may have a more short-term view of performance goals (776).

Other critiques of framing diversity as a business opportunity hold that this perspective
opens the process up to a large degree of manipulation. If diversity is seen as a benefit to the
organization in some cases, it follows that the same argument could be flipped by organizations,
instead to be used against the promotion of inclusiveness (Tomlinson and Schwabenland 104).
According to the business case, diversity is valued not for the actual diverse characteristics
people bring to the table, but for the organizational goals that could be achieved from having
diverse board members. This opens up the possibility that business managers might seek
diversity in only certain aspects of their organization that they believe would bring benefit,
therefore leaving it up to managerial discretion, which might be biased, and not the desire for
actual diversity (104). However, when looking at a nonprofit’s diversity, it is arguable that since
these are organizations that serve the public—and often a very diverse public at that—that they are
less likely to perceive diversity as only partly beneficial.

Finally, the success or failure of diversity trainings, often associated with the business
case for diversity, are frequently difficult to quantify because these trainings are usually
evaluated in rhetorical terms and not numerical (Noon 777). However, there have been attempts
to quantify this information, such as with the 2005 annual benchmarking survey of UK
organizations (777). Regardless, these attempts haven’t been widespread enough to make a
notifiable difference. This lack of quantifiable evidence presents a challenge to the business case
because those in positions of authority and decision-making are usually those who use
quantitative information to inform their decisions. Perhaps managers who don’t have a
background in finance or accounting may be willing to look past the lack of numerical results, but, for the rest, the difficulty of measurement of the trainings presents a major challenge to attempts to realize diversity benefits and to embrace the business case for diversity.

However, besides diversity management and trainings, there have been other strategies used in order to realize diversity benefits. One such alternative is the imposition of quotas for boards, which are becoming more and more widespread in multiple European countries (Margarethe). Norway was the first country to adopt a mandatory 40% quota for female board members in 2004, and other countries quickly followed, including Germany, France, Iceland, and others. Other countries like Spain and the UK, while not making these quotas mandatory, adopted them as “voluntary goals” for female representation (Margarethe). In Norway, if an organization disregards or breaks the terms of the quota, it is denied registration as a business entity and risks closure by the government. This quota law has largely improved female representation on their boards, and, though it is too early to have a comprehensive evaluation of its impact, some studies have shown that the quota requirement has led to more productive discussions (Birkvad).

However, there are concerns about the effects of such a quota being imposed on corporations. Two scholars from the University of Michigan released a study in 2012 that evaluated the effects of Norway’s quota. Their results showed a significant decrease in the market value of the corporations that complied with the mandate as well as that the quotas brought women who were younger and who had less leadership experience onto the boards (Ahern 169). Further, although the corporations have increased female representation on their boards as a result of the quota, this hasn’t changed the fact that still only a very small number of women hold the title of CEO in Norway’s large companies (Birkvad). The glass ceiling effect is
a pervasive issue in organizations across sectors, which is arguably not lessened by the quotas. The United States has yet to implement any such quota system, though its nonprofit sector is increasingly recognizing the advantages that board diversity may bring to its organizations and service outreach. For example, in 2014, GuideStar partnered with the D5 Coalition to launch a sector-wide program that allows nonprofits to voluntarily share information about their board, staff, and volunteer composition, based on diversity measures such as race/ethnicity, gender, and sexual orientation. This is being done in the hopes that more comprehensive and reliable data on diversity will allow nonprofits to have a better view of trends and opportunities for diverse growth both in the communities they serve and internally within their organization (GuideStar). This initiative that has its main focus on reliable data may help to increase nonprofits’ awareness of the many opportunities available to improve diversity, as well as to address the lack of quantifiable evidence for diversity management that was discussed above.

Social Justice Case

The second big case for diversity in organizations is specifically related to voluntary and nonprofit organizations. It is these types of organizations that are most committed to the values of equality, fairness, and empowerment. The idea of ‘social justice’ serves almost as the core of a nonprofits “self-understanding” (Tomlinson and Schwabenland 106). The difference between the social justice case and the business case is that those organizations that are committed to the former case are serious in promoting social justice and equality. This seriousness is shown through how well they go about pursuing diversity initiatives, and not for any economic benefit that might be gained from them (106). In fact, in many cases, these diversity initiatives may threaten the organization’s business interests, but if the organization is truly committed to social justice, business failures are secondary (106).
Whereas the business case for diversity often stresses diversity “as a means to an end”, the social justice case views diversity as the “end in itself” (112). For-profit organizations tend to utilize the business case for diversity, because their end goal is to make a profit. Therefore, if diversity acts as a means for profit, which is their end, the for-profit organization is satisfied with this goal. The social justice case for diversity doesn’t usually match up with a for-profit organization, because they don’t view diversity as the end product, but just as a way to get there. Conversely, with nonprofits, whose mission and purpose tends to align with assisting disadvantaged groups, the social justice case is much more fitting.

However, despite this contrast between for-profit and nonprofit views of diversity, Tomlinson and Schwabenland’s study found that the business case is in fact prevalent in nonprofits, because diversity practices brought organizational benefits, and these benefits in turn helped to advance their mission towards assisting vulnerable and disadvantaged populations (117). Their study showed that the business case can and is used to achieve a social justice end in nonprofit organizations. Though Noon’s contributions and his critiques to the business case are recognized, this paper will use the business case for diversity as its lens for the analysis of nonprofit board diversity, and in doing so will refute Noon’s rival hypothesis that the business case undermines social justice initiatives (Noon 773). The reasoning behind this is because the business case for diversity is indeed present in the operations of nonprofits whose mission is of a social justice nature (Tomlinson and Schwabenland 117). The business case helps to realize financial and organizational gains for nonprofits due to the presence of diversity on their board, which will be shown in the concluding primary analysis.

By comparing two nonprofit organizations and their boards, this paper will attempt to show that there are benefits that a diverse board will bring to its organization that aren’t only
long-term but those which positively affect their day-to-day operations. These benefits include
the level of donations an organization brings in or the amount of funds going towards their
programs, both of which are predicted to have a direct positive impact on the social mission of
the nonprofits, which in this analysis is focused on curbing family homelessness. This brings the
conversation back to the main research question, which is whether or not board diversity leads to
greater organizational effectiveness, or, phrased differently, the continued advancement of the
nonprofits’ mission as a benefit of its organizational effectiveness. However, in order to gauge
this effectiveness, it’s necessary to examine how boards in general are connected to a nonprofit’s
organizational performance.

**Theories Supporting the Link between Boards and Organizational Performance.**

*Agency Theory.*

This is a theory that is largely used in business administration literature to illuminate the
topic of corporate governance and how board performance is related to organizational
performance (Brown 320). However, it has been picked up by public administration scholars as
well to show a similar connection with public and nonprofit organizations. This theory describes
the relationship between the principal and the agent. In this case, the principal is the executive
authority of an organization while the board acts as the agent. According to agency theory, the
principal and agent are in conflict with each other, because each has their own separate duties to
carry out. The board has a duty to monitor the management’s behavior because, often,
management is motivated by self-interest. Keeping in mind that this theory is largely used in a
for-profit context, by monitoring the board is watching out for the interests of its stockholders
(320). The theory holds that since board members have linked interests with stockholders of the
company, the board is apt to be vigilant in monitoring executives. This is seen by the fact that,
often, board members are distanced from their management and this isn’t coincidence but for the reasons listed above (321).

When applying agency theory to nonprofit organizations, the linkage of monitoring practices to organizational performance is strong in some cases and weaker in others (Brown 321). Present in a few studies is the observation that when nonprofit board members not only serve on the board but also contribute individual donations to the organization, they tend to monitor its leadership more diligently because of their investment. Nonprofit board members in this sense become advocates for their organization because of their own financial commitment, and this advocacy is linked to organization efficiency of the organization (321). Another connection found between agency theory and nonprofit organizations is through the presence of a mission statement. Board directors have a duty of obedience in this regard, a legal responsibility to ensure that the organization carries out its public responsibility as outlined by the mission statement (Sasso 1486). This contextual dimension is what serves as the board’s monitoring function, and, as such, board members are responsible for the connection of decision making to the fulfillment of an organizational mission (Brown 322).

Resource Dependency Theory

While agency theory attempts to show organizational performance as related to the structural dynamics between the executives and the board members, resource dependency theory is more about the internal dynamics of the board alone. A term discussed by Hillman and Dalziel, “board capital” serves as the basis for the resource dependency theory (387). Board capital refers to what each individual board member has to contribute to the organization, all added up into capital of the entire board. Board capital is made up of human capital, or the skills
and expertise that board members bring. Members will provide advice and counsel, which would thereby influence the nonprofit’s organizational performance (387).

However, board capital isn’t just concerned with what the members bring to the table, but also with who is at the table. Relational capital is the second aspect of board capital, and it refers to both the relationships to other like organizations that board members bring with them, as well as the level of prestige that board members have. More prestigious boards have been found to perform better due to the added legitimacy of the organization that their prestige brings (Hillman and Dalziel 387). This board capital, when taken all together, allows the organization to access channels of communication and information with other institutions. These channels reduce transaction costs that would’ve been incurred without board capital and with a more uncertain environment. This reduction in transaction costs equates to enhanced performance (387). If all of the board members’ resources, values, and relationships that are brought to the organization impact fundraising and contribution strategies—a very important task for nonprofit organizations—this is likely associated with improved organizational performance (Brown 323). Lastly, an important resource that board of directors bring is that of a strategic planning contribution and direction. This involves looking into the future of the organization as well as its environment through which it is operating, in an effort to guide its long-term direction (Brown 323). Strategic planning activities are seen repeatedly to be related to effective organizations (see Bradshaw et. al (1992), Siciliano (1996), and Herman et. al (1997)).

Group and Decision Process Models.

The group and decision process theories are concerned with how information is managed and channeled and how decisions are made and group members interact. It follows that when procedures are followed, the board will operate better and will add value to the organization as a
whole (Brown 324). However, the link to organizational performance is somewhat weak because board procedure is usually linked instead to board performance (324). This theory has its grounding in diversity and board composition studies, as well as studies on interpersonal group dynamics. Using this theory, studies show that greater diversity on the board gives members fresh ideas and perspectives on issues, which leads to increased organizational performance (324). However, Brown also recognized that a more diverse board can bring more conflict and in doing so lessen a feeling of agreement within the group (324).

The idea that board member diversity can influence organizational performance was further examined by Siciliano (1996) in her study of 240 YMCA organizations. With the development of a diversity index, she compared different components of diversity, including gender, occupation, and age, to three different measures of organizational performance. These measures included social, fiscal, and donation levels (1316). Her results showed that the strongest correlation between diversity and organizational performance rested on the organizations’ social performance, meaning that boards with more gender diverse members were shown to more so keep their social mission as the top priority (1318). However, these same boards showed a negative correlation to funds raised and donation levels weren’t affected. This may be because women often don’t have as adequate economic resources as men or as many political connections, all of which may impact fundraising success. The group and decision process theory could tie into this finding that the social performance of diverse boards is greatly enhanced, because the theory argues that board diversity equates to multiple opinions and voices, many of which could come up with effective ways to help the nonprofit stay on task and on their mission. There is always the risk that this multitude of voices may backfire, however, and push the nonprofit into many different and distracting directions.
Primary Research on Hamilton Families and Raphael House.

To draw on all that has been learned by the abovementioned literature review, it is beneficial to conduct an organizational analysis comparing two nonprofit organizations, using the lens of diversity (or lack of it) on their respective boards. The results of this dual organizational comparison will either support or refute my hypotheses that the nonprofit organization with the more diverse board will have a higher degree of organizational efficiency, will have a higher level of donations, will be more efficient in its fundraising, and will dedicate more expenses towards programming. The two nonprofits that were analyzed for this comparison were Hamilton Families and Raphael House.

These are both organizations with a similar mission—to end family homelessness and provide support in the form of shelters, case management assistance, and children support—in order to help homeless families find permanent and stable housing. For ease of comparison, both nonprofit organizations are located in San Francisco, California. This Bay Area city has the second highest homeless population across the United States, following New York City. In San Francisco, for every 100,000 residents, there are 795 homeless individuals as compared to 887 for New York (Sze). As such, homelessness is a big issue for the city, and one for which there is no easy answer to. The two nonprofits, Hamilton Families and Raphael House, were chosen because of their similar geography, mission, and scope of services, but they were also chosen because of their differences. Mainly, this difference lies in the fact that the board members of Hamilton Families are seemingly more diverse than that of Raphael House.

The following sections will examine both organizations separately, looking at each of their board members’ perceived level of diversity, including any policies or statements which allude to diversity. The audited financial reports of both organizations will then be examined,
with specific attention paid to fundraising revenue and donations. Finally, the last section will take note of any significant findings from the examination of diversity (or lack thereof) and the financial analysis of both nonprofits in an attempt to see if the presence of diversity on a board has any impact on the resource mobilization and hence, on the organizational effectiveness of nonprofits.

*Hamilton Families Board Perceived as More Diverse.*

Hamilton Families mission is to end family homelessness in the San Francisco Bay Area (Mission). As stated in the mission, their emphasis is on assisting families who are vulnerable to be left homeless or who are currently homeless. It carries out three main programs, the first of which is Transitional Housing, which serves a limited amount of families that are at high risk for chronic homeless. They also carry out a main shelter program, which houses up to 50 families each night for up to six months, this provides them with comprehensive case management assistance (Hamilton). Lastly, Hamilton Families provides children’s services such as after-school tutoring and activities and school attendance monitoring (Children’s Services).

On the organization’s website, there is no direct mention of diversity. However, this appears to be reflected on through their core values. One of these values is families, and the value is worded as, “we respect the dignity of all types of families” (Mission). By including the word “all”, Hamilton Families connotes a value of inclusiveness on the part of the organization, implying that there is respect and value of the diversity of their family clients. Though the value isn’t explicitly stated in terms of their board or organizational makeup, it is possible that there are positive feelings toward diversity of their board and staff. This is so that Hamilton Families can best uphold the dignity of the families they serve by having them be represented on the board, an example of passive representation.
The board of Hamilton Families is made up of 14 members, 7 of which are women and 4 which are seemingly of a racial or ethnic minority (Board of Directors Hamilton). Being that half the board is made up of women and close to a third of the board is seemingly of a diverse race or ethnicity, their board is the more diverse out of the two nonprofit organizations analyzed for the purposes of this paper. While their executive director is a white male, the vice president of the board is male with seemingly minority race or ethnicity. He has served as the organization’s executive director for ten consecutive years in the past (Board). He is also one of the five seemingly older individuals who serve on the board. Therefore, while the executive director of Hamilton Families is a young white male, the rest of the board is made up of gender, ethnic, and racially-diverse individuals of whom are also relatively a mix of different ages, young and old.

Lastly, though nonprofit staff isn’t the focus of this paper, it is significant to note that the leadership staff of Hamilton Families is also diverse, albeit more so than the board. The staff is made up of 11 individuals, ten of which are women. The executive director of the staff team is a black woman, and, including her, there are three people of color on the staff team (Leadership). Since this group of people are responsible for coordinating and implementing the programs and services of Hamilton Families, it is worth mentioning their degree of diversity, because this may well have an impact on organizational effectiveness and may skew the results of the analysis and its conclusions, which should instead be focused on the board.

_Raphael House Board Perceived as Less Diverse._

Similar to Hamilton Families, Raphael House is a 501(c)3 whose mission is to help at-risk families to find stable housing and to achieve financial independence (Our Mission). The organization’s programs include a traditional shelter program and a “Bridge Program”, which connects families at their shelter with comprehensive case management, including with job
training, counseling, and housing assistance. Lastly, like Hamilton Families, Raphael House has a Children’s Program directed toward the children in their shelter program which provides them with a time for play and educational achievement (Children’s Program).

One of the values specifically listed by Raphael House is diversity, that the organization’s, “staff and board embrace the diversity of the community that we serve…[and] seek to create an environment that is inclusive of all backgrounds, beliefs and abilities” (Our Mission). This is important to include because, although Raphael House makes their commitment to diversity a public statement, the same is not to be said for the composition of their board. The action verb to “create” an inclusive environment denotes the organization’s desire for active representation to occur, which goes beyond simply having diverse staff and board members but to have those individuals advocate for the rights and needs of diverse populations.

Board composition of Raphael House includes sixteen members, seven of which are women and only two individuals whom are seemingly of a racial or ethnic minority (Board of Directors Raphael). A more in-depth comparison breakdown of the diversity of Hamilton Families and Raphael House is shown in Figure 2. There are five older individuals serving on the board as well; Raphael House’s executive director and vice president are both older white males. With women encompassing less than half of the board seats and only twelve percent of the board being of a diverse racial/ethnic background, Raphael House has the lesser diverse board as compared to Hamilton Families (see Figure 2 for a visual aid to this comparison). It is interesting, then, to go back to their explicit mentioning and valuing of diversity, when the makeup of their board appears otherwise.
The senior leadership staff of eight people, however, are more diverse than the board. The staff executive director is a black male, and there are two other minorities who hold staff positions, and five women (Our Staff). This is a more representative group of people as compared to Raphael House’s board, and so results from the financial analysis may be skewed due to the diversity of the staff positions and their contributions to the organization’s effective operations. These limitations and others are discussed in greater detail in the Limitations section.

**Fiscal Analysis Method and Supporting Hypotheses.**

*Data Sources*

For the purposes of this analysis, audited financial statements from both Hamilton Families and Raphael House will be used for comparison. This was determined to be the most accurate form of analysis in terms of this study, as Form 990s tend to be self-reported and aren’t required to use the Generally Accepted Accounting Principles (GAAP). The organizations’ audited financial statements will be more accurate and specific in terms of displaying donor-imposed revenue restrictions as well as the inclusion of donated in-kind services, both of which are not often recognized in the Form 990 (FAQs). Both of these factors are useful in this study because its hypotheses are largely concerned with fundraising revenue and services, those of which will be better reflected by using information taken from the organizations’ financial statements.

*Ratios for Comparison*

The fiscal analysis of Raphael House and Hamilton Families was performed using two ratios that Siciliano used in her study of 240 YMCA organizations to determine a relationship between board diversity and organizational performance. These two ratios that will be used will help to determine the fiscal health of Hamilton Families and Raphael House. The first is the
**operating** ratio, which is a measure of total unrestricted revenues to total expenses of the organization. This allows for a determination of how much the nonprofit can pay of its total expenses solely from its available revenue. It is a decent measure of an organization’s efficiency which controls for that revenue which is temporarily and permanently restricted, or that which the organizations cannot spend at their discretion. It also hints at the organizations’ ability to raise this type of unrestricted funding which is most useful for nonprofits.

The second ratio that was used on the two nonprofits in this paper was total contributions to total revenue, in order to best measure their **level of donations**. This is to test the paper’s hypothesis that board member diversity will positively impact the level of donations and contributions for the organization, a finding that was of mixed results by Siciliano in her study, showing enhanced donations in terms of occupation and age diversity, but not in gender diverse boards (1318). This paper is assuming that, based on the resource dependency theory of diversity by Brown (323), board members’ resources and relationships that they bring to an organization will enhance their organizational performance. Diverse board members who bring with them diverse relationships and connections are able to reach out to their own diverse funding sources. If this is true, these positive funding and contribution strategies could be associated with improved organizational effectiveness (323).

Two added ratios were used for this analysis that weren’t part of Siciliano’s study, and they measure fundraising efficiency and program efficiency. **Fundraising efficiency** is determined by the amount of unrestricted contributions divided by unrestricted fundraising expenses. This shows how many dollars the organization collects for every dollar of their fundraising expenses, or in other words, how efficient the nonprofit is at raising money. This is important to consider in terms of their degree of resource mobilization, because an organization
that is able to raise a sufficient amount of funds in an efficient manner leaves more resources to go toward service delivery and their larger mission. It is hypothesized that a more diverse board will have members that contribute differing and novel strategies towards fundraising tactics, some of those which could result in more efficient fundraising results.

Along with raising money to go toward the nonprofit’s mission, the determination of their 

**program efficiency** is a crucial way to see how much of the organization’s spending is directly going toward the mission, rather than to overhead or administration costs. This ratio is determined by the organization’s program expenses divided by their total expenses. Its significance goes back to how to determine organizational effectiveness for a nonprofit, which is in part based on their unique purpose of following their social responsibility, or how well they fulfill their mission. This may be related to board diversity based on Ingram’s view of board responsibility, particularly that they are in charge of monitoring and strengthening the nonprofit’s programs and services, including that of the program financials (See Figure 1). Since this paper utilizes the lens of the business case for diversity, it is posited that a diverse board brings with them greater problem-solving skills and innovation than that of a homogenous board. This may manifest itself in how skilled board members are at mobilizing the organization’s resources and spending in regard to their service delivery. For nonprofits involved in homeless outreach and support, shelter programming is a big responsibility, especially in regards to cost. It is hypothesized that Hamilton Families with its more diverse board makeup will have more of their expenses going toward their programming. This is because of their broader perspectives and insights regarding what it would take to best carry out the organization’s programs and services.
Hypotheses based on Fiscal Analysis Comparison.

In summary, the hypotheses regarding this analysis are as follows:

**H_1**: Hamilton Families will have a higher operating ratio compared to Raphael House.

**H_2**: Hamilton Families will have a higher level of donations compared to Raphael House.

**H_3**: Hamilton Families will be more efficient in their fundraising than that of Raphael House.

**H_4**: Hamilton Families will show a greater degree of their expenses going toward programming than Raphael House.

Results.

Table 1 below reports the findings for each of the four measures of comparison between Hamilton Families and Raphael House:

**Table 1: Results of Ratio Comparisons between Hamilton Families and Raphael House**

<table>
<thead>
<tr>
<th>Measures</th>
<th>Raphael House</th>
<th>Hamilton Families</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Efficiency (H1)</td>
<td>0.935</td>
<td>1.03</td>
</tr>
<tr>
<td>Level of Donations (H2)</td>
<td>0.933</td>
<td>0.197</td>
</tr>
<tr>
<td>Fundraising Efficiency (H3)</td>
<td>2.94</td>
<td>5.32</td>
</tr>
<tr>
<td>Program Efficiency (H4)</td>
<td>0.668</td>
<td>0.865</td>
</tr>
</tbody>
</table>

\(^1\) Measured in dollars ($), amount raised for every $1 spent on fundraising

Ratios found by using data from Hamilton Families and Raphael House financial statements, found in Works Cited.
Operating Efficiency.

Operating efficiency was measured for both organizations using their statement of activities located in the audited financial statement. A ratio of 1 or higher indicates that the organization has sufficient revenues on hand, or that which is currently unrestricted, to cover all of their expenses. Raphael House had an operating ratio of .935, and showed a much greater degree of temporarily restricted revenue than did Hamilton Families, with nearly $860,000 out of their total revenue of $4,145,060 being temporarily restricted, which equates to roughly 20% of their revenues as not being immediately useable (Raphael). Hamilton Families had an operating ratio of 1.03, indicating that the organization had a greater proportion of unrestricted funds on hand to cover their expenses (Hamilton Family). This analysis of the organizations’ respective operating efficiencies was in line with Hypothesis 1, that Hamilton Families was to have a higher operating ratio compared to Raphael House.

Level of Donations.

Hamilton Families level of donations in 2015 was .197, or 19.7%, which comprised the amount of their revenue that was due to donations and contributions, including special events net income. Instead, this organization receives the large majority of its revenue, nearly 73% in 2015, from the government in the form of grants and contracts. This is compared to Raphael House, which had a .933 level of donations, or 93.3% of their total revenue comprised of that which was donated by individuals, foundations, corporations, and church and civic groups. In 2015 the nonprofit received no grants or contracts from the government, and as such it seems to rely almost strictly on donated funds and services. The only non-donated amounts listed as part of their revenues were fees for service, and investment and rental income (Raphael). These results show that Raphael House garners a greater degree of public support than Hamilton Families. The
latter relies more so on financial support from the government in the form of grants and contracts. This finding that disproves Hypothesis 2, which posed that Hamilton Families would have a higher level of donations compared to Raphael House.

_Fundraising Efficiency_.

Though Raphael House has a higher level of donations and the appearance of more public support, Table 1 shows that the organization is not as efficient in their fundraising strategies as Hamilton Families. For every dollar Hamilton Families spends on fundraising, they earn $5.32. This is compared to Raphael House, which earns $2.94 per dollar of fundraising expense. Though its budget of expenditures is half that of Hamilton Families, Raphael House spent double the amount of what the former organization did on fundraising, $629,133 compared to $328,973. Despite this, the results from the ratios show that Raphael House is less efficient with their fundraising expenditures than Hamilton Families, which supports Hypothesis 3. These results connote that spending more doesn’t always equate to an equally sizeable return on that spending.

_Program Efficiency_.

The last row of Table 1 displays the program efficiency ratios of Raphael House and Hamilton Families. It shows what percentage of their total expenses were spent on programming. As predicted in Hypothesis 4, Hamilton Families had a higher ratio of .865 as compared to Raphael House’s .668, and this finding supports the last hypothesis. The ideal measurement for a nonprofit organization would be 1, with all of their spending being done on programs, however, this is an unrealistic goal. Nonprofit organizations do have to devote their resources to multiple sources, such as overhead costs which keep their facilities running, salaries for upper management personnel, and fundraising costs which help to assure that there isn’t a shortage of
funds coming in from donors whom many nonprofit organizations rely on for financial support. However, 86.5% of Hamilton Families’ expenses going towards their several housing and residence programs is a relatively high and efficient program percentage, when compared to Raphael House’s 66.8% of their expenses going toward similar programming.

**Discussion.**

The purpose of this analysis of Hamilton Families and Raphael House was to compare two organizations whose main difference was in terms of their board diversity, using the lens of the business case for diversity. Both organizations’ financial statements were used because this was the most accurate measure of their respective resource mobilization efforts, in terms of general operating efficiency, fundraising efficiency, donations, and programming efficiency. For purposes of this paper, resource mobilization is the most feasible measure of organizational effectiveness for nonprofits. This is because their degree of financial health, which includes available resources, often determines their measure of organizational effectiveness, since having enough funds to carry out service delivery programs is crucial to the mission. For Hamilton Families and Raphael House, with their several shelter and support programs for homeless families and individuals, resource mobilization is especially important since it is arguably expensive and time-consuming to operate whole shelters and individual case-by-case support programs.

The analysis of Hamilton Families and Raphael House supported all but one of the hypotheses, that regarding the level of donations. It is important to discuss if board diversity was in fact related to the reasons for why Hamilton Families, the nonprofit with the more diverse board, presented healthier financial assessment ratios regarding operating, fundraising, and programming efficiency. The most striking result from the analysis was that despite having a
lesser degree of public support, Hamilton Families was shown to be more efficient in their fundraising practices, as they raised more money per dollar of fundraising expense than Raphael House. This could be a reflection of the resources that diverse board members bring to their organization, specifically, that of a greater capacity for strategic planning.

Strategic planning was discussed in the literature review, as a part of the resource dependency theory. Even though Hamilton Families is currently relying on a majority of their revenue from the government, their fundraising efficiency may be a reflection of the board members’ ability to look to the future of their organization so as to guide its long-term direction (Brown 323). It might not be something the organization has to worry about presently, but if Hamilton Families suddenly stopped receiving government grants, they would need to find other sources of revenue, such as that from individual contributions, in order to survive. Their board may very well be aware of that, and so their fundraising efficiency is an example of their capabilities to utilize these strategic planning strategies.

The difference in program efficiency between Hamilton Families and Raphael House is also somewhat significant, with a difference of .197. Hamilton Families dedicated nearly 20% more of their expenses towards their programs and services when compared to Raphael House, through which the difference stemmed from their allocating more expenses to management and fundraising. The reasoning for this difference in program expenses may be related to board diversity in its being tied to group/decision process theory, in that social performance of diverse boards is much more enhanced. This is because board diversity leads to multiple perspectives and opinions, many of which could lead to more effective ways to help the nonprofit stay dedicated to their mission. Siciliano tested this assertion and did find that gender diversity did increase nonprofit social performance, meaning that these nonprofits kept their mission as a top
priority (1318). Based on this paper’s analysis and coupled with the review of group/process theory, Hamilton Families spending more funds on its programs may be a sign that it is more dedicated to its mission than Raphael House.

_Limitations._

The above findings are not to be viewed in full without addressing the limitations of this study. First, it is necessary to recognize the small sample size of the financial analysis. Being that only two organizations were used in the comparison, this may impact the validity of its conclusions. However, it was thought that analyzing two organizations was the most feasible option given the time limits. Looking at only two nonprofits also allowed for a more in-depth analysis and view of their respective organizations, and this degree of analysis may have been compromised if there were a greater number of organizations added to the study. Second, there is a limitation concerning the nature of the primary research being done remotely and looking solely at the organizations’ available online information. By relying only on available financial data, I was not able to see the organizations’ culture. I glimpsed at parts of this, based on their values and philosophies, but not hearing from any of the leadership of the organizations left me only able to infer.

Also, when comparing the two nonprofit boards and their perceived level of diversity, it is possible that I mistook certain racial or ethnic characteristics. This could be due to the quality of the photographs of the individual board members or possibly because of my unconscious biases when looking at the individuals, to label them a certain way when perhaps their true race or ethnicity differs. This degree of uncertainty was addressed in the analysis by noting that the measured levels of diversity were ‘perceived’ and not completely sure. Lastly, for the purposes of this paper, the measures of diversity used were only those that were visible, including gender,
race and ethnicity, and age. Therefore, the primary analysis was only concentrated on how these diversity variables could’ve affected organizational performance and effectiveness. It is possible, however, that the board members’ occupation, sexual orientation, level of education, or other nonvisible diverse traits impacted and may have skewed the results of the comparison. Therefore it is recommended that for further research studies on board of director diversity, these nonvisible variables are analyzed so as to note their possible effects on nonprofit organizational performance.

Conclusions.

In lieu of these limitations, the paper opened up the discussion for a broader consideration of what board diversity on nonprofit organizations can lend to their organizational effectiveness. Much of the previous research on board diversity, some of which was cited in this paper, is related to business sector performance. While boards, regardless of their for-profit or nonprofit status, serve similar functions, their organizational context does play a role. A nonprofit organization whose performance is based on their adherence to a social mission will have different priorities than a business whose main concern is making a profit, and, as such, the presence of diversity on their boards should differ in terms of its impact on organizational performance.

This paper showed one example whereby board diversity was a main difference between two nonprofits whose mission, location, and context were largely the same. Ratios were used to control for differences in scope, and the results showed that the more seemingly diverse board was more efficient with its general spending, fundraising, and program spending. These findings support both the resource dependency theory and the group/decision process theory, which posit that board members bring invaluable perspectives and insights into their decision-making, which
work toward the betterment of the organization. For resource-dependency theory, these perspectives can turn into a greater capacity for strategic planning, and for group/decision process theory, diverse ideas can translate into more innovative and effective strategies that go towards achieving the organization’s mission. For nonprofits, achievement of their mission, or purpose, is the main goal. Working toward a mission requires many resources that nonprofit organizations often cannot easily obtain, and therefore, if the innovative ideas of board members are bringing about these resources, they are an integral part of the organization’s effectiveness in mission achievement and service delivery.
### Appendix

**Figure 1: Normative Board Roles and Responsibilities (Miller-Millesen 2003)**

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Determine mission and purpose</td>
<td>Determine organization’s mission</td>
<td>Assure mission congruence and set broad policies</td>
<td>Determine mission and purpose</td>
<td>Determine organization’s mission and purpose</td>
<td></td>
</tr>
<tr>
<td>Select and support chief executive</td>
<td>Recruit, hire, evaluate, reward, or terminate, if necessary, the executive director</td>
<td>Select the executive</td>
<td>Select chief executive</td>
<td>Select and support the executive</td>
<td></td>
</tr>
<tr>
<td>Review executive’s performance</td>
<td>Establish conditions of employment</td>
<td>Support chief executive and assess performance</td>
<td>Review his or her executive’s performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plan for the future</td>
<td>Set policies and adopt plans for operations</td>
<td>Approve and periodically revise long-range plans for the institution</td>
<td>Ensure effective organizational planning</td>
<td>Engage in strategic planning</td>
<td></td>
</tr>
<tr>
<td>Approve and monitor programs and services</td>
<td>Oversee the programs of the institution to assure objectives are being achieved</td>
<td>Determine, monitor, and strengthen the organization’s programs and services</td>
<td>Approve and monitor the organization’s programs and services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provide sound financial management</td>
<td>Approve budget, establish fiscal policies and financial controls, monitor finances</td>
<td>Manage financial resources</td>
<td>Manage resources effectively</td>
<td>Ensure effective fiscal management</td>
<td></td>
</tr>
<tr>
<td>Ensure adequate financial resources</td>
<td>Provide adequate resources for organization</td>
<td>Secure financial resources</td>
<td>Ensure adequate resources</td>
<td>Raise money</td>
<td></td>
</tr>
</tbody>
</table>
Figure 2: Comparison of the Board Diversity of Hamilton Families and Raphael House

Hamilton Families: Board Composition by Race/Ethnicity.

- White: 71%
- Asian: 7%
- Hispanic: 21%

Raphael House: Board Composition by Race/Ethnicity.

- White: 88%
- Asian: 6%
- Hispanic: 6%

Hamilton Families: Board Composition by Gender.

- Women: 50%
- Men: 50%

Raphael House: Board Composition by Gender

- Women: 56%
- Men: 44%
Work Cited


