

**When Government Becomes The Principal Philanthropist:
The Effect of Public Funding on Patterns of Nonprofit Governance**

Chao Guo
Arizona State University

Address Correspondence To:

Chao Guo
Assistant Professor
Center for Nonprofit Leadership and Management
College of Public Programs
Arizona State University
P.O. Box 874703
Tempe, AZ 85287-4703
Phone: (480) 965-8527
Fax: (480) 965-5664
E-Mail: cguo@asu.edu

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Abstract

This study uses board governance as analytical lenses for exploring the effect of government funding on the representational capacities of nonprofit organizations. Based on a typology of governance patterns that indicate the extent to which nonprofit organizations represent community interests, it presents analyses of survey data on urban charitable organizations to show how nonprofit governance patterns are associated with levels of government funding as well as other environmental and contextual factors. The findings suggest that government funding reliance decreases the likelihood that a nonprofit organization would develop a strong, community board (i.e., a board with both higher community representation and stronger board power over chief executive) through two possible mechanisms of legitimization – the democratization effect and the professionalization effect. These effects, however, might be counter-balanced by the use of volunteer labor, which increases the likelihood of a strong, community board.

In recent years, government has emerged in the United States as a major “philanthropist,” *the* major philanthropist in a number of the principal, traditional areas of philanthropy.

-- Commission on Private Philanthropy and Public Needs (1975, 89)

Three decades after the Commission on Private Philanthropy and Public Needs (the Filer Commission) made the above statement, the prevalence of nonprofit organizations in the delivery of public services and the importance of government as a financier to nonprofit contractors continue to increase in the United States (O’Neill 2002; Salamon 1995; Van Slyke 2002). Accordingly, there is a growing concern about the consequences of this interdependent (Saidel 1991) relationship for the autonomy, mission and organizational priorities of nonprofit agencies (Alexander, Nank, and Stivers 1999; Bernstein 1991; Boris and Steuerle 1999; Gronbjerg 1993; Kettner and Martin 1996; McMurtry, Kettner, and Netting 1991), and particularly for nonprofit governance structures and functions (e.g., Kramer 1981; Harlan and Saidel 1994; McClusky 2002; O’Regan and Oster 2002; Renz 1999; Saidel and Harlan 1998).

While the majority of research on the effect of government funding on nonprofit governance has offered insightful observations of board functions associated with service delivery, a few studies has taken a different approach by connecting nonprofit governance to the larger context of the community and democratic role of nonprofit organizations (e.g., McCambridge 2003; Rosenbaum 1981; Smith and Lipsky 1993; Stone 1996). In their seminal book, *Nonprofit for Hire*, Smith and Lipsky (1993) argued that nonprofit organizations are “tangible, significant manifestations of community” (22) and nonprofit boards “embody and represent community interests” (74). They further contended that, due to the growing financial ties with government, resource dependence might eventually alter nonprofit governance by transforming nonprofit boards from “agents of the community” to “agents of government” (72).

This study focuses on Smith and Lipsky's concern over the potential tension between governing nonprofit organizations as agents of community and operating them as agents of government. Starting with a typology of nonprofit governance patterns that indicate the extent to which nonprofit organizations represent community interests, it then provides a theoretically grounded perspective to understand the implications of governmental dependence for nonprofit governance patterns by combining resource dependence and institutional theories. Based on survey data on 95 urban charitable organizations, the study finds that an organization is more likely to develop a board with both higher community representation and stronger board power over chief executive when it receives lower percentage of government funds, relies more on volunteer labor, and when it is smaller in size and younger in age.

This study makes two important contributions to existing literature. First, as an emerging field of study, nonprofit governance has still been a relatively isolated area of research, lacking connections to wider disciplinary and theoretical concerns (Ostrower and Stone 2001). This study attempts to bridge the gap by engaging a dialogue between nonprofit governance and the representational effects of nonprofit organizations. More specifically, it uses board governance as analytical lenses for exploring the effect of government funding on the capacities of nonprofit organizations to represent community interests. Second, most existing studies on the effect of government funding on nonprofit governance rely on either case studies (e.g., Stone 1996) or interview data (e.g., Bernstein 1991; Smith and Lipsky 1993); a few studies that use survey methods base their data on organizations that receive government grants (e.g., Saidel and Harlan 1998). By contrast, this study conducts a survey of both those charitable organizations that receive government funding and those that receive none to empirically examine how the reliance

on government funding, along with other environmental and contextual factors, determines the varying patterns of nonprofit governance.

The remainder of the article is organized as follows. The first section develops a typology of nonprofit governance patterns. Based on this typology, the second section offers a theoretical framework to examine the effects of government funding and other factors on nonprofit governance patterns. The third section describes the research methodology, and the fourth and fifth sections present and discuss findings of the study. The study concludes with theoretical and practical implications and directions for future research.

Governance Patterns and Representational Capacities of Nonprofit Organizations

Since Alexis de Tocqueville's (1956) classic work *Democracy in America*, various American pluralist theorists have discussed the democratic role of nonprofit organizations at the institutional level. Central to the pluralist understanding of the democratic functions of nonprofit organizations are their representational effects (Warren 2001, 83). Two important versions of pluralism offer insights into such effects. Theorists of interest-group pluralism (Dahl, 1956; Truman, 1951) maintain that democratic politics is determined by competition and bargaining among interest groups that each is representing its own constituencies. Mediating structure theorists (Berger and Neuhaus 1977) hold that voluntary associations mediate between individuals and "mega-structures" (i.e., government and large corporations) by giving audible "voice" to individual concerns and, thereby, maintain the legitimacy of a democratic regime (For detailed discussions, see Bucholtz 1998; Frumkin 2002).¹

The power of such representational effects depends in part on the capacities of nonprofit organizations to communicate the interests of their constituencies by establishing representative democracy within the organizations, i.e., representative structures through which the views and concerns of the constituencies are represented by those who speak on their behalf in the organizations (Warren 2001, 84; Rosenblum 1998). Serving as the governing bodies of nonprofit organizations and providing linkages to external constituencies and critical resources (Middleton, 1987), boards of directors are uniquely positioned to determine the representational capacities of nonprofit organizations. It is argued that board governance concerns how well the views of the constituencies are represented within an organization, and how their views correspond to what their organization communicates to government (Berry 1994, 23; Crotty 1994). It is further suggested that if nonprofit organizations are to serve representational and mediating purposes, then they should “represent the actual populations of their constituent geographic domains . . . in governance” (Austin and Woolever 1992, 181).

In line with the above arguments, this study presumes that the representational capacities of nonprofit organizations are indicated by the extent to which certain representative mechanisms are available in their governance structures to retain equality and control of decision making by their constituents and the larger community.² A review of the literature demonstrates that representative mechanisms can be designed into nonprofit governance structures around two important board attributes: board composition and board-executive relationship. Board composition defines who is entitled or required to participate in the governing process. It is naturally related to the linking or external representation function of nonprofit boards (Stone 1996) in the sense that boards include representatives from important constituencies for purposes of resource acquisition, legitimacy, and image. The prescriptive research on nonprofit boards

posits that boards should embody and represent community interests (Smith and Lipsky 1993; Jackson and Holland 1998), and that the composition of boards should “reflect community population characteristics” in a descriptive sense (Austin and Woolever 1992, 183). Community representation on a board is believed to enhance its ability to reflect community interests in organizational policies, strategies, and operations (Alexander, Weiner, and Succi 2000; Gamm 1996). The empirical research, however, shows that many nonprofit boards are not broadly representative of the community. Board membership tends to be limited to upper-income, professional employers and managerial persons, while the community has little or no representation (Herman and Tulipana 1985; Middleton 1987; Odendahl 1990; Widmer 1985).

Board-executive relationship defines patterns of dominance among the leadership core. It is associated with the control function of the board (Stone 1996) in the sense that the power of boards relative to executives indicates the ability of boards to perform fiduciary responsibilities and maintain control over organizational direction. The importance of board power to the representational capacities of nonprofit organizations lies in the fact that a board that lacks power, even if it is descriptively representative of its constituency, may have limited substantive influence beyond its symbolic value. The prescriptive research posits that boards should stand at the top of the hierarchy of authority and at the center of leadership responsibility in organizations (Axelrod 1994; Carver 1997; Jackson and Holland 1998), and have the right to provide direction in key functional areas such as financial management, policy-making, and service monitoring (Harris 1994; Houle 1989). The empirical research, on the other hand, documents that many nonprofit boards are reduced to a mere rubber-stamp function and a “director apathy” feature (Siciliano and Spiro 1992), and often viewed as insignificant players in the contracting process with government (Bernstain 1991; Gronbjerg 1993; Smith and Lipsky 1993).

In sum, both of the two board attributes discussed above are important dimensions along which representative mechanisms can be structured into nonprofit governance. Therefore, a consideration of both board attributes would help enrich our understanding of representational capacities of nonprofit organizations. Toward that end, I submit that a typology of nonprofit governance patterns be developed upon the combination of both themes. In terms of board composition, a board may be characterized either by the presence of community representatives (i.e., the inclusion of more clients, volunteers, rank-and-file staff members, and neighborhood residents), or by their absence (i.e., the inclusion of fewer community representatives but more corporate, professional and social elite); in terms of power distribution, a board may either be a strong one that dominates chief executive, or a weak one that is dominated by chief executive.

Insert Figure 1 Here

As illustrated in Figure 1, the resulting typology reveals four patterns of governance structure:

Strong, community board. Occupying the upper-right-hand quadrant, this pattern describes the type of board with both higher community representation and stronger board power over chief executive. This type of board not only provides descriptive connections between the organization and the community, but also demonstrates the controlling power of the community. A board that is more truly representative and more active might result in more community responsibility and more responsiveness from the organization (Zimmermann 1994, 401). Therefore, a nonprofit organization with a strong, community board is regarded as having the highest capacity to represent community interests.

Weak, community board. Occupying the lower-right-hand quadrant, this pattern describes the type of board with higher community representation yet weaker board power over

chief executive. With the involvement of community representatives in its board, an organization promotes its legitimacy by demonstrate that it “justly and properly speaks for and acts on behalf of [the community] it takes as its constituency” (Chaskin and Peters 2000, 16). Yet with a board that lacks power, it says little about the possibility for the community to make any substantive difference in the organization through the board. A nonprofit with a weak, community board is thus believed to have the second-highest representational capacity.

Strong, non-community board. Occupying the upper-left-hand quadrant, this pattern describes the type of board with lower community representation but stronger board power over chief executive. A stronger board power seems to indicate stronger control of board over organizational directions, and linkages with corporate, professional, and social elite might help the organization perform other important functions such as fundraising and financial management. Yet the lack of community representatives on board could seriously constrain the capacity of the organization to represent community interests.

Weak, non-community board. Occupying the lower-left-hand quadrant, this pattern describes the type of board with lower community representation and weaker board power over chief executive. A nonprofit organization with this type of board is regarded as having the lowest capacity to represent community interests, as both of the representative mechanisms are absent in its governance structure.

All together, this typology of governance patterns provides a useful guide to understanding the varying representational capacities of nonprofit organizations, with each of the four governance patterns indicating a certain degree to which a nonprofit board is representative of community interests.

Effect of Government Funding On Nonprofit Governance Patterns

This section examines the implications of government funding reliance for nonprofit governance patterns. Prior research suggests the complementarity between resource dependence (Pfeffer and Salancik 1978) and institutional (DiMaggio and Powell 1983) theories in understanding environmental influences on structure and functioning of nonprofit organizations (Bielefeld 1992; Galaskiewicz and Bielefeld 1998) and particularly on nonprofit governance (Stone 1996). Based on the governance typology developed in the previous section, this section combines both theories to discuss how governmental funding dependence, along with other dependence and institutional factors, determines the variation in nonprofit governance patterns.

Resource Dependence

Theorists from this perspective understand nonprofit board as part of both the organization and the resource environment and as a boundary-spanning unit that reduce external dependencies through links to critical resources (Middleton 1987). Two types of resources are probably of most importance to the survival of nonprofit organizations: financial revenue, among which government funding has gained increasing importance in recent decades; and volunteer labor. Since government plays the dual role of a grant-maker for nonprofit organizations and an important institutional actor with its laws and legal mandates, the effect of dependence on government funding will be examined later along with discussions of various institutional factors. Next, I will discuss the implications of dependence on volunteer labor.

Dependence on volunteer labor. Voluntary action has played an important role in American society throughout the history (Sundeen 1990). Today, volunteer labor is still a highly

valued resource to nonprofit organizations (Brown 1999). Due to the absence of bureaucratic or monetary incentives within the volunteer labor context (Pearce 1982), volunteers join and stay with nonprofit organizations primarily for a variety of solidarity rewards (e.g., social activities such as potluck dinners, parties, and community celebrations, etc.) and purposive rewards (e.g., opportunities for input into organizational decision making, etc.; Oropesa 1995).

For organizations that rely heavily on volunteers to carry out programs and activities, their boards might help reduce the uncertainties associated with dependence on volunteer labor. Board appointments are probably the highest level of purposive rewards that an organization has to offer to volunteers. At least in some cases, volunteer participation is more likely to be motivated when an organization provides structural opportunities (e.g., board appointments) for volunteers to be involved in governance and management activities and to gain some sense of ownership over the organization (Knoke 1981; Nowland-Foreman 1998; Oropesa 1995; Thompson and Bono 1992). Moreover, recruiting board members from their pools of volunteers may serve as a safeguard for those volunteer-dependent organizations to maintain their fundamentally volunteer character (e.g., Saidel and Fletcher 2003). Thus, to the extent that an organization is dependent on volunteer labor, it is likely to include more representatives of volunteers in its board.

Dependence on volunteer labor is might also shift the power balance between board and chief executive in favor of board. Lipsky and Smith (1989) observed that when an organization relies on volunteers for labor, volunteers have a certain power and control in the organization. Moreover, in some organizations where volunteers elect their leaders, these volunteers “act more like constituents than subordinates” (Pearce 1982, 392) and thus are more powerful than those in

other organizations. Such volunteer power is likely to be reflected in the power of board over chief executive when more representatives of volunteers are included in its board.

Volunteers are an important group of community representatives. Moreover, many volunteers are often from the local community, or former (or existing) beneficiary of the services provided by the organization. Therefore, I predict that volunteer dependence lead to both more community representatives on a board and higher board power over chief executive.

Hypothesis 1:

The more dependent an organization is on volunteer labor, the more likely it is to develop a strong, community board vis-à-vis other governance patterns.

The Institutional Factors

Institutional theory emphasizes the influence of state, societal, and cultural pressures on organizational behavior, and states that conformity to social expectations contributes to organizational success and survival (DiMaggio and Powell 1983; Meyer and Scott 1992). The institutional view suggests that nonprofit board of directors serve as a legitimizing device that reflects the expectations of important stakeholders of its institutional environment in its composition and structure (Abzug and Galaskiewicz 2001).

Institutional effects on board composition and structure exist at several levels (Luoma and Goodstein 1999). Following Luoma and Goodstein, I disaggregate institutional influences into three levels of analysis: the societal level (legal influences), the industry level (industry regulation), and the organizational level (organizational size).

Legal influences/Dependence on government funding. At the society level, an organization is less likely to resist institutional pressures that constrain its action when the organization is heavily dependent on the source of these pressures (Oliver 1991). Government is not only arguably the most important institutional actor with its laws and legal mandates, but also

the largest funder for many nonprofit organizations. For those organizations that receive higher levels of government funding it is therefore important to gain their legitimacy through compliance with government expectations. Previous research (Galaskiewicz 1985; Harlan and Saidel 1994; Saidel 1991) pointed to legitimacy as an important factor in the relationship between government and nonprofit grantees.

Two trends associated with government contracting might influence the manner in which a nonprofit demonstrates its compliance with government expectations. The first trend is that of democratization. From the mid 1960s, the era of the Great Society programs, to the late 1970s, mandated participation of community representatives in organizational decision-making became the hallmark of a great number of government-sponsored nonprofit agencies (Peterson 1970; Piven and Cloward 1971). In order to obtain governmental grants, nonprofit contractors would have to democratize their governance and management practices in compliance with this public mandate. As a result of this trend of democratization, boards of government-sponsored nonprofit agencies were found to be more descriptively representative of the community than the traditional nonprofit boards (Smith and Lipsky 1993, 77).

A more recent trend is the professionalization of those nonprofit organizations that receive government funding (Salamon 1995). As stated by DeHoog (1985), a preference for professionalism has been a key factor in contracting decision-making reviews, and professional standards and practices often serve as a substitute for assessing the actual needs of clients and actual service outcomes (449). The development of such a culture of professionalism may have no effect on productivity or efficiency, but it serves to signal to government funding agencies that the organization is rational and legitimate (Fennell and Alexander 1987; Perrow 1986). To gain its legitimacy in the eyes of government agencies and win contracts from them, a nonprofit

organization may have to meet their expectation by reflecting the culture of professionalism in their board composition, i.e., to include less community representatives and more professional, corporate, and social elite on its board.

Whichever trend dominates an organization, dependence on government funding generally shifts power within the organization away from the board and toward the chief executive, for several reasons (Smith and Lipsky 1993, 88-91). First of all, government funding significantly changes the scale of an organization, thus making it more difficult for the board to monitor organizational activities. Furthermore, government contracts involve an organization in regulation-writing, the legislative process, and government budgeting cycles with which most board members are unfamiliar, thus resulting in an information gap between the board and staff which favors the staff. Additionally, program goals or priorities have usually been determined outside the organization, thus minimizing the board's role in program planning and development. A number of empirical studies (e.g., Gronbjerg 1993; Harlan and Saidel 1994; Kramer 1981; Saidel and Harlan 1998) have documented limited board participation and influence relative to chief executives in governance activities related to contracting.

Therefore, I anticipate that the two trends associated with dependence on government funding have mixed impacts on community representation on a nonprofit board, i.e. the trend of democratization might lead to more community representatives on a board while the trend of professionalization might attract more professionals, but both have negative impacts on board power over chief executive. In either case, a strong, community board is less likely to emerge.

Hypothesis 2a (Democratization effect):

The more dependent an organization is on government funding, the less likely it is to develop a strong, community board vis-à-vis a weak, community board.

Hypothesis 2b (Professionalization effect):

The more dependent an organization is on government funding, the less likely it is to develop a strong, community board vis-à-vis a weak, non-community board.

Industry differences. At the industry level, institutional effects are particularly important for organizations operating within highly regulated industries, which have a context that reinforces accountability to public concerns (Pfeffer and Salancik 1978) and heightens the importance of maintaining legitimacy (Oliver 1991; Scott 1995). Whereas nonprofit organizations as a whole operate in institutional environments where legitimacy is critical to an organization's ability to secure vital resources (Biglow and Stone 1995), institutional effects are especially salient for health nonprofits because they operate in a more highly regulated industry that is dominated by a culture of professionalism and regulation strongly influenced by professionals (Pawlson and O'Kane 2002). It is then reasonable to expect that, in order to obtain legitimacy in the health industry, an organization would mirror the prevalence of professionalism with a professional outlook on its board composition. Moreover, as a legitimating device, the substantial function of the board becomes less important than the symbolic value of its composition. Therefore, I predict that being a health nonprofit organization is likely to have fewer community representatives on a board and less board power over chief executive.

Hypothesis 3:

A health nonprofit is less likely to develop a strong, community board vis-à-vis a weak, non-community board.

Organizational influences. The importance of institutional effects can also be reinforced at the organizational level, where the size of an organization indicates its visibility and level of attention from institutional stakeholders (Goodstein 1994). As an organization grows in size, it attracts more attention from institutional stakeholders and needs to demonstrate its responsiveness to their expectations, possibly through stakeholder representation on board

(Luoma and Goodstein 1999). Although evidence is modest in the nonprofit literature, it seems reasonable to extend the above argument and expect the association of organizational size with community representation on nonprofit board.

Organizational size might also have a negative impact on board power over chief executive. The chief executives of larger nonprofits tend to acquire more power relative to their board, because of their deeper firsthand knowledge about the complexity of their organizations (Smith and Lipsky 1993; Zald 1969). In sum, I expect that organization size have a positive impact on community representation on board but a negative impact on board power.

Hypothesis 4:

A larger organization is less likely to develop a strong, community board vis-à-vis a weak, community board.

Other Organizational Factors

In determining the impacts of governmental dependence and other dependence and institutional factors, other variables affecting nonprofit governance patterns should be controlled. Board size, for instance, relates directly to board composition. A larger board allows an organization to include members of multiple constituencies (Abzug et al. 1993; Kang and Cnaan 1995). Board size also relates to board involvement and influence, with larger boards being relatively more involved in governing activities (Miller and Weiss 1988). In addition, the age of an organization is associated with board power. Younger nonprofits are more likely to be dominated by the board than older nonprofits (Harlan and Saidel 1994; Murray, Bradshaw, and Wolpin 1992; Zald 1969). Although it is not entirely clear how these variables might affect board patterns, it would be interesting to empirically examine their associations.

Data and Methods

Sample and Data Collection

Survey questionnaires were sent out in January 2002 to the chief executives of 376 randomly sampled nonprofit organizations with 501(c)3 tax exemption status in Los Angeles, California.³ Survey questions asked for respondents' reports of governance patterns, and collected information on government funding and other factors associated with nonprofit governance. As of May 2002, a total of 97 survey questionnaires were completed and returned, for with a response rate of 25.80 percent. Among the 97 returned questionnaires, two were determined as incomplete, leaving 95 questionnaires qualified for data analysis.

This fairly low response rate, while common in organizational surveys, is likely to produce biased samples. Therefore, it is important to check if the sample data differ from the national data in potentially nontrivial ways. According to the distribution of the 95 responding organizations by their industry of operation, the largest group is social and legal services, with over 27 percent of the respondents taking this form; health organizations, as the next largest type, comprise 20 percent of the respondents; the third and fourth largest types are education/research organizations and arts/culture organization, with nearly 17 and 12 percent of reporting organizations falling into these two categories respectively. The distribution of the samples is consistent to that of the most recent national data, which reports that most common categories of reporting public charities are human services (35 percent); education (16 percent); health (15 percent); and arts, culture, and humanities (11 percent; see Weitzman and Jalandoni 2002).⁴

Dependent Variable

The dependent variable, GOVERNANCE, examines the patterns of nonprofit governance. It is defined as a categorical variable and takes on one of four values: 1 = strong, community board; 2 = weak, community board; 3 = strong, non-community board; 4 = weak, non-community board. Thus, this variable indicates which of the four governance patterns an organization develops.

Two important board attributes, namely Board Representation (BR) and Board Power (BP), are examined to measure this variable. In terms of the first attribute, inclusion of 34 percent or more community representatives in the board is regarded as having strong BR and assigned the value of 1, otherwise 0.⁵ In terms of the second attribute, a strong board that dominates chief executive is regarded as having strong BP and assigned the value of 1, otherwise 0.⁶ The four categories of the dependent variable are then defined as certain combination of the above two attributes. A strong, community board is coded as a board with both strong BR (BR=1) and strong BP (BP=1), and assigned the value of 1. A weak, community board is coded as a board with strong BR (BR=1) but weak BP (BP=0), and assigned the value of 2. A strong, non-community board is coded as a board with weak BR (BR=0) but strong BP (BP=1), and assigned the value of 3. A weak, non-community board is coded as a board with both weak BR (BR=0) and weak BP (BP=0), and assigned the value of 4.

Independent and Control Variables

Four independent variables are included in the model. VOLUNTEER: This variable examines the extent to which an organization is dependent on volunteer labor. It is defined as a binary variable and measured by reported level of volunteer use. For the purpose of this study, a

report of 50% or more organizational work completed by volunteers is assigned the value of 1, otherwise 0. GOVERNMENT: This variable examines the extent of legal influences associated with dependence on government funding. It is measured by the reported percentage of government funding in a given organization's funding composition. INDUSTRY: This variable examines the extent of institutional effects at the industry level, and is defined as a binary variable and measured by industry type. For the purpose of this study, health service nonprofits are assigned the value of 1, otherwise 0. SIZE: This variable examines extent of institutional effects at the organizational level, as indicated by the size of an organization. It is measured as the natural log of an organization's reported annual budget for the year 2001.

Two control variables are included in the model. BSIZE: This variable examines the size of an organization's board. It is measured by the natural log of the total number of people serving on the board of directors of a given organization. AGE: This variable examines the age of an organization. It is measured by the difference between the year of 2001 and the year when an organization was founded.

Tables 1 and 2 provide the means and standard deviations, as well as the correlation matrix, of all variables.

Insert Tables 1 and 2 Here

As indicated in Table 1, there is an uneven distribution of the responding organizations by their governance patterns. The "weak, non-community board" is clearly the largest group, with 42 percent of the respondents falling within this category. Taken together with the "strong, non-community board", 58 percent of the respondents reported to have a board consisting mainly of corporate, professional, and social elite. By contrast, the "weak, community board" is the

smallest of the four groups, with only 13 percent of the respondents falling within this category. The “strong, community board” category, which is the focus of this study, takes the remaining 24 percent of reporting organizations.

Results

In this study, the responses that we are interested in are nonprofit governance patterns. It takes four values and there is no natural ordering among the different values, which makes multinomial logistic regression an appropriate method to use.

Table 3 displays the results of the multinomial logistic regression models of nonprofit governance patterns.

Insert Table 3 Here

The three models shown in the table are nested in that we have added new independent variables in each new model. The most common method to contrast the fit of nested multinomial logistic regressions is the log likelihood ratio test (Knoke and Bohrnstedt 1994). The test statistic (G^2), which compares the ratio of the likelihoods of two nested models, is distributed as a chi-square with degrees of freedom equal to the difference in the number of predictors between the two models, which is also equal to the difference in the degree of freedoms of the two models. The formula for the test statistic is:

$$G^2 = -2\ln(L_0/L_1) = (-2\ln L_0) - (-2\ln L_1) = 2(\ln L_1 - \ln L_0)$$

Model 1 provides the baseline model including only the control variables: AGE and BSIZE. Model 2 adds the variable VOLUNTEER to test the effect of dependence factors. The

addition of this variable significantly improves the model over Model 1 ($G^2 = 45.80$ with degrees of freedom equal to 3). As compared to Model 2, Model 3 adds additional three variables GOVERNMENT, INDUSTRY, and SIZE to test the effect of institutional factors, which again significantly improve the model fit over Model 2 ($G^2 = 30.79$ with degrees of freedom equal to 9). Since Model 3 has the highest overall fit, I focus on Model 3 to discuss the results of hypothesis testing and relevant findings.

The coefficients in Model 3 indicate the effects of each independent variable on being in the “weak, community board”, “strong, non-community board”, or “weak, non-community board” category respectively relative to being in the “strong, community board” category, the reference category. A positive and significant logistic coefficient means that, controlling for other variables in the equation, the independent variable increases the odds of being in the non-reference category, i.e., the possibility of being in the non-reference category over that of being in the reference category. Conversely, a negative significant coefficient implies that the independent variable decreases the odds of being in the non-reference category.

Hypothesis 1 posits that an organization more dependent on volunteer labor has higher possibility to develop a strong, community board vis-à-vis any other types of board. As expected, the variable VOLUNTEER has negative and significant coefficients at the 0.05 level in the “weak, community board” and “strong, non-community board” categories, and at 0.01 level in the “weak, non-community board” category, of Model 3. It indicates that reliance on volunteer labor is associated with a higher likelihood of developing a strong, community board.

Hypotheses 2a and 2b are alternative arguments. Hypothesis 2a predicts that an organization with greater reliance on government funding is less likely to develop a strong, community board vis-à-vis a weak, community board. In contrast, Hypothesis 2b states that the

more dependent an organization is on government funding, the less likely it is to develop a strong, community board vis-à-vis a weak, non-community board. The variable GOVERNMENT has positive and significant coefficients at the 0.1 level in the “weak, community board” and the “weak, non-community board” categories, thus providing evidence to support both hypotheses.

Hypothesis 3 holds that health service nonprofits are less likely to develop a strong, community board vis-à-vis a weak, non-community board. The variable INDUSTRY, a dichotomous variable with “1” referring to the health service category and “0” denoting the rest, has insignificant coefficient in the “weak, non-community board” category of Model 3, providing no support to Hypothesis 3.

Hypothesis 4 holds that a larger organization is less likely to develop a strong, community board vis-à-vis a weak community board. The variable SIZE has an insignificant coefficient in the “weak, community board” category of Model 3, providing no support to Hypothesis 4. However, this variable has positive and significant coefficients at 0.05 level in the “strong, non-community board” and the “weak, non-community board” categories, suggesting that a larger organization is more likely to develop a non-community board (weak or strong) rather than a strong, community board.

The only control variable that remains significant in Model 3 is AGE. Similar to the variable SIZE, this variable has negative significant coefficients in both the “strong, non-community board” and the “weak, non-community board” categories, suggesting that an older organization is more likely to develop non-community board (weak or strong) rather than a strong, community board.

Discussion

The focus of this study is on the effects of government funding on nonprofit governance patterns. The results confirm my predictions that an organization with greater government funding reliance is more likely to develop a weak, community board or a weak, non-community board than a strong, community board. Findings of the study suggest the existence of two possible legitimizing mechanisms through which government funding affects nonprofit governance patterns. Influenced by the trend of democratization, an organization that receives higher percentage of government funding might be less likely to develop a strong, community board than a weak, community board; or alternatively, influenced by the trend of professionalization, it might be less likely to develop a strong, community board than a weak, non-community board. In other words, with its dependence on government funding an organization tends to demonstrate its legitimacy by maintaining either a community or a professional outlook on its board composition, but the actual board influence relative to chief executive might be compromised along the way. The reduced board influence associated with government funding dependence is consistent with other scholars' findings of the "leadership centrality" of chief executives with respect to their boards in nonprofits with government grants and contracts (Herman and Heimovics 1990; Saidel and Harlan 1998).

In either case, it appears that governmental dependence might push nonprofit boards away from the making of important decisions and even further away from the community. It provides some supporting evidence to Smith and Lipsky's concern about the transformation of nonprofit boards from "agents of the community" to "agents of government." The irony is that, as nonprofit boards are expected to take on more responsibility of representing their constituents

and educating their funding sources to a more realistic sense of what our social needs are (Zimmermann 1994), reliance on government funding might actually constrain their representational capacities. Findings by other scholars have also demonstrated that government funding leads to less volunteer support (Nowland-Foreman 1998), less private donation (Brooks 2000), and less advocacy for the community (Eikenberry and Kluver 2004; Skloot 2000). The results reported here, in conjunction with the aforementioned findings, suggest that governmental dependence might eventually shrink the base of public support of nonprofit organizations and limit their external representational functions.

Another resource dependence factor predicted to be associated with the likelihood of a strong, community board is the use of volunteer labor. As predicted, the results show evidence of a positive relationship between volunteer dependence and the likelihood of developing a strong, community board vis-à-vis any other types of board. This finding suggests that, besides their economic value, volunteers may also help nonprofit boards establish stronger ties with the community and foster their democratic value as representatives of community interests. Is the use of volunteers a viable approach to counter-balancing the undesirable consequences of government funding reliance, then? Not necessarily so. Previous studies noted that government funding might crowd out volunteers: as nonprofits expand their services with the aid of government funds, the informal care originally provided by volunteers often gives way to formal care by professionals when the requirements of government funding lead to greater accountability and role specialization (Smith and Lipsky 1993; Van Til 1988). Moreover, past research also reported that the supply of volunteers differs among industries (Segal and Weisbrod 2002). Due to these factors, the reliability of the use of volunteers as a counter-balancing power to government funding reliance deserves further investigation.

One of the institutional factors predicted to affect nonprofit governance patterns is industry differences. We anticipated that a health nonprofit is less likely to develop a strong, community board vis-à-vis a weak, non-community board. Our results, however, do not provide evidence for such a relationship. Either being in the health industry has no impact on the likelihood of a strong, community board or the relationship might be confounded by some unknown factors. For example, I have created a dichotomous variable (1 for health organizations, 0 for all others) to test the possible institutional effect of the health industry. Yet by combining all other industries into the null category and health industry into the primary category, this variable throws out a lot of information. It is possible that some industries included in the null category have similar effects on governance patterns that confound the results. Due to the meager literature on this subject, more research is needed to explore the broader question of whether there are systematic differences across industries on the likelihood to develop a strong, community board.

Organizational size is another institutional factor associated with the likelihood of a strong, community board. I expected that a larger organization is less likely to develop a strong, community board vis-à-vis a weak, community board. Although the results are not in support of my prediction, they suggest that a larger organization is more likely to develop a board with lower community representation. Similarly, the results suggest that an older organization is also more likely to develop a board with lower community representation. These seem to indicate that, as professionalism is becoming a trend in public and nonprofit sectors (DeHoog 1985), a larger or older organization might choose to legitimize its existence by making the outlook of its board more professionalized instead of more community oriented.

Conclusion

This study makes significant contributions to the existing nonprofit governance literature by linking board governance to the representational effects of nonprofit organizations. It takes the representational function of nonprofit organizations as its point of departure and asserts that nonprofit organizations must create the necessary representational capacities for engaging in external representational activities. Then, using board governance as analytical lenses to examine their representational capacities, it develops a typology of governance patterns that indicates the extent to which they actually represent community interests. This typology is the first step toward a better understanding of the representational capacities of nonprofit organizations, and offers a preliminary analytical framework for future research in this direction.

Findings of the study suggest that government funding might pose serious challenges to the representational capacities of these nonprofits through its impacts on their governance patterns. These findings have implications for both policy makers and nonprofit leaders. Policy makers who advocate for privatization and service contracting with nonprofit agencies need to understand the distinctive logic and purposes of nonprofits (Frumkin and Andre-Clark 2000), and to be aware of the potential damage that government funding might cause to the representational capacities of nonprofit organizations. Moreover, policy makers should make proactive efforts to sustain nonprofit organizations' community orientation and their base of public support. Nonprofit agencies, on the other hand, need to maintain a workable balance between their needs for government funding and their equally compelling needs to retain a community orientation. In light of the positive association between volunteer dependence and the likelihood of a strong, community board, a possible solution would be to counter-balance the

effects of government funding through making innovative use of volunteer labor, although the reliability of this approach needs to be further examined.

The interdependence between government and nonprofit organizations has been on the rise in the past several decades, and may continue to grow in the twenty-first century (Salamon, 1995). Therefore, the importance of understanding the impacts of such interdependence on the community and democratic role of nonprofit organizations cannot be overstated. Future research should further analyze the effect of government funding on patterns of nonprofit governance and hence the representational capacities of nonprofit organizations. Research is also needed to explore and examine policy options and organizational strategies in response to the potential negative consequences of governmental dependence.

Several limitations of this study should also be noted. First, although our results suggest the association between government funding dependence and certain patterns of nonprofit governance, the cross-sectional nature of the survey data precludes a causal inference. Moreover, all the sampled organizations operate in a typical urban, metropolitan setting; therefore we have to use caution when generalizing findings and applying them into organizations of different settings (e.g., a suburban or rural area). Future research needs to collect longitudinal data as well as gather information on nonprofit organizations with a significantly larger size of sample, so as to examine lagged effects of government funding on nonprofit governance across settings.

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Table 1 **Descriptive Statistics**

Variables	Observations	Mean	Standard Deviation	Min	Max
GOVERNANCE	95	2.74	1.23	1	4
Strong, Community Board	24	1	0	1	1
Weak, Community Board	13	2	0	2	2
Strong, Non-community board	16	3	0	3	3
Weak, Non-community board	42	4	0	4	4
AGE	95	28.60	28.97	2	145
BFSIZE	95	2.45	.60	1.39	4.65
VOLUNTEER	95	.21	.41	0	1
GOVERNMENT	95	24.47	32.93	0	99
INDUSTRY	95	.20	.40	0	1
SIZE	95	13.28	1.97	7.60	18.90

Table 2 Correlation Matrix

	1	2	3	4	5	6	7
1. GOVERNANCE3	1.0000						
2. AGE	0.0952	1.0000					
3. BSIZE	0.1926	0.4677	1.0000				
4. VOLUNTEER	-0.5808	0.0439	0.0092	1.0000			
5. GOVERNMENT	0.3801	0.0280	0.0135	-0.2927	1.0000		
6. INDUSTRY	0.2072	0.2974	0.0847	-0.0645	0.1965	1.0000	
7. SIZE	0.5831	0.4674	0.4400	-0.4795	0.3984	0.4477	1.0000

Table 3

Results of Multinomial Logistic Regression Models of Nonprofit Governance Patterns

Dependent Variable Category	Independent Variables	Model 1		Model 2		Model 3	
<i>Weak, Community Board</i>							
	Intercept	-0.28	(1.60)	1.35	(1.88)	-4.71	(5.70)
	Organizational Age (AGE)	-0.01	(0.02)	-0.02	(0.02)	-0.03	(0.03)
	Board Size (BSIZE)	-0.01	(0.73)	0.34	(0.87)	0.07	(0.98)
	Dependence on Volunteer Labor (VOLUNTEER)			-6.20***	(1.94)	-5.41**	(2.28)
	Legal Influences (GOVT)					0.08*	(0.05)
	Industry Differences (INDUSTRY)					-0.20	(1.93)
	Organizational Size (SIZE)					0.51	(0.46)
<i>Strong, Non-community board</i>							
	Intercept	-0.77	(1.51)	0.84	(1.79)	-9.63	(5.65)
	Organizational Age (AGE)	-0.03	(0.02)	-0.03	(0.02)	-0.06**	(0.03)
	Board Size (BSIZE)	0.42	(0.68)	0.75	(0.82)	0.29	(0.92)
	Dependence on Volunteer Labor (VOLUNTEER)			-6.01***	(1.78)	-5.32**	(2.16)
	Legal Influences (GOVT)					0.06	(0.05)
	Industry Differences (INDUSTRY)					0.50	(1.75)
	Organizational Size (Size)					0.90**	(0.46)
<i>Weak, Non-community board</i>							
	Intercept	-1.29	(1.19)	0.33	(1.52)	-11.89**	(5.38)
	Organizational Age (AGE)	-0.00	(0.01)	-0.01	(0.01)	-0.04*	(0.02)
	Board Size (BSIZE)	0.76	(0.52)	1.20*	(0.70)	0.63	(0.84)
	Dependence on Volunteer Labor (VOLUNTEER)			-7.02***	(1.58)	-5.79***	(2.04)
	Legal Influences (GOVT)					0.07*	(0.04)
	Industry Differences (INDUSTRY)					0.95	(1.61)
	Organizational Size (SIZE)					1.02**	(0.44)
	Log Likelihood			-117.29		-93.39	

* $p < .10$ ** $p < .05$ *** $p < .01$

(Note: Outcome GOVERNANCE = “Strong Community Board” is the comparison group)

Notes

1. Interest-group pluralists focus on political organizations (one subset of nonprofit organizations) in their discussion of representational effects. By contrast, Berger and Neuhaus' definition of voluntary associations covers both political and nonpolitical organizations, and is close to what we call nonprofit organizations today. Also note that representation is just one of the important democratic functions that nonprofit organizations perform. Other scholars, for example, argue that participation in nonprofit organizations is central to democracy because it shapes political behavior and attitudes (Almond and Verba 1963), develops civic skills and democratic values (Brady et al. 1995), and generates social capital (Putnam 1993, 1995).

2. This issue is complicated by the fact that there are no universally shared definitions of what constitutes the community and the community interests (Abzug and Galaskiewicz 2001). In *Habits of the Heart*, Robert Bellah and his colleagues define the community as "a group of people who are socially interdependent, who participate together in discussion and decision-making, and who share certain practices that both define the community and are nurtured by it" (Bellah, et al. 1985, 333). This definition of the community reflects the multiple-constituency nature of nonprofit organizations (Herman and Renz 1997). In this view, the community would include all the major constituencies or stakeholders of a nonprofit organization: clients, funders or donors, staff members, volunteers, partner agencies, and neighborhood residents.

This study embraces Bellah et al.'s definition of the community but gives special attention to such stakeholder groups as clients, volunteers, rank-and-file staff members, and neighborhood residents. These groups deserve special attention, because they not only are the "moral ownership" on whose behalf a nonprofit organization exists (Carver 1997; Miller 2002), but also are often relatively powerless stakeholders whose concerns tend to be ignored. Such an understanding of the community is also consistent with previous studies (e.g., Hardina 1993; Tourginy and Miller 1981) that used the percentage of clients, volunteers, rank-and-file staff members, and neighborhood residents on the board as the measure for community representation on nonprofit board.

3. The pool from which the sample was drawn was an on-line database of nonprofit organizations hosted by Gale Group (<http://www.galegroup.com>). Note that this pool does not include religious organizations and charitable organizations with gross receipts less than \$25,000 which are not required to file a Form 990 return.

4. It appears that, to some extent, social and legal services are under-represented, while health organizations are over-represented, in the sample data. There are several possible explanations for the differences: First, the sample data was collected on a sample of charitable organizations in a typical urban setting, which might cause differences in the characteristics of organizations as compared to the national data. Another reason might lie in the size of the sample: given this rather small sample size, the addition of a few organizations in any particular category would significantly change the percentage of organizations in that category.

5. The rationale for setting 34 percent as the cutoff rate of BR is based on the following considerations: 1) Given the multiple-constituencies nature of nonprofit organizations and recent

trends of professionalization, it is not uncommon for many (if not most) nonprofit boards to have a very low level of presence by community representatives. A higher cutoff rate (e.g., 50%) would probably lead to an extremely uneven distribution of responses and create difficulty for statistical analysis. 2) The cutoff rate of 34 percent was used in legal mandate requiring community participation in community action programs during the “war against poverty” in the 1960s. Office of Economic Opportunity’s (OEO) early administrative “rule of thumb,” which was later written into law by Congress, required that at least one-third of the governing body for local community action programs consist of representatives of the poor (OEO 1965; cited in Peterson 1970, 494).

6. Both subjective and objective measures are used to code this attribute. For the subjective measure, descriptions of four board-executive relationship patterns are provided as follows:

Description #1

The CEO gathers information and advice from many stakeholders, formulates a decision, and has it ratified by the board as a whole. The CEO is highly influential and trusted because of his or her expertise and experience.

Description #2

A Small core group in the board plays a very influential role in recommending a course of action on governance issues. These are then debated and decided upon by the whole board. The CEO provides information and advice during the decision-making process.

Description #3

A core of senior professional staff gathers information and advice from many stakeholders, formulates a decision, and has it ratified by the board and the CEO. The staff is highly influential and trusted because of their expertise and experience.

Description #4

The board operates according to an ideology of consensus between the board and the CEO. The board emphasizes extensive communication and consultation with all interested parties related to any given issue.

Choice of Description #2 by the respondents will be regarded as strong board power and assigned the value of 1, while choice of Descriptions #1 and #3 will be regarded as weak board power and assigned the value of 0. If Description #4 is selected, an objective measure – board meeting frequency – will be used as an additional criterion to help determine whether an organization has strong or weak board power. Board meeting frequency has been found to be positively related to board members influence (Herman and Tulipana 1985). Within the completed sample, the median board meeting frequency is close to 7 (6.7), consistent with findings from previous studies of board meeting frequency (e.g., Vafeas 1999). For the purpose of this study, therefore, an organization is regarded as having strong board power and assigned the value of 1 if its board meeting frequency is 8 or higher during the year 2001, otherwise 0.