

**PARTICIPATORY PHILANTHROPY: AN ANALYSIS OF
COMMUNITY INPUTS IMPACT ON GRANTEE SELECTION**

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**PARTICIPATORY PHILANTHROPY: AN ANALYSIS OF
COMMUNITY INPUTS IMPACT ON GRANTEE SELECTION**

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To Great-Grandma Mays and Grandma Christine

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SUMMARY

Institutional philanthropy (which includes the spectrum of all formalized grantmaking organizations) remains one of the least understood and researched aspects of giving. There is also limited scholarly attention to the relationship between foundation governance and grantmaking, despite normative claims about ‘elite’ foundation boards selecting ‘elite’ nonprofit’s. Yet, foundations are increasingly using committees of community volunteers to allocate grants, rather than leaving grant decisions to a traditional board of directors. The goal of community involvement in grantmaking is better grant decisions, due to community members’ information advantage and consequently greater knowledge of community needs. However, no one has tested whether community boards are making *different* decisions than traditional boards, much less whether their decisions are better. Drawing on a sample of 6 funders who use both community and traditional boards, their 616 grantees, and 955 comparable non-grantees I build on the economic model of giving to identify differences and similarities in the characteristics of nonprofit’s that receive grants. Although I find much more congruence between grant decisions of community and traditional boards than literature expects I explore this finding through an in depth case study of two foundations who do this type of work. I find, similar to previous work in the public sector that simply involving community members in a grants process does not automatically generate different organizational decisions. Instead, it is only when a public participation program is effectively designed that grant decisions truly reflective community input.

CHAPTER 1

INTRODUCTION

A 2010 report published by Grantmakers for Effective Organizations finds that 48% of grantmakers surveyed sought input on grant proposals from grantee or community representatives, 36% sought advice from grantee advisory committees, and 14% delegated funding decisions to grantee or community representatives (Bourns). Involving community members in the grant making process is a newly emerging phenomenon as citizen input is typically not solicited or used in the grant making process (Burbridge et al. 2002; Lindeman 1988; Ostrander 1999; Ostrower and Stone 2006). Despite normative claims about elite foundation board members making grant decisions, foundations are increasingly using committees of community volunteers to allocate grants, rather than leaving grant decisions to a traditional board of directors (Bourns 2010; Enright 2010; Gibson, Levin, and Dietz 2010).

Mainstream media has expressed interest in this phenomenon, with articles appearing in The New York Times and Forbes Magazine. Additionally, corporations like American Express, The Home Depot and PepsiCo currently utilize members of the public to vote online and select grantees. A quick internet search of community involvement in philanthropy reveals a number of new buzzwords such as crowdsourcing philanthropy, stakeholder involvement in philanthropy and participatory philanthropy.

The increased attention to participatory philanthropy is largely due to the secrecy surrounding the recruitment and selection of philanthropic board members. Traditionally the recruitment of board members is described by scholars as a closed recruitment process (Gersick and Stone 2004). This closed recruitment process often results in foundation boards that are composed of family members and/or personal/professional associates of existing board members (Indiana 2009; Gersick and Stone 2004). This

closed recruitment process has led to many criticisms of foundation boards, as the insular boards are not demographically representative of the public (Burbridge et al. 2002; Lindeman 1988; González-Rivera 2009).

However, most research on the relationship between who serves on a foundation board and resulting grantmaking decisions is replete with normative assumptions¹ and only focuses on the relationship between the demographic composition of philanthropic boards and grant decisions (Burbridge et al. 2002; Lindeman 1988; Ostrander 1999; Ostrower and Stone 2006). Although scholars of philanthropy assume that the composition of foundation boards impacts grantmaking decisions, this is not supported by empirical analysis.

Despite the lack of empirical support for these assumptions advocates of stakeholder involvement² in philanthropy argue that grantmaking decisions will not only be different but will somehow be ‘better’ if community members are involved (Bourns 2010; Enright 2010; Gibson, Levin, and Dietz 2010; Ostrander 1999). Community involvement is thought to improve grantmaking decisions, because community members have an information advantage, with more knowledge of community needs and an understanding of which nonprofit’s are ‘better’ suited to address these needs (Bourns 2010; Enright 2010; Ostrander 1999).

¹ See Kaper, Ramos and Walker (2004) and Gonzales-Riveria (2009) for recent literature on assumptions about the connection on the demographics of foundation board members and grantmaking decisions. Kasper, Ramos and Walker (2004) find that minority led nonprofit organizations (i.e. those organizations that have a racial/ethnic minority serving as its chief executive) annually receive fewer than 10 percent of all foundation grants. Furthermore, a 2009 report supports these findings as researchers discovered that the ten foundations that have the most minority foundation board members made approximately 47% of the grants to minority led nonprofit organizations (Gonzales-Riveria, 2009). These demographic surveys of foundation boards are typically used by scholars to demonstrate that the lack of board diversity results in grantmaking decisions not reflective of community or nonprofit need (Burbridge et al. 2002; Lindeman 1988; Ostrander 1999; Ostrower and Stone 2006). Yet, the collection of demographic surveys is not empirical evidence that there is some connection between board composition and grantmaking decisions.

² I use the terms stakeholder involvement, community involvement and public participation synonymously throughout this research and focus on the involvement of citizens in organizational decisions. Thomas (2012) provides an overview of the historical use of these terms in pages 3-6.

When you bring in excluded groups, fundamental changes occur. That is because those who have been ‘outside’ bring different perceptions, different frameworks, different questions to the table. And if people in the institution engage with those ideas, they will see problems from new perspectives, get new information, read into more networks have greater legitimacy in the broad range of people in society, and be stronger and more effective (Berresford, as cited in Enright and Bourns, 2010, 45).

Research across public and nonprofit sectors supports this assumption and finds that when those who are not traditionally involved in organizational decisions are included there are often positive impacts on organizational outputs and/or outcomes (Meier, Wrinkle, and Polinard 1999; Selden 1998; Hinderer 1993; Dolan and Rosenbloom 2003; Thielemann and Stewart Jr 1996; Brown 2002; Zald 1969, 1967; Siciliano 1996; Hyde 2003; Hyde and Hopkins 2004).

However, in foundation literature no research has examined the potential connection between board composition and organizational decisions. Philanthropic scholars are consequently unable to scientifically conclude that who serves on a foundation board matters. A few studies examine how different *types* of foundations (corporate, government, community, independent or family) make grant decisions and note the (often small or nonexistent) differences in grantee selection (Ashley and Faulk 2010; McGinnis and Ashley 2011). Yet, these studies do not take into account differences in board composition or specifics about how these foundation boards are governed. Overall, understanding the relationship between foundation board structure and composition and grantmaking decisions has largely gone unexplored in research literature (Bourns 2010; Enright 2010; Gibson, Levin, and Dietz 2010; Ostrander 1999).

In this dissertation I ask, if the structure and composition of a foundation board is completely changed (from a more traditional, elite foundation board to one of a board composed of community members) do we discover that grant decisions have changed as well? This dissertation fills a gap in existing literature by using a unique grants database

to determine whether or not community and traditional boards make different grant decisions. I also contribute to existing literature by incorporating theoretical insights into understanding *why* grant decisions between community and traditional boards may be different and not just focusing on differences in grant decisions that might occur with community involvement.

For the purposes of this research, I define community and traditional boards based on the recruitment process of new board members. Community boards are grantmaking boards purposefully composed of citizens from the general public. Community members serve as volunteers, often as a result of a volunteer application or open nomination process. The recruitment process of traditional board members is the antithesis of this open, inclusive process. Instead, the recruitment process of traditional boards is largely closed and new board members are recruited to serve based on personal and professional networks of existing board members. Each foundation in this research has both a community and traditional board making grant decisions for separate programs.

In the first component of this dissertation I use t tests of differences of means and regression analysis to determine whether community and traditional boards reward different organizational and financial characteristics of nonprofit applicants. In the second phase of this research I focus on the design of a community involvement program as public participation scholars find that simply seeking citizen input does not automatically yield a change or difference in organizational decisions (Franklin and Ebdon 2005; Ebdon and Franklin 2006; Thomas 2012). Instead, public participation scholars find that the process or how community members are involved in a program impacts organizational decisions (Ebdon and Franklin 2006; Franklin and Ebdon 2005; Thomas 2012). Therefore, I conduct case studies within two funders and develop a more nuanced understanding of how the design of a community involvement may impact grantmaking decisions. I then use the qualitative findings to build and analyze a second set of regression models in the third component of this research. This second set of

regression analyses allows me to quantitatively determine how the design of a grantmakers community involvement programs may impact grantmaking decisions.

Research Questions

I explore three overarching research questions within this dissertation through an explanatory mixed methods approach. In an explanatory mixed methods approach qualitative data is used to explain or build upon quantitative results (Creswell and Clark 2007).

The first research question is: Are the organizational and financial characteristics of nonprofit's awarded grants by community boards different from the organizational and financial characteristics of nonprofit's awarded grants by traditional boards? I examine this question by quantitatively comparing grants made within six foundations that use community boards to award grants in one program and traditional boards to award grants in a separate program.

In the second phase of this research I conduct case study research on two funders and ask the following questions:

1) Rather than focus on the organizational and financial characteristics of the nonprofit *organization* I examine the narrative descriptions of *projects*³ funded by community and traditional boards through each funders grant descriptions (summaries of projects funded). Are there differences in community and traditional boards grant decisions that are not observed at the organizational level included in regression analysis?

³ In both the grant descriptions and qualitative interviews I am not able to discern whether foundations have a preference for funding general operating support as opposed to project support. However, a Center for Effective Philanthropy (2010) report found that although general operating support is highly desired by nonprofit's it is not a priority for most funders.

2) How does the absence or presence of particular components of an effectively designed public participation program (as identified by public participation scholars) impact the difference or similarity in grant decisions made by community and traditional boards?

In order to determine how foundations are designing their community board programs I conduct case studies with two foundations. I interview a staff member working with the traditional board member, a staff member working with the community board, and a community board member.

Third, the qualitative framework I develop and case studies I conduct guide the construction of my regression models and subsequent analysis. I quantitatively determine how the design elements of a community participation program may impact grantee selection. Therefore, in the third phase of my research I ask: Are the organizational and financial characteristics of nonprofit's awarded grants by community and traditional boards similar when the design of a grantmakers public participation programs are taken into account?

Finally, after a comprehensive review of public participation literature the case study component of this dissertation allows me to determine if the design elements identified in public sector research can be utilized in nonprofit research. In this research I generate a framework of an effectively designed public participation program in a grantmaking organization. This framework contributes to existing literature as public participation frameworks are highly contextual and there have been no attempts to define the design elements that compromise a nonprofit community involvement program. A great deal of nonprofit research has been devoted to understanding whether and how community members should be involved in organizational decisions. Therefore, understanding how community involvement programs can best be designed may enhance future nonprofit research and have implications for practice.

Impetus for Research

Theoretical

The claim that grantmaking by stakeholders yields different decisions assumes that scholars currently understand how foundation boards actually make grant decisions and which nonprofit characteristics they reward. We may hypothesize that “differently motivated donors may use different criteria in donation decisions, leading to different choices of recipients” but this concept hasn’t been tested to date (Ashley and Faulk 2010, 46). Furthermore, although an extensive literature exists on the organizational and financial characteristics of nonprofit’s that impact individual donations or the contributions variable on the 990 form (an aggregated measure of gifts, grants and donations), isolating how these determinants impact grant selection has received limited scholarly attention (Ashley and Faulk 2010; McGinnis and Ashley 2011).

In this dissertation I incorporate theoretical insights to this debate by using information asymmetry as an overarching theory to frame why community and traditional boards make different grant decisions. I then incorporate elite and network theory as well as empirical findings from the economic model of giving to generate and test specific hypotheses about the organizational and financial characteristics of nonprofit’s that community boards reward. The economic model of giving was first examined by Weisbrod and Dominguez (1986). In their 1986 article, they, “test the hypothesis that voluntary giving is responsive to conventional market variables such as advertising expenditures, price, and quality” (83).

In this way theory drives the development of my quantitative models and I consequently interpret my findings in the context of these theoretical perspectives.

Contract Failure

Like individuals, foundations must rely on signals from nonprofit's, as information asymmetry exists between foundation board members as donors and the eventual recipients of services⁴ (Hansmaan 1980, 1987; Easley and O'Hara 1986; Krashinsky 1986, 1997). Due to contract failure, foundation board members are limited in their ability to monitor a nonprofit's performance, particularly at the time a grant is awarded. The performance and/or quality of a nonprofit are essentially unobservable characteristics. Instead, donors instead rely on a number of easily observable characteristics of nonprofit's (organizational and financial characteristics) as proxies for the unobservable quality and performance of nonprofit (Weisbrod and Dominguez 1986; Parsons 2006). However, empirical findings concerning how individual donors or contributors react to various organizational and financial characteristics cannot be appropriated to understand foundation grant decisions.

In foundations the presence or absence of information asymmetry is complicated. Philanthropic boards have access to much more information (such as applications, tax forms, audits, strategic plans, etc.) than individual donors. Additionally, each board member may have differing degrees of incomplete information based on their existing or prior knowledge of nonprofit's applying for grants.

As a framework for this paper I posit that the degree of information asymmetry between community and traditional boards will differ, with community boards having an information advantage and relying less on organizational and financial proxies of a

⁴ To obtain information on an organization donors could historically turn to the following three sources: 1) a hardcopy of the organization's annual report or IRS 990 form; 2) word-of-mouth, including direct contact with the nonprofit organization's clients, and 3) the organization's fundraising campaigns (Saxton, Neely and Guo 2010, 4).

nonprofit's performance or quality. Literature indicates that one of the advantages of involving community members in philanthropy is that community members have either access to information or more knowledge about nonprofit's than traditional boards since they are embedded in their communities (Bourns 2010; Kissane 2004, 2007, 2010; Ostrander 1999). Research also finds that community members have different perceptions of community needs, solutions to community needs and differing views on the performance of public and nonprofit sector organizations (Kissane 2004, 2007, 2010; Melkers and Thomas 1998; Guo and Musso 2007; Wellens and Jegers 2011; Bolduc 1980). Furthermore, if community members didn't have existing knowledge of a nonprofit, finding out this information would have extremely low transaction costs (Tinkelman 1999).

Public Participation Literature

In addition to information asymmetry I also utilize public participation literature to explore the connection between foundation board composition and grantmaking decisions. Rather than solely focusing on how the absence or presence of community involvement may impact organizational decisions, this research also finds that process (or the design of community involvement programs) matters. The design of a community involvement program is found to mediate the relationship between public involvement and organizational outcomes (Franklin and Ebdon 2005; Thomas 2012). After a synthesis of the literature, I examine the components (hereafter referred to as design elements) of a public participation program thought to impact organizational decisions through in depth case studies of two foundations in my study.

By extrapolating a public sector framework to enhance our knowledge of a nonprofit phenomenon I also advance nonprofit theory and determine whether findings generated in public sector research can be used by nonprofit scholars. I also advance public management literature through a comprehensive synthesis of public participation

literature. Furthermore, the framework I develop of an effectively designed public participation program is specifically applicable to grantmaking organizations, for which no research has been conducted to date.

Methodological

Institutional philanthropy (which includes the spectrum of all formalized grantmaking organizations) remains one of the least understood and researched aspects of philanthropy, with very little empirical⁵ research conducted on this subject. Most studies examining foundation board composition are descriptive statistics of foundation giving or survey statistics on board composition, rather than quantitative research that examines many of the normative claims posited in the literature about the potential connections between philanthropic governance and grantmaking.

Some of the nonprofit characteristics thought to impact receipt of grants are the nonprofit's geographic location, fiscal status, performance/reputation, mission and the degree of existing personal connection to the funder (Ashley and Faulk 2010; Gersick and Stone 2004; Grønbjerg, Martell, and Paarlberg 2000). Yet, the relationship between the organizational and financial characteristics of nonprofit's and grant success has not been empirically examined, despite the focus and claims in existing literature that foundation board composition impacts grantmaking (Burbridge et al. 2002; González-Rivera 2009). Without quantitative analysis to examine whether or not there is some connection between a philanthropic board and the nonprofit characteristics it rewards, we cannot be certain that the structure and composition of philanthropic governance matters.

⁵ There is a large body of qualitative and case study work conducted on foundations. Typically this work is descriptive and not quantitatively driven (Arnoe 1980; Bombardieri and Robinson 2005; Nielson 1972; Odendahl 1989; Jenkins 1998; Karl and Katz 1987; Gronbjerg et. al., 2000; Gersick and Stone 2004; Anheir and Daly 2007; Ostrander 1999; Frumkin 2006; Moody 2007; Odendahl 1990;).

Through quantitative analysis and the creation of a unique grants database I contribute to nonprofit research on grantmaking and the determinants of nonprofit resource acquisition by building on the economic model of giving. Additionally, by incorporating a mixed methods approach in this research I do not solely focus on board characteristics but determine how other factors (namely process variables or how community members are utilized in a public participation program) may impact selection of nonprofit grantees.

In the literature review below I first present the gaps in both scholarly and normative literature surrounding the potential relationship between philanthropic governance and grantmaking. I discuss the following: demographic research on board composition of philanthropic organizations, an overview of research exploring the relationship between board composition and grantmaking, and information on the organizational and financial characteristics of nonprofit's that predict donations.

I also conduct a comprehensive literature review on the design elements of a public participation program that are thought to impact organizational decisions and generate a framework of an effectively designed public participation program. This framework identifies and defines variables identified in public participation literature specific to grantmaking organizations. I then utilize this framework in case studies within two foundations to determine whether the design elements identified in public participation literature are absent or present in the average grantmaker. Finally, the qualitative analysis allows me to build and further refine a second set of regression models. This final set of regression models combines the qualitative and quantitative data providing a more complete understanding of the relationship between community involvement, the process of designing a public participation program and organizational decisions.

CHAPTER 2

LITERATURE REVIEW

Demographic Composition and Grantmaking

Scholars posit that stakeholders should be involved in grantmaking because philanthropic boards are not demographically diverse (González-Rivera 2009; Ostrander 1999). Although much of the literature on foundations focuses on the demographics of board members this is not the only aspect of board composition that may be impacting grant decisions. However, a brief review of this literature is necessary in order to better understand some of the assumptions of descriptive democracy⁶ that underlie the arguments for increasing community involvement in grantmaking.

Studies of the demographics of foundation board members have been conducted for some time (Lindeman 1988). In Lindeman's (1988) research he collected quantitative data on 100 foundations and community trusts from 1921 to 1930 and found

a typical trustee of an American foundation is a man well past middle age; he is more often than not a man of considerable affluence or one whose economic security ranks high; his social position in the community is that of a person who belongs to the higher income-receiving class of the population (72).

Even though Lindeman (1988) was conducting this research on foundations from the early 1900's current studies on the demographic composition of philanthropic boards have similar findings. In 2002, a national study of 600 grantmakers found that "white

⁶ Descriptive democracy is one model of democracy which "focuses on the match (or mismatch" between the social groups in the community and the social characteristics of decision makers. If these are significantly out of balance, then elites are unrepresentative, that is, undemocratic. Measures to ensure demographic representation on philanthropic boards and to incorporate excluded groups into decision making are central to this perspective" (Jenkins 1998, p. 207).

men represent 56 to 72 percent of board members. . .white women represent 17 to 33 percent of all board members” (Burbridge et al. 2002). This same study finds that only 10 percent of foundation board members are people of color, and 33 percent are women (Burbridge et al. 2002). Similar statistics are also found in a 2006 study by Ostrower and Stone who indicate that although women make up about 43% of nonprofit board members, they constitute only 34% of foundation board members. Finally, a 2009 study of the 46 largest foundations in the country finds that 28% have no board members of color (González-Rivera 2009). In 2009 researchers also found that the ten foundations with the most minority foundation board members made approximately 47% of the grants to minority led nonprofit organizations, which lends some support to existing assumptions that there is some connection between the governance of a philanthropic organization and its grantmaking decisions (González-Rivera 2009).

Board Composition and Grantmaking

Unfortunately, most of these studies stop at the collection of data on the racial/ethnic and gender diversity of boards. There is additional research examining the relationship between philanthropic governance and grantmaking but it presumptively draws connections between the demographic composition of philanthropic boards and grant decisions. Foundation boards are characterized as the elites in society who make grant decisions that are consequently not reflective of community or nonprofit need, and instead reflective of their own elite interests.

“Private contributions by the elite support institutions that sustain their culture, their education, their policy formulation, their status - in short their interests” (Odendahl 1990, 232). Karl and Katz (1987) state that when philanthropic boards decide to fund certain nonprofit organizations over others they “have channeled their energies and research activities in directions they deemed important” (2). The theme emerging from these criticisms is that in choosing which nonprofit’s receive funding board members

privileged backgrounds impact their grant decisions. However, the conclusions drawn in this literature should be interpreted with caution as they are not scientifically based.

Outside of this demographic work and critiques of foundation giving, there is a small body of conceptual literature on philanthropic governance though not much empirical work (Frumkin 2006; Gersick and Stone 2004; Grønbjerg, Martell, and Paarlberg 2000; Odendahl 1990; Burbridge et al. 2002; Ostrander 1999). This is largely because it is difficult to collect qualitative or quantitative data on the governance of foundations, since there are no legal requirements for reporting this information (Institute 2008). Thus, most grantmakers don't publish this information. This is concerning since recent statistics collected by The Foundation Center (2007) indicate that 90% of foundations have no staff at all and 20% of the largest national foundations have little or no staff. Therefore, the majority of grant decisions are made by board members.

When we think about the rigorous empirical research in related for profit and nonprofit sector literature, which indicates that there are potential connections between board composition and organizational outcomes, the lack of research examining the connections between foundation board composition and grantmaking decisions becomes even more noteworthy (Brown 2005, 2002; Kochan et al. 2003; Jackson, Joshi, and Erhardt 2003; Zald 1969, 1967; Bradshaw, Murray, and Wolpin 1996; Siciliano 1996).

Community Involvement in Philanthropy

In contrast to criticisms of traditional foundation boards grantmaking activities, community involvement in grantmaking is thought to serve as a panacea for all of the 'problems' in traditional grantmaking (Enright and Bourns 2010; Ostrander 1999). Enright and Bourns (2010) conduct an interview with a grantmaker who states "having people from the community involved helps the foundation because it leads to better grantmaking decisions" (43). Although there are many normative arguments citing the potential benefits of involving stakeholders in philanthropic decisions, it is important to

review arguments both for and against community involvement in philanthropic literature (Brody 2009; Frumkin 2006; Ostrander 1999).

Arguments against stakeholder involvement in philanthropy reflect the fact that in the US private foundations are private institutions that don't legally have accountability to stakeholders other than requirements to pursue their organizations mission in a financially responsible way (Brody 2009). Despite the acknowledgment by scholars that foundations don't have any legal responsibilities to be accountable to stakeholders there seems to be an agreement that foundations (along with nonprofit organizations in general) exist for both instrumental and expressive reasons, with organizations having differing degrees of accountability to stakeholders (Frumkin 2006). Ostrander (1999) writes,

I have argued that nonprofit's can perhaps best be seen as differentially located along a continuum containing aspects of both "public" and "private". In this way of thinking the question becomes how –and to what extent—foundations are public and/or private. This how question refers not to where foundations are located in some pre-defined societal sector or sphere—first, second, or third—but rather to where they are located on a continuum of being more or less receptive to accessibility and influence by varying "publics," including grantees (260).

One argument in support of stakeholder involvement in grantmaking is that community involvement in philanthropy can enhance the civic engagement of individuals within their communities. For example, Gibson, Levin and Dietz (2010) conducted an evaluation of The Case Foundation's grantmaking program and stated that one of the reasons The Case Foundation began their citizen led grantmaking program was to directly address the lack of civic engagement within communities. They state that "there was a need for the creation of more civic spaces that would allow diverse groups of people to connect with each other (including those they might disagree with), discuss what matters most, form solutions, and take action together to address them" (Introduction). Community involvement in grantmaking organizations may also improve civic engagement by giving community members a more nuanced understanding of how

philanthropy works, which may lead to more of a partnership, trust and understanding of philanthropic decisions (Enright 2010; Wang and Wan Wart 2007).

Other literature indicates that because stakeholders have an information advantage the selection of nonprofit recipients will not only be different, but somehow ‘better’ than traditional funders grantmaking decisions (Bourns 2010; Enright 2010; Ostrander 1999). This assumption is explicitly tested in this dissertation. Ostrander (1999) writes that community members may have more knowledge of community needs and potential solutions. Research finds that community members have different perceptions of community needs, solutions to community needs, and differing views on the performance of public and nonprofit sector organizations (Kissane 2004, 2007, 2010; Melkers and Thomas 1998; Guo and Musso 2007; Wellens and Jegers 2011; Bolduc 1980). Furthermore, if community members didn’t have existing experiential knowledge of the performance of a nonprofit, finding this information would have extremely low transaction costs (Tinkelman 1999).

Synthesis of Literature: Board Composition and Grant Decisions

Information Asymmetry and Grant Decisions

Despite the consensus by academics and practitioners that community boards will make different grant decisions than traditional boards theory has not been included in this argument. For the purposes of this paper, I utilize contract failure theory to discuss which organizational and financial characteristics of nonprofit’s would be rewarded by community boards versus traditional boards.

Scholars find that all donors are operating in environments with high degrees of information asymmetry as the donor is not the eventual recipient of services (Hansmaan 1980, 1987; Easley and O’Hara 1986; Krashinsky 1986, 1997). Therefore, determining

the quality or performance of a nonprofit (particularly at the time of a donation) is near impossible and these characteristics are thought to be unobservable (Hansmaan 1980, 1987; Easley and O'Hara 1986; Krashinsky 1986, 1997). Instead, researchers find that donors rely on a number of easily observable characteristics that are thought to serve as proxies of the quality or performance of a nonprofit (Parsons 2006; Buchheit and Parsons 2006; Gordon, Knock, and Neely 2009; Calabrese and Grizzle 2010; Church and Parsons 2008; Weisbrod and Dominguez 1986).

Nonprofit accounting research focuses on the characteristics of nonprofit's that influence contributions (an aggregated variable deriving from the contributions line on a nonprofit's tax form consisting of individual donors, foundation grants, corporate gifts, and government gifts and grants). This research typically focuses on two groups of variables: measures that are thought to reflect the quality of a nonprofit (age, size, amount spent on fundraising) and financial efficiency measures which are thought to reflect the efficiency of a nonprofit (Parsons 2006; Buchheit and Parsons 2006; Gordon, Knock, and Neely 2009; Calabrese and Grizzle 2010; Church and Parsons 2008; Weisbrod and Dominguez 1986).

However, there are two reasons we cannot easily appropriate empirical findings from this research to generate testable hypotheses about foundation grantmaking. First, this research has not isolated the impact these characteristics may have on different donors (individuals, foundations, corporations, government entities, federated agencies, etc.). In fact there are very few studies isolating how the organizational and financial characteristics of nonprofit's impact donations and gifts from specific donor types (Ashley and Faulk 2010). For example, in Ashley and Faulk (2010), financial efficiency has a *negative* relationship with the amount of foundation grant money received by nonprofit's. This finding is opposite from previous research conducted using the *contributions* variable, which find that financial efficiency has a positive relationship with donations (Parsons 2007; Buchheit and Parsons 2006; Gordon, Knock, and Neely

2009; Calabrese and Grizzle 2010; Church and Parsons 2008; Weisbrod and Dominguez 1986).

Second, foundations usually have access to more information than individual donors as a result of the application process for grant awards. The question then remains whether or not foundations use organizational and financial proxies of nonprofit's in the same ways or differently than other donors when they have access to more information. There's an assumption that when donors have access to more information that they will use this information and change their donation decisions. Yet, this may not be true. Research finds that even when donors learn new information about nonprofit's they do not always change their donation decisions (Szper and Prakash 2011; Sloan 2009). Szper and Prakash (2011) write, "But what if the new information doesn't address donors salient concerns or the donors have insufficient incentives to embed this new information into their decisions?" (115).

For the purposes of this research the disconnect between new information and the saliency of information is especially relevant to understanding how and why community boards may make different grant decisions than traditional boards. The information advantage that community boards are thought to have, because they are embedded in their communities, may lead to grant decisions (regardless of the additional information a nonprofit provides in its application) that reflect their existing knowledge of which organizations are high quality or high performers.

Despite the acknowledgement in literature that board members are using some heuristics when making grant decisions, a discussion of how and why they are using these heuristics is missing from the literature (Gersick and Stone 2004; Grønbjerg, Martell, and Paarlberg 2000). Below I address this gap in the literature by first utilizing information asymmetry theory to discuss why community and traditional boards may make different grant decisions. I also incorporate two organizational theories, elite and network theory, as well as empirical findings from economic models of giving into a

discussion of why community and traditional boards may make different grant decisions. This literature allows me to generate specific hypotheses in my next chapter concerning the organizational and financial characteristics of nonprofit's that community and traditional boards may reward.

Governance and Grantmaking: A Multi-Theoretical and Empirical Explanation

Both elite and network theory are two organizational theories that are often implicit in most philanthropic literature (Arnove 1980; Bombardieri and Robinson 2005; Nielson 1972; Odendahl 1989; Jenkins 1998).

Elite Theory and Grantmaking Decisions

Scholars indicate that those who lead and govern foundations are members of an 'elite', a similar concept to Mill's (1956) power elite. These individuals not only have a lot of money and prestige, but are also in positions of power to make decisions that have significant impacts in society (Karl and Katz 1987). The concept of compositional elitism guides this research as traditional board members are thought to award grants to nonprofit's that reflect their own interests (Galaskiewicz 1985, 1997; Delfin and Tang 2007; Silver 2007). "Private contributions by the elite support institutions that sustain their culture, their education, their policy formulation, their status - in short, their interests" (Odendahl 1990, 232). Arnove (1980) states that when philanthropic boards decide to fund certain nonprofit organizations over others they "have channeled their energies and research activities in directions they deemed important" (quoted in Karl and Katz 1987, 2). Literature using elite theory indicates that in choosing which nonprofit's receive funding, board members grant decisions are mediated by their own private interests, reflective of their privileged backgrounds.

Network Theory and Grantmaking Decisions

Philanthropic scholars also use network theory in their research. Traditionally, foundation board members are found to be more skeptical of nonprofit's that aren't in their existing personal or professional networks (Galaskiewicz 1985, 1997; Burbridge et al. 2002; González-Rivera 2009). Middleton (1987) writes, "the socioeconomic power of a grantee agency's board and its clientele, rather than the substantive content of its program, becomes the standard for allocation" (147). Gronbjerg et. al (2000) conceptualize this as a two stage selection process, where nonprofit's who are not current grantees face competition with other nonprofit's based on the familiarity of board members with the nonprofit applicants. For nonprofit's not in the funders existing networks both the initial screening and review of application materials is extremely arduous (Grønbjerg, et. al. 2000). Gronbjerg et. al. (2000) write,

The competitive process thus operates in two stages. First, agencies compete to become known to the funder. Once they are known, they compete with other known and trusted agencies. For those who enter the latter stage, reliance on informal procedures and low turnover rates reduce the time and efforts that both parties need to invest, and allow funders to use familiarity and trust as a stand in for more objective determinations of an agency's capacity to carry out specified objectives (37).

Economic Model of Giving and Grantmaking Decisions

Both the age and size of nonprofit's are organizational characteristics that serve as signals of a nonprofit's legitimacy, reputation, and/or organizational quality (Trussel and Parsons 2003; Weisbrod and Dominguez 1986). Scholars find that age serves as a proxy for donors, who are making decisions about the quality and trustworthiness of a nonprofit in an uncertain decision making environment. Age serves as a proxy of "the longevity of the firm as a signal of the extent to which it actually provides the level and quality of output it purports to supply" (Weisbrod and Dominguez 1986, 94). Older nonprofit's

receive more donations because “they develop a greater stock of goodwill with the public” (Marudas 2004, 87; Weisbrod and Dominguez 1986). Although the findings on age are somewhat mixed, most scholars find that older organizations receive larger amounts of contributions than younger nonprofit’s (Szper and Prakash 2011; Okten and Weisbrod 2000; Weisbrod and Dominguez 1986).

An organization’s size serves as a proxy for its reputation, since large organizations have more name recognition (Szper and Prakash 2011). Size may also serve as a proxy for the amount of services or output of a nonprofit (Galaskiewicz 1985). Although findings are mixed, most scholars find that contributions are positively related to the size of a nonprofit (Gordon, Knock, and Neely 2009; Church and Parsons 2008; Buchheit and Parsons 2006).

Various financial characteristics of nonprofit’s have also been found to impact donations. For nonprofit’s fundraising expenses are synonymous to marketing or advertising expenses in for profits⁷ (Calabrese and Grizzle, 2010; Church and Parsons 2008; Okten and Weisbrod 2000; Szper and Prakash 2011; Weisbrod and Dominguez 1986). Just as advertising expenses drive future sales in for profit organizations, nonprofit’s’ fundraising expenses will have a positive impact on future donations (Calabrese and Grizzle 2010; Gordon et. al. 2009). Trussel and Parsons (2003) indicate that these advertising expenses represent the quantity of information nonprofit’s can provide to potential donors about their organization and its operations.

Management expenses are generally found to be negatively related to contributions, as donors prefer that nonprofit’s spend money on program expenses over other expenses (Greenlee and Brown 1999). Conversely, program expenses serve as a

⁷ It should be noted that the relationship between fundraising expenses and contributions is complicated. It can have a positive impact on donations by reducing information costs for donors but may also have a negative impact by increasing the price of giving (Okten and Weisbrod 2000; Weisbrod and Dominguez 1986).

signal to donors of how committed an organization is to achieving its mission. Trussel and Parsons (2003) state that program expenses serve as a proxy for the efficiency of a nonprofit since this represents the “portion of each contribution that reaches the organization’s beneficiaries” (3). Program expenses are generally found to be associated with greater contributions. (Greenlee and Trussel 2000; Tuckman and Chang 1991; Parsons 2007; Okten and Weisbrod 2000; Weisbrod and Dominguez 1986).

I also include the sub-sector, or area of activity the nonprofit is active in to control for the different giving focuses of foundations.

In the first section of this literature review I focused on synthesizing relevant literature surrounding the potential relationship between foundation board composition and grantmaking decisions. However, just focusing on the characteristics of a foundations board misses a number of other explanatory variables a researcher must consider when thinking about the relationship between board composition and organizational decisions (Brown 2005, 2002; Kochan et al. 2003; Jackson, Joshi, and Erhardt 2003; Zald 1969, 1967; Bradshaw, Murray, and Wolpin 1996; Siciliano 1996). General governance literature indicates that in order to determine how governance impacts organizational outcomes both inputs (who is on the board) and *process* matter (Kochan et al. 2003; Hillman and Dalziel 2003). Specifically, public sector scholars find that the relationship between community involvement and organizational decisions is mediated by the design or the process of how community members are engaged in a public participation program (Ebdon and Franklin 2006).

Below I provide a comprehensive review of research on the various design elements within a community involvement program and how those design elements impact organizational decisions.

Does Process Mediate Between Board Composition and Grantmaking Decisions

Although existing literature claims that grantmaking decisions by community boards will be different than grantmaking decisions by traditional boards, public participation literature goes beyond the simple assumption that involving the public will impact organizational outcomes (Irvin and Stansbury 2004; Roesner 1978; Franklin and Ebdon 2005; Ebdon and Franklin 2006; Thomas 2012; Bourns 2010; Enright 2010; González-Rivera 2009; Ostrander 1999). This literature indicates that the relationship between governance and grantmaking is very complicated.

Public participation scholars find that the impact of community involvement on organizational decisions will not automatically yield different organizational decisions unless the public involvement program is designed effectively (Ebdon and Franklin 2006). For example, Franklin and Ebdon (2005) examine community input in budgeting decisions and find that community input doesn't always lead to a difference in allocation decisions. They find that when community input is utilized *without* particular design elements it can lead to merely informing citizens about the budget process rather than changing allocation decisions. Yet, none of this research has been applied to grantmaking organizations where community involvement alone is thought to impact grantmaking decisions. The question remains, what does an effectively designed grantmaking process look like and is it similar to the concepts that have been defined in public participation literature?

What Does Effectiveness Mean?

The effectiveness of public participation programs has been defined and studied in a number of different ways. Roesner (1978) writes about effectiveness in an evaluative sense and defines effectiveness as achievement of a public participation programs goals. In determining whether or not a public participation program is effective, Rosener (1978) indicates that scholars first have to determine if the public participation program itself is a

goal or if public participation is seen as a means to another goal. If the public participation program itself is the goal it is easy to measure whether or not the program was effective since researchers can measure the number of individuals who participate, how long they participated, etc. (Rosener 1978).

However, if the public participation program is a means to an end understanding its effectiveness becomes more difficult. There are several reasons for this difficulty. First, very few public participation programs clearly state their goals or objectives up front (Irvin and Stansbury 2004; Ebdon and Franklin 2006; Roesner 1978). Even if goals are established for public participation programs at their onset it is difficult to define and collect data on abstract goals such as enhanced information use or improved decision making. The absence of research evaluating the outcomes of public participation programs is confirmed by Ebdon and Franklin (2006) who conduct a literature review on this topic and reveal the lack of knowledge on goals and outcomes of public participation. For the purposes of this dissertation evaluating whether a program that involved the public in a funders grantmaking decisions achieved its goals is also extremely difficult. Similar to public sector organizations, philanthropic organizations don't clearly define their goals or outcomes for public involvement programs.

Yet an alternative does exist for understanding effectiveness in public participation programs. Within public participation literature a subset of research focuses on the components of an effectively designed public participation program. This research finds that effectively designed public participation programs impact organizational outcomes. Research that focuses on the design of public participation programs is important because there are countless examples of public participation programs that largely consist of "poor planning or execution" and not all public participation programs are created equal (King, Feltey, and Susel 1998, 317).

However, scholars typically study design elements of public participation programs in silos with some studies conducted on the relationship between participant

selection and organizational outcomes while others examine the relationship between the timing of the process and organizational outcomes. Roberts (2004) writes,

The number of individual, group, and organizational variables, not to mention contextual factors that could be considered, can be overwhelming. One reasonable response has been to reduce this complexity by focusing on one aspect of direct citizen involvement (334).

Yet, the existing focus by scholars on one aspect of the design of a public participation program contradicts research that effectively designed public participation programs are a combination of a large number of variables including,

. . .careful selection of a representative group of stakeholders, a transparent decision-making process to build trust among the participants, clear authority in decision making, competent and unbiased group facilitators, regular meetings and adequate financial resources to support the group process during the potentially long learning and decision making process (Irvin and Stansbury 2004, 61).

Through a comprehensive review of the literature (largely based on work by Ebdon and Franklin 2006 and Thomas 2012) I identify a number of design elements that may impact organizational decisions. However, these design elements are specifically defined to be applicable to grantmaking organizations. For some variables this implies a similar definition to what has been identified in existing public participation literature. For other variables I specifically amend the definition to be consistent with a nonprofit context. In each grouping of factors there is one variable that is defined differently than it is in public participation literature. Each of these similarities or differences is explicitly defined below.

Authenticity of Public Involvement

Existing research defines the authenticity of a public participation program based on two variables, opportunities and timing. Franklin and Ebdon (2005) define opportunities as allowing citizens to have “multiple, interactive opportunities for citizen

input” (171). A public participation program designed without opportunities for interactivity between citizens and organizational staff (such as a public hearing) is reflective of a lack of sincerity in utilizing citizen input in organizational decisions and consequently doesn’t lead to a change in organizational decisions (King, Feltey, and Susel 1998). On the other hand citizen panels and advisory boards often generate differences in organizational decisions as they are reflective of sincere utilization of citizen input (Ebdon and Franklin 2006).

Timing is also thought to play an important role in the authenticity of a public participation process (Abelson, Forest, Eyles, Smith, Martin and Gauvin 2003). As one component of an effectively designed process citizen involvement must occur early (Thomas 1995; Ebdon and Franklin 2006; Roberts 2004; Innes and Booher 2004; Walters, Aydelotte, and Miller 2000). When citizen input is utilized early in a public participation process it is thought to reflect a sincere effort on the part of an organization in *actually* utilizing the citizen input it solicits.

Participant Selection

The participant selection process is one of the most frequently researched components of an effectively designed community involvement program (Irvin and Stansbury 2004; Roberts 2004; Thomas 1995; Leach 2006; Brady, Verba, and Schlozman 1995). Researchers have found that many outcomes of community involvement programs are negatively impacted by who participates. Across many public participation programs those citizens who are eligible to participate often don’t. Furthermore, in some public participation programs only dominant groups or those with special interests in a policy become involved (Irvin and Stansbury 2004; Roberts 2004; Thomas 1995; Leach 2006; Brady, Verba, and Schlozman 1995).

However, there are mixed results on whether or not who participates actually matters. Scholars find that who serves in a public participation program may not be as

important as we may normatively think it is (Brady, Verba, and Schlozman 1995). In fact, political scientists find that the actual policy preferences of those who participate in these programs and those who don't are not significantly different (Brady, Verba, and Schlozman 1995). Rather it is the focus and intention the organization sets on recruiting a diverse array of constituents that is critical in an effectively designed participation process (Brady, Verba, and Schlozman 1995; Franklin and Ebdon 2005). There is scholarly consensus that careful selection of representative stakeholders has a direct impact on the outcomes of public participation programs (Irvin and Stansbury 2004).

One variable that defines an effective participant selection process is community members being solicited to participate in a number of different ways or what Thomas (2012) calls aggressive recruitment. Additionally, an organization that uses a number of different mechanisms to invite participants is also thought to be an important component of an effectively designed participant selection process since awareness of public participation programs are typically only available to individuals with a higher socioeconomic status (Franklin and Ebdon 2005).

In addition to aggressively inviting a variety of citizens the second variable that composes an effective participant selection process is an organization that focuses on having a community board that is selected to be demographically representative of particular communities or groups. I conceptualize this variable as purposeful recruitment. Purposeful recruitment is defined as a grantmaker that sets an intention and selects participants to be representative of a particular community or group. Intentionally selecting a demographically representative community board indicates that a grantmaker is interested in having a wide variety of community members with potentially differing viewpoints involved in grantmaking decisions. Furthermore, an organization that focuses

on purposeful recruitment is likely knowledgeable about which particular groups it is important to engage.

Deliberation Process

Finally, understanding the deliberation process within a public participation program is also emerging as a critical component of an effectively designed public participation program (Thomas 2012). One aspect of an effectively designed deliberation process is that an organization educates citizens about community issues (Webler, Tuler and Krueger 2001). Therefore, in the deliberation process citizens will utilize not just their own knowledge about a particular problem but will also incorporate external perspectives.

An effectively designed deliberation process also allows citizens the opportunity to record their individual perspectives or viewpoints (Franklin and Carberry-George 1999). Presence of this variable is indicative of an organization that values the individual contributions of community members. Recording individual evaluations also sends a signal to community members of agency transparency and legitimacy, indicating that their views matter and will be taken into account when decisions are made (Rowe and Frewer 2000; Webler, Tuler and Krueger 2001).

Finally, Thomas (2012) is one of the few public participation scholars to explicitly (many scholars allude to these design elements) focus on the presence of a trained neutral facilitator and the opportunity for community members to make decisions within small groups. This work is largely guided by researchers' findings across disciplines that small groups increase opportunities for meaningful collaboration (Abelson et. al. 2003; Ostrom 1990; Thomas 2012) McCool and Guthrie (2001) state that small groups allow opportunities for learning and they identify this as one dimension of success in a public participation program.

Additionally, having a neutral facilitator lead discussions is critical since it is important for agency staff to be seen as independent (Rowe and Frewer 2000; Thomas 2012). A neutral facilitator can also prevent situations where one community member uses “their power or authority to inhibit the conversation of others” (Santos and Chess 2003, 270; Webler, Tuler and Krueger 2001).

From this comprehensive review of the literature I develop and test hypotheses about the relationship between board composition and grantmaking decisions. I also develop a framework of an effectively designed participation program that I then use to guide the case study research I undertake in phase II of this dissertation. Finally in phase III of this dissertation I analyze the similarities and differences between grant decisions of community and traditional boards taking into account the design of a grantmakers public participation program.

CHAPTER 3

INTEGRATED THEORY, HYPOTHESES AND MODELS

Existing literature on donation decisions finds that all donors are operating in environments with a high degree of information asymmetry in that at the time of a donation decision, they are highly limited in their ability to monitor a nonprofit's performance (Parsons 2007; Buchheit and Parsons 2006; Gordon, Knock, and Neely 2009; Calabrese and Grizzle 2010; Church and Parsons 2008; Weisbrod and Dominguez 1986). Consequently, donors rely on a number of organizational and financial characteristics of nonprofit's that are easily observable characteristics found on a nonprofit's website or their 990 tax form (Saxton, Neely and Guo 2011). These organizational and financial characteristics are used by donors as proxies for the quality and performance of nonprofit's

I also posit that all donors are operating in environments with high degrees of information asymmetry. However, I argue that because community members are much more embedded in their communities (as compared to traditional board members), often living and working in the communities where they are making grant decisions, they will use organizational and financial characteristics of nonprofit's in different ways than existing literature on donation decisions would indicate (Kissane 2004; 2007; 2010; Boulduc 1980). I argue that because community members are embedded in the communities, where they are making grant decisions, they will be more aware of which nonprofit's are high quality or high performing and won't rely on organizational and financial characteristics of nonprofit applicants when making grant decisions.

Below I supplement information asymmetry and generate hypotheses from two organizational theories (elite and network theory) used to explain traditional boards grant making decisions. I also generate hypotheses building on the economic model of giving,

which describes the organizational and financial characteristics that donors use when making their donation decisions.

Elite Theory Hypothesis

Researchers who use elitist theory in their work on grantmaking often assert that foundations give to more professional, well known organizations⁸ (Armove 1980; Bombardieri and Robinson 2005; Nielson 1972; Odendahl 1989; Jenkins 1998). Since community boards are embedded in their communities they won't rely on the professionalism of a nonprofit as a proxy for its quality or reputation. Instead, community boards will select a higher percentage of grassroots⁹ (a measure of the professionalization of the nonprofit based on the type of 990 each nonprofit files) nonprofit's than traditional boards.

Hypothesis 1: Community boards are more likely than traditional boards to select grassroots grantees.

Network Theory Hypothesis

I also hypothesize that in contrast to a traditional board of directors who would make funding decisions based on familiarity with nonprofit's, community boards would be more open to funding organizations beyond their existing networks. Traditionally, receiving a grant in a prior year both reduces the degree of asymmetric information between donors and nonprofit's and also serves as a powerful predictor of whether or not

⁸ Yet, scholars examining these differences empirically often find very small or nonexistent differences between funding of more traditional and alternative nonprofit's (Jenkins 1998; Delfin and Tang 2007)

⁹ In the variable description section I define in detail how I created this variable. It is important to note that this is not a measure of the size of an organization. Instead, it is a measure of the professionalization of the nonprofit based on the type of 990 the organization completes. It is an ordinal level variable with a 1 representing those nonprofit's that have revenues less than \$25,000 and do not have to complete a 990, a 2 representing those nonprofit's who have revenues between \$25,000 and \$500,000 who complete a 990 EZ and a 3 representing those nonprofit's who complete a 990.

an organization receives a grant in a subsequent year (Grønbjerg et al. 2000). However, community boards are relying on information about nonprofit applicants based on personal experiences or word-of-mouth from other community members. Consequently they would be more open to funding ‘new’ applicants (a variable representative of whether or not the nonprofit received funding from that particular funder in the previous year).¹⁰ Therefore, I hypothesize the following:

Hypothesis 2: Community boards are more likely than traditional boards to fund new grantees (those who had not been funded in the previous year)

Donation Decision Hypotheses

Since community members are likely making grant decisions based on their personal experiences or word-of-mouth I hypothesize that community boards will also be more open to funding different types of nonprofit applicants than a traditional board. Instead of traditional boards, which would largely fund older, larger, nonprofit’s I hypothesize that community members will not use these characteristics as proxies for a nonprofit’s quality or performance. Community boards will be more likely to award grants to small, young organizations and will not use a nonprofit’s age or size as proxies for quality or performance (Grønbjerg, Martell, and Paarlberg 2000; Delfin and Tang 2007; Silver 2007). I hypothesize the following:

Hypothesis 3: Community boards are more likely than traditional boards to select young grantees.

¹⁰ It is important to note that neither the grassroots nature nor whether the nonprofit was a previous grantee have been used in existing studies to predict donations or grant success. These are two organizational characteristics that I add to my models as they are 1) frequently discussed in philanthropic literature and 2) likely play a large role in funding decisions.

Hypothesis 4: Community boards are more likely than traditional boards to select small grantees.

I also hypothesize that the existing (often experiential) knowledge community boards have about the capacity, performance and quality of nonprofit applicants will allow them to not be influenced by the advertising expenses of an organization. Therefore I hypothesize the following:

Hypothesis 5: Community boards are more likely than traditional boards to select grantees that spend less on fundraising.

Additionally, for both community and traditional boards, neither management nor program expenses will serve as a proxy of a nonprofit's commitment to its mission. Since members of the community board are embedded in their communities they are aware of which nonprofit applicants are committed to fulfillment of its missions. For traditional boards, literature indicates that they are more likely to give to organizations that are already in their existing networks, negating any scrutiny of their financial metrics. Therefore, we would not expect a relationship between these financial metrics and grantee selection. I hypothesize that the amount nonprofit's spend on management or program expenses will not impact whether a nonprofit is selected by a community or traditional board.

Hypothesis 6: There will be no statistically significant difference between the management expenses of community and traditional board nonprofit grantees.

Hypothesis 7: There will be no statistically significant difference between the program efficiency of community and traditional board nonprofit grantees.

Table 1: Hypotheses 1 – 7: Organizational and financial determinants of grantees

	Professional	Grantee Last Year	Age	Size	Fundraising Expenses	Administrative Expenses	Program Efficiency
Hypothesis	1	2	3	4	5	6	7
Community Board Grantees	<i>More Grassroots</i>	<i>Lower %</i>	<i>Younger</i>	<i>Smaller</i>	<i>Less</i>	<i>No Difference</i>	<i>No Difference</i>

A summary of my hypotheses are in table 1. My final regression equation is as follows:

$$\text{Community or Traditional Board Grantee} = \beta_0 + \beta_1(\text{Size})_{t-1} + \beta_2(\text{Age}) + \beta_4(\text{Fundraising Expenses or Admin. Expenses})_{t-1} + \beta_5(\text{Program Expenses})_{t-1} + \beta_{6-9}(\text{Sub Sector Controls}) + \varepsilon$$

In addition to quantitative analyses I also conduct case studies of two foundations to determine how the design of a public participation program may impact grantee selection. Through a comprehensive literature review I identify several components of an effectively designed community involvement program, one where community input yields differences in organizational decisions. I then generate a framework which I use to guide the qualitative data and analysis I conduct in phase II of this research. Finally, in phase III of this research I analyze grant decisions of community and traditional boards utilizing findings from my qualitative work to build regression models that take into account the design of the average grantmakers community involvement programs.

Framework of Design Elements that may Impact Grantee Selection

Through a comprehensive literature review I find 8 variables which compose an effectively designed public participation program. In figure 1 I purposefully define these variables in order for them to be applicable within the nonprofit context. For some variables this means appropriating a definition similar to one used in the public sector while for other variables this means amending the definition used by public sector scholars.

Factors	Variables	Definition specific to Grantmaking Organizations
<i>Authenticity of public involvement</i>		
	Opportunities	Application reviews and/or site visits are initiated and led by citizens
	Final decision making authority	Community boards grantmaking decisions are not filtered through another board. Instead, community boards decisions are reflective of final grant awards
<i>Participant Selection</i>		
	Diversity of invitation mechanisms used	Participants are solicited to serve on the community board in a number of ways
	Selection of representative participants is purposeful	Participants are purposively selected in order to be demographically representative of particular groups or communities

Figure 1: Description of design elements within grantmaking organizations

<i>Deliberation Process</i>		
	Educates	The grantmaking agency provides information on community issues to increase knowledge
	Citizens preferences are recorded	Community members individually record their evaluation of nonprofit applicants at some point in the grantmaking process.
	Small group interaction occurs within a large group process	Evaluation of nonprofit applicants takes place primarily through a small group deliberation process.
	Trained (neutral) facilitator leads group	The grantmaking agency has dedicated staff that facilitates group deliberation. This staff member remains neutral and does not influence group decisions.

Figure 1 Continued: Description of design elements within grantmaking organizations

Authenticity Defined for Nonprofit Research

I define authentic opportunities for community involvement in a similar way to public sector scholars, consisting of two variables – opportunities to take initiative and

timing. A grantmaking organization that creates authentic opportunities for community boards allows community members to lead application reviews, ask questions on site visits and make recommendations for funding.

The second variable I include in an authentic public participation program is defined differently in my framework than it is currently defined in existing public sector literature. For public sector scholars, community involvement at the beginning of an organizations decision process is thought to be a component of an effectively designed public participation program (Thomas 1995; Ebdon and Franklin 2006; Roberts 2004; Innes and Booher 2004; Walters, Aydelotte, and Miller 2000). Yet, when grantmaking organizations involve community members they are typically always involved at the beginning of the funding process, primarily conducting the review of applications of nonprofit's who are applying. Where many of these organizations differ is in the involvement of community members in final award decisions. For some organizations community boards' final decisions are merely recommendations or filtered through another board. Therefore, I define effective timing as community boards grant decisions serving as the final grant awards.

Participant Selection Defined for Nonprofit Research

I define an effective participant selection process consisting of two variables – the invitation and representation process. Similar to public sector organizations, a grantmaker with an effective invitation process solicits citizen involvement in multiple ways or what Thomas (2012) calls 'aggressive recruitment'. This is consistent with an organization that values a variety of constituents being involved in the grantmaking process.

In addition to aggressively inviting a variety of citizens the second variable that composes a participant selection process is an organization that thinks about and focuses on recruiting participants that are demographically representative of *particular* communities or groups. In public sector literature this is often called purposeful

recruitment. Purposeful recruitment is defined as a grantmaker that sets an intention and selects participants to be representative of a particular community or group. Intentionally selecting a demographically representative community board indicates that a grantmaking organization is interested in having a wide variety of community members with potentially differing viewpoints involved in grantmaking decisions. Furthermore, an organization that focuses on purposeful recruitment is likely knowledgeable about which particular groups it is important to engage.

Deliberation Process Defined for Nonprofit Research

The deliberation process is defined similarly to frameworks developed in public sector research by Franklin and Ebdon (2005) and Thomas (2012). An effectively designed deliberation process consists of a grantmaking organization that conducts training and informs community members about the particular issue(s) their organization is trying to address. Additionally, community members are provided opportunities to individually record their own opinions and perspectives about applicants before conducting discussions in small group (consisting of 4 or less individuals) settings. Finally, an effectively designed deliberation process has a neutral (non-voting) staff member as a facilitator for these small group discussions.

Design Elements and Grantmaking Decisions

Research indicates that only public participation programs that are effectively designed will yield differences in allocation decisions (Ebdon and Franklin 2006). Therefore, I posit that the design elements of each grantmakers community involvement programs will impact whether or not there are differences in grant decisions between community and traditional boards. I examine the same organizational and financial characteristics identified in phase I, removing organizations identified in phase II (the qualitative component) identified as having effectively designed public participation

programs. I suspect that the average grantmakers community involvement program is not effectively designed (largely due to constraints in resources and a lack of organizational learning). Consequently, I hypothesize that once the design of a public participation program is taken into account grant decisions between community and traditional boards will be more similar.

In the next chapter I discuss the data and methods I utilize to test the hypotheses and framework I've developed, providing a more complete understanding of the relationship between community involvement and grantmaking decisions.

CHAPTER 4

DATA AND METHODS

Sampling Strategy

There are no lists of grantmakers that use both community boards and traditional boards. Therefore, through convenience sampling (internet searches and contacting philanthropic practitioners I knew personally) I include six funders in this research who have both a community and traditional board. Foundations had to satisfy two criteria to be included in this research. First, each funder must delineate (either on their 990 or on their website) which board the grant came from.¹¹ Additionally, the community board has to make grant decisions that are completely separate from the grant decisions made by the traditional board. For example, this means that the community board staff should not be the same as the traditional board staff. It could also mean that community board members grant decisions are not filtered through another more traditional board. Although this is a high standard of selection for this study, since I am specifically interested in the role of community input in grant decisions, I am only examining those boards where grant awards are truly reflective of community input. My results will only apply to foundations that have distinctive community and traditional boards since this is the primary criterion for inclusion in my study. Unfortunately, there is no data that details the range or number of funders who have distinctive community and traditional boards.

Both Community Foundations, United Way affiliates and other public foundations are thought to be philanthropic organizations that should involve community members in grantmaking (since they raise their money from the public) (Ostrander 1999). However,

¹¹ Delineating which board or pool of funds a grant came from is not required by the IRS on a foundations website. In fact foundations only have to list the names of the nonprofit organizations they gave to.

in my sample I’ve included a range of different ‘types’ of foundations (both public and private)¹² in order for my results to have some external validity by including the spectrum of funders (See Figure 2) involving the public in grant decisions across the United States.¹³

Types of Foundations	Private Foundations	Public Foundations
Sample of Funders	1. Foundation A 2. Foundation B 3. Foundation C	1. Foundation 1 2. Foundation 2 3. Foundation 3

Figure 2: Cases Selected: Foundation Type¹⁴

Research Design

I conduct a variation of an explanatory design mixed methods approach called the follow up explanations model. A visual diagram of this mixed methods approach is provided in figure 3 below. In this mixed methods research design there are three phases of data collection and analysis. In the first phase (hereafter called Phase I) I collect and analyze quantitative data to first determine if there are differences between the nonprofit’s selected by community and traditional boards. I discover these differences using t test differences of means and regression analysis.

¹² See Appendix B for an overview of different foundation types.

¹³ In the 2009 Grassroots Grantmakers biennial “State of the Field” survey 25% of the respondents were private foundations.

¹⁴ Some of the foundations in my sample are easily identifiable if more descriptive information was provided. IRB was secured to conduct this study and I also promised respondents both confidentiality and anonymity. Therefore, I have chosen not to include more descriptive information on the foundations in this sample.

Once I've determined whether differences exist in the grantmaking decisions of community and traditional boards I then collect and analyze qualitative data in Phase 2. However, the qualitative data is specifically used in a follow-up explanations mixed methods model to identify "specific quantitative findings that need additional explanation, such as statistical differences among groups, individuals who scored at extreme levels, or unexpected results" (Creswell and Clark 2007, p. 72). Quantitative analysis of the differences between grants given by community and traditional boards is an incomplete picture of the impact that community involvement may have on grant decisions. This is particularly true since regression analysis does not take into account the absence or presence of components of an effectively designed community involvement program, which existing literature finds is important to consider.¹⁵

Therefore, I collect and analyze qualitative data to discuss how the absence or presence of an effectively designed community involvement program may mediate the relationship between board composition and grant decisions with a case study approach, investigating this relationship within two foundations.

Finally, I combine the quantitative and qualitative data together in phase III, using the findings from the qualitative component of my research to build and analyze a second set of regression models. By mixing the quantitative and qualitative data "together they form a more complete picture of the problem than they do when standing alone" (Creswell and Clark 2007, p. 7). I consequently reinterpret my quantitative data in lieu of my qualitative findings.

Below I describe the data and analyses I conduct this research.

¹⁵ I could not include controls in the model for each foundation because the unit of analysis is the nonprofit organization awarded grant and including foundation characteristics would be methodologically inappropriate. Furthermore, even when I attempted this the number of nonprofit's awarded grants within each funder was small and the coefficients dropped out of the model.

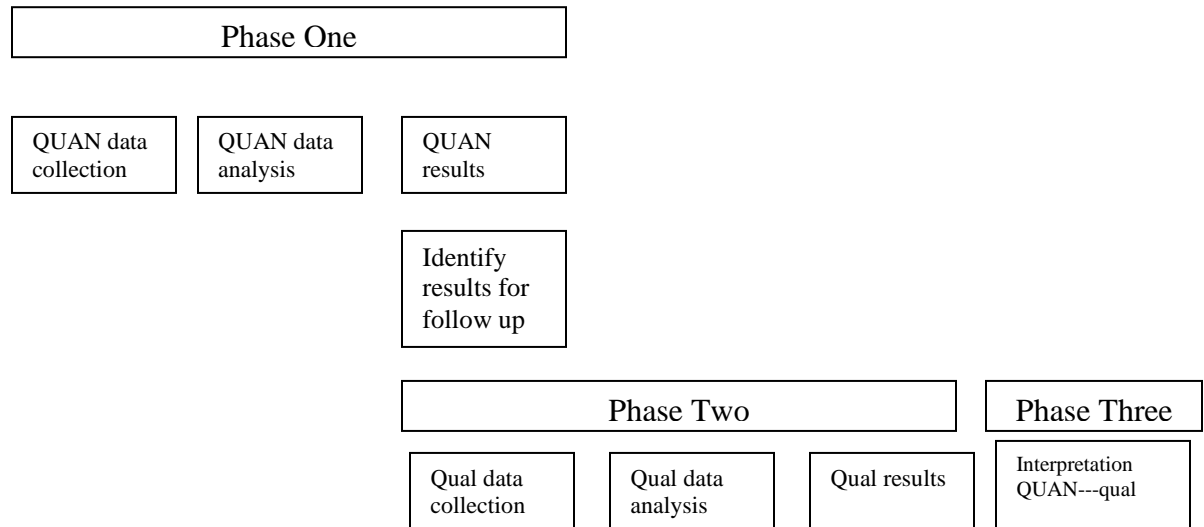


Figure 3: Explanatory Design Mixed Methods Model: Reproduced from Creswell and Clark 2007, p. 73.

Phase I: Data and Methods

Quantitative Data

The unit of analysis in my regression models is the nonprofit organization awarded a grant by each funder in 2008. I collected both organizational and financial information of grantees and non-grantees. To compile this information I first collected the names of each nonprofit awarded a grant in 2008 from each funders 990 form. I then conducted an extensive search using the National Center for Charitable Statistics, Guidestar and google to search for the ein's (employer identification number) of each nonprofit recipient. I

merged this list with the 2007¹⁶ Core 990 Public Charity files to secure each nonprofit's organizational and financial information. Since detailed revenue and expense information is not available in the Core Files I manually collected this information from each grantees 2007 990 form.¹⁷ This yields 617 unique grantees.¹⁸

	Source of Funding	Traditional Board Grants	Community Board Grants	Total
Funders Name				
Foundation A	Private	86	16	102
Foundation B	Private	9	22	31
Foundation C	Private	57	36	93
Foundation 1	Public	122	92	214
Foundation 2	Public	78	4	82
Foundation 3	Public	60	35	95
Total		412	205	617

Table 2: Distribution of grants by each funder

Although many scholars are concerned about using financial data¹⁹ from a nonprofit's tax forms (since many organizations misreport or make mistakes on their tax forms) I restrict my data to nonprofit's that reporting meaningful financial information (Tinkelman and Mankaney 2007). Following Tinkelman and Mankaney (2007) I restrict my data to grantees that report fundraising and administrative expenses over \$1,000 and

¹⁶ I lag all of the financial variables on year in concert with previous research indicating that this may take care of some endogeneity issues (Marudas 2004; Tinkelman and Neely 2010)

¹⁷ Although overall I have 724 grants made by 6 funders during 2008 for the purposes of my analysis I exclude grants made to foundations, public festivals, churches, international nonprofit's, schools, government organizations and grantees I could not find any information on. I exclude this data because I would not be able to secure similar organizational and financial variables to the nonprofit's in my sample.

¹⁸ I ran multinomial logistic models to determine if there was a difference between grantees who were selected by *both* a community and traditional board but none of the financial or organizational determinants were significant. This is likely because the number of organizations that received a grant from both board types was small (See Appendix F for multinomial logit results).

¹⁹ Appendix G includes a correlation matrix of all variables included in the final regression model

positive amounts of contributions, as scholars find that their financial data is more reliable.²⁰

In addition to examining the differences in organizational and financial characteristics of the 617 grant recipients funded by community and traditional boards I also examined the preferences of community and traditional boards in the nonprofit marketplace. I ask, when community and traditional boards are reviewing grant applications, which organizational and financial characteristics do they reward? However, I do not have access to nonprofit's who applied for grants and/or those who were rejected.²¹ I only have data (from each foundations tax form) on the nonprofit's who received grants. Yet, the organizational and financial characteristic of the nonprofit's awarded grants does allow me to include 955²² comparable nonprofit organizations that did not receive grants in regression analysis. I use the 955 comparable non-grantees to construct a hypothetical nonprofit marketplace and build a probability model for logistic regression. Non-recipient organizations are IRS Form 990 reporting 501(c)3 organizations that did not receive a grant from any of the foundations in my sample during 2008, yet complete a tax form and are listed in the National Center for Charitable Statistics Core Files.

I selected non-grant recipient organizations using multiple selection criteria. First, I restricted the data to nonprofit organizations that are likely to seek foundation grant support. I reduced the data to organizations that rely on donation income for some portion of their annual revenue by excluding nonprofit organizations that reported less than

²⁰ I also run descriptive statistics and regression results without Tinkelman controls. These results have similar findings and I include one of the regression models without Tinkelman controls in Appendix H to demonstrate this.

²¹ Foundations are not legally required to list this information and most don't.

²² This is a 10% sample from the NCCS data of non-grantees. I took a 10% sample in order to have a comparable sample size to my grantee data. I ran the regressions with several different 10% samples in order to ensure my results were consistent across samples. The only major changes occurred in the significance of the sub-sector variables which are control variables in the regression analyses.

\$1,000 in contributions on their 990 form. Second, since most of the funders in my sample only give in specific counties. I restricted the sample of non-grantees to counties where grant recipients are located using fips (Federal Information Processing Standard) codes. Finally, I restricted the sample of non-grantees to nonprofit organizations that fit the expressed giving priorities of sampled foundations. I referred to the National Taxonomy of Exempt Entities (NTEE-CC) subsector categories of the grant recipient organizations as proxies for the grant priorities of the sampled foundations and excluded nonprofit organizations in the sample that did not fall within one of the grantee NTEE-CC subsector categories. This yields a sample of 955 non-grantees. Similar to the grantee sample I manually collected detailed revenue and expense information of non-grantees from each organizations 2007 990 form since this information is not available in the Core Files.

Variable Descriptions

I run two²³ logistic regression models. In the first, the dependent variable is coded 1 if a nonprofit is awarded a grant by a community board and 0 if a nonprofit was not awarded a grant (non-grantee) by a community board. In the second regression model the dependent variable is coded 1 if a nonprofit is awarded a grant by a traditional board and 0 if a nonprofit was not awarded a grant (non-grantee) by a traditional board.

I examine my hypotheses through two groups of independent variables, organizational and financial characteristics of nonprofit's that are found to influence donations and grant decisions in existing literature. The organizational characteristics include the professionalism of a nonprofit (derived from literature using elite theory to

²³ I also ran a model including nonprofit's that received a grant from both community and traditional boards. However, the N is so small for nonprofit's that received a grant from both a community and traditional board (33) that none of the variables were significant.

discuss foundation giving), whether the nonprofit received a grant in the previous year from a funder (derived from literature using network theory to discuss foundation giving), age and size (natural log of total assets) of the nonprofit. The financial characteristics include the amount a nonprofit spends on fundraising, management, and program expenses. Both age, size, fundraising, management and program expenses are all variables found to influence donation decisions in the standard economic model of giving (Weisbrod and Dominguez 1986).

Description of Organizational Variables

The professionalism of a nonprofit is an ordinal level variable I created based on whether the nonprofit completed a 990 and if they did which 990 form they completed. I conceptualize the type of 990 a nonprofit completes as a *signal* of the level of professionalism an organization is trying to communicate with stakeholders. In no way does this indicate that an organization that completes a 990 does more or less grassroots activities or work than a nonprofit who completes an alternative 990 form. Despite the rules the IRS has for nonprofit's completing tax forms based on their size, in this sample a number of organizations ignore these rules and complete a 990, even though they aren't required. A 1 represents an organization that did not complete a 990, 2 represents an organization that completed a 990 EZ while a 3 represents an organization that completed a 990. Each of these categories represents an increased signal of professionalism that nonprofits are sending to various stakeholders.²⁴

²⁴ ANOVA test in differences of mean were examined to determine if there were any statistically significant differences in the asset sizes of nonprofit's who were filling out different 990 forms. None of these tests were statistically significant indicating that IRS rules based on size do not determine which forms nonprofits complete, but rather it is a strategy pursued by nonprofits who want to be viewed by various stakeholder groups are more professional.

To determine if a nonprofit was a previous grantee I compiled a list of each funders' grants during the previous year from their 2007 990 form. This variable is dichotomous with a 1 representing receipt of a grant in a previous year and 0 representing not receiving a grant in the previous year.

Age was created by subtracting the organizations rule date (or when the organization obtained their official recognition by the IRS) from the grant award year (2008).

I also use the \log^{25} of total assets as the size variable in my regression models.

Description of Financial Variables

The second group of independent variables are three financial variables used in existing research on donation decisions; the amount an organization spends on fundraising, the amount an organization spends on management expenses and the amount an organization spends on program expenses. I cannot include all three expense variables in one regression because they typically add up to the total expenses for an organization and I would have significant problems with multicollinearity.²⁶ Instead, in one regression model I include program and fundraising expenses while in the second I include program and administrative expenses.

Control Variables

I use the National Taxonomy of Exempt Entities (NTEE) major sub-sector five category listing (human services, arts, culture and humanities, health, education and

²⁵ Logging variables has been demonstrated in existing research to help reduce heteroskedasticity (Tinkelman and Neely 2010).

²⁶ As I am using these detailed expense amounts in my final regression models I am only analyzing those community and traditional board grantees that file a 990 and the professionalism variable drops out of the model.

other). The reference group is “other,” which includes environment, international, mutual benefit, religious, public and societal benefit and unknown nonprofit’s.

Phase II: Data and Methods

Qualitative Data

In addition to collecting and analyzing quantitative data on the nonprofit’s selected by community and traditional boards I also collect qualitative data. I use a case study approach in collecting my qualitative data going in depth within two public foundations (Foundation 1 and Foundation 2). I choose these two foundations to conduct case studies on for two reasons: 1) The organizations are similar in many respects. They are both intermediary organizations that raise money from the public with very distinct community and traditional grant programs. They also give a similar amount of money through their community boards (\$800,000 and \$500,000 respectively); 2) However, the design or the process of how they involve community members in grant decisions is markedly different. Foundation 1 has many elements of an effectively designed community involvement program while Foundation 2 does not. By choosing these contrasting cases I am able to determine whether or not the absence or presence of an effectively designed public participation program impacts grantee selection.

I collect agency documentation and interviews in this phase of my data collection. First, I reviewed all publicly available agency documentation (this included external documents like newspaper reports and internal agency documents such as list of grantees, funded project descriptions, applications for community board members, etc.) to develop both a history and understanding of each organization before I conducted interviews.

After collecting this data I interviewed three individuals (a staff member working with the traditional board, a staff member working with the community board, and a community board member²⁷) within each foundation. See Appendix A for the interview protocol.²⁸ Although I am collecting data primarily from individual interviewees my interview questions are about organizational level decisions and processes since this is my unit of analysis (Yin 2009).

Below I provide an overview of the two Foundations I include in this case study.

Overview of Foundation 1

Foundation 1 is one of the oldest public foundations in the United States. It has two distinct grantmaking boards within the organization. The traditional boards grant process has a lot of staff involvement and staff are responsible for reviewing grant applications and conducting site visits. A staff member working with the traditional board describes the grantmaking process as one where,

Staff take the lead on the individual grants even if their approved by the board. The board deals with overall strategy – should we be doing more education, should we be focusing more on micro enterprise and small business startup and how would we do that instead of a little \$20,000 grant.

Although the traditional board doesn't deal with the details of individual grants they are responsible "to decide what our initiatives are and allocate money between the initiatives and the responsive grantmaking" (Staff member working with the traditional board).

²⁷ In both foundations I was unable to get access to a traditional board member for interviews.

²⁸ I developed and refined the interview by conducting a pilot interview with a local agency who utilizes community boards. Pilot testing interview questions is thought to be a critical component of case study research since it can "cover both substantive and methodological issues" (Yin 2009, p. 93).

The community board of Foundation 1 is composed of approximately 27 local residents who serve as a grantmaking committee. The community board awards \$800,000 in grants annually. Each resident is either nominated (through local nonprofit's, existing members of the community board, staff of the community board, etc.) or completes an application and serves a three year term. In the community board, staff is relegated to more administrative tasks while the community board is active in all aspects of the grantmaking process. The community board makes final decisions as to which organizations are funded, which are not, and the amounts each organization receives. Although the purpose of the community board is to fund grassroots organizations more formal, larger nonprofit's can apply since they can apply for a grassroots project within their larger organization. A staff member working with the community board describes the grants awarded.

But it cannot be about ya know, we're gonna hand out food to people or just a strictly charity type of thing. So even if it is a charity thing like that there has to be that give and get piece of it where people who are receiving are also giving in some way and those relationships are being built.

Involving community members in the grants process is thought to be especially critical as the board of the traditional foundation is not thought to have the same insight into community issues. When asked why this same fund isn't run with a traditional board a staff member working with the community board says,

Well I mean theres a lot of reasons. Number one, I don't think – I don't know if the board - the board of *Foundation 1* is dealing with multi-million dollar, million dollar grants so one is they would not have the time to really look into this. They wouldn't – they don't have the knowledge of the community members. Those folks are living in the neighborhoods – their really part of the fabric of the community. The board of *Foundation 1* lives out in the suburbs and their um, ya know – their all really wealthy people. So their knowledge of this is limited – of

the issues that are going on in the community. The second big thing is – this takes a lot of time and attention and ya know, it's very relational. They don't have time for that – and some may have an interest in it but I don't know if they do.

A community board member describes a similar viewpoint on the grant decisions made by the traditional board.

9 times out of 10 their out of touch. It's just here's a group here's their proposal, we're gonna fund them money and then we'll let them come in and interview. . . .I've seen some of those people at *Foundation 1* and some of them are seriously just out of touch. Because you'll see certain things that they fund. . . and there are other needs that could strengthen our neighborhood, not \$100,000 worth of art.

Foundation 2 has designed its community involvement program in a very different way than Foundation 1. However, the perspective that community involvement in the grants process is critical to a more informed assessment of community and nonprofit needs is similar.

Overview of Foundation 2

Since 1976 Foundation 2 has been awarding grants to nonprofit's through their traditional board. Since 2003 the foundation has also been awarding grants to nonprofit's through their community board. Each year the community board awards approximately \$500,000 in grants.

Foundation 2's community board structure is unique in that their community board is composed of an equal number of community members and donors who contribute to this fund as well as one staff member who votes. In fact, at one point in the foundations history all grants were awarded by community boards. However, due to some

administrative changes community members involvement on the traditional board is primarily to review applications and conduct site visits while final grant decisions are made by staff. A staff member working with the traditional board describes the involvement of community members on their traditional boards as an ancillary one where,

. . .our CFB (community funding board) they are treated more as thought partners - that they help us assess the landscape of each of the areas, they help us assess what's going on economically, what's happening politically and they give us a feel for what the landscape looks like in each of those areas. We still meet together, they still conduct the site visits and meet with the organizations. They come back and we discuss the landscape and in the context of that work we look at that work and assess where there fit is in the context of that landscape. . . Based on that analysis is how we end up finally making grantee decisions.

On the other hand there is one specific fund within the foundation where a community board is responsible for making grant decisions and final grant decisions are not filtered through staff members. The involvement of community members in the grants process for this fund is critical as a staff member working with the community board mentions.

Well I really love that we involve folks from the community in our process because I think people can get really removed from what's happening. And as a foundation professional you can read about things, you can speak with people, but I think you need to add in the perspective of folks who are doing the work. I think it makes it much more richer.

Qualitative Methods

Since I am using an explanatory mixed methods approach for this research my qualitative data collection and analysis sequentially follows my quantitative data collection and analysis. I utilize several different qualitative methodological approaches in order to address three research questions.

1). Are there qualitative differences in the *projects* funded by community and traditional boards that are not revealed in regression analysis?

To address this question I qualitatively examine (through publicly available documentation) the description of *projects* funded (rather than the organizational level characteristics I use in regression analysis) by community boards versus those projects funded by traditional boards

Additionally, in this phase of data collection and analysis I utilize existing public participation literature to explain my quantitative findings. Public participation scholars find that solely focusing on the absence or presence of community involvement is an incomplete view of the relationship between community involvement and organizational decisions. Researchers find that in order to understand the impact of community input on organizational decisions we must take into account the process or design of public participation programs (Ebdon and Franklin 2006). Therefore I ask,

2). Does the absence or presence of components of an effectively designed public participation program impact grantee selection?

To address this question I conduct interviews with a community board member, community board staff member and a traditional board staff member. I conduct these interviews asking respondents whether or not particular design elements are absent or present, based on a framework I developed from a comprehensive review of public participation literature. This framework contains design elements thought to yield differences in organizational decisions when community input is utilized.

Analyzing Interviews

I use qualitative content analysis to analyze both the grant descriptions and interview data. Qualitative content analysis is defined as an approach of “systematically

identifying key factors and relationships” (Miles and Huberman 1994, p. 14). I inductively derive broad codes²⁹ based on the framework I’ve developed of an effectively designed public participation program that I then used in multiple rounds of open coding to determine if particular design elements are absent or present within Foundation 1 and Foundation 2.

Phase III: Data and Methods

Based on results in phase II I build regression models to take into account the design elements of the average grantmakers public participation programs. I rerun regression analysis on 5 organizations (removing Foundation 1 which is identified in qualitative research as an outlier – having all 8 components of an effectively designed process). In this second set of regression models I am left with 194 community board grants, 343 traditional board grantees, and 921³⁰ non grantees (before restricting my analysis to include Tinkelman controls or only those organizations that report meaningful levels of revenues and expenses).

In the next chapter I present my findings for both the hypotheses I test in phase I of this research as well as a more complete understanding of how process impacts grantee selection derived from qualitative data collected in phase II of this research. I then combine the qualitative and quantitative data in phase III, reinterpreting my quantitative findings in light of what I found in the qualitative portion of this research.

²⁹ For a list of codes for both the grant descriptions and interview data please see Appendix C and D

³⁰ The number of non-grantees is reduced since Foundation 1’s matched sample of non-grantees is now irrelevant.

CHAPTER 5

FINDINGS

Phase I: Findings

Descriptive Statistics

My purpose in utilizing quantitative analysis in this mixed methods study is to first determine if there are differences between community and traditional boards grant decisions. First I calculate descriptive statistics and t tests (table 3) on the organizational and financial characteristics of community and traditional board grantees. My first hypothesis is that community boards will be more likely than traditional boards to support grassroots nonprofit's. I find support for this hypothesis as a much higher percentage of community grantees are grassroots (58% either do not file a 990 or file a 990 EZ) compared to just 5% of traditional board grantees. Hypothesis 2 is also supported as t tests indicate that a larger percentage of traditional board grantees (43% as compared to 34%) received funding in a prior year. However, this is weakly significant at the .10 level.

Community board grantees spend more on fundraising (on average \$2.8 million) than traditional board grantees (who spend on average \$800,000). Community board grantees are also more efficient with their fundraising, raising \$288 in direct contributions for every dollar they spend on fundraising. On the other hand traditional board grantees only raise \$39 for every dollar they spend on fundraising. At the .10 significance level, t tests indicate that program efficiency is higher for traditional board grantees. Traditional board grantees spend 80% of their total expenses on programs, while community board grantees spend 77% of their total expenses.

Finally, community board grantees are much more reliant on government grants as a percentage of their total expenses than traditional board grantees. Government

grants, on average, compromise 33% of community board grantees expenses and only compromise 16% of traditional board grantees expenses. All other financial characteristics of community and traditional board grantees did not reveal any statistically significant differences when t tests were conducted. Complete descriptives are available in Appendix D. These results are further explored in regression analysis.

Table 3. Organizational descriptives of community and traditional board grantees

Variables	Community Grantees	Traditional Grantees
<i>Age (mean) ***</i>	14.3	21.6
Percentages		
Repeat Grantees*	34	43.03
Professionalism Scale (1-3)***		
<i>No 990 required</i>	46.35	2.37
<i>Short form 990 PC</i>	11.98	2.67
<i>Long form 990 PC</i>	41.67	94.96
Sub-Sector		
<i>Arts***</i>	15.05	9.23
<i>Education</i>	6.99	10.15
<i>Environment</i>	11.83	8.31
<i>Health*</i>	8.06	4.62
<i>Human services</i>	31.72	27.08
<i>International</i>	2.69	4.62
<i>Public***</i>	18.82	34.46
<i>Religion*</i>	3.76	1.23
<i>Mutual</i>	0	0
<i>Unknown</i>	1.08	0.31

*** p<0.01, ** p<0.05, * p<0.1

Regression Analysis

In tables 4 and 5 I present my regression models. Hypotheses 3 and 4 are not supported. I originally hypothesized that community boards grantees would be younger

than traditional board grantees. However, I find the opposite. Traditional board grantees demonstrate no preferences in regards to age while community boards select older grantees. I also hypothesized that community boards would select smaller grantees than traditional boards. I find instead that size does not impact a community boards' grant decision.

In hypothesis 5, I predicted that nonprofit's spending less on fundraising would be more likely to be selected by community boards. This hypothesis is not supported as the result is not significant and the amount a nonprofit spends on fundraising expenses does not impact whether or not a nonprofit is selected as a grantee by a community board. Since descriptive statistics indicate that community board grantees spend much more on fundraising than traditional board grantees and are also more efficient fundraisers than traditional board grantees, this finding needs additional exploration.

Hypothesis 6 is also not supported as the more a nonprofit spends on management expenses the more likely they will be chosen as a community board grantee. However, this should be interpreted with caution as the result is weakly significant at the .10 level. Finally, Hypothesis 7 is partially supported (depending on which financial variable is included in the model). How much a nonprofit spends on programs makes no impact on whether or not they are selected as a community or traditional grantee, when controlling for the amount a nonprofit spends on management expenses. However, when controlling for the amount a nonprofit spends on fundraising expenses, the more an organization spends on programs the more likely it will be selected as a community board grantee. This result is significant at the .01 level.

Discussion

Although I do find that community boards demonstrate preferences in selecting nonprofit's that are much more similar to the nonprofit's awarded grants by traditional boards than existing literature would predict, I do find that traditional boards have much

stronger preferences as 3 of their 4 coefficients (excluding control variables) are significant at the .01 level.

I find that if a nonprofit is older they are more likely to receive a grant from a community board. I also find that spending a higher proportion of a nonprofit's expenses on program expenses rather than management expenses, does not impact whether a nonprofit is selected as a community board grantee. On the other hand spending a higher proportion of expenses on programs rather than fundraising greatly impacts the likelihood that a nonprofit receives a grant from a community board.

Both age and the amount spent on program expenses have opposite findings from what research predicts. Contrary to expectations, developed from the information asymmetry arguments of the economic model of giving, older nonprofit's were more likely to receive a grant from a community board. Perhaps for community boards, age is an indicator of a nonprofit's reputation and/or trustworthiness in the community. For community members, older nonprofit's may be more embedded in a community than younger nonprofit's. An alternative explanation is that community boards are more likely than traditional boards to select grantees that they are more familiar with similar to what literature purports about traditional board members.

Table 4. Logistic regression models (With Fundraising Expenses)

VARIABLES	Community Board Grantees	Traditional Board Grantees
Age	0.0140** (0.00702)	-0.00324 (0.00495)
Size (Assets, log)	-0.00540 (0.0662)	0.187*** (0.0512)
Program Expenses (log)	0.216*** (0.0834)	0.171*** (0.0591)
Fundraising Expenses (log)	0.0429 (0.0263)	0.0932*** (0.0162)
Arts	-0.00355 (0.361)	-1.158*** (0.262)
Education	-0.698 (0.528)	-0.585** (0.272)
Health	-1.121** (0.484)	-2.099*** (0.354)
Human Services	-0.182 (0.299)	-0.631*** (0.179)
Constant	-5.232*** (0.789)	-5.577*** (0.560)
Observations	727	1,017

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 5. Logistic regression models (With Management Expenses)

	Community Board Grantees	Traditional Board Grantees
VARIABLES		
Age	0.0131* (0.00697)	-0.00477 (0.00485)
Size (Assets, log)	-0.0160 (0.0637)	0.186*** (0.0530)
Program Expenses (log)	0.135 (0.0969)	0.255*** (0.0736)
Management Expenses (log)	0.172* (0.101)	0.0538 (0.0676)
Arts	-0.0795 (0.359)	-1.204*** (0.258)
Education	-0.766 (0.528)	-0.652** (0.266)
Health	-1.236** (0.489)	-2.301*** (0.361)
Human Services	-0.249 (0.298)	-0.664*** (0.177)
Constant	-5.614*** (0.737)	-6.502*** (0.572)
Observations	727	1,016
Standard errors in parentheses		
*** p<0.01, ** p<0.05, * p<0.1		

Phase II: Findings

The quantitative results are surprising as they do not support the hypotheses predicted by existing literature. In fact, there is quite a bit of congruence between grant decisions made by community boards and those made by traditional boards. After analyzing the quantitative results, the question remains what difference does community input make? By using qualitative data and analyses in an explanatory mixed methods design I determine if there are other explanations that may account for the similarity in grant decisions found in Phase I of this research. I address three research questions in Phase II of this study.

- 1). Is the congruence between community and traditional boards grant decisions largely a result of regression analyses in which I can only examine characteristics of the *organizations* who received a grant? Are there qualitative differences in the types of *projects* that were funded by community and traditional boards within Foundation 1 or Foundation 2?
- 2). Is the congruence between community and traditional boards largely due to the absence or presence of components of an effectively designed community involvement program within Foundation 1 or Foundation 2? Essentially, do I find a similarity in grant decisions between community and traditional boards because the process of how traditional and community boards make their grant decisions are similar within Foundation 1 or Foundation 2?
- 3). Can the framework I've developed regarding the design elements of a public participation program that are necessary to change organizational decisions be utilized in a nonprofit context?

Qualitative Differences in Grantee Selection

One of the difficulties with ascertaining the differences in grantee selection between community and traditional boards is that 990 data (although consistent across

nonprofit organizations) is at the organizational level when in reality most foundations fund projects. For example, a very professional, large nonprofit could receive a grant for a very small grassroots project within that nonprofit. Alternatively, many organizations that do not have a 501 (c) (3) status are required by funders to have a fiscal sponsor³¹ (a larger organization that works with the smaller organization applying for the grant).

However, for each of the nonprofit's awarded a grant I have a brief description of the project funded from publicly available documents. This allows me to discern, at the project level, whether there are qualitative differences in the types of nonprofit's awarded grants by community and traditional boards.

Foundation 1: Projects Funded by Traditional and Community Boards

For Foundation 1 the community and traditional board awarded 372 grants to nonprofit's during 2008. 203 of these grants were awarded by the community board while 169 were awarded by the traditional board.

The project descriptions of organizations funded by the community and traditional boards indicate vast differences. One of the most interesting differences is that many of the projects funded by community boards fund start up organizations or more short term projects within larger, more established organizations. A community board member states, "I really look for the scrappy groups, they had an idea and they wanna see if they can get funded because their already doing it". On the other hand a staff member working with the traditional board member describes the role of the staff and board as one where they work collaboratively to invest long term in organizations.

³¹ Depending on the organization and project proposed this fiscal sponsor may or may not play a large role in the delivery of the project, but always plays a large role in the administration of funding received.

I mean the staff works for the board. I think sometimes in foundations people don't present it that way. The staff does not work for the applicants it works for the board. And if the board and staff are not on the same page then somebody should say – either the board should hire a staff who works for them or the staff and the board should spend more time together and understand strategy and see how the grants are put together (Staff member working with the traditional board).

On the other hand, staff of the community board does not focus or see their grants as long term investments in organizations.

Yea, so they can come back to us. There's no limit to how many times they can come back but our thing is less about sustainability – if it can be sustainable that's fine but our main thing is really about getting people active and engaged (Staff member working with the community board).

Foundation 2: Projects Funded by Traditional and Community Boards

Foundation 2 awarded 82 grants during 2008. 4³² of those grants were awarded by the community board and 78 were awarded by the traditional board. Unlike Foundation 1, there are not apparent differences between the types of projects funded by the community and traditional board. Both groups seem to fund a variety of projects engaged in both expansion of activities as well as general operating support to sustain existing activities.

Staff working with the traditional board describes the types of projects they fund similar to the way community boards describe the types of nonprofit's they fund.

There's no foundations that want to look at them because their grassroots, because they don't have a record, because they don't have paid staff, ya know all of these things that make for strong infrastructure (Staff member working with the traditional board).

³² Although we only have 4 grants to compare the community and traditional boards on, Foundation 2 does have an entire grants process (separate staff, separate application process, separate boards) devoted to this process and I consequently compare the decisions made in the community boards grant process to grant decisions made in the traditional boards grant process.

This is similar to what a member of the community board states.

I love being able to take more risky grants to be the first foundation that invests and shows supports. . I love working with more smaller sized organizations to help them with their capacity building, developing their boards. I like that, I think it's a challenge.

Summary: Qualitative Differences in Grantee Selection

The types of projects funded by community and traditional boards within Foundation 1 and Foundation 2 are very different. In Foundation 1 community boards largely fund start up organizations or short term projects within more established organizations. On the other hand, traditional boards are much more oriented to funding long term solutions to community issues and therefore primarily fund more established nonprofit organizations and projects. Yet, for Foundation 2 similar projects are funded by the community and traditional board.

Below, I further explore how the process of community involvement or the design of a public participation program may also impact grantee selection.

Design Elements of Public Participation Programs

Are the design elements thought to change organizational decisions, when community input is utilized, found in the design of community involvement programs within Foundation 1 or Foundation 2? Through qualitative interviews with a staff member working with the community board, and a community board member I compare their descriptions of the grant making process with the framework³³ I've developed of an effectively designed community involvement program. A summary of the absence or

³³ Please refer to pages 34-35 which includes a framework of the design elements I identified from existing literature as necessary components to a public participation program. I used this framework to guide the semi-structured interview protocol about the process of involving community members in grant decisions.

presence of each design element within Foundation 1 and Foundation 2 is provided below in table 6.

Table 6: Summary of absence/presence of design elements within Foundation 1 and 2

		Foundation 1	Foundation 2
Authenticity			
	<i>Opportunities</i>	X	X
	<i>Timing</i>	X	
Participant Selection			
	<i>Invitation</i>	X	
	<i>Commitment to Diversity</i>	X	X
Deliberation Process			
	<i>Education</i>	X	
	<i>Recording individual preferences</i>	X	X
	<i>Small group interactions</i>	X	X
	<i>Neutral facilitator</i>	X	

Authenticity

Authentic participation by community members is thought to be a critical component of designing community involvement programs. For grant making organizations an authentic program has two components: 1) community members are not just present during the grant making process but are initiating and taking the lead during the reviews, site visits and deliberation and 2) community members grant decisions are reflective of the final grant awards.

Foundation 1: Authenticity

The community board in Foundation 1 satisfies both components of an authentic public participation process. First, community boards not only take the lead during the grant making process but are solely responsible for reviewing proposals, conducting interviews with applicants and consequently making final grant recommendations. Staff are primarily used to coordinate the administrative components of the grants process. A staff member working with the community board describes the role of the staff as mainly administrative.

So each team has a staff liaison but they're not voting members so they never vote and say this is what I think you should do. They just keep going back to the questions and facilitating conversations.

Additionally, through a process of iterative discussions grant decisions by community boards are reflective of final grant awards.

Then they come together the week after that and they say ok, based on the interviews and the information we have. Who are we gonna fund and for how much, so they make an initial recommendation to the committee, each team does and we get that as a staff and we add it up. And usually its more than what we have to give out. . . And at that point we have each team, they can't go through every proposal, but we ask them to give us their thinking on a few of them to hear kinda what their thoughts are and then give the committee an opportunity to ask them about those proposals or some of the others that they ah, reviewed that someone may have a question about. So it's kind of a tough meeting, because

there's a lot of back and forth and it can sometimes get a little tense, which is fine but I think it's a needed thing (Staff member working with the community board).

Foundation 2: Authenticity

For Foundation 2 it is clear that community members (even with an equal amount of donors on the board) are given the lead during the reviewing process, site visits and subsequent deliberations. One of the donors who works with the community board mentions, "When we go to site visits, I try not to ask questions and let the community collaborators lead it".

However, for Foundation 2 community members input does not satisfy the second component within an authentic public participation program. Community boards grant decisions may not be reflective of final grant awards and instead may reflect staff preferences and/or donor decisions. For example, "The committee collaborators will sort of back off and say ultimately it's not our money, it's the donors money and if they feel strongly about these groups then we should. .." (Staff member working with the community board). Additionally staff members preferences may yield final grant awards reflective of their input, rather than community members input.

And I've been running this fund now for 6, almost 7 years. And you know that there are certain grantees that will succeed and some that won't. Who will understand developing work plans and assessing their work and actually just having the infrastructure to succeed? So when I'm voting I'm looking not just for a group that's exciting and risky, and things that don't just seem exciting to the committee,. . . but then I look at it like okay, that's exciting but is this group going to survive when their getting this grant, have they shown enough for me to feel like they have it together (Staff member working with the community board).

Participant Selection

Two components of a participant selection process that researchers find play a significant role in the relationship between community input and organizational decisions are 1) the variety of ways the organization recruits community board members and 2) the

intention of the organization in selecting community board members that are representative of the general public.

Foundation 1: Participant Selection

Foundation 1 is satisfying both components of an effective participant selection process in a public participation program. Foundation 1 is recruiting participants in a number of different ways. They invite participants through a nomination process, use existing committee members to recruit potential members and “we put stuff in some of the local neighborhood newspapers, newsletters, that go out and say we’re looking for committee members” (Staff member working with the community board). Additionally,

So we have a team of people we call ambassadors and they go out and talk about neighborhood connections. So they recruit people, talk to people about applying, talk about joining the committee um do that kind of thing. So they cover the whole city (Staff member working with the community board).

Foundation 1 is also purposeful in selecting community board members that are demographically representative of the public “looking at different levels and different skill sets and different neighborhoods and also different socioeconomic class. And also, we’re looking at racial and ethnic” (Staff member working with the community board). Community board staff members believe diverse perspectives in its grantmaking process are important.

Well people see things in very different lenses so I think it’s important to have understanding, especially when grant applicants come in from really different populations. So you see some really different things come in so to have someone who can see things a little bit differently or from a different perspective, especially based in their culture. Like I may read it as a white male and say this doesn’t make any sense to me but someone else may say you know what that does in my experience as a member of that community. So um, so there’s that piece of it (Staff member working with the community board)

Foundation 2: Participant Selection

In Foundation 2 the organization is not focused on ‘aggressive recruitment’ (Thomas 2012) as they are not inviting community members to participate in several different ways. Instead the organization is soliciting participation through their existing networks. To recruit new board members the staff of the community board “asks folks for recommendations on who do you think would be good to serve on that committee. So we check with the donors and then around the country we check with other foundations” (Staff member working with the community board).

On the other hand the community board staff is very focused on satisfying the second component of an effectively designed participant selection process – that of choosing community board members that are demographically representative of the public.

Yes, that’s very important to us. It’s not that shocking that most of the donors would be white and um, male and ya know I’ve wanted to get more – one female donor which hasn’t happened yet. So on the community collaborators side we tend to focus on getting more women or female identified folks, more people of color and definitely the geographic diversity (Staff member working with the community board).

Deliberation Process

There are four factors of a deliberation process thought to mediate the relationship between community input and organizational decisions: 1) Training or education on community issues that community boards can utilize during the grants process; 2) the opportunity for community members to record their individual evaluations during their application reviews while also 3) encouraging small group deliberation and 4) the presence of a neutral staff member who does not influence grant decisions.

Foundation 1: Deliberation Process

Foundation 1 satisfies all four components of an effectively designed deliberation process within a public participation process. First, it provides a number of different opportunities and venues for members of the community board to learn about pressing community issues. In addition to trainings that the committee receives before beginning to review grant applications the staff also does, “neighborhood tours, or we may bring in a speaker or go to some place to learn more about a particular – ya know, just a particular issue or building community in those kinds of things” (Staff member working with the community board). The organization also has small pools of money for community board members to be trained and learn about broader issues that are being dealt with in their community. For example,

Then the other is exposing them to other things going on, connecting them to other trainings – or we have our own things we do with them. Like they’ve been to some of the Grassroots Grantmakers, um, things in different cities or we’ve taken them to other things around here (Staff member working with the community board).

Community board staff also indicates that they value individual input during this process. Community board members individually score applications and are provided a set of guidelines by the foundation staff.

Yea, we have a list. They have a list and they go through that list so there’s kind of a grading sheet and they use that. Now those numbers aren’t – you can change those as you go through but it gives you a sense of what we’re looking for. So we go through who’s driving the bus? Who’s running this project? Are they building relationships? Are they tapping into community resources? Can they do this project? Is it feasible? Those kinds of questions, there’s a list of about 10 questions on there and there’s a number scale so they use that, and even before that they have another little scale they do so that when they first get the proposals, before they even interview anyone they come and have a sense of who they really like based on what they read. There’s a three question scale that they do even before they come to the first meeting that has the criteria on there (Staff member working with the community board).

After individually recording their evaluations of nonprofit's, community board members come together in small groups to conduct interviews and make final grant decisions. This deliberative process is highly interactive with community members constantly engaged in discussions with other members of the small group.

After the interview and before the next interview we briefly go through and ask questions. Like the *Foundation 1* summary format questions. Did we think the project was neighborhood specific? Do we think the group did good on their proposal? Was their budget thoroughly thought out? There's like several questions you ask. And we'll do that briefly (Community board member).

Finally, Foundation 1 also has nonvoting staff that remain completely neutral throughout the grants process. The primary duty of staff during this process is to "facilitate the conversations and ask the tough questions and get people talking to each other about what they think and make sure we're sticking to the real goals of the program (Staff member working with the community board).

Foundation 2: Deliberation Process

Community boards in Foundation 2 are not provided any training or educating before they begin reviewing grants and conducting site visits. For Foundation 2 this is seen as one of the major assets of community boards as they do not need any education or training and can instead rely on their existing knowledge of community issues.

Ah, we don't provide formal training. I think that most of the things community members learn they learn by doing through this process. For folks who have worked in nonprofit's or done organizing or whatever, their familiar with the different strategies that are being utilized by these applicants. And working in that setting I think they have a better understanding of what it takes to be successful (Staff member working with the community board).

When the staff member who works with the community board read a list of requirements for community board members during our interview she listed the ability to evaluate grantees as one of the last requirements. Later she stated, "So as you can see the

actual experience of evaluating grantees comes a little later. We're more looking for um, an expertise of issues and a sort of commitment to learn and do and work well with others" (Staff member working with the community board).

However, the ability to work well with others is a major component of the deliberation process as the majority of the deliberation process takes place in small groups (teams of 2). Yet, community members do have the opportunity to score applicants individually in the beginning of the grants process, satisfying the second component of an effectively designed deliberation process. Foundation 2 is committed to ensuring that community board members feel their individual voices are valued throughout the deliberation process.

But folks are fine now that we're not reaching consensus and we devote a lot of time to the decision making process so everyone knows that if they don't agree with the entire group they've at least had their concerns heard and we'll continue along with the process so folks feel comfortable enough so if they still haven't changed the vote at least they feel like they've been heard and I'm okay going with the group wisdom on this one (Staff member working with the community board).

Initially individual scores by the community board determine which nonprofit's can submit a full proposal, site visits, and which groups will receive a grant. After this initial scoring the majority of the grants process does occur in small groups, a third component of an effectively designed public participation program.

Yet, the staff member involved in this process does not remain neutral. In fact, the staff member is a voting member of the board. And although she has one vote she does not always yield to majority decisions.

. . .but then I look at it like okay, that's exciting but is this group going to survive when their getting this grant, have they shown enough for me to feel like they have it together. I don't always agree with the majority of the committee, so I'm one vote (Staff member working with the community board).

Summary of Design Elements Across Foundation 1 and Foundation 2

The community and traditional boards within Foundation 1 fund different types of projects, with community boards focusing more on start up or short term solutions to community issues and traditional boards focusing more on long term solutions to community issues. On the other hand for foundation 2, the types of projects funded by community and traditional boards are very similar.

Additionally, since existing public participation research emphasizes the design of public participation programs I investigate how the design of community involvement programs within these two foundations may impact grantee selection.

When I compare the process or how the programs were designed within each foundation, Foundation 1 has all of the elements (identified by public sector scholars) of an effectively designed public participation program. Consequently, I find that there are drastic differences in the projects selected by community and traditional boards. In this sense the community input does what it is intended to do, change the grant decisions that would typically be made by a traditional board.

On the other hand Foundation 2 has only 4 of the 8 design elements identified by public sector scholars as critical components of a public involvement program. Consequently I find that there are more similarities between the projects funded by community and traditional boards.

First, the foundations differ in having an authentic public participation program as community input may not reflect final grant awards in Foundation 2. In Foundation 2, a mix of donors and a voting member of the staff likely thwart grant decisions to not be reflective of community input. Secondly, although both boards are very clear and intentional about selecting community board members representative of the populations and communities they serve Foundation 1 is much more aggressive in its tactics about recruiting new board members. Foundation 2 tends to rely on its existing networks to recruit board members. Again, since Foundation 2's community and traditional boards

fund more similar projects it may be that the ‘community’ members on the community board are very similar to its traditional board members and consequently making similar decisions. In future research I hope to collect more detailed information on the characteristics of individuals who serve as board members.

Finally, for Foundation 2 it neither provides education for its community board on community issues, nor has a neutral staff member involved in its grants process. On the other hand Foundation 1 provides multiple opportunities for community boards to learn about community issues and its staff members are only utilized for administrative processes during the grants process.

Discussion

Apparent from these case studies is that a public sector framework of design elements (identified by public participation scholars) is extremely useful in understanding the complex relationship between community involvement and grant decisions. This framework provides a more clear understanding of the differences or similarities in organizational decisions that result within two foundations who have designed their community involvement programs very differently. The presence of these design elements and the vigor with which Foundation 1 has undertaken some of these design elements yields differences in the projects funded by its community and traditional board. On the other hand the absence of these design elements in Foundation 2 yields more similarities in the projects funded community and traditional boards. This analysis indicates that for Foundation 2, involving community members without focusing on the process of a community involvement program yields grant decisions that are not reflective of the community input they were intended to include.

Phase III: Findings

In phase II of this research I examined project level differences in grant decisions within two grantmakers public participation programs. The qualitative analysis indicated that Foundation 1 was likely an outlier since its public participation program consisted of all 8 elements identified in public participation literature as components of an effectively designed public participation program. I consequently use these qualitative findings to rebuild the regression models I previously ran in phase I of the dissertation.

Although I was not able to conduct qualitative analyses on all 6 of the organizations I suspect that due to resource constraints and lack of organizational learning the average grantmaker is not likely to have all design elements in a public participation program. Therefore, I remove Foundation 1 from the regression models and examine the organizational and financial differences in grant decisions between community and traditional boards in Table 7 and Table 8 below.

Discussion

Similar to the initial findings in phase I, traditional boards do exhibit stronger preferences in their grantmaking decisions. In Table 7 where I include fundraising expenses (as opposed to management expenses) traditional boards prefer to award grants to organizations that are larger, spend more on programs and more on fundraising (a proxy for advertising expenses). These results are all statistically significant at the .01 level. In Table 8 where I include management expenses (as opposed to fundraising expenses) traditional boards' preferences remain strong and statistically significant at the .01 level with preferences for larger organizations that spend more on programs.

On the other hand findings for community boards are not reflective of phase I findings indicating that the design elements or process of community involvement for the average grantmaker are creating more similarities between the grantmaking decisions of community and traditional boards.

In Table 7 where I include fundraising expenses community boards are more likely to award grants to organizations that are older, larger and spent more on fundraising. In phase I community boards were more likely to award grants to organizations that were older and spent more on programs (a proxy for an organizations commitment to its mission). Program expenses are no longer an important drive of grant awards for the average grantmakers community involvement program. Instead, size becomes an important characteristic when the average grantmakers community board is making their grant decisions.

Similarly, in Table 8 where I include management expenses, community boards are more likely to award grants to organizations that are older and larger. In the regression models included in phase I management expenses (which serves as a proxy for how professional the organization is) was significant and size was not. For the average grantmakers community involvement program (with an average design process) grant decisions are more reflective of the traditional drivers of donation decisions.

Table 7: Logistic Regression Models (With Design Elements and Fundraising Expenses)

VARIABLES	Community Board Grantees	Traditional Board Grantees
Age	0.0131* (0.00798)	-0.00339 (0.00532)
Size (Assets, log)	0.167* (0.0922)	0.126** (0.0560)
Program Expenses (log)	0.102 (0.0978)	0.225*** (0.0686)
Fundraising Expenses (log)	0.0555* (0.0321)	0.108*** (0.0189)
Arts	-0.611 (0.486)	-0.841*** (0.281)
Education	-0.779 (0.603)	-0.400 (0.301)
Health	-1.243** (0.548)	-1.604*** (0.359)
Human Services	-0.349 (0.355)	-0.332* (0.197)
Constant	-6.386*** (0.907)	-6.045*** (0.622)
Observations	700	918

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 8: Logistic Regression Models (With Design Elements and Management Expenses)

VARIABLES	Community Board Grantees	Traditional Board Grantees
Age	0.0132* (0.00788)	-0.00453 (0.00521)
Size (Assets, log)	0.171* (0.0969)	0.155*** (0.0573)
Program Expenses (log)	0.108 (0.118)	0.294*** (0.0821)
Management Expenses (log)	0.0593 (0.121)	0.0371 (0.0716)
Arts	-0.698 (0.484)	-0.886*** (0.273)
Education	-0.894 (0.599)	-0.546* (0.291)
Health	-1.378** (0.549)	-1.871*** (0.363)
Human Services	-0.431 (0.354)	-0.378* (0.194)
Constant	-6.720*** (0.879)	-6.839*** (0.622)
Observations	681	899

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

CHAPTER 6

CONCLUSION

As Grantmakers for Effective Organizations found in their 2010 report nearly 50% of funders are involving stakeholders in their grant decisions. Furthermore, calls for stakeholder involvement in philanthropy have been pervasive throughout scholarly and practitioner oriented literature for the past 30 years (Arnove 1980; Bombardieri and Robinson 2005; Nielson 1972; Odendahl 1989). Yet, it has always been assumed that simply involving community members in organizational decisions would be enough and somehow lead to ‘better’ grant decisions. What I find instead is a much more complex story of community involvement in philanthropic decisions.

It is not merely the absence or presence of community members that changes an organizations decisions but rather *how* these community members are engaged that is important. Conducting case studies within two foundations offers insights describing both how foundations are utilizing community boards and how the design of these programs may impact grantee selection. Furthermore, the regression analysis I conduct removing Foundation 1 (which has all 8 components of an effectively designed public participation program) indicates that for the average grantmaker community and traditional board grant decisions are remarkably similar.

In Phase I of this research I employ quantitative methods and test the assumption that community boards and traditional boards will make different grant decisions. Although I do find overall evidence supporting literature based in differences of donation decisions based on the information asymmetry arguments (as community members rely less on the organizational and financial characteristics of nonprofit’s than traditional boards) many of my hypotheses are not supported. The hypotheses based on organizational theory (elite and network theory) are supported whereas the hypotheses

based on the economic model of giving are completely contrary to what we may expect from existing literature.

The findings in this research that are contrary to the economic model of giving indicate that researchers studying grantmaking cannot rely on empirical findings based on how donors (an aggregated variable representing individual donors, government funders, corporate grants, foundation grants, and federated campaign funded) respond to organizational and financial characteristics. During a donation decision, there are differences between the way a nonprofit's organizational and financial characteristics are used by donors and how they are used by philanthropic boards. This suggests that philanthropic institutions are different from other donors in their approach to giving and future research needs to explore how and why these differences exist. Additionally, the similarity between community and traditional boards giving decisions may indicate that there are some negative implications of involving individuals who have a great deal of existing knowledge about nonprofit applicants. Perhaps community boards, similar to traditional boards, are not open to funding nonprofits with organizational and financial characteristics that do not traditionally drive donation decisions. It could be that community boards are also more trustworthy of more established organizations that may have more legitimacy or at the very least long histories in the community. Although many respondents in the interviews mentioned wanting to fund risky projects and organizations the quantitative analysis reveals that this is largely not taking place, even amongst community boards. Further research is needed to explore these findings in detail.

In Phase II I expand upon these initial quantitative findings and qualitatively discern: 1) whether or not there are differences in the *projects* funded by community and nonprofit boards and 2) whether the absence or presence of components of an effectively designed public participation programs impacts grantee selection.

By looking at narrative descriptions of *projects* funded by community and traditional boards (rather than the characteristics of organizations which are included in

the regression results) I discern some differences between grant decisions made by community and traditional boards. However, these differences are most apparent in Foundation 1 which not only involves community members but subscribes to the practices advocated by public participation scholars regarding the design of community involvement programs. For Foundation 2 the differences between the projects funded by the community and traditional board are not as drastic as Foundation 1. This indicates that the process or how an organization designs its public participation program impacts grantee selection.

Findings from this case study research support existing public participation literature. In public participation literature scholars assert that simply involving community members in organizational decisions does not yield an automatic difference in organizational decisions. Instead, my findings confirm what public participation scholars already know, that there are particular conditions and factors necessary in order for community input to make a difference in organizational decisions.

Additionally in phase II of the research I conduct an extensive review of public participation literature and develop a unique framework of 8 design elements that are necessary in order for public participation programs to change grantmaking decisions. Initially this framework identifies groupings of variables based on existing public participation research by Ebdon and Franklin (2006) and Thomas (2012). However, 3 of the 8 variables are specifically defined to be applicable to grantmaking organizations representing a contribution to public participation and nonprofit literature.

Finally, in phase III of the dissertation I remove Foundation 1 from the regression models since it is likely an outlier, the organization's qualitative interviews revealed it had 8 of the 8 design elements necessary in an effectively designed public participation process). The regression models I build in light of the qualitative findings examines the average grantmakers design process and finds that community and traditional board grant decisions become very similar. Furthermore, how committed an organization is to

achieving its goals (program expenses) becomes insignificant and instead I find that community boards rely on traditional drivers of donation decisions. This analysis again demonstrates that community involvement without any focus on the design or process of public participation will not automatically yield a difference in grant decisions as is hypothesized and discussed in grantmaking literature.

Policy Implications

In 2007, Eisenberg wrote that “the governance of American foundations should be high on the priority list of researchers. It is a topic that would provide additional insight to our grantmaking process” (4). Additionally, nearly 50% of funders surveyed by Grantmakers for Effective Organizations in 2010 (Enright and Bourns) are engaging stakeholders in some way in their grant process. Although many funders are experimenting with new forms of philanthropic governance empirical research examining the connection between philanthropic governance and grantmaking has not been undertaken to date. Furthermore, rhetoric in grantmaking literature often alludes to community involvement in grantmaking organizations as having the potential to alter grantmaking decisions in ways that can benefit nonprofit organizations and the beneficiaries they serve.

This rhetoric is reflected in a number of normative assumptions around philanthropic governance, that because these institutions are largely governed by white, wealthy men the resulting grant decisions are not reflective of nonprofit or community needs. In fact, during 2008 the Greenlining Institute proposed legislation (Assembly Bill 624) in California around this very assumption. Survey research found that 28% of California’s Foundations had no minority representation on their boards. Additionally, nearly 50% of the grants in the State that were made to minority led/minority serving nonprofit’s came from 10 foundations. Citizens, politicians and advocacy organizations were outraged when these statistics were collected. It seemed that these elite foundation

boards were making grant decisions not reflective of nonprofit or community need, and awarding grants to certain nonprofit's while disadvantaging others.

As part of proposed regulations in Assembly Bill 624, California's foundations would have to describe the demographics of their own boards and staff as well as the demographics of the nonprofit's they selected as grantees. Foundation and nonprofit leaders banded together across the nation and fought this legislation which did not pass. On the other hand in Florida, Senate Bill 998 was passed (in many ways a reaction to California's proposed legislation). This legislation is in essence, anti-regulation and instead states that Florida's foundations will never have to report this type of demographic information. On one hand in California policymakers seem to assume that board composition has a significant impact on grantmaking decisions and that changing who serves on a foundation board will alter grantmaking decisions. On the other hand Florida policymakers have assumed that board composition has no impact on grantmaking decisions and that regardless of who serves on a foundation board grantmaking decisions will not be impacted.

Unfortunately in our current policy environment politicians and practitioners do not have a clear understanding of the relationship between board composition and grantmaking. The mythology created around grantmaking is that elite foundation board members select elite nonprofit organizations. The idea that when we change who serves on a foundation board we will change the nonprofit's selected by these boards pervades both normative, practitioner and scholarly literature.

Yet, the findings in my dissertation question this assumption. One it challenges this assumption *prima facie* and instead finds that even when the board structure and composition is changed grant decisions and nonprofit's selected are mostly similar. Second, this research (particularly the qualitative findings) indicate that the relationship between board composition and grant decisions is extremely complicated. There are likely a number of institutional, environmental and process variables in addition to other

aspects of board governance that influence the relationship between board composition and grantmaking decisions.

My research investigates the process of how community members are utilized in the grants process and finds that unless particular components of a public participation program are effectively designed grant decisions between community and traditional boards may not be different. Ultimately, the collection and analysis of grants data as well as explanations generated from the case studies in this research allow philanthropic practitioners to determine the particular mechanisms that allow citizen voices to guide grant decisions.

APPENDIX A

INTERVIEW PROTOCOL

No.	Background Questions	Probe
1	What is your role in this process?	<i>How many staff members are dedicated to this process?</i>
2	Describe the entire process of community involvement?	<i>From start to finish, or from recruitment of community members to final awarding of grant monies</i>
3	Why did your agency decide to involve the public in decision making?	<i>What are the goals of having this board?</i> <i>How can you tell when/if you've accomplished these goals?</i> <i>How many people make up the community board</i>
4	What type of representation are you trying to achieve with this community board	<i>Is demographic representation important to your org? Why or why not?</i>
5	Do you think community boards use different criteria when evaluating nonprofit's than other boards?	<i>If yes, Why?</i> <i>What are the criteria that community boards use versus traditional boards?</i> <i>Do you think community boards may use their existing knowledge about nonprofit's in making decisions?</i> <i>What type of existing knowledge do you think their using</i>
6	What information do you want community members to use when making their decisions?	

Authenticity Questions

- To what extent does the community board take the lead during the grant making process
- 1 *Why is it important that this is community led?*
- Do you have any staff involvement in the application reviews or during site visits?*
- Are grant decisions made by community boards reflective of final grant awards?
- 2 *If yes, why don't you have another board 'approve' these decisions?*
- If no, why do you allow community members this discretion?*
- Why is this important to your organization?*

Participant Selection Questions

- How many different ways does the organization recruit participants for the community board?
- 1 *Could you tell me all of the different ways your agency invites participation?*
- Why is this important to you?*
- To what extent does your organization select participants that will be demographically representative of the public
- 2 *Which particular group or community is your organization focused on representing?*
- Why is that particular group or community important to you??*
- Could you tell me how your agency selects participants that are representative of the general public?*
- Why is this important to you?*

Deliberation Process Questions

- Does your organization educate members of the community board about community issues the organization is trying to address
- 1 *What type of information do you provide to community boards?*
- Why do you provide this type of information?*
- Why is the education component important to you??*

- Does your organization have opportunities during the grantmaking process for members of the community board to record their individual evaluations
- 2 *What type of scoring system do you use?*
- Why?*
- Why is this important to you?*
- Are community boards mainly in small groups during the grantmaking process?
- 3 *How many members make up your small groups?*
- Why did you decide on this number?*
- Is there a time during the grantmaking process when your members aren't in small groups?*
- Why?*
- Does a staff member attempts to remains neutral and does not influence group decisions during the grantmaking process?
- 4 *How many staff people do you have dedicated to this program?*
- Do they work on this program year round?*

APPENDIX B

DESCRIPTION OF FOUNDATION CLASSIFICATIONS

The IRS classifies private foundations into three types: private operating foundations, exempt operating foundations and private grant making foundations. My research focuses on the latter (foundations which primarily exist for the purpose of grant making) of which there are three common classifications used by scholars and practitioners: community foundations, corporate foundations and independent foundations. Recent statistics indicate that independent foundations compose the largest percentage of philanthropic organizations with over 67,000 organizations (or 89% of foundations). Corporate foundations constitute over 2,700 organizations (or approximately 3% of foundations), while community foundations constitute over 709 organizations (or .9% of foundations).

There is also another group of grantmaking organizations called funding intermediaries, with the most typical example being United Way. Similar to a community foundation, donors can either give restricted or unrestricted gift to this organization. When donors give unrestricted gifts that money is pooled with other donors who gave unrestricted gifts and the board of the funding intermediary makes the decision as to which nonprofit will receive the funding.

APPENDIX C

CODING SCHEME FOR GRANT DESCRIPTIONS

I. General Operating Support	
II. Program/Project Support	
	A. Seed Money
	B. Technical Support
	C. Facilities and Equipment Grants
	D. Program Related Investments

APPENDIX D

CODING SCHEME FOR INTERVIEW DATA

Authenticity	
	Opportunities
	Timing
Participant Selection	
	Invitation
	Commitment to Diversity
Deliberation Process	
	Education
	Recording individual preferences
	Small group interactions
	Neutral facilitator

APPENDIX E

FINANCIAL DESCRIPTIVES OF GRANTEES

	Variables	Obs.	Mean	Std. Deviation	Min	Max
Funder Type						
<i>Community Grantees</i>	Size (Total Assets)	104	\$80,300,000	\$486,000,000	-\$8,354	\$4,570,000,000
<i>Trad. Grantees</i>	Size (Total Assets)	329	\$73,800,000	\$461,000,000	-\$2,384	\$6,480,000,000
<i>Community Grantees</i>	Direct Contributions	80	\$13,100,000	\$55,200,000	\$0	\$468,000,000
<i>Trad. Grantees</i>	Direct Contributions	320	\$10,500,000	\$46,800,000	\$0	\$644,000,000
<i>Community Grantees</i>	Program Revenue	104	\$17,000,000	\$138,000,000	\$0	\$1,400,000,000
<i>Trad. Grantees</i>	Program Revenue	329	\$23,000,000	\$212,000,000	\$0	\$2,760,000,000
<i>Community Grantees</i>	Government Funding	80	\$5,647,787	\$31,400,000	\$0	\$213,000,000
<i>Trad. Grantees</i>	Government Funding	319	\$3,126,017	\$17,000,000	\$0	\$222,000,000
<i>Community Grantees</i>	Contributions	104	\$18,100,000	\$72,900,000	\$0	\$481,000,000
<i>Trad. Grantees</i>	Contributions	329	\$13,800,000	\$56,800,000	\$0	\$645,000,000
<i>Community Grantees</i>	Program Expense	80	\$40,000,000	\$182,000,000	\$0	\$1,490,000,000
<i>Trad. Grantees</i>	Program Expense	320	\$31,900,000	\$209,000,000	\$0	\$2,470,000,000
<i>Community Grantees</i>	Fundraising Expense**	80	\$2,814,877	\$13,800,000	\$0	\$113,000,000
<i>Trad. Grantees</i>	Fundraising Expense**	320	\$806,389	\$2,722,923	\$0	\$24,700,000

Appendix E Continued

<i>Community Grantees</i>	Management/Admin. Expenses	80	\$4,556,243	\$20,800,000	\$0	\$172,000,000
<i>Trad. Grantees</i>	Management/Admin. Expenses	319	\$4,503,402	\$40,400,000	\$0	\$676,000,000
<i>Community Grantees</i>	Total Expense	104	\$36,500,000	\$184,000,000	\$0	\$1,670,000,000
<i>Trad. Grantees</i>	Total Expense	329	\$37,100,000	\$241,000,000	\$8,074	\$2,860,000,000
<i>Community Grantees</i>	Program Efficiency (Program Exps/Total Exps)*	80	0.7714966	0.2195662	0	1
<i>Trad. Grantees</i>	Program Efficiency (Program Exps/Total Exps)*	320	0.8031673	0.1312888	0	1
<i>Community Grantees</i>	Adm. Cost Ratio (Admin Exps/Total Exps)	80	0.1442226	0.1597202	0	0.97
<i>Trad. Grantees</i>		319	0.1287909	0.0933942	0	0.91
<i>Community Grantees</i>	Fundraising Efficiency (Direct Cont/Fund. Exps)**	52	\$288	\$1,866	\$0	\$13,468
<i>Trad. Grantees</i>	Fundraising Efficiency (Direct Cont/Fund. Exps)**	268	\$39	\$385	\$0	\$6,300
<i>Community Grantees</i>	Contributions Reliance (Direct Cont/Total Exps)	80	0.5746617	0.905009	0	7.6
<i>Trad. Grantees</i>	Contributions Reliance (Direct Cont/Total Exps)	320	0.6747096	0.7961751	0	11.14
<i>Community Grantees</i>	Program Revenue Reliance (Prog. Revenue/Total Exps)	102	0.2522784	0.973185	0	9.67
<i>Trad. Grantees</i>	Program Revenue Reliance (Prog. Revenue/Total Exps)	329	0.1671712	0.2729012	0	1.19
<i>Community Grantees</i>	Government Grant Reliance (Gov. Grants/Total Exps)**	80	0.3344307	1.206524	0	8.94
<i>Trad. Grantees</i>	Government Grant Reliance (Gov. Grants/Total Exps)**	319	0.1645676	0.3582685	0	4.55

*** p<0.01, ** p<0.05, * p<0.1

APPENDIX F

MULTINOMIAL REGRESSION WITH GRANTEES WHO

RECEIVED GRANTS FROM BOTH BOARD TYPES (W/O

TINKLEMAN CONTROLS)

VARIABLES	Received Both	Traditional Board Grantee	Community Board Grantee
Size (log of Assets)	0.0254 (0.143)	0.208*** (0.0463)	0.121* (0.0665)
Age	0.000904 (0.0138)	-0.00381 (0.00486)	0.0136* (0.00707)
Fundraising Expenses (log)	0.0701 (0.0509)	0.0982*** (0.0158)	0.0493** (0.0249)
Program Expenses (log)	0.311* (0.178)	0.0947** (0.0471)	0.0346 (0.0620)
Arts	-14.40 (597.0)	-1.061*** (0.254)	-0.0512 (0.347)
Education	-0.0281 (0.610)	-0.607** (0.263)	-0.989* (0.556)
Health	-15.11 (717.8)	-2.003*** (0.345)	-0.937** (0.474)
Human Services	-0.931 (0.585)	-0.486*** (0.174)	-0.103 (0.287)
Constant	-7.976*** (1.547)	-4.962*** (0.497)	-4.598*** (0.756)
Observations	1,183	1,183	1,183

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

APPENDIX G

CORRELATION MATRIX OF VARIABLES IN

REGRESSION MODELS

. corr funder_type age log_assets log_prog log_mgmt log_fundraising arts education health human
(obs=1181)

	funder~e	age1	log_as~s	log_prog	log_mgmt	log_fu~g	arts	educat~n	health	human
funder_type	1.0000									
age1	0.1336	1.0000								
log_assets	0.3570	0.4109	1.0000							
log_prog	0.3322	0.3285	0.6330	1.0000						
log_mgmt	0.3123	0.2969	0.6157	0.6056	1.0000					
log_fundra~g	0.3783	0.1834	0.4808	0.4744	0.4839	1.0000				
arts	-0.1204	-0.0542	-0.0936	-0.1083	-0.0672	-0.0775	1.0000			
education	-0.0042	0.0454	0.0463	0.0027	0.0016	-0.0133	-0.1296	1.0000		
health	-0.1399	0.0458	0.0340	0.0464	0.0495	-0.0464	-0.1264	-0.1053	1.0000	
human	-0.0322	-0.0146	-0.0334	-0.0528	-0.0260	-0.0352	-0.2425	-0.2020	-0.1971	1.0000

APPENDIX H

REGRESSION MODELS (WITHOUT TINKELMAN)

VARIABLES	Community Board Grantees	Traditional Board Grantees
Age	0.0132* (0.00711)	0.000997 (0.00510)
Size (Assets, log)	0.104* (0.0630)	0.209*** (0.0505)
Program Expenses (log)	-0.00786 (0.0550)	0.115** (0.0549)
Fundraising Expenses (log)	0.0523** (0.0260)	0.100*** (0.0173)
Arts	0.114 (0.354)	-0.841*** (0.264)
Education	-0.786 (0.563)	-0.524* (0.288)
Health	-0.821* (0.480)	-1.722*** (0.354)
Human Services	0.0460 (0.297)	-0.395** (0.189)
Constant	-3.958*** (0.718)	-5.633*** (0.557)
Observations	792	1014

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

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