

# Government Funding and Community Representation on Nonprofit Boards: The Bargain We Strike

by Chao Guo

**Editors' Note:** This article suggests that reliance on government funding reduces the representativeness and influence of nonprofit boards and that the democratic function of nonprofit organizations may be seriously constrained. This effect may be mitigated by relying less on government funding and more on volunteers. The article is adapted and reprinted with permission from the original, "When Government Becomes the Principal Philanthropist: The Effects of Public Funding on Patterns of Nonprofit Governance," published in the May/June 2007 issue of *Public Administration Review* (PAR) volume 67, issue 3, pages 458–473. Readers wishing to access the fully cited original version of the article can obtain a copy via the PAR Web site.

NONPROFITS CONTRIBUTE TO A healthy democracy by providing citizens with collective representation. While building representational capacity seems particularly important for nonprofit organizations whose primary goal is to engage in representational activities like political advocacy and lobbying, it is also relevant to other charitable organizations such as hospitals, universities, museums, churches, and human-service organizations. These groups have a moral responsibility to provide services that reflect the true needs of those they serve. They also have enormous potential to improve their constituents' lives by influencing public policy and empowering them to represent themselves effectively. For nonprofits to fulfill their service, advocacy, and empowerment roles, it is not only appropriate but also necessary for organizations to establish structures and systems that ensure that they voice their constituents' views and concerns.

By examining the makeup and purview of boards, we may be able to trace how well constituents' views are represented within an organization and subsequently how well its mechanisms work to retain equality and control of decision making by constituents and the larger community.

Social theorist Robert Bellah defines community as "a group of people who are socially interdependent who participate together in discussion and decision making, and who share certain practices that both define the community and are nurtured by it."<sup>1</sup> This definition of community is reflected in the multiple-constituency nature of nonprofit organizations, which includes clients, funders or donors, staff members, volunteers, partner agencies, and neighborhood residents. Among these groups, clients, volunteers, staff members, and neighborhood residents deserve special attention because they not only constitute the "moral ownership" for whom a nonprofit organization

exists but also are often relatively powerless stakeholders whose concerns may be ignored. Therefore, we define community representation in nonprofit governance as the extent to which clients, volunteers, staff members, and neighborhood residents are included on nonprofit boards.

There are at least two dimensions of governance structure that must be taken into account when developing representative mechanisms: (1) board composition, which indicates the breadth and depth of community representation, and (2) the strength of the board relative to the chief executive.

First, board composition defines who is entitled or required to participate in the governing process. By rights, governance should embody and represent community interests, and the composition of boards should "reflect community population characteristics." Community representation on a board is believed to enhance its ability to reflect community interests in organizational policies, strategies, and operations. Empirical research, however, shows that there is wide variability in the extent to which nonprofit boards are broadly representative of the community. Board membership in many nonprofits tends to be limited to upper-income, professional employers and managers, while the community has little or no representation.

Second, the board-executive relation-

ship defines patterns of dominance among the leadership core; the power of the board relative to the chief executive indicates its ability to maintain control over an organization's direction. A board that lacks power, even if it is descriptively representative of its constituency, may have limited substantive influence beyond its symbolic value. Prescriptive research posits that boards should be the highest authority and at the center of leadership in organizations, as well as providing direction in key areas such as financial management, policy making, and performance monitoring. Empirical research, by contrast, indicates that the role of many nonprofit boards is reduced to a mere rubber-stamp function, leading to director apathy and insignificant participation in contracting with government.

In short, both of these board attributes are important in judging the representational capacity of a particular organization's governance. Following is a typology of nonprofit governance patterns that incorporates both board strength and board representativeness. In terms of board composition, a board may be characterized by either strong or weak community representation; in terms of power distribution, a board may be a strong one that directs the chief executive or a weak one that is dominated by the chief executive.

### Typology of Governance Patterns of Nonprofit Organizations

As the table below illustrates, the resulting typology reveals four patterns of governance structure:

- **Strong, community board.** This pattern describes a board with both high community representation and strong board power over the chief executive. This type of board not only provides descriptive connections between the organization and the community but also demonstrates the controlling power of the community.
- **Weak, community board.** This

describes a board with high community representation but weak board power over the chief executive. Though it is representative of the community, the board's lack of power diminishes the likelihood that the community will make any substantive difference in the organization's governance.

- **Strong, non-community board.**

This pattern describes a board with low community representation but strong board power over the chief executive. A strong board seems to indicate greater board control over organizational direction, but the lack of community representatives on the board could seriously constrain the organization's capacity to represent community interests.

- **Weak, non-community board.** This describes a board with low community representation and weak board power over the chief executive. The representational capacity of an organization with this type of board is cast into doubt, as both representation and influence are absent from its governance structure.

This governance typology provides a useful guide to understanding the representational capacities of nonprofit organizations, with each of the four governance patterns indicating a certain degree to which a nonprofit board is representative of community interests. Among these four governance patterns, the strong, community board is most likely to represent community interests and thereby enhance the democratic functions of nonprofits in society. There are at least two important reasons for this. First, with the involvement of com-

munity representatives on its board, an organization promotes its legitimacy by demonstrating that it "justly and properly speaks for and acts on behalf of [the community] it takes as its constituency."<sup>2</sup> Second, and perhaps more important, a board that is more truly representative and more active may result in more community responsibility and more responsiveness from the organization.

A nonprofit board of directors not only functions as the governing body of the organization, but also performs a bridging function through links to external constituencies and critical resources. Thus, the board of directors is sensitive to changes in the organization's resource and institutional environments. Any adjustment in board composition or the board-executive relationship, however, can lead to a variation in board governance that might constrain the representational capacity of a nonprofit.

### The Effects of Government Funding

*Resource dependence theory.* This theory views nonprofit boards of directors as boundary-spanning units that reduce external dependencies through links to critical resources. As nonprofit organizations have depended more and more on government largesse over the past several decades, it is not uncommon to see nonprofit boards functioning as co-optive devices in the quest for government funding. Within this context, board appointments provide links that allow nonprofit organizations to access and influence public funding agencies. For example, in a study of Chicago-area social service and community develop-

		Board Composition (Community Representation on Board)	
		Weak Representation	Strong Representation
Power Distribution (Board power relative to Chief Executive)	Strong	Strong, Non-Community Board	Strong, Community Board
	Weak	Weak, Non-Community Board	Weak, Community Board

ment organizations, Grønbjerg reports that about half the organizations studied had either sought or were planning to seek board members affiliated with public agencies in order to obtain government funding.<sup>3</sup>

Dependence on government funding has serious implications for community representation on an organization's board. The adoption of a co-optation strategy in response to government-funding dependence leads to increased numbers of corporate, professional, and social elites—who are more likely to have links with public funding agencies, as well as expertise in grant writing—on the board of directors. The limited number of slots on nonprofit boards, however, means that such practices virtually crowd out community representatives. As a result, efforts to attract government funding through co-optive board appointments might discourage organizations from developing sufficient community representation on their boards.

The impact of a co-optation strategy on an organization's board-executive relationship is less obvious. As Zald notes, board members and the chief executive each bring distinctive resources to the table, and "it is the balance of resources in specific situations and decisions that determines the attribution of relative power in the encounter between boards and executives."<sup>4</sup> Following this logic, Kramer further argues that the power of board members stems from their prestige, access to funds, and community connections, as well as their knowledge, skill, time, and energy.<sup>5</sup> If we accept this argument, it is reasonable to expect that the power distribution between the board and the chief executive will be determined by the importance of government funds to an organization and the extent to which a board provides access to government funds.

Thus, if this rationale holds, organizations influenced by government-funding dependence are more likely to

develop strong, non-community boards than strong, community boards.

*Institutional theory.* Institutional theory emphasizes the influence of state, societal, and cultural pressures on organizational behavior and suggests that nonprofit boards of directors serve as legitimizing devices that reflect the expectations of important institutional stakeholders. An organization is less likely to resist institutional pressures that constrain its action when it is heavily dependent on the source of these pressures. Government is not only the largest funder for many nonprofit organizations but also is arguably the most important institutional actor, through its laws and legal mandates. Therefore, it is more important for organizations that receive higher levels of government funding to comply with government expectations.

Two institutional factors associated with government contracting might influence the manner in which a nonprofit demonstrates its compliance with government expectations. The first factor is the trend toward democratization. From the mid-1960s (the era of the Great Society programs) through the late 1970s, the mandated participation of community representatives in organizational decision making became the hallmark of numerous government-funded nonprofit agencies. To obtain government grants, nonprofit contractors had to democratize their governance and management practices in compliance with this public mandate. As a result, boards of government-funded nonprofit agencies were found to be more descriptively representative of the community than were traditional nonprofit boards.

Another factor is the trend toward professionalization among nonprofit organizations that receive government funding. Throughout the 1980s and 1990s, nonprofit organizations began to develop a professional culture signified by more sophisticated, bureaucratic, and rationalized operating procedures.

Government not only triggered this move toward professionalization through increased federal regulation of the field (e.g., the Tax Reform Act of 1969) but also facilitated the move through its grants and contracts. Government agencies often establish sophisticated regulatory and procedural requirements, performance standards, and monitoring and reporting systems for their contracts. To comply with these complex requirements, nonprofit contractors must rely more on experienced professional staff and less on volunteers, as well as adopting the routines and structures endorsed by government agencies. For similar reasons, a nonprofit organization may overtly reflect the culture of professionalism in its board composition (e.g., including fewer community representatives and more professional, corporate, and social elites) to gain legitimacy and win contracts from government agencies.

In either case, dependence on government funding generally shifts organizational power from the board to the chief executive, for several reasons. First, government contracts usually lead to expanded or added services, significantly changing the scale of the organization. As organization size increases, it becomes more difficult for the board to exercise close oversight and day-to-day management. Furthermore, the process of applying for government grants often requires extensive paperwork and substantial lead time, which, in turn, demands more commitment than most board members can afford. Additionally, government contracts require organizational involvement in regulation writing, the legislative process, and government budgeting cycles, which are unfamiliar to most board members, resulting in an information gap between the board and staff that favors the staff.<sup>6</sup> Finally, program goals or priorities are usually determined outside the organization, thus minimizing the board's role in program planning and development. A

number of empirical studies have documented limited board participation and influence relative to chief executives in governance activities related to contracting.

Subjected to the influence of these two institutional factors associated with government funding, therefore, by this rationale, an organization with high levels of such funding is more likely to develop a weak, community board (or a weak, non-community board) than a strong, community board.

### A Potential Mitigator: Volunteers

Volunteering has played an important role in American society throughout history. Today, volunteer labor is still a highly valued resource among nonprofit organizations. Because of the absence of bureaucratic or monetary incentives within the volunteer labor context, nonprofits use their mission to recruit and retain volunteers; moreover, they attract volunteers by offering a variety of solidarity rewards like social activities such as potluck dinners, parties, and community celebrations, and purpose-related rewards like opportunities for input into organizational decision making.

For organizations that rely heavily on volunteers to carry out their programs and activities, board appointments are probably the highest level of purposive reward that an organization has to offer. In some cases, volunteers are more likely to be motivated when an organization provides structural opportunities for them to be involved in governance and management, gaining a sense of ownership of the organization. Moreover, recruiting board members from pools of volunteers may serve as a safeguard for volunteer-dependent organizations to maintain their fundamentally community-based character. Thus, to the extent that an organization is dependent on volunteers, it is likely to include more community representatives on its board.

Increased use of volunteers by a nonprofit may also shift the power balance between the board and the chief execu-

tive in favor of the board. Lipsky and Smith observe that when an organization relies on volunteers for its success, the latter gain a certain level of power and control. When more volunteer representatives are included on the board, such volunteer power is likely to be reflected in the board's power over the chief executive. Finally, volunteers are often drawn from the community or are current or former beneficiaries of the services provided by the organization, and thus are an important group of community representatives.

### Results and Discussion

To better understand government funding's effect on nonprofit governance patterns, we employed multinomial logit analyses of survey data from 95 urban charitable organizations. The results support our core hypothesis: an organization that relies heavily on government funding is less likely to develop a strong, community board over any other board type. Which of the other three board types, then, is an organization more likely to develop when it becomes more dependent on government funding? Analysis shows that no one particular board type is more likely to emerge than the other two. The results have also confirmed our prediction that reliance on volunteer labor is associated with a higher likelihood of developing a strong, community board than any other board type.

This study's findings suggest that as an organization receives more government funding, its board might be treated as a co-optive or legitimizing device rather than as an independent governing body that should be representative of community interests and responsible for the mission, direction, and policies of the organization. Echoing Smith and Lipsky's concern about the transformation of nonprofit boards from "agents of the community" to "agents of government," we have joined others to offer empirical evidence that governmental dependence might push nonprofit

boards away from important decision making and even further away from the community (as in the case of some community development corporations). The irony is that, as nonprofit boards are expected to take on more responsibility for representing their constituents and educating their funding sources toward a more realistic sense of societal needs, reliance on government funding might undermine their representational capacities. Findings by other scholars have also demonstrated that government funding leads to less volunteer support, fewer private donations, less advocacy for the community, and reduced capacity to function as "schools of democracy." Our results, in conjunction with the aforementioned findings, suggest that governmental dependence might eventually shrink the base of public support for nonprofit organizations and limit their community and democratic roles.

What, then, are the policy and managerial implications? For policy makers, it is imperative to design public policy in a manner that balances the need to transfer more service activities and responsibilities to the nonprofit sector with the equally compelling interest of sustaining the representational capacities of nonprofit organizations. For instance, policy makers might consider developing certain discriminatory funding policies or regulations over nonprofit organizations with different patterns of governance structure. A more precisely focused funding policy would help the emergence and prosperity of more nonprofit organizations with better representation of community interests in their governance. For nonprofit leaders, a possible solution to address the undesirable consequences of government-funding reliance would be to reduce government funding through innovative use of other types of resources, particularly volunteers. Aside from their economic value, volunteers may also help nonprofit boards establish stronger ties with the commu-

nity and foster their democratic value as representatives of community interests. The reliability of using volunteers as a counterbalance to government funding, however, deserves further investigation: as previous studies have noted, government funding requires greater professionalization and specialization on the part of nonprofit contractors, which might crowd out volunteers and thus discount their value as a potential mitigator.

As nonprofit organizations are increasingly charged with providing services traditionally furnished by government, policy makers and nonprofit leaders alike must be aware of the consequences of governmental dependence on the other important roles and functions of nonprofit organizations, particularly democratic governance. To the extent that reliance on government funding reduces the representativeness and influence of nonprofit boards, the democratic function of nonprofit organizations may be seriously constrained.

#### ENDNOTES

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6. Steven Rathgeb Smith and Michael Lipsky. 1993. *Nonprofits for Hire: The Welfare State in the Age of Contracting*. Cambridge, MA: Harvard University Press.
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What is your organization's experience with government funding? Have you seen a reduction in community connection and have you found ways to strengthen community representation? Share your experience at [feedback@npqmag.org](mailto:feedback@npqmag.org). Reprints of this article may be ordered from [store.nonprofitquarterly.org](http://store.nonprofitquarterly.org), using code 140408.

#### About the Data and Methods

Survey questionnaires were sent out in January 2002 to the chief executives of 376 charitable organizations, a random sample drawn from a pool of 1,976 charitable organizations in Los Angeles. Survey questions asked for respondents' reports of governance patterns and collected information on government funding and other factors associated with nonprofit governance. As of May 2002, a total of 95 survey questionnaires were completed and returned.

In the present sample, the largest group is human services, accounting for over 27 percent of respondents; health organizations make up 20 percent of the respondents; the third and fourth largest types are education/research organizations and arts/culture organization, with nearly 17 and 12 percent of reporting organizations falling into these two categories, respectively. Overall, the distribution of the samples is consistent with that of the most recent national data.