Chao Guo
Arizona State University

Essays on Nonprofit Management

When Government Becomes the Principal Philanthropist: The Effects of Public Funding on Patterns of Nonprofit Governance

Chao Guo is an assistant professor in the School of Community Resources and Development and an affiliated faculty member of the Center for Nonprofit Leadership and Management at Arizona State University. His research focuses on nonprofit governance, representation and responsiveness in nonprofit organizations, and collaboration within and across sectors.
E-mail: cguo@asu.edu

This study uses board governance as an analytical lens for exploring the effects of government funding on the representational capacities of nonprofit organizations. A typology of governance patterns is first developed that captures the board's strength relative to the chief executive and its representation of community interests. Using this typology and employing multinomial logit analyses of survey data from a sample of urban charitable organizations, the study tests how nonprofit governance is mediated by levels of government funding. Controlling for other relevant environmental and institutional factors, reliance on government funding decreases the likelihood that nonprofit organizations will develop strong, representative boards.

> *In recent years, government has emerged in the United States as a major "philanthropist," the major philanthropist in a number of the principal, traditional areas of philanthropy.*
>
> —*Filer Commission (Commission on Private Philanthropy and Public Needs 1975, 89)*

More than three decades after the Filer Commission issued its report *Giving in America* (1975), both the prevalence of nonprofit organizations in the delivery of public services and the importance of government as a financier to nonprofit contractors continue to increase in the United States. Not surprisingly, there is growing concern about the consequences of this interdependent relationship on nonprofit governance structures and functions (Saidel 1991).[1] In their seminal book *Nonprofit for Hire,* Smith and Lipsky (1993) argue that nonprofit boards effectively "embody and represent community interests" (74) and that the growing financial ties to government might eventually transform nonprofit boards from "agents of the community" to "agents of government" (72).

This study explores this potential tension. Starting with a new typology of nonprofit governance patterns that incorporates board strength and the representation of community interests, it provides a theoretically grounded perspective for understanding the implications of governmental dependence for nonprofit governance by combining the resource dependence and institutional approaches. Based on multinomial logit analyses of survey data on 95 urban charitable organizations, the study finds that an organization is most likely to develop a board that is stronger relative to the chief executive and has higher community representation when it receives less government funds and relies more on volunteer labor.

This study makes two important contributions to the literature. First, it uses a new approach to gathering data. Most existing studies on the effects of government funding on nonprofit governance rely on either case studies (e.g., Stone 1996) or interview data (e.g., Bernstein 1991; Smith and Lipsky 1993); a few studies that use survey methods base their data on organizations that receive government grants (e.g., Saidel and Harlan 1998). By contrast, this study conducts a survey of both charitable organizations that receive government funding and those that receive none in order to empirically examine how reliance on government funding—controlling for relevant environmental and contextual factors—affects patterns of nonprofit governance. Second, this study adds needed research to the emerging field of nonprofit governance studies, which has remained relatively isolated and lacks connections to wider disciplinary and theoretical concerns (Ostrower and Stone 2001). This study attempts to bridge the gap by using board governance as an analytical lens for exploring the effects of government funding on the capacities of nonprofit organizations to represent community interests. In so doing, it delivers important empirical and practical insights into the government–nonprofit relationship. The findings of this study suggest that, 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.

Governance Patterns and Representational Capacities of Nonprofit Organizations

Since Alexis de Tocqueville published his classic work *Democracy in America* (1835), American pluralist theorists have discussed the democratic role of nonprofit organizations at the institutional level. Central to the pluralist understanding of the democratic functions of nonprofit organizations is the notion that nonprofit organizations are the primary means by which the interests of citizens are represented to the state (Warren 2001, 83). The power of such representational effects depends in part on the *representational capacities* of nonprofit organizations—that is, the capacities of organizations to communicate the interests of their constituencies by establishing representative governance processes (Rosenblum 1998; Warren 2001).

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The creation of the necessary representational capacities seems particularly important for nonprofit organizations whose primary goal is to engage in external representational activities (e.g., political advocacy organizations), but it is also relevant to organizations whose primary goal is not to represent constituent interests to the state (e.g., charitable organizations such as hospitals, universities, museums, churches, and human service organizations). Charitable organizations have a moral responsibility to provide services that reflect the true needs of the people they serve. They also have enormous potential to improve the lives of their constituents by influencing public policy and empowering their constituents to represent themselves effectively (O'Connell 1994). In order to play their service, advocacy, and empowerment roles, it is not only appropriate but also necessary for these organizations to establish representative structures through which the views and concerns of constituents are represented by those who speak on their behalf (Warren 2001, 84).

Serving as the governing bodies of nonprofit organizations and providing linkages to external constituencies and critical resources (Middleton 1987), boards of directors are uniquely positioned to determine the representational capacities of nonprofit organizations. Board governance concerns how well the views of constituents are represented within an organization and how their views correspond to what the organization communicates to government (Berry 1994, 23; Crotty 1994). Furthermore, if nonprofit organizations are to serve representational purposes, then they should "represent the actual populations of their constituent geographic domains . . . in governance" (Austin and Woolever 1992, 181). In line with these arguments, this study presumes that the representational capacity of a nonprofit organization is indicated by the extent to which certain representative mechanisms are available in its governance structure to retain equality and control of decision making by constituents and the larger community.

This governance–representation relationship is complicated by the diverse character of the nonprofit sector, which prevents universally shared definitions of what constitutes the community and its interests (Abzug and Galaskiewicz 2001). For the purposes of this study, I follow the lead of Robert Bellah and his colleagues, who define the community as "a group of people who are socially interdependent, who participate together in discussion and decision making, and who share certain practices that both define the community and are nurtured by it" (Bellah et al. 1985, 333). This definition of community reflects the multiple-constituency nature of nonprofit organizations (Herman and Renz 1997). In this view, the community in question includes all of the major constituencies or stakeholders of a nonprofit organization: clients, funders or donors, staff members, volunteers, partner agencies, and neighborhood residents. Among these groups, clients, volunteers, rank-and-file staff members, and neighborhood residents deserve special attention because they not only constitute the "moral ownership" on whose behalf a nonprofit organization exists (Carver 1997; Miller 2002) but also are often relatively powerless stakeholders whose concerns tend to be ignored. Therefore, I define community representation in nonprofit governance as the extent to which clients, volunteers, rank-and-file staff members, and neighborhood residents are included on nonprofit boards. This definition is consistent with previous studies (e.g., Hardina 1993; Tourigny and Miller 1981) that use the percentage of clients, volunteers, rank-and-file staff members, and neighborhood residents on the board as a measure of community representation.

There are two dimensions of board structure that are particularly important in the literature—and could mediate the governance-representation relationship—for 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. It is naturally related to the linking or external representation function of nonprofit boards (Stone 1996) in the sense that boards include representatives from important constituencies for the purposes of resource acquisition, legitimacy, and image. The prescriptive research on nonprofit boards posits that boards should embody and represent community interests (Jackson and Holland 1998; Smith and Lipsky 1993) and that the composition of boards should "reflect community population characteristics" in a descriptive sense (Austin and Woolever 1992, 183). Community representation on a board is believed to enhance its ability to reflect community interests in organizational policies, strategies, and operations (Alexander, Weiner, and Succi 2000; Gamm 1996). The empirical research, however, shows that 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, whereas the community has little or no representation (Herman and Tulipana 1985; Middleton 1987; Odendahl 1990; Widmer 1985).

Second, the board–executive relationship defines patterns of dominance among the leadership core. It is associated with the control function of the board (Stone 1996) in the sense that the power of the board relative to the chief executive indicates its ability to exercise fiduciary responsibility and maintain control over organizational direction. The importance of board power to the representational capacities of nonprofit organizations lies in the fact that a board that lacks power, even if it is descriptively representative of its constituency, may have limited substantive influence beyond its symbolic value. The prescriptive research posits that boards should stand at the top of the hierarchy of authority and at the center of leadership responsibility in organizations (Axelrod 1994; Carver 1997; Jackson and Holland 1998), as well as provide direction in such key functional areas as financial management, policy making, and performance monitoring (Harris 1994; Houle 1989). The empirical research, by contrast, documents that the role of many nonprofit boards is reduced to a mere rubber-stamp function, leading to "director apathy" (Siciliano and Spiro 1992) and insignificant participation in the process of contracting with government (Bernstein 1991; Grønbjerg 1993; Smith and Lipsky 1993).

Both of these board attributes, in short, are important dimensions along which representative mechanisms can be structured into nonprofit governance. Examining both concurrently would enrich our understanding of the representational capacities of nonprofit organizations. Accordingly, I propose 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 community representation 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.

As figure 1 illustrates, the resulting typology reveals four patterns of governance structure:

- **Strong, community board.** Occupying the upper-right quadrant, 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.** Occupying the lower-right quadrant, this pattern 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.** Occupying the upper-left quadrant, 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 capacity of the organization to represent community interests.
- **Weak, non-community board.** Occupying the lower-left quadrant, this pattern describes a board with low community representation and weak board power over the chief executive. The representational capacity of an organization is cast into doubt if it develops this type of board, 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

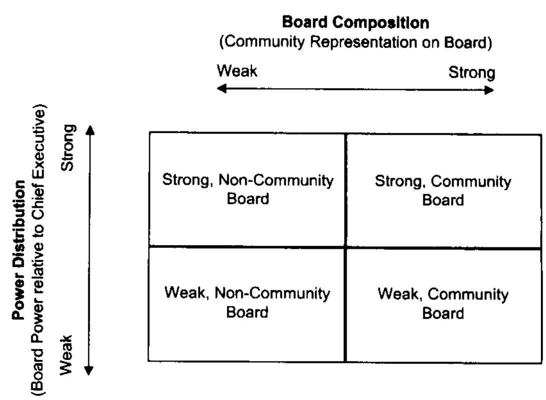

Figure 1 Typology of Governance Patterns of Nonprofit Organizations

strong, community board is instrumental for increasing the capacities of nonprofit organizations to represent community interests and thereby enhance the democratic functions of nonprofit organizations in society. There are at least two important reasons for this. First, with the involvement of community 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" (Chaskin and Peters 2000, 16). Second, and perhaps more importantly, a board that is more truly representative and more active may result in more community responsibility and more responsiveness from the organization (Zimmermann 1994).

Government Funding and Nonprofit Governance Patterns

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, unlike other components of the organizational structure (e.g., the service units) whose functions tend to be buffered from environmental changes, the board of directors is sensitive to changes in the organization's resource and institutional environments. Any adjustments in board composition or the board–executive relationship in response to environmental changes, however, can lead to a variation in board governance that might constrain the representational capacity of a nonprofit organization.

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

The Effects of Government Funding

Resource dependence theory. Theorists of the resource dependence perspective understand the nonprofit board as part of both the organization and the resource environment, as well as a boundary-spanning unit that reduces external dependencies through links to critical resources (Middleton 1987). The source of an organization's financial revenue is the first key resource highlighted in this approach. Given the growing importance of government funding over the past several decades, increasing attention has been paid to the organizational effects of dependence on government largesse.

According to this approach, board appointments offer a simple and flexible mechanism, particularly for nonprofit organizations, to access and influence public funding agencies. That is, while there are legal restrictions on certain types of interlocking directorates among for-profit organizations, nonprofit organizations are not subject to such constraints (Miller, Kruger, and Gauss 1994, 4). Therefore, it is not surprising that nonprofit organizations use their boards as co-optive devices in the quest for government funding (e.g., Grønbjerg 1993; Kramer and Grossman 1987). For example, in a study of Chicago-area social service and community development organizations, Grønbjerg (1993) 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.

Dependence on government funding has serious implications for the variation in community representation on an organization's board. The adoption of a co-optation strategy in response to government funding dependence leads to an increase in the number of corporate, professional, and social elites—who are more likely to have linkages 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 a high degree of community representation on their boards.

The impact of a co-optation strategy on an organization's board–executive relationship is less obvious. As Zald (1969) 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" (98). Following this logic, Kramer (1985) 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. 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 the board provides access to government funds.

Thus influenced by the resource dependence factor associated with government funding, organizations are more likely to develop strong, non-community boards than strong, community board.

Institutional theory. Institutional theory emphasizes the influence of state, societal, and cultural pressures on organizational behavior (DiMaggio and Powell 1983) and suggests that nonprofit boards of directors serve as legitimizing devices that reflect the expectations of important institutional stakeholders in their composition and structure (Abzug and Galaskiewicz 2001). An organization is less likely to resist institutional pressures that constrain its action when it is heavily dependent on the source of these pressures (Oliver 1991). Government not only is the largest funder for many nonprofit organizations but also is arguably the most important institutional actor through its laws and legal mandates. Therefore, for organizations that receive higher levels of government funding, it is more important 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 a great number of government-sponsored nonprofit agencies (Peterson 1970; Piven and Cloward 1971). 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-sponsored nonprofit agencies were found to be more descriptively representative of the community than traditional nonprofit boards (Smith and Lipsky 1993, 77).

Another factor is the trend toward professionalization among nonprofit organizations that receive government funding (Salamon 1995). Throughout the 1980s and 1990s, nonprofit organizations began to develop a professional culture signified by more sophisticated, bureaucratic, and rationalized operating procedures (Mulhare 1999). Government not only triggered this move toward professionalization through its federal regulation (i.e., 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, preformance standards, and monitoring and reporting systems for their contracts (Krashinsky 1990; Siegel 1999). To comply with these complex requirements, nonprofit contractors must rely more on experienced professional staff and less on volunteers, as well as adopt the routines and structures endorsed by government agencies (Frumkin and Kim 2002). For similar reasons, a nonprofit organization may overtly reflect the culture of professionalism in its board composition (i.e., include fewer community representatives and more professional, corporate, and social elites) to gain legitimacy in the eyes of government agencies and win contracts from them.

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 an expansion of service or the addition of new 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 (Smith and Lipsky 1993, 88–89). Furthermore, the process of applying for government grants is often perceived as "cumbersome, time-consuming, and inefficient," requiring extensive paperwork and substantial lead time (Kramer and Grossman 1987, 36), which, in turn, requires more commitment than most board members can afford. Additionally, government contracts require organizational involvement in regulation writing, the legislative process, and government budgeting cycles, with which most board members are unfamiliar, thus resulting in an information gap between the board and staff that favors the staff (Smith and Lipsky 1993, 90). 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 (e.g., Grønbjerg 1993; Harlan and Saidel 1994; Saidel and Harlan 1998) 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, 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.

Summary. This section has discussed the resource dependence and institutional factors associated with government funding that affect the type of board governance an organization is likely to develop. The board might be treated as a fund-raising mechanism or a legitimizing device in an organization that receives higher levels of government funding. No matter which factor reigns, I anticipate that a strong, community board is less likely to emerge as the percentage of government funding in an organization's financial revenues increases, leading to the core hypothesis of this study:

> H_1: The more dependent an organization is on government funding, the less likely it is to develop a strong, community board over any other board type.

Contextual and Organizational Factors

In this section, I combine the resource dependence and institutional approaches to discuss other contextual and organizational factors (i.e., use of volunteer labor, industry differences, organization size, organization age, and board size) associated with the variation in nonprofit governance patterns.

Dependence on volunteer labor. Voluntary action has played an important role in American society throughout history (Sundeen 1990). 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, volunteers join and stay with nonprofit organizations primarily for a variety of solidarity rewards (e.g., social activities such as potluck dinners, parties, and community celebrations) and purposive rewards (e.g., opportunities for input into organizational decision making) (Oropesa 1995).

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

Dependence on volunteer labor might also shift the power balance between the board and the chief executive in favor of the board. Lipsky and Smith (1989) observes that when an organization relies on volunteers for labor, 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. A final issue is that volunteers are often drawn from the local community or are current or former beneficiaries of the services provided by the organization, and thus they are an important group of community representatives. Therefore, I predict that volunteer dependence leads to both greater community representation on the board and higher board power over the chief executive.

Industry differences. Although nonprofit organizations operate in institutional environments in which legitimacy is critical to their ability to secure vital resources (Bigelow and Stone 1995), some industries may face stronger institutional pressures than others. For instance, government funding in such areas as health and human services is much more extensive than in other areas, such as arts and advocacy (Boris and Steuerle 1999); thus, organizations operating in health and human services might experience stronger institutional pressures than those in other areas. The trend toward professionalization seems to be especially salient among health-oriented nonprofits because they operate in a more highly regulated industry that is strongly influenced by professionals (Pawlson and O'Kane 2002). It is likely that in order to obtain legitimacy, a health organization would use its board as a legitimating device and mirror the prevalence of professionalism through board composition.

In light of these studies, it is reasonable to expect that because they experience stronger institutional pressures, organizations in certain industries (e.g., health and human services) might be more likely to incorporate professional representation into their boards. A lack of empirical evidence, however, makes it difficult to predict exactly how nonprofit governance patterns vary across industries. Consistent with the institutional theory, I propose to test the broader question of whether there are systematic differences across industries that influence the likelihood of developing a strong, community board rather than limiting the hypotheses to health and human service industries.

Organization size. The size of an organization indicates its visibility and level of attention from institutional stakeholders (Goodstein 1994). As an organization grows in size, it attracts more attention from institutional stakeholders and needs to demonstrate its responsiveness to their expectations, possibly through stakeholder representation on its board (Luoma and Goodstein 1999). Although the evidence is modest in the nonprofit literature, it seems reasonable to extend the foregoing argument and expect an association of organization size with community representation on the board.

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

Other organizational factors. Several other variables can also affect nonprofit governance patterns. Board size, for instance, relates directly to board composition. A larger board allows an organization to include members of multiple constituencies (Abzug et al. 1993; Kang and Cnaan 1995). Board size also relates to board involvement and influence, with larger boards being relatively more involved in governing activities (Miller and Weiss 1988). In addition, the age of an organization is associated with board power. Younger nonprofits are more likely to be dominated by the board than older nonprofits (Harlan and Saidel 1994; Murray, Bradshaw, and Wolpin 1992; Zald 1969). Although it is not entirely clear how these variables affect board patterns, given the broad effects found in the literature, it is both necessary to control for them and interesting to empirically examine their associations.

Data and Methods

Sample and Data Collection

A random sample of 395 organizations was drawn from a pool of 1,976 charitable organizations operating in the city of Los Angeles, California, in December 2001. The pool, obtained by searching the Association Unlimited Web site—a premier online database of nonprofit organizations hosted by the Gale Group—essentially represents the population of nonprofit organizations with 501(c)3 tax exemption status that were operating in Los Angeles as of December 2001. This pool does not include religious or charitable organizations with gross receipts of less than $25,000, which are not required to file an Internal Revenue Service (IRS) Form 990 return. Later, a small number of foundations of various types (e.g., community or operating foundations) were removed from the sample.

Survey questionnaires were sent out in January 2002 to the chief executives of the remaining 376 charitable organizations. Survey questions asked for respondents' reports of governance patterns and collected information on government funding and other factors associated with nonprofit governance. A total of 97 survey questionnaires were completed and returned, for a response rate of 25.80 percent. Among the 97 returned questionnaires, two were determined to be incomplete, leaving 95 questionnaires qualified for data analysis.

This fairly low response rate, though common in organizational surveys, can produce a biased a sample. Therefore, it was important to check whether the sample differed from the national profile in potentially nontrivial ways, particularly regarding the distribution of the organizations across the different subsectors of the nonprofit economy. In the present sample, the largest group is human services, with more than 27 percent of the respondents taking this form; health organizations, the next largest type, make up 20 percent of the respondents; the third and fourth largest types are education and research organizations and arts and culture organizations, with nearly 17 percent and 12 percent of reporting organizations falling into these two categories, respectively. Overall, the distribution of the sample is consistent with the most recent national data, which apportions public charities among human services (35 percent), education (16 percent), health (15 percent), and arts, culture, and humanities (11 percent) (see Weitzman et al. 2002).

Dependent Variable

The dependent variable, *governance,* examines patterns of nonprofit governance. It is a categorical variable that takes one of four values: 1 = strong, community board; 2 = weak, community board; 3 = strong, non-community board; 4 = weak, non-community board.

This variable comprises two important board attributes, namely, board representation (BR) and board power (BP). In terms of board representation, the inclusion of 34 percent or more community representatives on the board is regarded as strong BR (coded 1, otherwise 0). The rationale for setting 34 percent as the cutoff rate is based on the following considerations:

- Given the multiple-constituency nature of nonprofit organizations and recent trends of professionalization, it is not uncommon for many (if not most) nonprofit boards to have a very low level of community representation. A higher cutoff rate (e.g., 50 percent) would probably lead to an extremely uneven distribution of responses and create difficulty for statistical analysis.
- The cutoff rate of 34 percent was used in legal mandates requiring community participation in community action programs during the War on Poverty in the 1960s. The Office of Economic Opportunity's early administrative rule of thumb, which was later written into law by Congress, required that at least one-third of the governing body for local community action programs consist of representatives of the poor (cited in Peterson 1970, 494).

In terms of board power, a strong board that directs the chief executive is regarded as having strong BP (coded 1, otherwise 0).[2] The four categories of the dependent variable are defined as certain combinations of the above two attributes. A strong, community board is coded as a board with both strong BR (BR = 1) and strong BP (BP = 1) and assigned the value of 1. A weak, community board is coded as a board with strong BR (BR = 1) but weak BP (BP = 0) and assigned the value of 2. A strong, non-community board is coded as a board with weak BR (BR = 0) but strong BP (BP = 1) and assigned the value of 3. Finally, a weak, non-community board is coded as a board with both weak BR (BR = 0) and weak BP (BP = 0) and assigned the value of 4.

Independent Variable

One key independent variable is included in the model: *government funding*. This variable examines the extent to which an organization is dependent on government funding. It is measured by average government contributions and grants as a share of average total revenues during the three years prior to the survey (1999–2001). This measure is based on Form 990 data of the surveyed organizations (i.e., "government contributions [grants]" on line 1C and "total revenue" on line 12 of Form 990).[3]

Control Variables

Eight control variables are included in the model:

- Volunteer dependence: This variable examines the extent to which an organization is dependent on volunteer labor. It is defined as a binary variable and measured by the reported level of volunteer use. For the purposes of this study, a report of 50 percent or more organizational work completed by volunteers is assigned the value of 1, otherwise 0.
- Human services: This variable examines the effect of operating in the social and legal services industry. It is defined as a binary variable and takes on two values: 1, indicating that an organization operates in the social and legal services industry, otherwise 0.
- Health services: This variable examines the effect of operating in the health services industry. It is defined as a binary variable and takes on two values: 1, indicating that an organization operates in the health services industry, otherwise 0.
- Education and research: This variable examines the effect of operating in the education and research industry. It is defined as a binary variable and takes on two values: 1, indicating that an organization operates in the education and research industry, otherwise 0.
- Arts and culture: This variable examines the effect of operating in the arts and culture industry. It is defined as a binary variable and takes on two values: 1, indicating that an organization operates in the arts and culture industry, otherwise 0.
- Organization age: This variable examines the age of an organization and is measured by the difference between 2001 and the year in which the organization was founded.
- Organization size: This variable examines the size of an organization and is measured by the natural log of the average total revenue of an organization during the three years prior to the survey (1999–2001). This measure is based on Form 990 data of the surveyed organizations (i.e., "total revenue" on line 12).
- Board size: This variable examines the size of an organization's board. It is measured by the natural log of the total number of people serving on the board of directors of the organization.

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

As table 1 indicates, the responding organizations are unevenly distributed by pattern of governance. The largest group comprises weak, non-community boards, with 42 of the respondents falling into this category. Taken together with the strong, non-community board organizations, 58 of the respondents reported having a board consisting mainly of corporate, professional, and social elites. By contrast, the weak, community board is the smallest of the four groups, with only 13 of the respondents falling into this category. The strong, community board category,

Table 1 Descriptive Statistics

Variables	Observations	Mean	Standard Deviation	Min	Max
Governance	95	2.8	1.25	1	4
Strong, community board	24				
Weak, community board	13				
Strong, Non-community board	16				
Weak, Non-community board	42				
Government funding [4]	95	30.09	36.94	0	99.45
Volunteer dependence	95	0.21	0.41	0	1
Human services	95	0.27	0.44	0	1
Health services	95	0.20	0.40	0	1
Education and research	95	0.17	0.37	0	1
Arts	95	0.12	0.32	0	1
Organization age	95	2.91	0.98	0.69	4.98
Organization size	95	13.27	1.84	7.60	17.74
Board size	95	2.45	0.60	1.39	4.65

Table 2 Correlation Matrix

	1	2	3	4	5	6	7	8	9	10
Governance										
Government funding	0.39***	1.00								
Volunteer dependence	−0.60***	−0.35***	1.00							
Organization age	0.01	0.06	0.03	1.00						
Organization size	0.58***	0.40***	−0.53***	0.34***	1.00					
Board size	0.19*	0.01	0.01	0.47***	0.44***	1.00				
Human services	0.29***	0.40***	−0.20*	0.03	0.23**	0.09	1.00			
Health services	0.21**	0.20*	−0.12	0.20*	0.45***	0.08	−0.29***	1.00		
Educate and research	−0.02	−0.24**	−0.10	−0.02	−0.13	−0.12	−0.25	−0.22**	1.00	
Arts	−0.21**	−0.17*	0.23**	−0.08	−0.27***	0.03	−0.21**	−0.18*	−0.16	1.00

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

which is the focus of this study, claims the remaining 24 reporting organizations.

Results and Discussion

In this study, the responses of interest involve nonprofit governance patterns. It takes four values, and there is no natural ordering among the different values, which makes multinomial logistic regression the appropriate method to use. Table 3 displays the results of the multinomial logistic regression models of nonprofit governance patterns.

The coefficients in the model indicate the effects of the key independent variable and control variables in the weak, community board; strong, non-community board; and weak, non-community board categories relative to the strong, community board category (the reference category). A positive and significant logistic coefficient means that, controlling for other variables in the equation, the independent variable increases the odds of being in the non-reference category (i.e., the probability of being in the non-reference category over that of being in the reference category). Conversely, a negative significant coefficient implies that the independent variable decreases the odds of being in the non-reference category.

The purpose of this study is to better understand the effects of government funding on nonprofit governance patterns. In particular, the core hypothesis of the study predicts that an organization with greater reliance on government funding is less likely to develop a strong, community board over any other board type. The variable *government funding* has positive and significant coefficients across all three categories of weak, community board; strong, non-community board; and weak, non-community board. The results indicate that the ratio of average government contributions and grants in relation to average total revenues in the three preceding years increases the probability of developing the other three board types over the strong, community board type, thus providing strong initial evidence to support the hypothesis. Which of the other three board types, then, is an organization more likely to develop when it becomes more dependent on government funding? The results displayed in table 3 do not directly speak to this issue. Additional analysis shows that no one particular board type is more likely to emerge than the other two.

The foregoing finding suggests that as an organization increases its level of 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

Table 3 Results of Multinomial Logistic Regression Models of Nonprofit Governance Patterns

Dependent Variable Category	Independent Variables	
Weak, community board		
	Intercept	0.44 (4.81)
	Government funding	5.33* (3.20)
	Volunteer dependence	–4.63*** (1.78)
	Human services	3.78* (2.30)
	Health services	–1.87 (2.54)
	Education and research	–1.65 (1.44)
	Arts	0.90 (1.79)
	Organization age	–0.58 (0.87)
	Organization size	0.22 (0.45)
	Board size	–0.62 (1.04)
Strong, non-community board		
	Intercept	–5.37 (4.70)
	Government funding	6.25** (3.19)
	Volunteer dependence	–4.27**(1.70)
	Human services	3.10 (2.33)
	Health services	–1.42 (2.41)
	Education and research	0.15 (1.23)
	Arts	0.27 (1.83)
	Organization age	–1.79** (0.85)
	Organization size	0.75* (0.50)
	Board size	0.18 (1.03)
Weak, non-community board		
	Intercept	–6.96 (4.28)
	Government funding	5.32* (3.09)
	Volunteer dependence	–5.56*** (1.79)
	Human services	5.24** (2.31)
	Health services	1.23 (2.26)
	Education and research	1.29 (1.19)
	Arts	0.54 (1.89)
	Organization age	–1.63** (0.82)
	Organization size	0.73* (0.42)
	Board size	0.74 (0.94)
Log likelihood = –76.08	N = 95	

$^*p < .10$; $^{**}p < .05$; $^{***}p < .01$.

Note: The dependent variable contains four categories. "Strong, community board" is set as the comparison category and therefore is not shown in the model.

"agents of the community" to "agents of government," it appears that governmental dependence might push nonprofit boards away from important decision making and even further away from the community. 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 (Zimmermann 1994), reliance on government funding might actually undermine their representational capacities. Findings by other scholars have also demonstrated that government funding leads to less volunteer support (Nowland-Foreman 1998), fewer private donations (Brooks 2000), less advocacy for the community (Eikenberry and Kluver 2004; Skloot 2000), and reduced capacity to function as "schools of democracy" (Alexander, Nank, and Stivers 1999). The results reported here, 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.

Volunteer dependence, measured by the reported level of volunteer use, is negative and highly significant across all three categories of weak, community board; strong, non-community board; and weak, non-community board. This indicates that reliance on volunteer labor is associated with a higher likelihood of developing a strong, community board than any other board type. This finding suggests that, besides their economic value, volunteers may also help nonprofit boards establish stronger ties with the community and foster their democratic value as representatives of community interests. Is the use of volunteers a viable approach to counterbalancing the undesirable consequences of government funding reliance? Not necessarily. Previous studies have noted that government funding might crowd out volunteers: As nonprofits expand their services with the support of government funds, the informal care originally provided by volunteers tends to give way to formal care by professionals, as the requirements of government funding demand greater professionalization and specialization (Ebaugh, Chafetz, and Pipes 2005; Smith and Lipsky 1993; Van Til 1988).

Moreover, past research has also reported that the supply of volunteers differs among industries (Segal, Mauser, and Weisbrod 2002). As a result of these factors, the reliability of the use of volunteers as a counterbalancing power to government funding reliance deserves further investigation.

The industry in which the organization operates is one institutional factor that could affect nonprofit governance patterns. Rather than limiting the hypothesis to a specific industry, this study tested the broader question of whether there are systematic differences across industries influencing the likelihood of developing a strong, community board. One dummy variable, *human services,* has a positive and significant coefficient in the category of weak, non-community board. This suggests that when a nonprofit organization belongs to the human services industry, it is less likely to develop a strong, community board than a weak, non-community board. The other dummy variables do not have significant coefficients. Because of the meager literature on this subject, it is not clear why organizations operating in the human services industry would be more likely to develop weak, non-community boards. More research is needed to further explore the factors associated with the likelihood of developing a certain type of board governance within each major industry of operation.

Organization age and *organization size* are two other organizational factors associated with the likelihood of a strong, community board. The results of this study suggest that an older organization is more likely to develop a strong, community board than a non-community (either strong or weak) board. By contrast, a larger organization is less likely to develop a strong, community board than a non-community (either strong or weak) board.

Board size never obtains significance.

Conclusion

This study has used board governance as an analytical lens to examine the effect of government funding on the capacities of nonprofit organizations to represent community interests. As the first step toward a better understanding of the representational capacities of nonprofit organizations, it has developed a typology of governance patterns that combines board strength and board representativeness. The study then used this typology to explore the potential tension between governing nonprofit organizations as agents of the community and operating them as agents of government (Smith and Lipsky 1993). Based on multinomial logit analyses of survey data on urban charitable organizations, the study found that, controlling for other relevant environmental and institutional factors, reliance on government funding decreases the likelihood that nonprofit organizations will develop strong, representative boards.

This study has highlighted the unique status of boards of directors in understanding the democratic functions of nonprofit organizations in society. In line with recent scholarly efforts to locate the study of nonprofit governance within the larger context of American democracy (e.g., Austin and Woolever 1992; McCambridge 2004; Smith and Lipsky 1993), this study makes significant contributions to the literature by linking board governance to the capacity to represent community interests. Given the diverse character of the nonprofit and voluntary sector, I do not intend to develop a uniform "gold standard" by which to judge the representational capacities of organizations operating in the sector. However, I concur with McCambridge (2004) that, in order to effectively represent and respond to constituent interests, nonprofit organizations must establish governance mechanisms that can convene their multiple constituents and engage them in the development of mission, vision, and strategies of the organization. Specifically, I posit that certain representative mechanisms should be present in the governance structures of nonprofit organizations to ensure equality and control of decision making by their constituents and the larger community.

The findings of this study show that in managing their dependence on government contracts, nonprofit organizations might have to change their board composition and board–executive relationship, posing potentially serious challenges to their representational capacities. Policy makers who advocate for privatization and service contracting with nonprofit agencies must understand the distinctive logic and purposes of nonprofits (Frumkin and Andre-Clark 2000) and observe the potential changes that government funding might have on the capacities of nonprofit organizations to represent the interests of their constituents and the larger community. An urgent question is how 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, a reasonable move for policy

Policy makers who advocate for privatization and service contracting with nonprofit agencies must understand the distinctive logic and purposes of nonprofits... and observe the potential changes that government funding might cause to the capacities of nonprofit organizations to represent the interests of their constituents and the larger community.

makers might be to design and implement certain discriminatory funding policies or regulations over nonprofit organizations with different patterns of governance structure. A more precisely focused funding policy might help the emergence and prosperity of more nonprofit organizations with better board representation of community interests.

The limitations of this study suggest some intriguing directions for future research. One is to modify the governance typology to better indicate the representational capacities of nonprofit organizations. The governance typology proposed in this study combines two key dimensions of board structure (i.e., board strength and board composition) but does not cover all of the relevant factors. One possible factor concerns the arrangements that establish the ways in which board members are selected. Organizations whose boards of directors are elected by their members are not only more representative of constituent interests but also more capable of building social capital and teaching civic skills (Reiser 2003). Another factor is associated with power concentration and dispersion. In studies of parental participation in school governing bodies, for example, scholars have found that parent governors were more frequently on the periphery and had less input into decisions (e.g., Deem, Brehony, and Heath 1995; Farrell and Jones 2000). Although these factors appear to have implications for an organization's representational capacity, they are not reflected in the typology proposed in this study. Further refinement of this typology in future research might allow for additional insights regarding the representational capacities of nonprofit organizations.

Another area for improvement is to enhance the generalizability of the research findings. Because the database used for sampling and data collection is a pool of charitable organizations that file 990 returns with financial information to the IRS, it does not include political advocacy organizations or social clubs, nor does it include charitable organizations that are very small and do not file 990 returns. Therefore, the research findings are more generalizable across other charitable organizations (rather than across all nonprofit sector organizations). Moreover, all the sampled organizations operate in a typical urban, metropolitan setting; therefore, we must exercise caution in generalizing findings and applying them to organizations in different settings (e.g., suburban or rural areas). Future research should collect longitudinal data, as well as examine a significantly larger sample of nonprofit organizations, to examine the lagged effects of government funding on nonprofit governance across settings.

Despite these limitations, this study offers a useful typology of board governance for understanding the representational capacities of nonprofit organizations. The findings provide some empirical evidence that the representativeness and influence of nonprofit boards might suffer from nonprofit organizations' reliance on government funding, which, in turn, might seriously constrain their democratic role in society. As nonprofit organizations are increasingly charged with providing services traditionally furnished by government, this study calls for further investigation into the effect of governmental dependence on the other important roles and functions of nonprofit organizations, particularly their role in democratic governance.

Acknowledgments
An earlier version of this article was presented at the 2003 ASPA Conference in Washington, D.C. I am grateful to Terry Cooper, Juliet Musso, Michael Preston, Bob Denhardt, Greg Saxton, and Will Brown, Charlotte Ren for their contributions to this project. I would also like to thank the anonymous reviewers of this journal for their excellent suggestions. All of the usual caveats apply.

Notes
1. Although the majority of research on the effects of government funding on nonprofit governance has offered insightful observations about the board functions associated with service delivery (e.g., McClusky 2002; O'Regan and Oster 2002; Saidel and Harlan 1998), a few studies have taken a different approach by connecting nonprofit governance to the larger context of the democratic role of nonprofit organizations in the communities they serve (e.g., McCambridge 2004; Smith and Lipsky 1993; Stone 1996).
2. Both subjective and objective measures are used to code this attribute. For the subjective measure, descriptions of four board–executive relationship patterns (Murray 1998) are provided, as follows:
   - Description 1: The chief executive gathers information and advice from many stakeholders, formulates a decision, and has it ratified by the board as a whole. The chief executive is highly influential and trusted because of his or her expertise and experience.
   - Description 2: A Small core group of the board plays a very influential role in recommending a course of action on governance issues. These are then debated and decided by the whole board. The chief executive provides information and advice during the decision-making process.
   - Description 3: A core of senior professional staff gathers information and advice from many stakeholders, formulates a decision, and has it ratified by the board and the chief executive. The staff is highly influential and trusted because of their expertise and experience.
   - Description 4: The board operates according to an ideology of consensus between the board and the chief executive. The board emphasizes extensive

communication and consultation with all interested parties related to any given issue.

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

3. For the 19 health organizations that responded to the survey, the sum of both government contributions and grants (reported on line 1C of Form 990) and program service charges, including government fees and contracts (reported on line 2 of Form 990) is used to indicate total government funding. This is based on consideration of the fact that program service revenues of health organizations come mainly from direct and indirect government payments, such as Medicare and Medicaid (O'Neill 2002, 19). A review of Form 990 data of these health organizations also suggests that they might report government revenue on line 1C one year but on line 2 the next year.
4. The mean of 30.09 does not reflect the aggregated percentage share of government grants and contracts in relation to total revenues of the 95 reporting organizations. It is simply the average of the individual percentage shares of government contracts and grants in relation to total revenues. For instance, 20 percent of government funding in an organization with larger revenue (say $5 million) is treated the same as 20 percent of government funding in an organization with smaller revenue (say $100,000) in calculating the mean.

We can see a more accurate picture of the importance of government funding by calculating the aggregated percentage share of government funding in relation to total revenues. The aggregated value of government grants and contracts of the 95 organizations is $301,412,014. The aggregated value of total revenues of the 95 organizations is $702,573,398. Accordingly, the aggregated percentage share of government grants and contracts in relation to total revenues of the 95 reporting organizations is 42.90 percent. I am particularly grateful to one of the three anonymous *PAR* reviewers for bringing this insight to my attention.

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