

Board of Director's Effect on Non-Profit Financial Performance

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Abstract

The board of directors are the most influential people that make up any organization. This group of people has the power to lead a company or organization in many different directions. This research analyzes if the gender composition of the board affects key financial indicators. Previous research has focused significantly on how the board affects organizations in businesses or organizations seeking profits. This research determines if gender diversity leads to better financial performance in a nonprofit setting. Using GuideStar, which is the largest source of information for nonprofit organizations, this research analyzes over 300 organizations with a focus on education and universities and having \$5,000,000 - \$30,000,000 in total income. By focusing on three key financial measures, public support, fundraising efficiency, and net revenue, the research examines whether more diverse boards based on gender perform differently than boards with little gender diversity. The research seeks to explain whether greater gender diversity leads to better or worse financial performance for university boards.

Introduction

In any research plan or project one is trying to present, it should always tell a story and have a natural flow to that story. The story that the researcher is planning to tell has to deal with the makeup of a non-profit organization's board of directors and how that affects their financial performance. In order to tell this story the researcher will need to also present research on how board makeup effects profits in for profit corporations as well. The purpose of the research is to dig deeper in to how non-profit companies and charities work and to analyze if the leaders they have running their company have any affect on their company's financial performance. In for profit corporations there are many ways to measure financial performance, but it gets a little harder when looking at non-profits, specifically universities. Throughout the research, the researcher has found and identified measures of financial performance for charities that can provide information on how financially successful that charity is.

One of the research articles that helped influenced the research was one that looked at the current non-profit researchers and interviews with these certain organizations to see what their financial performance is. The three main things they looked at were the fundraising efficiency, public support, and financial performance from the organizations. The researchers used data taken from fifteen IRS form 990 line items as well as factor analytic techniques. They have discovered there are financial performance measures for non-profit organizations (Ritchie & Kolodinsky, 2003).

Another study that was done by Erhardt, Webel, Shrader looked at the diversity of the board compared to the companies performance (2003). They did this by analyzing the return on assets and investment of the firm for 127 companies in the United States. They found that the top 97% of U.S. companies have at least one woman as a board member. They found this

information by using correlation and regression analysis by looking at means and standard deviations. Just like the previous research they also found positive results with financial indicators of the firm performance and a semi-diverse board.

The problem with all of the research that the researcher has found is that it is kind of dated. A lot of the research comes from 2003, which means that it is 13 years old. This is a problem because a lot of things have changed in our country and the world so the influence of women or just diversity in races alone on a board of trustees can make a large influence. Although both studies did find positive relations with having a diverse board the researcher believes that they can find even greater influences with a diverse board since the research will be more up to date.

Unfortunately there is not as much research founded in non-profit organizations, as there is in for-profit because the financials are structured differently. The performance measures are also not as readily available for these organizations, which makes it hard to see how their company is doing financially.

Hypotheses

After much research on the topic, the researcher has hypothesized that gender diversity on a board does in fact have a positive effect on the financial performance of a non-profit organization. Looking at the Board of Director Diversity and Firm Financial Performance research done by Erhart, Webel, and Shrader they found that board diversity is positively associated with financial indicators of firm performance (2003). The researcher wants to dig a little deeper and look at University's with \$5,000,000-\$30,000,00 in total income. This is primarily looking at smaller universities, comparable in size to University of Arkansas- Fort Smith. The data used in the researcher's analysis includes looking at different financial

performance indicators such as: financial performance, measure of public support, fundraising efficiency, net revenue and net income, as well as information on the organization's board composition. The data used for the financial performance of non-profit organizations was taken from each respective organization's tax form 990.

Description of Data

The data that the researcher used is coming from GuideStar. GuideStar explains itself as "the world's largest source of information on nonprofit organizations." This comprehensive search engine has data and financial information available for non-profit organizations complete with the organization's tax Form 990. The Form 990 specifically is where the data the researcher is using will be coming from. The performance measures the researcher will be using to measure the non-profit's financial performance is as follows: financial performance, measure of public support, fundraising efficiency, net revenue and net income. Each of these measures come from the respective non-profit's Form 990 and can be calculated with simple equations given and used by William J. Ritchie and Robert W. Kolodinsky in their paper "Nonprofit Organization Financial Performance Measurement" (2003).

After obtaining the performance measures for the charities, the researcher narrowed down the research to around 270 Universities that fall under the NTEE (National Taxonomy of Exempt Entities) code B43. The sector the researcher looked at is Education, specifically University's with \$5,000,000-\$30,000,00 in total income. The total income includes the non-profit's income as well as total assets. The researcher chose to select this income amount because it provided sufficient data for analyzing and gave a sufficient sample size as well. Once the researcher selected the universities to collect the data from, they researched the makeup of that university's board of trustees or directors. Based on the literature review the researcher conducted over this

topic, the researcher made an educated guess that the results of the research will conclude that the more diverse a non-profit's board of directors are, the better their financial returns will be.

Discussion of Expected Results

After looking at several different articles that had similar hypotheses as my own, I plan to find that based on a firm's financial return, if they have a more diverse board of trustees their financial returns will be higher. For example, if a board has an equal number of females to males as long as ethnic diversity I expect them to have a higher financial return as opposed to a board that is primarily one race and gender. When I find my results, they can be used to better non-profit organizations. It would be important to share this information with various non-profit organizations because they could better their financial obligations in many different aspects. If my hypothesis is correct then fiscal performance, measure of public support, fundraising efficiency and net revenue can influence the non-profit organizations in a positive manner.

Works Cited

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