# The Differential Effect of Location on Interlocking Boards and Rewards in the Grants Marking Place

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## Introduction

A growing body of research documents disparities in nonprofit resources across place and types of organization. Evidence suggests that nonprofit resources, and other commercial resources, are concentrated in more affluent and predominantly white community communities (Allard, 2009; Joassart-Marcelli & Wolch, 2003; Wolpert, 1988); while the "… most disadvantaged urban neighborhoods have depleted institutional resources" (Garrow, 2012, p. 383), p. 383). Private foundation grant making is often accused of being discriminatory, elitist and neglecting the needs of marginalized communities ((Eisenberg & Palmer, 2005; Roelofs, 2003; Zunz, 2011). While government funding of nonprofits is often thought to overcome the place based gaps in the distribution of resources that occurs through private philanthropy (Salamon, 1987), Garrow (2012) finds that government funding to nonprofits in high poverty communities decreases as the percentage of African Americans increases. What accounts for these differences in access to philanthropic resources?

Similar to the literature on disparities in the labor market, the lack of philanthropic investment in marginalized neighborhoods may result from organizations in these communities lacking the financial and human resources to compete with better endowed organizations for grants. However, because grant making inherently is embedded in social relationships, it is important also explore how differential levels of social resources may affect grant making across place. This study explores the differential effects of network status on philanthropic grant making between nonprofit organizations that are located in majority minority communities and those located in predominantly white communities (PWI). We posit that networks provide both information and status for organizations and those organizations located in minority communities have weaker network connections that limit their ability to compete in the grants market place.

Status has long been used in sociology to understand relationships between organizations (Sauder, Lynn, & Podolny, 2012) and explain growing inequalities across organizations (DiPrete & Eirich, 2006). Status, an entity's position in social hierarchy, provides a flow of resources, lowers the costs of transactions, and increases access to resources (Sauder et al, 2012), which over time provides cumulative advantage for high status organizations (DiPrete & Eirich, 2006).

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Although, there is an extensive body of research that documents that market inequalities across racial groups may result from differences in levels and functions of network connections across racial groups (Smith, 2000), there is limited understanding of how network (or relational) status interacts with race (another socially constructed indictors of status) (Sauder et al. 2012).

On a theoretical level, our research seeks to improve our understanding of the complex relationship between relational status, minority status, and access to resources (in this case access to foundation grants). While an extensive body of literature explores the socially embedded environment of for-profit firms, we find little empirical testing of these concepts in nonprofit organizations, particularly in the grant making process, where information asymmetries are rife (Galaskiewicz, 1985, 1997; Galaskiewicz & Wasserman, 1989; Grønbjerg, Martell, & Paarlberg, 2000). Scholars generally assume that the nonprofit sector responds to minority needs (Garrow, 2012). In particular, minority serving organizations play important political roles in achieving legitimacy and solving complex local problems that make them important partners in local service delivery systems (De Graauw, Gleeson, & Bloemraad, 2013) given the importance of relational status in grant making, the assumption that such pivotal roles will lead to rewards in the grants marketplace may be unfounded. As Garrow (2012) notes, "Race is ignored in much of the contemporary research on the dynamics of nonprofit resource environments" (p. 382). On a practical level, this research will improve our understanding of status, race and philanthropic grant making.

## Background on Grant Making

American nonprofit organizations receive approximately 15% of their revenues from foundations (Nonprofit Almanac 2015), but spend a disproportionate amount of resources pursuing grants (Center for Effective Philanthropy 2009). Grant making foundations play a significant role in the United States in terms of both size and influence. Unlike service providing organizations, grant making organizations primary mission is to shift resources from one activity to another. The limited research that exists on grant making suggests that foundation grant making favors the largest and most well-established organizations (Delfin & Tang, 2007; Grønbjerg et al., 2000; Johnson, 2013; Rumbul, 2013). This pattern persists even among public foundations (Johnson, 2016; Paarlberg & Ghosh Moulick, forthcoming;) and often neglects the needs of minority communities. Minority led nonprofits receive a small percent of grant funding from foundations The Greenling Institute (2005) estimates that while minority led nonprofits receive 12% of all grants made, on average they receive just 8% of grant dollars. These findings may also hold for foundations led by ethnic minorities as well. For example, a study conducted by Tobin, Solomon and Karp (Tobin, Solomon, & Karp, 2003) on mega gifts of over $10 million or more by Jewish foundations suggests that gifts designated for minorities are almost nonexistent. They totaled 0.1% of all gifts made and composed of two gifts totaling $35 million In fact, the findings suggest that none of the philanthropies gave a mega-gift specifically to aid the poor, minorities, or disadvantaged Jews, or for any social justice purposes. While we might expect that government would be an important force in leveling the playing field for minority-led nonprofits, a study of government grant making found that nonprofits located in high poverty minority communities were less likely to receive a government grant than nonprofits located in

predominantly white high poverty neighborhoods, all else being equal. These patterns are particularly problematic given that minorities will soon be the majority in the US.

There are numerous explanations, both practical and conceptual, for why elite, primarily white serving organizations, may dominate the grant making process. First, foundations inherently represent the values and preferences of the elite, seeking to maintain the interests of the status quo (Arnove, 1984; Roelofs, 2003). Second, foundations often have limited capacity and rarely have grant making strategies, leading to inertia and inability to respond to changing community needs (Graddy, 2006; Millesen & Martin, 2014). As a result, they seek to maintain existing relationships that support the status quo. Finally, in the face of that ambiguous goals and barriers to performance evaluation, grant makers favor those organizations that are larger and better established and that are known to them through social networks and existing organizational relationships (Galaskiewicz, 1985; 1997; Galaskiewicz & Wasserman, 1989; Grønbjerg et al., 2000). Minority organizations may inherently be smaller, younger and less well established than "majority" organizations. Furthermore, like individuals from minority backgrounds, minority organizations may inherently have fewer and weaker networks that provide advantages in the grants marketplace.

Although an extensive body of research explores the cumulative effect of status in commercial market exchanges and barriers to minority led businesses' access to capital and minority individuals access to the labor market, there is limited research on how minority status of organizations interacts with network status. Furthermore, we could find few studies of how minority status affects the grant making process[3]. This research brings together a growing body of scholarship that explores philanthropic grant making as a socially embedded process and the cumulative effect of status in the marketplace and research on minority networks. In doing so, this research fills existing theoretical gaps in the both the network status literature and grant making research. Our study addresses two questions: 1). How are the networks of minority led nonprofits different from majority led nonprofits? 2). Do minority led organizations receive the same benefits in the grant making process from networks as majority led nonprofits? As private philanthropy plays an increasingly important role in shaping and delivering policy and our societies become more diverse, understanding the relationship between race and grant making becomes increasingly important.

## Conceptual Background & Hypotheses

An extensive body of literature on various dimensions of economic life suggests that economic life is embedded in social structure—the quality and structure of exchange relationships between actors (Brass, Galaskiewicz, Greve, & Wenpin, 2004; Uzzi, 1996). Networks are associated with a variety of beneficial individual, organizational and community level outcomes (Brass et al., 2004). Podolny (2001) posits that not only are social networks "conduits" for information and resources; but they also serve as prisms that provide

[3] An exception is DeGraauw et al.'s study of the allocation of community development block grants to immigrant organizations.

informational clues that others use to make inferences about an actor. An actor's (individual or organizational) position in the social network (how well they connect to other well-regarded organizations) determines status (Sauder & Podolny, 2012). Empirical evidence suggests that status, controlling for performance, is associated with increased access to revenue, lower costs of securing resources, and greater rewards for performance (Benjamin & Podolny, 1999). Status leads to these benefits in several ways. First, in situations characterized by high uncertainty and information asymmetries, associations with high status organizations signal that an actor is reliable and a strong performer. Serving as an informational cue, status allows organizations to borrow reputations (Baum & Oliver, 1991). Second, status also provides greater attention and visibility for actors. For example in a study of status in the scientific peer review process, Simcoe & Waguespack (2011) find that when author names are available, high status contributors receive more attention and feedback. Consistent with a two-stage model of philanthropic grant making (Grønbjerg et al., 2000), status positively affects the like likelihood that others will recognize an organization and that such recognition translates into a reward (Sauder, et al 2012). We therefore expect that high status organizations, holding measures of performance constant, will receive a larger grant than similarly performing lower status organizations.

However, status might not have an equal effect on all organizations. Status provides cumulative advantages (DiPrete & Eirich, 2006). In an early description of cumulative advantage, in a study of young scientists, Merton (Benjamin & Podolny, 1999; 1968) found that an early career award provides increasing rewards to recipients with stronger reputations, regardless of later career performance. Whether status accrues through an actor's performance, stroke of luck, or even other social identifiers, status provides additional resources that may be used to increase performance and reproduce status. For example, in a study of wine producers, Benjamin and Podolny (1999) find that high status wine producers select higher quality grapes. In describing this cumulative process, Simcoe & Waguespack (2011) suggest that actors with better social positions access more valuable knowledge, with improved management and outputs as a consequence, which reproduces status.

There is less clarity about how other group differences, such as race, gender or class, figure into how status affects access to resources. Ridgeway (2014) posits that status writes such group differences into organizational power and resource systems. Status depends upon one's affiliations with other high status actors and therefore accentuates the "in-group bias" of high status groups. Drawing upon research on labor market economics and cumulative advantage, we therefore expect minority organizations will have lower relational status and the returns to status will be weaker for minority led organizations.

**1). How are the networks of minority led nonprofits different from majority led nonprofits?**

A growing body of research explains labor market inequalities across racial groups (and gender) as a function of differential network characteristics (Smith, 2000). Some early network studies have found that minority groups have fewer weak ties and less influential networks (Campbell, Marsden, & Hurlbert, 1986; Kasinitz & Rosenberg, 1996; Loury, 1977). As a result, minority groups lack information about the opportunities that provide access to resources and advancement. Similarly, an extensive body of literature suggests that minority led businesses

generally have lower stocks of internal (financial and human resources) and weaker connections to other organizations that are necessary for success in the marketplace. Minority business enterprises (MBEs) are often smaller and younger than non-minority led businesses (Bates, 2001) and assumed to lack the internal capacity to compete effectively. Leaders of MBEs often have lower education levels, less prebusiness work experience and less access to start-up capital (Fairlie & Robb, 2008). Also, MBEs often operate in environments that are under-resourced and offer fewer market opportunities (Bates, 2001). Similar resource differentials are expected in the nonprofit sector, we would expect these patterns to hold. Access to resources is important in the development of networks because organizational networks, particularly connections between boards are most often connections between elite institutions. Larger organizations are able to establish relationships with other larger organizations, creating a reinforcing status of elite hegomony (Useem, 1979).

However, status also begets status. As Waldinger (1995) notes, the social relationships that facilitate the development of social capital within a social group, also facilitates the exclusion of those "outside the group" (Portes & Sensenbrenner, 1993). These findings are consistent with general studies of network structure that find that both organizations (and people) are more likely to form ties with similar organizations or people (Brass et al. 2004). Furthermore, the productive nature of status suggests that high status organizations suffer reputational penalties from associating with lower status organizations, constraining outside organizations from developing ties to high status organizations. In a heavily cited study of construction contractors in New York City, Waldinger (1995) found that minority contractors usually have weaker social connections that are necessary to secure contracts. Furthermore, social networks vary between minority groups with Korean small business owners having stronger ties within the Korean business community and stronger ties to businesses outside of the community. In contrast, African-American entrepreneurs had weaker ties both within the African-American community and to the broader, white dominated business community.

We therefore expect that minority serving nonprofit organizations will fewer and lower status networks than non-minority organizations.

**2). Are the effects of networks contingent upon minority status?**

Although we posit that minority serving organizations may have lower stocks of organizational resources and weaker external connections than majority organizations, cumulative advantage may also occur because the return to the social endowments are vary across status level. DiPrete & Eirich (2006) describe the differential effects of endowments and returns to endowments using the analogy of a savings account. Although individuals may have the capacity to place different amount of money into a savings account, if all accounts receive the same level of interest than over the course of their savings, differences in the growth of the account are the result of equal returns to differences in the original deposit. However, if individuals are able to achieve different interest rates based upon some social characteristic than the return to investment also shifts (implying group differences in returns to the original resource). Furthermore, sometimes there is an interaction between the level of resource and the rate of return on that resource, as when interest rates vary depending upon how much money one

holds in the bank. Merton's Matthew effect noted in his observation of rewards to scientists suggests that the returns to status are not linear. In other words, an increase in performance (or status) generates higher rewards for actors of higher status than for actors of lower status.

To date studies of whether ties are equally valuable for all races returned mixed results. Granovetter posits that because of the different quality of minority networks, networks do not function in the same way for minority actors (1981). Because ties are generally homogenous, individuals from lower socioeconomic groups have connections that are not able to bridge to labor market opportunities. Research in support of this finds that that disadvantaged white youths garner significantly higher wages when connected to jobs by personal contacts (Korenman & Turner, 1996), while connections offer no significant wage advantage for disadvantaged black and Latino youths (Green, Tigges, & Browne, 1995; Korenman & Turner, 1996) from personal contacts in the labor market. In contrast, others posit that low status actors receive greater benefit from their ties. High status actors experience a ceiling effect—whereby their ties to others are unlikely to provide new connections to other high placed actors. In testing the conditional effects of ties across race, Smith (2000) actually finds few racial differences in the rates of return for social contacts in the labor force.

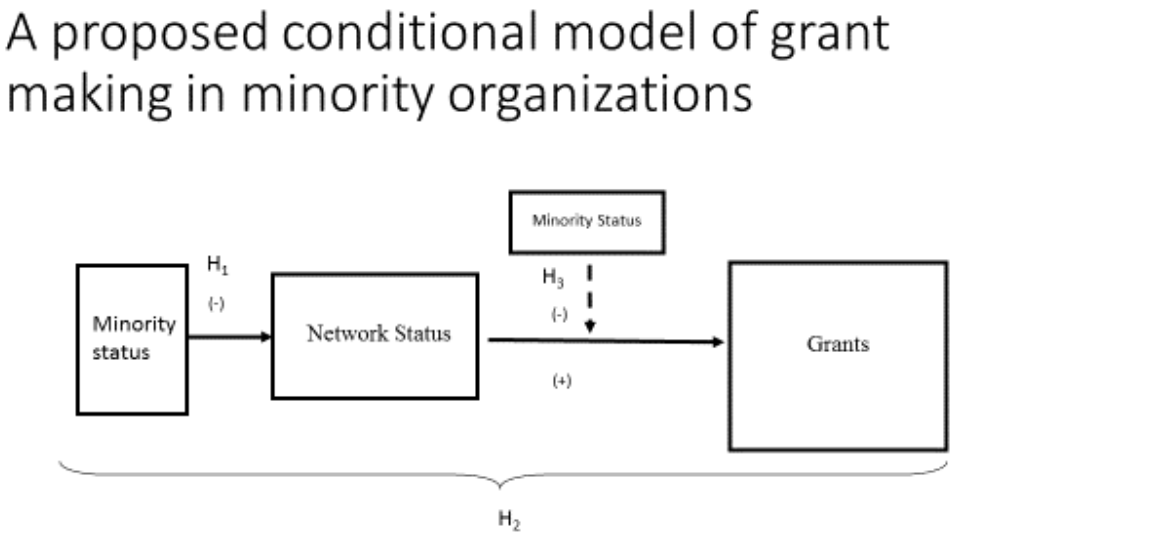
Scholars studying ethnic enclaves and minority owned business have long observed that group status has differential effects on economic action (Portes and Sensenbrenner, 1993; Waldinger, 1995). The extent to which minority status may affect economic action is affected by the degree to which the group is isolated from the larger community and the extent to which the group looks to its own community for resources and rewards (Portes and Sensenbrenner,1993; Waldinger, 1995). Given the importance signaling effect of network status in the grant making process, our review of the literature leads us to the following hypotheses, which we summarize in Figure 1.

**Hypothesis 1**: Minority nonprofits will have lower network status than non-minority led organizations.

**Hypothesis 2**: Minority status indirectly effects grants through network status. While network status leads to larger grants, minority led organizations have weaker networks.

**Hypothesis 3**: Minority status also moderates the relationship between network status and grants received. Network status will have a weaker effect in minority led organizations than in majority led organizations.

Figure 1




Minority led organizations receive smaller grants from grant makers, in part because they have "weaker" networks, which are valuable in determining the size of grants received and because the networks of minority led nonprofits offer weaker productive value.

## Research Design/Methodology

We test these hypotheses in the context of grant making by public foundations in two racially diverse American cities. American foundations take many legal forms. Private foundations rely upon annual distributions from an endowment; while public foundations, the focus of this study, raise funds from a variety of donors to distribute to charitable activities. Specifically, we focus on those public foundations, which operate within a specific geographic community (Chao, 2006; Daly, 2008; Grønbjerg, 2006a, 2006b). In 2016, there were 4124

charitable organizations classified as community foundations that registered with the IRS, which reported approximately $14 billion in total revenue and held $76 billion in total assets[4]. In addition, there were 4,076 organizations registered as federated funders that reported $9 billion in total revenue and $27 billion in total assets. [5]

Given the size and scope of public foundations, the differentiation between public and private foundations is important. Their public source of revenue (multiple donors) normatively implies that public foundations will be more responsive to the needs and interests of the broader community rather than the interests of elite stakeholders. As Faulk and McGinnis Johnson (2016) posit "Public charity grantmakers …will … direct funds towards communities' collective problems, and a variety of donors will provide greater informal oversight mechanisms of the organization's activities" (p. XXX). Yet, empirical research on a large subset of public foundations – community foundations – finds that many are focused on acquiring donors rather than the idealized goals of community leadership (Graddy and Morgan, 2006; Faulk et al 2016). However, as a privilege for receiving tax benefits, there is a normative expectation that grant decisions should be more reflective of community and nonprofit needs rather than personal relationships of board members (McGinnis Johnson 2013).

We tested for the effect of relational status on grant making in two metropolitan communities in the US across four types of public grant making institutions: 1). United Way, 2). community foundation, 3). Jewish federated fund, and 4). Jewish community foundation. Table 1 summarizes the categories of grant making organizations. All four types of public foundations are community based public foundations that raise and distribute their resources within a specific geography. However, the grant makers differed on two dimensions: 1). operating as part of a federated system or independent and 2). Religious affiliation vs. secular. This diversity helps to improve the generalizability of our findings across the field of community foundations.

Table 1: Stratification of Community Foundations

| | **Secular** | **Faith Based (Jewish)** |
|---|---|---|
| **Federated** | United Way | United Jewish Fund |
| **Independent** | community foundation | Jewish Community Foundation |

Our sample was limited to grant making organizations located in the same state. Both communities are home to more than 1 million residents and support a UW, a community foundation, a Jewish Federated Fund and a Jewish community foundation. One city was home to two distinct community foundations. For each grant maker we identified all of the nonprofit

[4] Internal Revenue Service, Exempt Organizations Business Master File (04/2016)
The Urban Institute, National Center for Charitable Statistics, http://nccsweb.urban.org/
[5] Federated funders are those public foundations that are part of nationally affiliated systems, such as the United Way system. .

organizations that received a grant from the grant maker in 2012. We then used 990 reports available from Guidestar to identify all of the board members of both grant makers and recipients. Finally, we used the National Center for Charitable Statistics (NCCS) core files to identify the organizational characteristics of all nonprofits organizations in our sample. We analyzed this data using OLS regression, testing how board interlocks effected the size of grants each organization received. Below we describe each step in detail.

Examining networks of interlocking board members is a common way to study socially embedded relationships in organizations. Diverse theoretical perspectives shape our understanding of the effect of interlocking boards, including resource dependence theory (Mizruchi, 1996; Provan, Beyer, & Kruytbosch, 1980) network theory and social capital (Davis, 1991; Lester & Cannella, 2006), institutional theory (Galaskiewicz & Wasserman, 1989), and elite theory (Useem 1979).

**Data Collection**

The grant data for this project came from the 990 forms of grant making organization, obtained from Guidestar, a repository for information on nonprofit organizations. 990 reports are forms filed by tax-exempt organizations with the US Internal Revenue Service. On each grant maker's 990 we identified the value of grants made to recipients. We also collected board member names for each grant maker and all nonprofit grant recipients that received grants greater than $5000 from at least one grant maker.[6] We collected the names of board members that served in 2010, assuming that the existence of a board member in a previous year (2010) affects future grants received. If board data was not available in 2010, we collected board data for 2011 and if that was not available 2009. Board data required extensive cleaning, including removing titles (for example, Mrs., Dr. or Reverend), removing suffixes (Jr.), and manually searching for potential duplicates when the use of initials created ambiguities. Our final sample includes 20,601 board members. Our initial analysis suggests that between 13 and 15 percent of all board members sit on multiple boards in our respective communities.

We compiled these data into a member-organization (two-mode) adjacency matrix, where $x_{ij}$ equals 1 when actor $i$ sits on board $j$. We then created a one-mode co-occurrence matrix by post-multiplying the two-mode matrix by the transpose of itself:

$$c_{ij} = \sum_{k} x_{ik} x_{jk}$$

Essentially, this transformation identified the number of times an organization shares a board member with another organization (see Borgatti, Everett, and Johnson 2013). The value of the tie

[6] Changes to the 990 reporting form the IRS in 2008 only required that nonprofits reports grants to other organizations that exceeded $5,000. However, some grant makers continue to report all grants, regardless of size. The $5,000 threshold provides consistency across systems. However, this also means that we may miss many of the small designations that individual donors made to local organizations.

between organizations is the number of board members that sit, or co-occur, on both boards of directors.

Using the grant recipient's[7] EIN number, we included recipient organizational and financial data available from the National Center for Charitable Statistics core files (The Urban Institute, NCCS Core File (Public Charities, [2010]). The NCCS data provided basic financial and organizational information used as controls in our models.

**Variables**

**Dependent variable: grants received.** From the 990 IRS reports of grant makers (Schedule I, Part II is completed by those nonprofit organizations that provide grants to other organizations and individuals) that is publicly available from the IRS, we created variables that measure the $ value of all grants received by each nonprofit grant recipient. If two or more grant makers funded an organization, "grants received" was the total value of grants from all grant makers. This measure included all grants received by an individual organization from all funders. The 990 reports distinguish between grants allocated through a formal organizational decision-making process (allocations) and designations made by individual donors (designations). B ecause the level of uncertainty may be greater for individual donor designations, we repeated our analysis for both allocations and donors. On average, grant recipients in our final sample received $227,837 in grants from our selected grant makers, with $183,026 in allocations and $44,811 reported as designations. Table 2 reports the summary statistics for our final sample of grant recipients.

**Independent variable: Minority status:** There are many ways to identify minority organization. Greenlining.org's defines minority led nonprofit as "„one whose staff is 50 percent or more minority; whose board is 50 percent or more minority; and whose mission statement and charitable programs aim to predominately serve and empower minority communities." Due to the many challenges of identifying the minority status of a large population of organizations in a community, we used three primary means. First, we used the names of organizations to identify those organizations that included any "minority serving cues" in their name. Examples include foreign language words. In the US that is most commonly Spanish language words, such as "Consejo Real de Reyes" or it could be racial/ethnic indicators, such as Latino, Hispanic, Asian or black. We also used institutional listings, primarily the Black

[7] The 990 reports of grant makers contained EIN's (employer identification numbers) for many of these agencies. We then used Guidestar, the National Center for Charitable Statistics, and a general web search to find the EIN's for many of the remaining organizations. In total, we identified EIN's for 90 % of the agencies. A preliminary analysis of those without EIN"s suggests that many are government organizations and the remaining are programs, "collaborative", or faith based institutions that have not reported revenue to the IRS.

or Hispanic Chambers of Commerce to identify respective minority serving nonprofits. Unfortunately, the first two strategies resulted in a small number of minority grantees, approximately 2.8% of all grantees. This is consistent with other studies that have found that minority serving nonprofits are underrepresented in the institutional listings of the sector (Gleeson & Bloemraad, 2013). We then identified those nonprofits located in majority dominant neighborhoods (those postal zip codes that were more than 50% non-white). Forty-two percent of all of the organizations that received a grant in these two metro areas were located in communities that are more than 50% minority.

**Mediating variable: measures of interlocking boards:** We measure network status using measures of board interlocks. Board interlocks have frequently been used to study how board ties between serve as conduits of information (Haunschild, 1993; Pennings, Lee, & Van Witteloostuijn, 1998) as well as how ties between elite institutions maintain and reproduce status (Useem 1979). The use of board ties allows for quantitative assessment of position, as opposed to subjective ratings of status. As described in detail below in our discussion of methods, we will create measures of the connections between board and staff of all charitable organizations and the four types of public foundations.

Measures of board interlocks:

Drawing upon Podolny's (2001) distinction between the size of one's network (pipes) and the quality of an actor's network (prisms), we will include two network measures as mediating variables: degree centrality and eigenvector. We will also control for the presence of a tie with a grant maker.

**Degree centrality** may be the most common network measure in the network analysis toolkit. It is the sum of ties ego shares with all other alters or connected actors and measures the size of an actor's network. The valued, instead of a dichotomized measure, captured the strength of the ties between organizations. In an adjacency matrix, it is defined as:

$$d_i = \sum_j x_{ij}$$

where $d_i$ is the degree centrality for actor $i$ and $x$ is the entry of connection between actors $i$ and $j$. In relation to this study and given that our data are undirected, the valued measure of degree represents the number of individuals that sit on both organizations board of directors.

**Eigenvector** is a variation of degree centrality where each tie adjacent to the focal actor is weighted by its centrality (Borgatti et al. 2013). Mathematically, it is defined as:

$$e_i = \lambda \sum_j x_{ij}\, e_j$$

where λ is a proportionality constant, or eigenvalue, used in computation the eigenvector of actor *i.* Essentially, eigenvector centrality addresses the connectedness of the actors' alters. It measures the extent to which the actor is connected to other well-connected actors and measures the quality of an actor's ties. Mean eigenvector is .014 and mean degree is 1.097. When comparing across nonprofits located in minority and majority communities, we find that both measures are slightly higher for nonprofits located in majority communities.

**Grantee Controls: organizational characteristics**: We used the Business Master File listing of all charitable nonprofits registered with the IRS to obtain basic financial and organizational information about each grantee, including financial size (as measured by assets), age and field of activity. Assets and size serve as proxies for performance. While status is an enduring characteristic of an organization, performance ebbs and flows (Dimov, Shepherd, & Sutcliffe, 2007). We will also control for specific fields of activity that may affect access to grants. Thirty-six percent of all grantees operate in the human service fields.

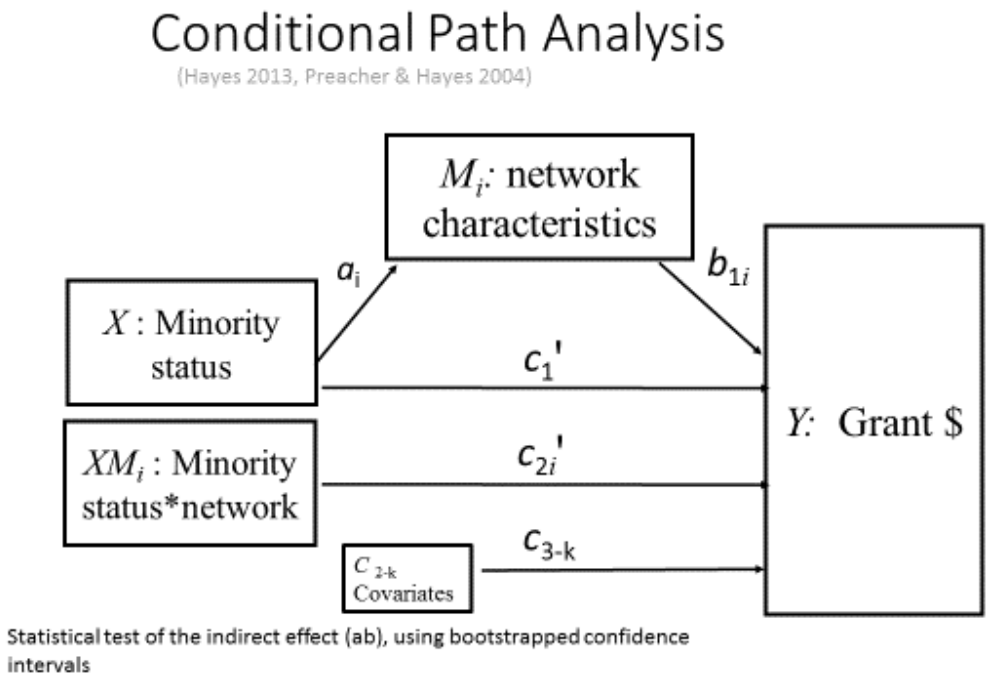
Table 2: Descriptive Statistics

| | All locations | | | | Majority dominant | | Minority majority | |
|---|---|---|---|---|---|---|---|---|
| | Mean | Std. Dev. | Min | Max | Mean | Std. Dev. | Mean | Std. Dev. |
| Dependent variable | | | | | | | | |
| Allocations (ln) | 10.790 | 1.668 | 0.000 | 15.706 | 10.739 | 1.748 | 10.861 | 1.552 |
| Designations (ln) | 4.885 | 5.166 | 0.000 | 15.564 | 4.841 | 5.193 | 4.944 | 5.139 |
| Independent variable | | | | | | | | |
| Minority majority location (1=yes) | 0.423 | 0.494 | 0.000 | 1.000 | | | | |
| Mediating variable | | | | | | | | |
| Eigenvector | 0.014 | 0.036 | 0.000 | 0.246 | 0.017 | 0.041 | 0.011 | 0.028 |
| Degree | 1.097 | 1.073 | 0.000 | 5.118 | 1.170 | 1.148 | 0.998 | 0.955 |
| Grantee Controls | | | | | | | | |
| Grantee ssets (ln) | 14.446 | 3.597 | 0.000 | 22.591 | 14.354 | 3.777 | 14.571 | 3.339 |
| Age (ln) | 3.144 | 0.817 | 0.405 | 4.393 | 3.089 | 0.866 | 3.218 | 0.739 |
| Metro location (1=yes) | 0.825 | 0.381 | 0.000 | 1.000 | 0.803 | 0.399 | 0.855 | 0.353 |
| Human services | 0.366 | 0.482 | 0.000 | 1.000 | 0.309 | 0.463 | 0.444 | 0.498 |
| Education | 0.189 | 0.392 | 0.000 | 1.000 | 0.205 | 0.404 | 0.167 | 0.374 |
| Arts | 0.098 | 0.298 | 0.000 | 1.000 | 0.112 | 0.316 | 0.080 | 0.272 |
| Environments | 0.038 | 0.192 | 0.000 | 1.000 | 0.053 | 0.225 | 0.018 | 0.134 |
| Health | 0.137 | 0.344 | 0.000 | 1.000 | 0.123 | 0.328 | 0.156 | 0.364 |
| | | n=650 | | | n=375 | | n=275 | |

## Data Analysis

Our data analysis proceeded in two steps. Using conditional process analysis (Hayes, 2013), we will test hypotheses 1-3. Path analysis provides a statistical test for the mediation effect (Baron & Kenny, 1986) of network characteristics. Consistent with Baron and Kenny (1986) procedural steps for assessing mediation, path analysis is based upon a series of OLS regional analyses. We utilize Hayes (2013) SPSS macro to conduct a nonparametric bootstrapping test of the significance of the mediation effect. This tests for how much two cases that differ by a unit on x are estimated to differ by on Y as a result of X's influence on Y through M. We first test for the mediation effect of network characteristics for all grants (H1-2). Then we test for cumulative advantage using a more complex model of conditional mediation—examining whether the mediation effect differs between minority and non-minority organizations (H3). Figure 2 describes the basic statistical model.

Figure 2




**Results**

Table 3 reports the results of the OLS regressions that tested for the indirect and direct effects of being located in a minority dominant location on grant maker allocations. Being located in a minority majority place was negatively related to both the size of the grantee's networks (a=- .225, p<.05) and the quality of their networks (a=-.006, p<.05). However, because grant makers reward organizations with larger networks (b= .364, p<.001), nonprofits in majority minority places are handicapped in the grants marketplace as they have smaller networks. Being located in a minority majority community has no effect on allocations independent of the size of the grantee's network. *This indirect effect (a*b)* of network size is statistically significant, with a bias-corrected bootstrap confidence interval ranging from -.163 to -.026. The quality of the grantee's ties has not significant effect on the size of allocations received. These findings provide partial support for hypothesis 1 and hypothesis 2. Being located in a minority community indirectly dampens the size of effects received through reduced size of one's networks, rather than through the quality (or status of one's networks).

**Table 3: Ordinary Least Square Path Analysis: Minority community, network ties & allocations received**

| | Mediator: Degree | | | Mediator: Eigenvector | | | DV: Grantmaker allocations | | |
|---|---|---|---|---|---|---|---|---|---|
| | coeff | se | p | coeff | se | p | coeff | se | p |
| Degree | | | | | | | 0.365 | 0.075 | 0.000 |
| Eigenvector | | | | | | | -0.038 | 2.167 | 0.986 |
| Minority majority location | -0.225 | 0.079 | 0.004 | -0.006 | 0.003 | 0.021 | 0.074 | 0.125 | 0.553 |
| Age (ln) | 0.103 | 0.050 | 0.040 | 0.003 | 0.002 | 0.061 | 0.250 | 0.080 | 0.002 |
| Assets(ln) | 0.086 | 0.011 | 0.000 | 0.002 | 0.000 | 0.000 | 0.045 | 0.019 | 0.016 |
| Metro location (1=yes) | 0.622 | 0.102 | 0.000 | 0.012 | 0.004 | 0.001 | 0.541 | 0.165 | 0.001 |
| Education | 0.015 | 0.103 | 0.885 | 0.002 | 0.004 | 0.576 | 0.064 | 0.164 | 0.698 |
| Arts | 0.472 | 0.133 | 0.000 | 0.033 | 0.005 | 0.000 | -0.793 | 0.219 | 0.000 |
| Environments | -0.012 | 0.203 | 0.953 | 0.009 | 0.007 | 0.206 | -0.463 | 0.323 | 0.152 |
| Health | 0.133 | 0.116 | 0.253 | 0.006 | 0.004 | 0.162 | 0.042 | 0.184 | 0.819 |
| Constant | -0.956 | 0.208 | 0.000 | -0.032 | 0.007 | 0.000 | 8.554 | 0.336 | 0.000 |
| Adjusted R-squared | 0.1824 | | | 0.1386 | | | 0.155 | | |
| | F(8,641)=17.871 (p<.001) | | | F(8,641)=12.891 (p<.001) | | | F(10,639)=11.705 p<.001) | | |

We then tested for the moderating effect that being located in a minority majority place might have on the relationship between network characteristics and the size of grants received. While we had hypothesized that network status would have a weaker effect on organizations located in minority communities, our results find no moderating effect. The interactions between location and network size and location and network quality are not significant. Because these interactions are not statistically significant, we have not reported them in separate tables. These results suggest that the positive effect of network size is not conditional on minority status—networks have the same effect for organizations located in minority communities as for organizations located in majority communities.

### Testing Across Types of Grants: Donor Designations

Increasingly public foundations allow individual donors to make decisions about where they would like to direct their grant (Barman, 2008). While donors provide individuals greater say in the grant making process, donor designations are fraught with higher information asymmetries and higher transaction costs. We might there expect that the effects of status, which are important in overcoming information asymmetries, differ across racial status (Podolny, 2001). Consistent with the idea that status matters more in exchanges with higher information asymmetries, we find that both the size of the grantees' networks and the quality of such networks directly effects the amount of designations one received. These findings are consistent with the notion that relational status is more important when information asymmetries are highest (Podolny, 2001). Being located in a minority place has no direct effect on donor designations. However, being located in a minority place indirectly dampens donor designations because grantees in such communities have smaller networks and lower quality networks. The

indirect effect (a*b) of network size is statistically significant, with a bias-corrected bootstrap confidence interval ranging from -.391 to -.064. The indirect effect (a*b) of network quality is also statistically significant, with a bias-corrected bootstrap confidence interval ranging from -.314 to -.041. Once again, we find that the interactions between minority community and network status are not statistically significant—suggesting that this effect is the same in both minority and non-minority communities.

**Table 4: Ordinary Least Square Path Analysis: Minority community, network ties & donor designations**

| | DV: Grantmaker designations | | |
|---|---|---|---|
| | coeff | se | p |
| Degree | 0.846 | 0.223 | 0.000 |
| Eigenvector | 24.457 | 6.435 | 0.000 |
| Minority majority location | 0.194 | 0.372 | 0.602 |
| Age (ln) | 0.330 | 0.236 | 0.163 |
| Assets(ln) | 0.267 | 0.056 | 0.000 |
| Metro location (1=yes) | 1.895 | 0.491 | 0.000 |
| Education | 0.060 | 0.486 | 0.902 |
| Arts | -0.232 | 0.651 | 0.722 |
| Environments | 1.155 | 0.958 | 0.228 |
| Health | 1.240 | 0.547 | 0.024 |
| Constant | -3.126 | 0.999 | 0.002 |
| Adjusted R-squared | 0.224 | | |
| | F(10,639)=18.309 | | p<.001) |

## Conclusion

This research contributes to our understanding of differential access to philanthropic grants. As private philanthropy increasingly plays important roles in forming and delivery public services, it is important that we understand the consequences of the interorganizational networks that drive funding relationships. Our findings suggest that organizations in minority communities have smaller and less well-connected boards. Smaller networks, which are important in transmitting information between grantees and grant makers, handicap organizations from minority communities in the allocation process. When individual donors direct their donations, and often are more reliant upon interpersonal relationships to make philanthropic decisions, the

quality of one's network, also handicaps organizations from minority communities. In the absence of reliable performance information and as a short cut to gathering such information when it may be available, interlocking boards serve as a status symbol and may substitute as a cue for performance for individual donors. Being less well connected to other high status organizations leads to smaller donor designations for organizations from minority communities. These findings suggest that self-reinforcing elite networks may have negative effects for community service delivery systems in minority communities.

This study makes an important conceptual contribution to our understanding of the role of networks in philanthropic grant making. By connecting concepts from relational status, labor market economics, and philanthropic grant making, we provide an empirical test of existing models of grant making. In doing so, our study expands of our understanding of the process by which networks provide cumulative advantage in the grant making process. These results have important implications for practice. As community foundations seek ways to increase their capacity to serve diverse communities, our findings emphasize the importance of offering support to minority communities in building strong boards that link to organizations outside of their community.

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