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A Call to Action: Investigate the Impact of Diversity on Philanthropy

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“The idea of [diversity]¹ is a little like eating spinach: no one is against it in principle because it is good for you.”² Yet, a national study of foundation executives³ found that most do not believe their organizations would be more effective if they were representative of the communities they served. Furthermore, 99% of foundations are private institutions awarding grants from their own endowments rather than publicly supported institutions. Should private foundations even be concerned with the demographic composition of their boards? Regional and national associations think so. The Council on Foundations has devoted significant resources to promote diversity and inclusion within the philanthropic sector, including a Career Pathways program to prepare diverse talent to enter philanthropic leadership. In 2007, 50 foundations and leaders in the field created the Diversity in Philanthropy Project, a campaign intended to increase diversity in foundations in both board and staff positions.

Despite increased attention to this topic these conversations are inherently problematic, as they *assume* that diversity makes a difference. Yet the large body of academic research is inconclusive about the relationship between increasing board/workforce diversity⁴ and the impact on outcomes. For every research study finding that board/staff diversity has a positive impact on student outcomes, profit margins and organizational effectiveness, there are others that find there is no impact or a negative one.⁵

The private, public and nonprofit sectors have pondered the same questions that plague philanthropy. How should we collect data? What aspects of work and work products would

¹ For the purpose of this paper I define diversity based on the legal definition of protected classes. This includes race/ethnicity, religion, age, sexual orientation, disability status and gender.

² Quotation from Arnstein 1969 – A Ladder of Citizen Participation. In *Journal of the American Institute of Planners*. Vol. 35. Pages 216-224.

³ See Ramos, Walker and Kasper. 2004. Making the Case for Diversity in Philanthropy. In *Foundation News and Commentary*, Vol. 45, No. 6

⁴ This paper focuses on board and staff diversity as I believe those are the areas most fruitful for future data collection efforts and analysis. There are other areas where we have limited information *across* sectors including the demographics of vendors and contractors, sub-contractors and partners. This is largely due to a lack of databases that collect and aggregate this information across organizations.

⁵ For a review of these studies see McMahon, A.M. 2011. Does Workplace Diversity Matter? A Survey of Empirical Studies on Diversity and Firm Performance, 2000-09 In *Journal of Diversity Management*. Vol. 5. Pages 37-48.

diversity affect? By taking lessons learned from each sector, this paper serves as a call to action to begin thinking in much more nuanced ways about how to uncover the connections between philanthropic diversity and impact. A summary of research results indicate that it is not only possible to conduct large scale data collection and test hypotheses about the impact of diversity on outcomes with quantitative data but more importantly that ‘others are already doing it!’ My hope is that by better understanding existing research we can move beyond our belief that diversity for the sake of diversity is important – as it is so much more than that.

How Do We Collect Demographic Data?

Anyone with an interest in philanthropic diversity always asks this question first – with just cause. One of the most critical steps in building a research agenda around diversity is collecting statistics. Yet private foundations are not required to release any demographic information nor are foundations perceived as important enough to garner media attention from companies like Forbes or Fortune that collect data on the diverse workforces of exemplary organizations.

Although some researchers use this type of externally collected data, it is inadequate for addressing more complex questions. Instead, HR directors are surveyed or existing data – primarily gathered for other purposes – is utilized. For example, a great deal of research on the role of diversity in the public sector workforce has been conducted within the State of Texas school system. This is a rich dataset containing demographics of students, teachers and impact data, with information on student pass rates on standardized tests. Within the nonprofit sector data collection often happens on a much smaller level. Researchers often collect data within particular sub-sectors and localities as there are no formalized processes for collecting staff and board data. The philanthropic sector has also managed to produce a variety of studies on the demographics of foundation boards and staff.⁶ The problem is not that the sector does not know how to collect data, but that all it has is data. The research has not moved past this point and determining the next steps has remained elusive.

Now What?

Though some data on the demographics of grantmakers exists, it is incomplete and non-standard, making it difficult to draw meaningful inferences. Regardless, an equally important step is to think about how diversity may affect an organization’s work and its work products, or what researchers call the dependent variable. Research on the impact of diversity in for-profit

⁶ For a summary of this research see D5 Coalition. 2011. State of the work: Mapping the landscape and D5’s path forward on diversity, equity and inclusion in philanthropy. http://www.d5coalition.org/wp-content/uploads/2011/05/State_of_the_Work_2011_Report.pdf

organizations is fairly easy to do since the primary objective of companies is to increase revenues. In addition to this objective measure of performance, researchers have also looked at the connection between diversity and stock prices or employee turnover. Other researchers have explored diversity's connection to more subjective measures of performance such as market performance, team effectiveness and innovation.

Performance is much more difficult to measure in public and nonprofit organizations. These organizations often pursue more complex and nuanced goals like pursuit of the common good. Although some research has looked at the connection between diversity and objective performance measures like minority students' test scores or donation increases in nonprofits, most research measures the performance of organizations subjectively.⁷ For example, nonprofit researchers have analyzed the relationship between board diversity and organizational accomplishments. Although these measures take into account the complexity of public and nonprofit sector performance they are inherently problematic. This subjective data is collected on varying definitions of outcome or success measures and it is unclear whether or not these results would apply across organizations.

What is it that the philanthropic sector can learn from this step in the research process? One thing is certain. There is no right or wrong way to think about effectiveness. What this brief overview of research teaches us is that measuring the impact of diversity should be both multi-dimensional (incorporating both subjective and objective measures) and multi-modal (incorporating several different measures of each construct). We can also surmise from this review that it is acceptable to measure the relationship between diversity and short-term performance not just the relationship between diversity and long-term performance.

But questions still remain. What impact, if any, would an increase in board/workforce diversity have within philanthropic organizations? Theories of group decision making tell us that increased heterogeneity in a group often leads to better decisions as the variety of perspectives and opinions incorporated in a decision are increased. We also expect to see improvement in an organization's ability to solve problems in ambiguous tasks that require creative problem solving. Do more diverse grantmakers select a different type of grantee or fund different types of projects? In future studies we could alternatively measure whether or not foundations with more diverse boards and staff are considered high performers by peers. Another study could measure board diversity and the board's perception of its productivity and efficiency. These are just a few

⁷ For a review of findings in the public sector see Pitts and Wise 2006 Workforce Diversity in the New Millennium: Prospects for New Research, In *Review of Public Personnel Administration*, Vol. 30, No. 1. For a review of findings in the nonprofit sector see Leroux 2009 The Effects of Descriptive Representation on Nonprofits' Civic Intermediary Roles: A Test of the "Racial Mismatch" Hypothesis in the Social Services Sector, In *Nonprofit and Voluntary Sector Review*, Vol. 38, No.5

potential questions, but one can imagine that over time answering these research inquiries could contribute to a meaningful understanding of diversity's impact in philanthropy.

Can It Really Be That Simple?

NO!

As the old academic adage goes, the short-term and long-term impact of diversity really 'depends' and results are mixed on whether or not diversity benefits an organization's work or work product. Some studies find a positive impact, some negative and others find no relationship at all. For example, Leroux (2007) surveyed 64 social service organizations and found that as the boards of nonprofits became more demographically similar to their clients, organizations would be more likely to provide political education and mobilize their clients to undertake political action. On the other hand a positive relationship between diversity is not always found. In a study of the San Diego Police Department, Wilkins and Williams⁸ found that as the number of black police officers increased so did the racial disparity in vehicle stops. The authors explain that the organizational socialization of police officers (which includes their selection process and academy training) in addition to their need to fit into existing police culture all play a role in the negative relationship between demographic diversity and effectiveness.

In addition, rarely is diversity mentioned without the additional word of inclusion alongside it. Unfortunately, inclusion has been used to mean a variety of things and the definitions of inclusion are so vague that this terminology has not been helpful to practitioners. Here research provides clarity into just what inclusion means, offering a range of factors that might affect whether or not the potential benefits from diversity are realized. Inclusion may impact the relationship between diversity and an organization's performance – the way that groups and teams are organized and work together. One can imagine that if workforce diversity was increased, but the organization's culture was perceived by employees as constraining creative or out of the box solutions, the benefits of workforce diversity would not be realized.

Since philanthropy has not yet taken the step to think through both what inclusion means and all of the organizational characteristics that might be influencing why organizations do or do not see the effects of diversity in their performance, it is important that we recognize two things.

First, if we only look at the demographics of organizations and expect to see increased effectiveness or performance, we are missing the perspective that organizational and group dynamics play a significant role in this relationship. Second, we should not abandon the effort because we cannot deal with all of this complexity across sectors in one study. This cannot be the aim of philanthropic research. Instead, we should allow ourselves to support incremental learning

⁸ See Wilkins and Williams. 2008. Black or Blue: Racial Profiling and Representative Bureaucracy. In *Public Administration Review*. Vol. 68. Pages 654-664.

where research explores how one or two factors impact the relationship between diversity and performance, rather than not proceeding with this research at all because of its complexity.

Collaboration Is the Answer

After summarizing our current state of knowledge I hope this paper serves as a call to practitioners and scholars to begin working together. In order for our knowledge to grow, practitioners must be open to data collection by academics and academics must be open to measuring and understanding impact by incorporating ideas from practitioners. This type of collaboration will help us all move beyond the assumption that diversity is good without an understanding of why.

This paper acknowledges that other sectors have struggled with the same questions, yet have simultaneously created a body of knowledge on this topic by conducting study after study, developing knowledge incrementally. Philanthropic managers are constantly being asked to implement diversity management policies, even though they do not have an understanding of why diversity matters. So, what are philanthropic managers and leaders to do? I assert that since research across other sectors tells us there is a *possibility* that diversity may impact a grantmaker's effectiveness, creativity and innovation studying this relationship while simultaneously working to increase diversity are worth the investment and commitment – just as other investments in incremental learning have ultimately proved fruitful.