Beyond beneficiaries of corporate philanthropy: The practice of corporate social responsibility in nonprofit firms

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Beyond Beneficiaries of Corporate Philanthropy: The Practice of Corporate Social Responsibility in Nonprofit Firms

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A dissertation submitted to the Graduate Faculty of JAMES MADISON UNIVERSITY
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Dedication

I dedicate this dissertation to my unborn baby boy, who helped me finish by keeping me awake with regular kicks to the stomach.
Acknowledgements

I would like to acknowledge and thank Dr. Karen Ford, my committee chair, and Dr. Margaret Sloan, a committee member, for all I’ve learned from them about nonprofit leadership. I would also like to thank my other committee members, Dr. Marshall Pattie and Dr. James Leaman, who have been invaluable mentors.

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Abstract

While the nonprofit sector yields to isomorphic pressures to become more like their for-profit counterparts, they can adopt practices from the sector to move beyond beneficiaries to practitioners of the Corporate Social Responsibility (CSR) framework, the practice of which leads increased financial performance in the for-profit sector. This study tests two main hypotheses to answer the research question, “Is the practice of CSR effective for nonprofit organizations?” The results of multiple regression analyses suggest that the people bottom line management of CSR as measured by inclusion in The NonProfit Times “Best Nonprofits to Work For” list positively predicts a more efficient management and general expenses ratio than a matched comparison group (although causation was not able to be established to a significant level), and that leader turnover is negatively related to list recognition and tenure on the list. The findings also suggest that the adoption of the social entrepreneurship strategies, evidence-based practices and build physical capital, lead to better fundraising efficiency and net assets/total revenue, respectively. However, the results are mixed. Inclusion on the “Best Nonprofits to Work For” list is also negatively related to fundraising efficiency and net assets/total revenue. Recommendations for future research and practice in light of these results are discussed.
Chapter 1: Introduction to the Study

The practice of Corporate Social Responsibility (CSR), or managing to the triple bottom line of people, planet, and profit (Khoury, Rostami, & Turnbull, 1999), does not need to be limited to the for-profit sector. The benefits of CSR can apply to the nonprofit sector beyond serving as beneficiaries of corporate philanthropy. Due to decreasing funds from government and the 2008 financial crisis, the nonprofit sector is in need of strategic approaches that benefit their financial performance. Calls from stakeholders for increased accountability (Bowman, 2012) and the demands of a professionalized workforce have put pressure on nonprofit leaders to do more with less. The Resource-Based View (RBV) of the firm from the business and human resources literature predicts a firm’s human resource practices can be a source of sustained competitive advantage (Barney, 1991). This complements the stakeholder approach to strategic management, which undergirds CSR and asserts that the responsibility of business is to maximize value for all stakeholders, not only shareholders (Freeman, 1984).

Applied to the nonprofit sector, managing to the people bottom line, a key tenet of CSR, and heightened accountability to constituents served by a nonprofit firm can lead to a financial health advantage and maximize the firm’s mission. However, while studies have tested these theories in the for-profit sector, they have rarely been applied in the nonprofit sector to understand the link between people bottom line management, social entrepreneurship strategy, and the financial performance of nonprofit firms. There is ample evidence that management to the people bottom line leads to increased firm value and market performance in the for-profit sector on a sample of firms recognized as the “100 Best Companies to Work for® in America” list published annually by FORTUNE.
Magazine. In addition, increased accountability to stakeholders has been tested in nonprofit firms by way of the firm’s entrepreneurial orientation. However, strategic approaches, such as the adoption of a social entrepreneurship strategy grounded in the work of practitioners, and the connection to the nonprofit firm’s performance, have not been examined. Nor has the connection between leader turnover and great workplace recognition, which this study tests.

It is important to understand which internal practices and strategies most benefit a nonprofit firm’s financial performance to assist leaders in making strategic decisions that guide their firms to sustained financial performance as without money, no nonprofit can realize its mission (Bryce, 2000).

**Background of the Study**

Contemporary CSR gained traction in the 1980s as a reaction to the shareholder approach to business, which asserted that the social responsibility of business is to maximize profits (Friedman, 1962). In the 1980s, Freeman developed the stakeholder approach to business that argues businesses must be accountable not only to shareholders but must also balance profit maximization with the wellbeing of all stakeholders affected by the business (Freeman, 1984). In the 1990s, the popular business press began publishing articles celebrating and examining corporations that practice CSR. Most notably, *FORTUNE* Magazine began publishing the list of the “100 Best Companies to Work for® in America” in 1998, listing those companies with outstanding workplace cultures to be recognized for their people bottom line management. After the list was publicized, several academic articles in the business, HR, and accounting literatures sought to determine whether the listed companies perform better financially. Framed by
the Resource-Based View of the Firm (RBV) of the firm, the studies found that there is a positive link between recognition as a great workplace and financial performance. The studies did not include firms that were not publicly traded, which left out nonprofit firms. Later in 2010, *The NonProfit Times* began publishing a similar list of “The 50 Best Nonprofits to Work For,” and the academic literature has not conducted studies examining the link between recognition on this list and financial performance in the nonprofit sector. This is a missed opportunity and a gap that needs to be filled as nonprofits represent a large sector of the economy and strategies to improve their performance benefit all of society, not just shareholders of publicly traded companies.

The role of the leader in great workplace recognition should not be ignored, as leader turnover is increasing (Green & Hymowitz, 2013). The theory of relative standing (Frank, 1985) and leader-member exchange theory (Dansereau Jr., Graen, & Haga, 1975; Graen & Uhl-Bien, 1995) help to explain the relationship between leaders and their staff and the effects of leader turnover. As leaders are responsible for the internal dynamics and strategic direction of the organization, examining this variable can lend greater understanding to the creation and maintenance of a great workplace.

In addition to the people bottom line management dimension, CSR is also concerned with its responsibility to external stakeholders (Khoury, Rostami, & Turnbull, 1999). In the case of nonprofit firms, these stakeholders include beneficiaries and donors rather than customers in the for-profit sector (Oster, 1995). Over time, some nonprofits have yielded to the isomorphic pressures to become more for-profit-like in their business models (Dees, 1998). As CSR has evolved, the lines between the sectors have blurred as for-profits add social responsibility programs while nonprofits become more
commercialized (Bosscher, 2009; Young & Salamon, 2002). In the 1980s, Bill Drayton, coined the term “social entrepreneurship” and founded Ashoka, the world’s largest support organization for social entrepreneurs who adopt various business models to drive sustainable change (Shapiro, 2013). From there, cross-disciplinary debate ensued regarding the conceptualization and analysis of the concept.

Social entrepreneurship has been studied at the conceptual, individual motivation, organizational, and strategic levels across sectors and fields, mainly in the business, nonprofit management, and entrepreneurship literatures. Dees’ (1998) definition is currently the most widely-accepted, a key component of which is “a heightened sense of accountability to the constituencies served and for the outcomes created” (p. 4). The study of social entrepreneurship in nonprofit firms has centered around the entrepreneurial orientation of the organization and how that relates to the nonprofit’s performance. However, advances in the field have led to the practice-grounded identification of six social entrepreneurship strategies (Chandra, Jiang, & Wang, 2016) that have yet to be empirically tested to determine their prediction of nonprofit financial performance. The current study tests this link, which will add to the theoretical development of this nascent field as well as assist leaders in making decisions regarding the strategies to adopt that lead to financial performance while increasing accountability. It will also test the extent to which CSR can be applied to the nonprofit sector beyond its role as beneficiaries in the framework.

**Statement of the Problem**

While there is indication that nonprofits are recovering from the 2008 financial crisis and longer-term trend of decreased governmental funding, a 2015 report by The
Nonprofit Finance Fund found that 53% of the surveyed nonprofits have 3 months or less of cash-on-hand, and cited their top challenges as achieving long-term sustainability (32%), the ability to offer competitive pay and/or retain staff (25%), and raising funding that covers full costs (19%) (The Nonprofit Finance Fund, 2015). In addition, 76% report an increased demand in services while 52% could not meet the demand (The Nonprofit Finance Fund, 2015). Nonprofits need practices and strategies that lead to sustainability and the ability to scale to meet the ever-growing demands of their client group. At the same time, nonprofits are being held to greater responsibility standards. In an article regarding recent accountability and ethics scandals in the nonprofit sector published by the Nonprofit Quarterly in 2012, Woods Bowman argued that responsible nonprofit organizations are true to their missions, act as if outcomes matter, and are candid. According to Dees (1998), social entrepreneurs exhibit a heightened sense of accountability to the constituencies served and for the outcomes created (p. 4). Connections have not been drawn between the call for greater responsibility and accountability in the nonprofit sector and the potential benefits of the practice of social entrepreneurship with its increased responsibility, which this study seeks to do.

The resource-based view (RBV) of the firm (Barney, 1991) and stakeholder approach to management (Freeman, 1984) have been tested in a variety of settings. The three most applicable to the current study are examinations that have found a positive relationship between recognition as a great workplace and firm value and performance in publicly traded for-profit organizations, leaving out nonprofit firms (Ballou, Godwin, & Shortridge, 2003; Filbeck & Preece, 2003; Fulmer, Gerhart, & Scott, 2003). The field of social entrepreneurship has called for more empirical studies to examine the practice of
social entrepreneurship to better inform theory and practice (Short, Moss, & Lumpkin, 2009). Although social entrepreneurship has been examined academically for over twenty-five years, most of the studies have focused on theoretical and conceptual issues (Short, Moss, & Lumpkin, 2009) or at the individual level of analysis and the attributes of social entrepreneurs including personality traits (Nga & Shamuganathan, 2010), motivation (Miller, Grimes, McMullen, & Vogus, 2012), vision (Ruvio, Rosenblatt, & Hertz-Lazarowitz, 2010), and compassion (Grimes, McMullen, Vogus, & Miller, 2013). However, due to the small number of studies examining the link between social entrepreneurship and financial performance, scholars have called for more (Austin, Stevenson, & Wei-Skillern, 2006; Short, Moss, & Lumpkin, 2009). The current study seeks to contribute to the field of strategic nonprofit management by further testing RBV and stakeholder theory through the Corporate Social Responsibility (CSR) framework lens and within a new sector, nonprofit.

**Purpose of the Study**

The purpose of this study is to examine the relationship between the practice of CSR and a nonprofit firm’s financial performance, controlling for the firm’s age and size. The practice of CSR is conceptualized as 1) people bottom line management and 2) the practice of social entrepreneurship. People bottom line management is measured by a nonprofit’s recognition as one of *The NonProfit Times*’ “Best Nonprofits to Work For” as a measure of the firm’s practice of responsibility to its people. The practice of social entrepreneurship is measured by a nonprofit’s adoption of a social entrepreneurship strategy as evidenced in its mission statement, analyzed with *a priori* codes developed by
Chandra, Jiang, and Wang (2016). The CSR practices is compared to seven financial performance measures of

1) management and general expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011)

2) program service expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011)

3) fundraising expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011)

4) fundraising expense/contributions and grants (Greenlee, Randolph, & Richtermeyer, 2011)

5) net assets/total revenue (Tuckman & Chang, 1991)

6) management and general expense/total revenue (Tuckman & Chang, 1991)

7) total liabilities/total assets (Ohlson, 1990).

The role of leader turnover in great workplace recognition will also be tested.

**Research Question and Hypotheses**

The study is guided by the following research question: “Is the practice of CSR effective for nonprofit organizations?”

**Hypothesis 1**

Hypothesis 1.a.: Nonprofit firms with a focus on people bottom line management as measured by inclusion on The NonProfit Times “Best Nonprofits to Work For” list will financially out-perform matched nonprofits not recognized on the list.

Hypothesis 1.b.: Nonprofit firms with a longer tenure on the list will financially outperform matched to a greater degree than those with a shorter tenure.
Hypothesis 1.c.: Those nonprofit firms that are ranked in the top third of the list will financially outperform those recognized nonprofits ranked on the bottom third of the list.

Hypothesis 1.d. Leader turnover is negatively related to people bottom line management as measured by inclusion on The NonProfit Times “Best Nonprofits to Work For” list.

**Hypothesis 2**

Hypothesis 2. The practice of social entrepreneurship as measured by the adoption of one or more social entrepreneurship strategies is positively related to nonprofit financial performance.
Figure 1: Hypothesized Relationship Between the Variables

1.a. Recognition on List 0/1 (0 not on list; 1 on list 2010-2016); $N = 306$

1.b. # of years on list 0-7 (not on list to on list 2010-2016); $N = 306$

1.c. List rank (Dummy coded 1 on top 3rd of 2014 list; 0 on bottom 3rd of 2014 list); $N = 33$

2. Social Entrepreneurship Strategy
Adoption of one or more of 6 social entrepreneurship strategies (0/1 dummy code x 6); $N = 306$

Control Variables
Age (Year Founded on IRS Form-990 to 2014)

Asset Size (natural log of Total Assets in 2014)

Financial Performance
1. $-MX = $management and general expense/total expense for each org. averaged 2012-2014

2. $PX = $program service expense/total expense for each org. averaged 2012-2014

3. $-FX = $fundraising expense/total expense for each org. averaged 2012-2014

4. $FE = $fundraising expense/contributions and grants for each org. averaged 2012-2014

5. $NA/TR = $net assets/total revenue for each org. averaged 2012-2014

6. $AE/TR = $management and general expense/total revenue for each org. averaged 2012-2014

7. $-TL/TA = total liabilities/total assets for each org. averaged 2012-2014
Theoretical Foundation

The strategic management literature provides the foundation for exploring these links between human resource practices, social entrepreneurship strategy, and financial performance, especially as the firms’ performance is compared. The RBV of the firm (Barney, 1991; Conner & Pahalad, 1996; Peteraf, 1993; Wernerfelt, 1984) posits that organizations with rare, inimitable resources will achieve a sustained competitive advantage. Management to the people bottom line, as would be the case with the nonprofit organizations recognized as great nonprofits to work for by The NonProfit Times, have achieved resources that are rare and difficult to imitate by other nonprofits. In addition, the RBV suggests that superior human resource systems are assets at the firm level (as opposed to the attitudes-performance literature that does not include the firm level within its framework). With this strategic asset, the nonprofit firm has a workforce that is more productive, which can contribute to a nonprofit’s financial performance at the firm level. Dierickx and Cool (1989) argue that strategic assets are a result of consistent implementation of policies over time, which suggests that the asset, such as their system of human resources, will be stable over time and that nonprofits firms recognized on the list will maintain a beneficial strategic position, ensuring better financial performance than other firms without the asset.

Strategic leadership has been applied to the nonprofit sector within the framework of stakeholder theory (Freeman, 1984). Stakeholder theory runs counter to shareholder theory, which suggests that maximizing profits is the social responsibility of business, with their primary stakeholder as shareholders (Friedman, 1962). Rather, stakeholder theory suggests that organizations must strategically manage and are accountable to
various stakeholders, such as employees, donors, and beneficiaries. In the nonprofit sector, an organization’s strategic competitive advantage takes into account two groups of customers: users and donors (Oster, 1995). Effective strategic leadership in the nonprofit sector will depend on the leader’s values, behaviors, and ability to successfully relate between the organization’s external environment and the internal operations of the organization. The adoption of a social entrepreneurship strategy, in this case, is a strategic choice by leaders in the organization to balance relationships with various stakeholders. This heightened responsibility could tie to the financial performance of the nonprofit firm over which the leader presides.

**Nature of the Study**

The methodology of the study begins with a content analysis of the nonprofits recognized on the annual “Best Nonprofits to Work For” lists published by *The NonProfit Times* from years 2010-2016 (N = 170) to capture nonprofit firms that have been recognized as a great workplace as a measure of their people bottom line management and practice of corporate social responsibility. A matched comparison group was developed by matching each recognized “Best Nonprofit to Work For” on their Nonprofit Taxonomy of Exempt Entities (NTEE) code(s), nonprofit 501(c) status, and closest total assets using the premium search feature of the Guidestar.org database (N = 170) for a total approximate N of 340. Those nonprofits recognized as a best workplace will receive a dummy code of 1, while matched comparison firms will receive a dummy code of 0.

Social entrepreneurship is measured by the nonprofit firms’ adoption of a social entrepreneurship strategy, which will also be determined by a content analysis. The mission statements of both the listed and matched firms was analyzed and coded with an
a priori code based on the terms of the strategies identified by Chandra, Jiang, and Wang (2016) of Ashoka social entrepreneur practitioners, including 1) individual empowerment, 2) collective action, 3) reform the system, 4) build physical capital, 5) evidence-based practices, and 6) prototyping.

Regression analyses will determine if a nonprofit’s financial performance, measured by seven financial performance measures of
1) management and general expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011)
2) program service expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011)
3) fundraising expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011)
4) fundraising expense/contributions and grants (Greenlee, Randolph, & Richtermeyer, 2011)
5) net assets/total revenue (Tuckman & Chang, 1991)
6) management and general expense/total revenue (Tuckman & Chang, 1991) and
7) total liabilities/total assets (Ohlson, 1990), can be predicted from the firm’s CSR practices.

Definitions

Corporate Social Responsibility: “Corporate social responsibility is the overall relationship of the corporation with all of its stakeholders. These include customers, employees, communities, owners/investors, government, suppliers and competitors. Elements of social responsibility include investment in community outreach, employee relations, creation and maintenance of employment, environmental stewardship and financial performance” (Khoury, Rostami, & Turnbull, 1999).
Nonprofit: Nonprofit organizations share five basic characteristics: formal, private, nonprofit distributing, self-governing, and voluntary (Salamon & Anheier, 1992).

Organization: “a group of people operating within a shared system of policies, culture, and rules toward a common mission that results in the output of specific goods or services” (Helm & Andersson, 2010, p. 264).

Social Entrepreneurship: Dees (1998) defines social entrepreneurship through the behavior of social entrepreneurs:

- Adopting a mission to create and sustain social value (not just private value)
- Recognizing and relentlessly pursuing new opportunities to serve that mission
- Engaging in a process of continuous innovation, adaptation, and learning
- Acting boldly without being limited by resources currently in hand, and
- Exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created.

Assumptions

In testing the hypothesis that attention to the “people bottom line” requires the ability to observe workplace practices and employees’ perceptions of them. This study assumes that nonprofit firms include on The NonProfit Times’ “Best Nonprofits to Work For” list are more accountable to internal stakeholders (employees) and therefore pay more attention to the “people bottom line” than those not recognized on the list.

Scope and Delimitations

The purpose of this study is to examine firm-level practices and variables such as human resources, social entrepreneurship strategy, and financial performance of nonprofit organizations, and especially those recognized by The NonProfit Times “Best Nonprofits to Work For” list and compared to a matched group sourced from the website, Guidestar.org, and the NCCS database. Only nonprofits with revenues of $50,000 or
more that are required to file an IRS Form-990. Therefore, there may not be publicly available data available on smaller firms that are on the list or could be matched, which may limit the sample.

The reviewed literature is limited to for-profit and nonprofit charitable organizations and will not include those termed social enterprises, which are often discussed in the social entrepreneurship literature and can have either nonprofit, for-profit, or hybrid legal forms. It will also examine social entrepreneurship empirically at the firm level, as a strategy, and not the individual level.

Finally, while the CSR framework includes the triple bottom line of “people, planet, and profit,” the study is limited to the people bottom line due to the fact that no for-profit organizations is examined and that heightened attention to the natural environment (the planet dimension) will not be included in this particular study.

Limitations

The assumption that inclusion on The NonProfit Times “Best Nonprofits to Work For” list is a fully reliable measure of management to the people bottom line is an important limitation of the study. This limitation has been noted by similar studies that examined similar variables using for-profit companies recognized by the FORTUNE Magazine “The 100 Best Companies to Work for® in America” list (Ballou, Godwin, & Shortridge, 2003; Fulmer, Gerhart, & Scott, 2003; Filbeck & Preece, 2003). It should also be noted that some nonprofit firms with higher people bottom line management may not have chosen to participate in The NonProfit Times “Best Nonprofits to Work For” list process as it is optional and organizations self-select into the recognition process. Furthermore, while the process is free, the costs of time, associated fees, and other
transaction costs could have been prohibitive for some nonprofits to participate. While there is precedent for the current study to measure people bottom line management by an organization’s inclusion on a similar list such as the three published studies using the *FORTUNE* list data (Ballou, Godwin, & Shortridge, 2003), the measurement error and self-selection bias present in the study’s design should be noted as a limitation of the study.

In addition, financial performance data was extracted from the IRS Form-990 of the sampled organizations, which is self-reported data that may introduce some error into the study (Greenlee & Tuckman, 2007).

**Significance of the Study**

**Significance to Theory**

The present investigation is significant and worthwhile for several reasons. First, the current study seeks to empirically test relationships among variables that have largely been theorized, where little empirical evidence exists. Additionally, the relationship between social entrepreneurship strategy and financial performance is scant (Chandra, Jiang, & Wang, 2016). The study seeks to draw connections from the business, HR, strategic management and corporate social responsibility literatures to the nonprofit sector to better understand the role certain internal assets and strategic approaches have led to a sustained financial performance advantage for nonprofit organizations.

**Significance to Practice**

Sustained financial performance advantage is of increasing interest to nonprofit leaders since the 2008 recession. Empirical evidence that management to the people bottom line and the adoption of a social entrepreneurship strategy contribute to the
competitive financial performance of a nonprofit can assist nonprofit leaders in making strategic decisions regarding investments in their human resource practices and the adoption of certain strategies that lead to the financial sustainability of their organization in a time of decreasing access to certain types of governmental and grant funding. Nonprofit leaders are held to increasing internal and external accountability pressures, feeling the pull and push from multiple stakeholders; donors have been broadening reporting requirements for grantees to demonstrate a “return on investment” (Ebrahim, 2005); nonprofit staff desire greater workplace benefits and engagement as the sector professionalizes; and as nonprofit and for-profit sectors begin to blur, leaders from both sectors must adapt their strategies to better achieve their missions and create value especially for beneficiaries as they may also turn into customers (Bowman, 2012). Leader turnover is higher than ever and boards need more information on its negative effects and need for succession planning. For these reasons, the study is timely and aims to provide evidence to inform the strategic decisions leaders must make in the current operating environment.

**Summary**

As nonprofits struggle to realize better financial performance and meet the increasing demands for their services, there is an opportunity for research to fill in the gaps of knowledge regarding the practices and strategies that can assist the firms to realize their goals. The present study seeks to apply frameworks and discoveries from the for-profit sector to the nonprofit sector from the field of CSR to move nonprofits out of the passive, beneficiary role, to the strategic leadership agents they must become. Indeed, the sectors are blurring, and while nonprofits take on more board members, volunteers,
and business models from the for-profit sector, they should avoid the individualism and short-term timeframe that may come with it. CSR as a practice may be a useful framework for nonprofits to apply the best from the for-profit sector to their own. The theoretical foundation and key literature regarding the practice of CSR as people bottom line management and social entrepreneurship across sectors and disciplines is reviewed to introduce the variables under consideration and hypotheses to be tested.
Chapter 2: Literature Review

Literature regarding foundational theoretical concepts and the variables of interest to the present study is reviewed. The study of human resource practices and nonprofit strategy, as they relate to the financial performance of nonprofit firms, is a cross-disciplinary one. The present study seeks to fill gaps in various streams of literature, including Corporate Social Responsibility, nonprofit management, strategic management, leadership, human resources, and accounting. Thus, key theories in these fields such as stakeholder theory, the Resource-Based View (RBV) of the firm, strategic management, leader-member exchange theory, and the theory of relative standing lay the foundation and set the frame for the hypothesis tests, while the reviewed literature covers key studies regarding the independent and dependent variables to demonstrate precedent and gaps to be filled by the study.

Theoretical Foundation

Corporate Social Responsibility, Stakeholder Theory, and Nonprofit Management

Corporate Social Responsibility (CSR), the relationship of the organization with all of its stakeholders (Khoury, Rostami, & Turnbull, 1999), has been a focus of business ethics practice and research as corporate leaders seek to hold themselves accountable in a new business environment that values sustainability. Marrewijk (2003) traces the historical perspective of CSR in the academic business literature, demonstrating a move from the shareholder approach whereby Friedman (1962) determines the social responsibility of business is to increase its profits to the stakeholder approach in which Freeman (1984) argues that organizations are not only accountable to shareholders but
must balance accountability to various stakeholders that can affect or are affected by the business (Committee for Economic Development, 1971).

Stakeholder theory (Freeman, Harrison, Wicks, Parmar, & De Colle, 2010) is applicable in the context of CSR in that it is a process of managing multiple stakeholders for the ethical creation of value in an uncertain context. Stakeholder theory suggests that if we adopt as a unit of analysis the relationships between a business and the groups and individuals who can affect or are affected by it, then we have a better chance to deal effectively with how managers think about management to better create value and explicitly connect business and ethics (Freeman, et al., 2010, p. xv). Nonprofit leaders must manage the relationships among stakeholders such as employees, the community, suppliers, investors, and government agencies in the ethical creation of social value and encounter many challenges in this undertaking.

The present study seeks to apply the CSR framework to the practice of strategic nonprofit management as there have been calls for nonprofit organizations to increase their responsibility to both their internal and external stakeholders in reference to the stakeholder approach (Ebrahim, 2010; Ebrahim, 2005). Often, CSR is referred to as management toward the “Triple Bottom Line” or “People, Planet, Profit,” whereby companies not only maximize the financial well-being of shareholders (profit) but do so by or in addition to maximizing the well-being of multiple internal and external stakeholders such as employees, customers, and even the natural environment (Elkington, 1997). Nonprofit organizations have often been involved in CSR as beneficiaries of donations by businesses practicing CSR. The practice of CSR through the
people bottom line management and increased responsibility to stakeholders through social entrepreneurship could prove as beneficial for them as their for-profit counterparts.

Dees’ (1998) definition of social entrepreneurship states that social entrepreneurs exhibit “a heightened accountability to the constituencies served and for the outcomes created” (p. 4). Indeed, social entrepreneurial leaders have been defined as “persons who create and manage innovative entrepreneurial organizations or whose primary mission is the social change and development of their client group” (Prabhu, 1999, p. 141). A focus on “heightened accountability” for “constituencies”, “outcomes”, and a “client group” underlines the CSR-focus of increased responsibility to stakeholders by social entrepreneurs and is tested in this study as the adoption of a social entrepreneurship strategy by the organization.

The Resource-Based View of the Firm

While the CSR framework and stakeholder theory view attention to staff and external stakeholders as the social responsibility of business, the Resource-Based View of the firm (RBV) argues that firms can carry out strategies that are not easily duplicated by other firms when they have a group of resources that are valuable, rare, inimitable, and non-substitutable (Barney, 1991; Conner & Pahalad, 1996; Peteraf, 1993; Wernerfelt, 1984). The theory has since evolved to a more complex view by strategist who examine RBV as a competitive advantage for organizations that is a result of alignment between employees’ skills and motives, and organizational systems, structures, and processes to allow for organizational-level achievements, which in turn result in organizational performance (Hamel & Prahalad, 1994; Teece, Pisano, & Shuen, 1997).
Wright, Dunford, and Snell (2001) assert that the empirical literature examining the RBV of the firm in a strategic human resource context often fails to take into account this systemic level of investigation of the RBV that in fact makes human resources inimitable. The people management organizational systems, structures, and processes might lead to creating positive workplace cultures or socially complex teamwork systems practiced by some organizations such as Southwest Airlines, which has been recognized multiple times by the FORTUNE Magazine “100 Best Companies to Work for® in America” list process (Southwest Media, 1998; Wright, Dunford, & Snell, 2001). Empirical studies must often use proxy variables such as certain HR practices for these often unobservable system dynamics (Hoskisson, Hitt, Wan, & Yiu, 1999). Great workplace recognition list processes such as the FORTUNE Magazine list and the The NonProfit Times list may better capture such complex dynamics as they measure multiple aspects of one organization, such as employee engagement, satisfaction, and also take into account employee benefits, engagement, and satisfaction from the viewpoint of both the employer and employees (The Best Companies Group, 2017).

Similar to Filbeck and Preece (2003), Fulmer, Gerhart, and Scott (2003), and Ballou, Godwin, and Shortridge (2003), this study relies on RBV to hypothesize that financial performance can be predicted from people bottom line management as indicated by inclusion on a best workplaces list such as that published by The NonProfit Times for the nonprofit sector.

**Strategic Management**

The Six Forces model in Figure 2 by Oster (1995) is derived from Porter’s Five Forces Model from the private sector and is used to analyze the structure of a nonprofit
industry and the factors that influence strategic choices of nonprofit organizational leaders. In Oster’s model, the User Group and the Funding Group are key factors in the analysis. These two groups, in addition to threat of new entrants, new substitutes, and supplier industry, determine the success and failure of nonprofit organizations in their market. In the for-profit sector, organizations must define in which market they operate. According to Oster (1995), strategy defines the scope of the organization, or what market the organization is in and its activities within that market. Nonprofit organizations determine the markets they serve or to which their mission is focused. Oster’s model includes the demand side of nonprofit organizations, and defines customers as users and donors, who account for the revenue source of the organization due to fees for service and donations.

**Figure 2: Six Forces Chart for Nonprofit Industry Analysis (Oster, 1995)**

Oster argues that “the more concentrated are the clients or customers of a nonprofit, the more control they will wield” (p. 38) and that “the power of the donor
typically increases with his or her share of revenues” (p. 40). Strategic management and leadership of nonprofit organizations takes into account these industry forces for competing successfully in the marketplace. Nonprofits that are “donative,” Oster argues, will depend mainly on the Donor Group, like World Vision and Susan G. Komen for the Cure. Those that are commercial, like most hospitals, the User Group will be their principal focus. These two customer groups – donors and users – are key for nonprofit top-level leaders to understand due to their effect on organizational performance as they control the revenues sources of the organization, and thus the financial performance.

Strategic leadership theory, or how top-level leaders with overall responsibility for an organization, has been applied to the nonprofit sector (Phipps & Burbach, 2010). The literature suggests links between strategic leadership and organizational performance via earning capacity, capacity for change, managerial wisdom, organizational context, organizational innovation, and mission trajectory (Phipps & Burbach, 2010). In the nonprofit sector, an organization’s strategic competitive advantage takes into account two groups of customers: users and donors. Effective strategic leadership in the nonprofit sector will depend on the leader’s values, behaviors, and ability to successfully relate between its external environment and the internal operations of the organization. The adoption of a social entrepreneurship strategy is a strategic choice made by nonprofit organizational leaders that can lead to greater financial performance, which is tested in the present study.
Literature Review and Hypotheses

Nonprofit Organizational Performance

Bryce (2000) argues that, “without money, no mission can be met or advance in a market economy no matter how charitable or benevolent the mission may be” (p. 3). Nonprofit leaders, donors, their constituents, and the public, are all interested in achieving higher organizational performance. As mentioned above, the trending decrease in governmental support and the 2008 financial crisis, and increased accountability pressures from internal and external stakeholders have led nonprofit organizations to find ways to improve their financial performance. The present study will utilize financial performance measures as the outcome variable as their standardization allows for comparison of performance among all types of nonprofit organizations, they have been adopted by nonprofit watchdog groups (Charity Navigator, 2016), and leaders are accountable for securing and effectively utilizing financial resources to carry out a nonprofit’s mission.

While nonprofit leaders are interested in improving the financial performance of their organizations, they unfortunately have not been making strategic decisions (Greenlee & Tuckman, 2007). Rather than making strategic decisions based on the overall fiscal health and resources to support the programmatic direction of the organization, boards often spend most of their time comparing the differences between YTD budgeted versus actual expenditures (Greenlee & Tuckman, 2007). Granted, larger organizations with a large percentage of commercial revenues, such as private educational and health care institutions, are more likely to review strategic direction and monitor fiscal health than smaller nonprofits who derive many of their revenues from less
stable revenue streams such as social service and advocacy nonprofits (Greenlee & Tuckman, 2007). Greenlee and Tuckman (2007) argue that an overall cultural change is needed for smaller nonprofit organization boards to focus on fiscal health measures.

The market risk nonprofits have recently faced is one of several risks that can predict the financial health of the organization (Greenlee & Tuckman, 2007). Indeed, the examination of financial performance in the nonprofit sector can be termed “financial health” as opposed to “financial performance” (Greenlee & Tuckman, 2007, p. 315). Greenlee and Tuckman (2007) argue that nonprofit boards should follow an institutionalized process of identifying and reviewing key ratios and prediction models to review the trends and overall budget strategies. Ratio and prediction models have recently made their way into the nonprofit sector, such that there are two ways of measuring the financial health of nonprofits: measures of risk and use of financial resources to execute the nonprofit’s mission (Greenlee & Bukovsky, 1998; Greenlee & Tuckman, 2007; Greenlee, Randolph, & Richtermeyer, 2011).

While Greenlee and Bukovsky (1998) were the first to adapt ratios from the business sector to the nonprofit sector, Tuckman and Chang (1991) were the first to apply them in a research study. Later, Greenlee and Trussel (2000), Hager (2001), Trussel (2003), and Trussel and Greenlee (2004) developed predictor models based on Tuckman and Chang’s (1991) ratios using IRS data. With each study, the definition of risk and associated measures evolved, from lack of ability to weather a financial shock with low net assets and low diversification of revenues (Tuckman & Chang, 1991) to declining program expenses (Greenlee & Trussel, 2000), and later declining net assets over three
years (Trussel, 2003; Trussel & Greenlee, 2004), and Hager’s (2001) definition of risk as the death of the organization.

Later, Keating, Fischer, and Greenlee (2005) adapted ratios by Altman (1968), Ohlson (1980) and Tuckman and Chang (1991) to develop two other ratios to predict risk, commercial revenues over total revenues and investment portfolio over total assets. All of the ratios have been found to statistically significantly predict risk by nonprofit subsector or the whole nonprofit sector, and nonprofit boards may reference the trends in the ratios as indicators of risk (Greenlee & Tuckman, 2007).

Greenlee and Tuckman (2007) argue that nonprofit leaders can improve the financial health of the organization by examining the risk from three levels: market, sector, and firm. First, at the market level, benchmarks can be used to compare the organizational trends to its nonprofit sector or geographic market on revenues, liabilities, and net worth changes using data from the IRS Form-990. Second, at the sector level, organizations can be compared within the NTEE categories, either by sector, subsector, or organization type. Each sector has ten major groups, which can then be broken down into 26 subsectors within those groups, and then a specific type of organization such as a children’s museum (National Center for Charitable Statistics, 2013). Organizations at the sector risk level are compared on average financial ratios, with better comparison available the more defined the sector (Greenlee & Tuckman, 2007). Third, the firm-level examines risk unique to organization, including its cash flow, how its assets are financed, and the quality of its management (Greenlee & Tuckman, 2007). Ratios to evaluate individual firm risk include fundraising efficiency ratio, fundraising expense ratio, management expense ratio, and program services expense ratio. These ratios are also
measures to evaluate use of financial resources to execute the nonprofit’s mission
(Greenlee, Randolph, & Richtermeyer, 2011).

In the comparison of risk at these levels, Greenlee and Tuckman (2007) recommend market level risk should be compared cross-sectionally, focusing on changes from year to year. Sector level risk should also be analyzed cross-sectionally, comparing ratios. Firm level risk analysis must compare common-size financial statements over two or more years to be able to see changes in spending or revenues. Additionally, firm level risk may use ratio analysis, for two or more years, similar to sector level risk. Finally, Greenlee and Tuckman (2007) recommend nonprofits consider monitoring their financial health in light of their stage of development, which points to the need for the present study to control for organizational stage of development.

In an effort to standardize financial performance measures in the nonprofit sector, Ritchie and Kolodinsky (2003) identified six unidimensional and unique financial performance measures from a longitudinal analysis of 16 initial measures on a sample of university foundations. The six measures represent three different performance categories of fundraising efficiency, public support, and fiscal performance, allowing for triangulation on multiple measures and a “more accurate evaluation of the independent variable” (Ritchie & Kolodinsky, 2003, p. 145). While the six measures were developed on a sample within the university foundation subsector and later used by Ritchie, Kolodinsky, and Eastwood (2007) examining executive intuition-based decision-making and nonprofit organizational performance, Brown (2005) included one calculation from each of the three categories as a measure of financial performance to examine the association between board and nonprofit organizational performance on a sample of 63%
human service organizations, 15% health care organizations (not including hospitals), and the remaining 14% across arts, foundations, and education subsectors. Ritchie, Kolodinsky, and Eastwood (2007) found executive intuition significantly predicted revenues/expenses, contribution/expense, and contribution/revenue. Brown (2005) found that strategic decisions from the board are associated with higher financial performance.

Kirk and Nolan (2010) used overhead ratio in a study of the relationship between nonprofit mission statement focus and financial performance, which is similar to the current study’s examination of the relationship between the adoption of a social entrepreneurship strategy as evidenced in a nonprofit organization’s mission statement and financial performance. In addition to overhead ratio, Kirk and Nolan (2010) used change in overhead ratio over a one-year period as a second financial performance measure as suggested by Bowman (2006). Kirk and Nolan (2010) found that organizations with a narrow geographic mission focus had lower overhead costs, while mission statements with targeted client groups were associated with larger one-year contributions increases.

While the individual firm risk ratios mentioned above can measure the organization’s efficient use of resources and therefore ability or inability to devote more resources toward providing program services, Greenlee and Tuckman (2007) argue that the ratios should be interpreted with extreme caution as organizations lack clarity around the management and expense, program expense, and fundraising expense categories and which funds to allocate where, or they may deliberately manipulate the numbers they report in order to inflate their performance indicators for funders, the public, or other stakeholders. However, these ratios are used by nonprofit watchdog groups such as
Charity Navigator to rate and score indicators of financial health (Charity Navigator, 2016).

The present study will use the seven financial performance measures of 1) management and general expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011), 2) program service expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011), 3) fundraising expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011), 4) fundraising expense/contributions and grants (Greenlee, Randolph, & Richtermeyer, 2011), 5) net assets/total revenue (Tuckman & Chang, 1991), 6) management and general expense/total revenue (Tuckman & Chang, 1991), and 7) total liabilities/total assets (Ohlson, 1990). The measures are chosen as ratios of firm-level risk, while the first four are also measures of use of financial resources to execute the organization’s mission, an important variable in the sector (Greenlee, Randolph, & Richtermeyer, 2011). While each of the “Best Nonprofits to Work For” is matched on subsector NTEE code, the firms overall are compared to each other on their average firm performance over a period of three years.

**Human Resource Management, Great Workplace Recognition, and Financial Performance**

Godfrey and Hill (1995) and Hoskisson, Hitt, Wan, and Yiu (1999) argue that strategy researchers often must use proxy variables to measure the unobservable constructs of inimitable resources such as the systemic and dynamic nature of the type and practice of human resources that make them a sustainable competitive advantage. In a foundational 1995 study, Huselid found a relationship between HR practices as
measured by High Performance Work Systems and gross rate of return on assets, employee turnover, and Tobin’s Q, demonstrating a significant link between HR practices and both market and accounting performance measures. Lepak, Takeuchi, and Snell (2001) found that, taken together, knowledge work and contract labor, is linked to higher firm performance. However, Wright, Dunford, and Snell (2001) note that there has not been a full causal model to predict which HR practices are associated with firm performance.

Studies examining the link between human resources and financial performance with nonprofit samples remain largely theoretical. One recent empirical study by Khatri, Gupta, and Varma (2016) found a positive relationship between HR capabilities and quality of patient care (an important performance measure for hospitals) with proactive behaviors of health care workers mediating the relationship. Although, Prins and Henderickx (2007) did not find strong empirical evidence that innovative HRM practices result in higher quality patient care. On a sample of sport governing bodies in Belgium, Winand, Rihoux, Robinson, and Thierry (2012) did find a positive relationship between involving paid staff and committed volunteers in decision making and high organizational performance measured by both financial and non-financial measures.

In 2003, three studies were published in a diversity of journals using recognition as a great workplace as a proxy for superior human resource practices on a sample of for-profit companies that were recognized by FORTUNE Magazine in their “100 Best Companies to Work for® in America” list. First to be published in the business, finance, and accounting literature was a study by Filbeck and Preece (2003) that sampled the original list published in 1998. The study sought to examine any relationship that existed
between a company being recognized on that initial list and its value to shareholders. Due
to the study’s aims, the sample was narrowed down to 57 companies that are publicly
traded, with return records on the CRSP Daily Combined Return File, complete data on
Standard and Poor’s Research Insight®, and without confounding events such as merger
and acquisition announcements that occurred near the time of the list announcement
dates. The study found that the stock market did statistically significantly value the 57
companies more than a matched comparison sample by way of larger buy-and-hold
abnormal returns. Moreover, the results suggested the ‘100 Best Firms’ outperformed
their benchmark portfolio statistically from 1987-1999, a six-year holding period, and for
a two-year period after the list was announced in 1988 (although not statistically
significant). The study laid the groundwork for investigating the relationship between
great workplace recognition and the financial performance of for-profit companies, one
of the first to empirically test the RBV of the firm in this manner.

In the Winter of 2003, two studies followed published in the personnel and
accounting literatures. Fulmer, Gerhart, and Scott (2003) also sampled the 1998 list. They
sought to test the relationship between positive employee relations as a source of
competitive advantage and firm performance at the organizational level on a sample of 50
of the original 100 Best list that removed privately held companies, financial institutions,
public utilities, and nonprofit organizations due to lack of available data for adequate
comparison of for-profit financial metrics. The study also utilized a control firm matching
procedure to create a comparison firm for each of the 50 companies based on the
requirements that they are similar in industry, size, and operating performance in the list
year, and have not been recognized on any annual list of 100 Best companies. In addition
to the matched group, the companies were compared to a broader market of publicly traded firms. This was the only study to validate and test the reliability of the employee survey identical to the one used to select the 100 Best list. The study found that the employee attitudes of the 100 Best are highly positive and stable over time, and are therefore strategic assets for a firm’s competitive advantage to hold up the RBV theory.

Second, they found that the 100 Best Companies outperformed the matched comparison group on the measures of stock returns, ROA, and market-to-book value of equity. However, the 100 Best Companies did not outperform the matched comparison group on cumulative returns. The findings suggest 100 Best Companies are better at managing positive relationships among multiple stakeholder groups, upholding stakeholder theory. Or, at the very least, companies investing in building attractive workplaces are not hurting their financial bottom line by doing so, suggest the authors (Fulmer, Gerhart, & Scott, 2003).

In the third study, Ballou, Godwin, and Shortridge (2003) tested the relationship between workplace attitudes and firm value, with recognition on the 1998 100 Best Companies list as the proxy for high workplace attitudes. Similar to the studies before it, the inquiry tests the RBV-view of the firm. However, in this case, the sample includes all of the publicly traded firms that appeared on at least one of the 100 Best Companies lists published from 1998 to 2001, totaling 115 companies. The sample was further narrowed by eliminating companies where there was not available financial data, financial institutions, and firms traded as American Depository Receipts, and the final sample was comprised of 88 firms. Similar to the previous studies, the sample was compared to a matched comparison group of firms with the same 2-digit Standard Industrial
Classification (SIC) code with the closest earnings that have not been recognized on a 100 Best Companies to Work for® list. The study tests list recognition vs. matched firm using dummy coding 1/0, controlling for earnings, book value of equity, and research and development expenditures, regressed onto market value equity, and found that the 100 Best Companies have higher market values than the matched firms. To control for bias in the 100 Best Companies selection process, list rank, using 0/1 dummy coding (0 if in the top 1/3 of the list; 1 if in the bottom 1/3 of the list), they tested via a regression model and found a statistically significant link (p < .1) suggesting the market values firms with a relatively higher rank on the list. Findings from the study also suggest that companies recognized on the list have significantly higher average returns than matched firms, and those ranking in the top third of the list also had significantly higher returns than those in the bottom third.

**Hypothesis 1.a.:** Nonprofit firms with a focus on people bottom line management as measured by inclusion on *The NonProfit Times* “Best Nonprofits to Work For” list will financially out-perform matched nonprofits not recognized on the list.

**Hypothesis 1.b.:** Nonprofit firms with a longer tenure on the list will financially outperform matched to a greater degree than those with a shorter tenure.

**Hypothesis 1.c.:** Those nonprofit firms that are ranked in the top third of the list will financially outperform those recognized nonprofits ranked on the bottom third of the list.
Leader Turnover and People Management

With their strategic and managerial responsibilities that include people bottom line management, the role of leaders in great workplace recognition is an important one. Leader turnover at the executive level is high and increasing (Green & Hymowitz, 2013). U.S. hospital CEO turnover rates between 2013 to 2016 averaged 20%, which is the highest turnover rate in decades (Gooch, 2016). The theory of relative standing (Frank, 1985) and leader-member exchange theory (Dansereau Jr., Graen, & Haga, 1975; Graen & Uhl-Bien, 1995) help to explain why employees depart and morale and trust decrease under new leadership. Testing the theory of relative standing, Fee and Hadlock (2004) found a correlation between CEO turnover and the departure of the senior management team over a period of five years on a sample of 443 large organizations. Indeed, another study found that fear and job security concerns increase “geometrically” among the senior managers when the CEO position turns over (Kesner & Dalton, 1994, p. 708). Leader-member exchange theory argues that leadership is based on the relationships between superiors and subordinates. New leaders must build relationships and earn trust with their subordinates especially in the first year (Kangas, 2013).

Leader turnover can impact employee morale (Giambista, Rowe, & Riaz, 2005), trust (Ballinger, 2005), organizational commitment (Fee & Hadlock, 2004), and communication (Murnieks, Allen, & Ferrante, 2011). The effects of leader turnover on employee engagement are mixed and can vary by industry. Relative to the nonprofit sector, Mascall and Leithwood (2010) found that school principal turnover affects organizational culture, which in turn affects instruction and student achievement. It can also lead to “cultural and emotional turmoil” (Mascall & Leithwood, 2010, p. 377). As a
test of the theory of relative standing, leader-member exchange theory, and given findings in the literature, this study hypothesizes that leader turnover is negatively associated with people bottom line management as measured by inclusion on The NonProfit Times “Best Nonprofits to Work For list.

Hypothesis 1.d. Leader turnover is negatively related people bottom line management as measured by inclusion on The NonProfit Times “Best Nonprofits to Work For” list.

Findings from the above studies indicate precedent for operationalizing managing to the people bottom line, by way of an organization’s inclusion on a great workplace list. Furthermore, there are established, statistically significant links between inclusion on the list and organizational financial performance measures as compared to a matched comparison group. Due to data limitations for comparison purposes, previous studies have not included certain organizations such as nonprofit firms. This study seeks to fill this gap by testing the aforementioned hypotheses within the RBV of the firm, strategic management, stakeholder theory, the theory of relative standing, and leader-member exchange theory.

Nonprofit Social Entrepreneurship

Heightened attention to people in nonprofit organizations practicing corporate social responsibility is not limited to the management of internal staff. While “employee participation in decision making is essential in social entrepreneurial organizations…due
to their high ideological and value content” (Prabhu, 1999, p. 145), nonprofit organizations that have developed a social entrepreneurship strategy focus on “social change and development of their client group” and exhibit a “heightened sense of accountability to the constituencies served and for the outcomes created” (Prabhu, 1999, p. 140; Dees, The meaning of social entrepreneurship, 1998, p. 4). Corporate social responsibility in the nonprofit context also includes increased responsibility to external people, or client groups or constituents, as named in the two definitions above.

Increased responsibility to external people is a strategic choice nonprofit leaders make and do so by varying means. In the social entrepreneurship literature, the motivations and means by which leaders and organizations adopt a social entrepreneurial approach has been debated at the conceptual, motivational, organizational, and strategic levels. What all of the approaches have in common is the role leaders play in the adoption and success of the approach.

**Conceptual approaches.** Dees (1998) begins the definition of social entrepreneurship debate by first examining the world ‘entrepreneurship’, which is a French word for ‘undertakes’ and an ‘entrepreneur’ as someone who “undertakes a significant project or activity” (p. 2). A social entrepreneur, therefore, is someone who undertakes a project to create social value. Dees (1998), however, highlights the confusion over what social entrepreneurship means. Some take it to mean nonprofit organizations starting for-profit ventures, others as the startup of a nonprofit organization, and still others include for-profit businesses that take up the cause of social responsibility (Dees, 1998). Dees (1998) defines social entrepreneurship through the behavior of social entrepreneurs:
Social entrepreneurs play the role of change agents in the social sector, by:
- Adopting a mission to create and sustain social value (not just private value)
- Recognizing and relentlessly pursuing new opportunities to serve that mission
- Engaging in a process of continuous innovation, adaptation, and learning
- Acting boldly without being limited by resources currently in hand, and
- Exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created (p. 4).

Indeed, Dees (1998) admits the above is an “ideal” definition of social entrepreneurship.

Later, the field was concerned with the difference between commercial and social entrepreneurship. Austin, Stevenson, & Wei-Skillern (2006) were the first to systematically compare commercial and social entrepreneurship to develop the definition of social entrepreneurship as “innovative, social value creating activity that can occur within or across the nonprofit, business, or government sectors” (p. 1043).

Other definitions are derived from the authors’ overall approach to understanding social entrepreneurship and indicate a certain level of analysis. Dees’ (1998) definition focuses on the behaviors and motivations of the individual social entrepreneur. Helm’s (2007) focus is at the organizational level of analysis draws from more recent studies of social entrepreneurship and nonprofit organizational theory, economic theory, and strategic management theory to build a new definition: “social entrepreneurship is the catalytic behavior of nonprofit organizations that engenders value and change in the sector, community, and/or industry through the combination of innovation, risk-taking, and proactiveness” (p. 31). The strategic approach is nascent, with inclusion of the six strategies of social entrepreneurs: 1) individual empowerment, 2) collective action, 3) reform the system, 4) build physical capital, 5) evidence-based practices, and 6) prototyping (Chandra, Jiang, & Wang, 2016).
Motivational/Individual-Level approaches. After extensive definitional debates, researchers called for the line of inquiry to shift to the antecedents and consequences of social entrepreneurship. A substantial stream of the social entrepreneurship literature is at the individual level, particularly distinguishing between the antecedents of an entrepreneur’s choice to engage in economic or social entrepreneurship. Nga and Shamuganathan (2010) identified which personality traits of the Big 5 connect to certain dimensions of social entrepreneurship personality traits. They found that agreeableness is positively related to all dimensions of social entrepreneurship, while openness positively influences social vision, innovation, and financial returns. The findings suggest avenues for business education to explore when designing curriculum to teach ethical leadership.

Ruvio, Rosenblatt, and Hertz-Lazarowitz (2010) explored how entrepreneurial leadership vision plays a role in nonprofit and for-profit entrepreneurial processes. The study found significant differences between the vision between the different organizational sectors. In addition, the results from the study suggest vision in nonprofit organizations is associated with a wide-range strategy and the firm’s performance and growth; whereas in the for-profit firms, vision directly predicted a differentiation strategy only and wide-strategy reduced growth in for-profits.

Miller, Grimes, McMullen, and Vogus (2012) develop a theory to understand how compassion leads to social entrepreneurship (the creation of a new social enterprise) in a model linking dimensions of motivation including compassion and prosocial motivation to three mechanisms: integrative thinking, prosocial cost-benefit analysis, and commitment to alleviating others’ suffering. Those variables in turn are theorized to lead
to the likelihood of engaging in social entrepreneurship, with a moderating role of the pragmatic and moral legitimacy of social enterprise. Building on this theory, Grimes, McMullen, Vogus, and Miller, (2013) then explore how compassion encourages agency in social entrepreneurship.

**Organizational approaches.** A third approach to understanding social entrepreneurship in the nonprofit sector is at the organizational level of analysis. This stream of the literature has focused on the increased innovativeness and entrepreneurial orientation of nonprofit firms, especially since the decreased governmental support during the 1980s and the recent 2008 financial crisis as nonprofits have become more commercialized and innovative in meeting their missions. While nonprofits have historically received fees for services and goods, commercialism in the sector had grown substantially before the 2008 financial crisis (Salamon, 2012). In Salamon (2012) Young, Lester, & Grinsfelder argue that there are six factors that led to increased commercialization for nonprofit organizations: fiscal squeeze, expanded demand, increased for-profit competition, growing competition among nonprofits, broader availability of corporate partners, and increased demand for accountability (pp. 522-529). All of these factors combined led to nonprofit organizations moving increasingly into the market economy than any time in history (Salamon, 2012). Nonprofits are relying on earned income more than ever, and cultures of innovation and creativity will be a key part of their success. LeRoux (2005) argues that nonprofits need to respond to the demand for increasing their services while relying on fewer resources. Some research suggests that nonprofits do not typically rise to the challenge and meet this need by becoming more entrepreneurial (LeRoux, 2005).
According to Lumpkin and Dess (1996), innovation in organizations “reflects a firm’s tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or technological processes” (p. 142). Morris, Webb, and Franklin (2011) argue that in the study of entrepreneurial orientation, context matters and they develop an approach for recognizing and measuring entrepreneurial orientation in the nonprofit sector. Morris et al. (2011) theorize the innovativeness sub-dimension of entrepreneurial orientation as the following for nonprofit organizations:

1) Emphasis on innovation directed at core mission achievement, either by increasing efficiencies, serving more individuals, or enhancing what is done for these individuals; 2) Emphasis on innovation directed at generating new sources of revenue, such as from selling products or launching ventures, that are supplementary to or independent of the social mission; and 3) Emphasis on innovation directed at both revenue generation and mission accomplishment in concert with one another (p. 957).

Innovativeness is directly tied to achievement of the mission in nonprofit organizations, and social performance becomes an important outcome measure within this context. Financial performance is an outcome measure in so much as it supports the social mission of the organization. Innovation in the nonprofit sector is successful when it assists the organization in better meeting its social mission.

Nonprofit leaders in an organization are tasked with keeping an organization focused to meet its mission and are accountable for both the organization’s financial and social performance. The relationship between innovation and leadership in nonprofit
organizations has been studied with varying results. A study by Shin and McClomb (1998) found that visionary leadership exhibited by top nonprofit leaders led to innovation. Jaskyte (2004) did not find a relationship between leadership and innovation. Jaskyte (2011) did find that transformational leadership is linked to technological innovation but not administrative innovation in nonprofit organizations.

Recently Helm & Andersson (2010) validated a nonprofit social entrepreneurship instrument to quantify social entrepreneurship with 145 Kansas City Metropolitan Area nonprofit organizations through principal component factor analysis and found differences in entrepreneurial behavior between the nonprofits studied, as measured through innovation, proactiveness, and risk taking, the three dimensions of entrepreneurial orientation.

**Strategic approaches.** The strategic approach to understanding social entrepreneurship is the most emergent stream of the literature. Chandra, Jiang, and Wang, (2016) are the first to identify and validate the strategies adopted by the 2,334 social entrepreneurs affiliated with Ashoka, the largest social entrepreneurship support organization in the world, using topic modeling from the computer science field. Based on work by Santos (2012), who argues that “the central unit of analysis for social entrepreneurs may be the solution and its underlying business model, not the organization” (p. 346), Chandra, Jiang, and Wang (2016) argue that the “solutions and strategies are the most critical but least understood elements of SE [social entrepreneurship]” (p. 2). In addition, they provide three reasons why understanding the types and components of strategies adopted by social entrepreneurs through topic modeling is critical. First, it helps in understanding the diverse strategies of social
entrepreneurial leaders to test hypotheses to advance the field; second, it assists policy makers and social entrepreneurs by identifying best practices; and third, the robust model of topic modeling from the computer science and machine learning fields can be applied to mine the strategies, which is a methodological advancement for the study of social entrepreneurship.

Through this advanced method, Chandra, Jiang, and Wang (2016) identified six strategies employed by social entrepreneurs: 1) individual empowerment, 2) collective action, 3) reform the system, 4) build physical capital, 5) evidence-based practices, and 6) prototyping. See Table 1 for the topics associated with the six social entrepreneurship strategies identified by Chandra, Jiang, and Wang (2016). The strategies and their associated topics suggest an increased responsibility to external donors and beneficiaries by attempting to benefit them for the long-term. The long-term perspective is a key tenet of CSR (Khoury, Rostami, & Turnbull, 1999).
Table 1

The 6 Social Entrepreneurship Strategies and their Associated Topics

<table>
<thead>
<tr>
<th>Individual Empowerment</th>
<th>Collective Action</th>
<th>Reform the System</th>
<th>Build Physical Capital</th>
<th>Evidence-Based Practices</th>
<th>Prototyping</th>
</tr>
</thead>
<tbody>
<tr>
<td>training/education</td>
<td>collective action</td>
<td>reform systems</td>
<td>build facilities</td>
<td>conduct research</td>
<td>piloting/</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>information-based</td>
<td>initiatives</td>
</tr>
<tr>
<td>provide treatment</td>
<td>community</td>
<td>policy making</td>
<td>ICT</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>engagement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>awareness building</td>
<td>active participation</td>
<td>public advocacy</td>
<td>ICT/mobile therapy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>diversified methods</td>
<td>community support</td>
<td>government support</td>
<td>loans &amp; financial</td>
<td></td>
<td></td>
</tr>
<tr>
<td>learning experiences</td>
<td>engage vulnerable</td>
<td>legal enforcement</td>
<td>marketing/distribution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>life skills training</td>
<td>involve companies</td>
<td>train the trainers</td>
<td>resource support</td>
<td></td>
<td></td>
</tr>
<tr>
<td>media advocacy</td>
<td>network/sharing</td>
<td></td>
<td>scaling up/replication</td>
<td></td>
<td></td>
</tr>
<tr>
<td>prevention</td>
<td>partnership</td>
<td></td>
<td>use existing resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>religious leaders</td>
<td>volunteering</td>
<td></td>
<td>fair trade</td>
<td></td>
<td></td>
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<tr>
<td>protect vulnerable</td>
<td></td>
<td></td>
<td>sustainable practice</td>
<td></td>
<td></td>
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<tr>
<td>groups</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

Source: Chandra, Jiang, and Wang (2016)
The strategies have yet to be tested in an empirical study, a gap the present study seeks to address to advance the understanding of the role of the strategic approach in this stream of the literature.

**Social entrepreneurship and nonprofit organizational performance.**

Empirical studies examining the relationship between social entrepreneurship and nonprofit financial performance have centered around testing the link between the organizational-level construct of entrepreneurial orientation as the measure of nonprofit social entrepreneurship and various nonprofit financial performance measures. The examination of the link between entrepreneurial orientation and financial performance has precedent in the for-profit management literature. Rauch, Wiklund, Lumpkin, and Freese (2009) reviewed 51 studies on entrepreneurial orientation and business performance and found a correlation ($r = .242$) between the two variables, despite the fact that entrepreneurial orientation has been operationalized by varying constructs in the studies.

Few empirical studies have examined the relationship between social entrepreneurship and organizational performance in nonprofit organizations. Of the few that have, most also take the behavioral approach and operationalize social entrepreneurship as the entrepreneurial orientation of the organization. One of the first studies testing this relationship was by Morris, Coombes, Schindehutte, and Allen (2007), who did not find a link between entrepreneurial orientation and financial performance in nonprofit organizations. However, subsequent studies such as that by Pearce, Fritz, and Davis (2010) did find a positive association between entrepreneurial orientation and
organizational performance (as measured by growth in attendance and voluntary giving) on a sample of 250 religious congregations.

The study of social entrepreneurship has been approached through a diversity of avenues. Nonprofit leaders are in need of strategies to help their organizations remain sustainable while increasing accountability in a competitive operating environment. While the field has advanced with the identification of six social entrepreneurship strategies using topic modeling, few studies have examined the link between the adoption of one or more of the strategies and a nonprofit firm’s financial performance. Most of the literature on social entrepreneurship in the nonprofit sector takes an organizational perspective. Due to the limited number of studies examining the link between social entrepreneurship, especially from the strategy approach in regard to adopting one of the strategies of Ashoka entrepreneurs (Chandra, Jiang, & Wang, 2016), and financial performance, the present study seeks to add to the literature by empirically testing the hypothesis that there is a positive relationship.

**Hypothesis 2.** The practice of social entrepreneurship as measured by the adoption of one or more social entrepreneurship strategies is positively related to nonprofit financial performance.

**Summary and Conclusions**

The application of CSR to the nonprofit sector is governed by a multidisciplinary set of theories. Indeed, the lines between the sectors are blurring, which is reflected in the cross-disciplinary approach to the literature reviewed. Literature has examined the prediction of financial performance from human resource practices and people management outcomes from leader turnover, with significant results. The study of social
entrepreneurship has evolved, beginning at the conceptual and moving to the motivational, organizational, and now strategic approaches. All the while, the gap remains for empirical tests of the outcomes of social entrepreneurship. As the sector has developed, new approaches to understanding social entrepreneurship as a strategy have allowed for the current study to examine the prediction of financial performance in nonprofit firms from the adoption of a social entrepreneurship strategy using codes developed from topic modeling borrowed from the computer science field. Nonprofit leaders and researchers can benefit from explorations of these gaps in the literature to know which practices and strategies can lead to greater financial performance. The exploration benefits from a quantitative methodology that tests the hypotheses presented above. The next chapter, Research Method, describes the methodology to do so for the present study.
Chapter 3: Research Method

The purpose of this study is to examine the relationship between the practice of CSR and a nonprofit firm’s financial performance, controlling for the firm’s age and size. The method takes a similar approach to that of prior studies of for-profit companies recognized by FORTUNE Magazine as the “100 Best Companies to Work for® in America.” With precedent for such a study, the method of the present study samples companies on The NonProfit Times “Best Nonprofits to Work For” list recognized from 2010-2016 against a matched comparison sample. Within the same sample, the adoption of a social entrepreneurship strategy was determined through the a priori coding of the firms’ mission statements and then used to predict financial performance. Threats to validity and reliability are addressed through both quantitative and qualitative strategies.

Research Design and Rationale

The study is guided by the following research question: “Is the practice of CSR effective for nonprofit organizations?” Prior research has limited the inquiry into CSR and financial performance to the for-profit sector when the nonprofit sector could benefit from understanding how the practice links to financial performance in the sector. In addition, the study seeks to respond to the call for more empirical research in the social entrepreneurship field to examine the outcomes of social entrepreneurship. To this end, the study will test the following hypotheses:

Hypothesis 1
Hypothesis 1.a.: Nonprofit firms with a focus on people bottom line management as measured by inclusion on *The NonProfit Times* “Best Nonprofits to Work For” list will financially out-perform matched nonprofits not recognized on the list.

Hypothesis 1.b.: Nonprofit firms with a longer tenure on the list will financially outperform matched to a greater degree than those with a shorter tenure.

Hypothesis 1.c.: Those nonprofit firms that are ranked in the top third of the list will financially outperform those recognized nonprofits ranked on the bottom third of the list.

Hypothesis 1.d. Leader turnover is negatively related to people bottom line management as measured by inclusion on *The NonProfit Times* “Best Nonprofits to Work For” list.

**Hypothesis 2**

Hypothesis 2. The practice of social entrepreneurship as measured by the adoption of one or more social entrepreneurship strategies is positively related to nonprofit financial performance.

The practice of CSR is conceptualized as 1) people bottom line management and 2) the practice of social entrepreneurship. People bottom line management is measured by a nonprofit’s recognition as one of *The NonProfit Times*’ “Best Nonprofits to Work For” as a measure of the firm’s practice of responsibility to its people. The practice of social entrepreneurship is measured by a nonprofit’s adoption of a social entrepreneurship...
strategy as evidenced in its mission statement, analyzed with \textit{a priori} codes developed by Chandra, Jiang, and Wang (2016). Leader turnover is measured as the change in Principal Officer as evidenced on the organization’s IRS Form-990 and compared to both the organization’s placement and tenure on \textit{The NonProfit Times}’ “Best Nonprofits to Work For” list. The CSR practices are compared to the dependent variable of seven financial performance measures of

1) management and general expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011)

2) program service expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011)

3) fundraising expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011)

4) fundraising expense/contributions and grants (Greenlee, Randolph, & Richtermeyer, 2011)

5) net assets/total revenue (Tuckman & Chang, 1991)

6) management and general expense/total revenue (Tuckman & Chang, 1991) and

7) total liabilities/total assets (Ohlson, 1990).

**Methodology**

**Sampling and Matching Procedures**

A sample of nonprofit organizations was gathered through secondary data analysis and coding of publicly available data from annual lists published by \textit{The NonProfit Times} of the “Best Nonprofits to Work For” list from 2010 to 2016 (The NonProfit Times, 2016). A total of 170 nonprofit organizations representing a variety of subsectors have been listed and make up a portion of the sample. Seventeen of the
nonprofits were removed as duplicates of other organizations due to a name change or lack of identifying information regarding the nonprofit such as a generic name (i.e. The Family Practice and RESOURCE) or the name was similar to other listed nonprofits that the researcher could not accurately differentiate the two organizations (such as Luther Midelfort Clinic and Midelfort Clinic). The Best Companies Group, the consulting firm that conducts the research on the list, was contacted and did not provide further identifying information such as the EIN or organization website in order to clarify the organizations. The sample was thus reduced to 153 listed nonprofits with 153 matched organizations, for a total sample of 306 organizations, as described in Table 2. Figure 3 depicts the number of years the listed nonprofits have appeared on the list, as some have appeared on the list more than once.

Table 2

*Sample of Listed and Non-listed Nonprofits*

<table>
<thead>
<tr>
<th>Sample</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>The NonProfit Times</em> listed nonprofits 2010-2016</td>
<td>170</td>
</tr>
<tr>
<td>Less nonprofits with incomplete data</td>
<td>-17</td>
</tr>
<tr>
<td>Final sample of Listed firms</td>
<td>153</td>
</tr>
<tr>
<td>Matched firms based on status and total assets</td>
<td>153</td>
</tr>
<tr>
<td>Total sample</td>
<td>306</td>
</tr>
</tbody>
</table>
Similar to the sampling process employed by Ballou, Godwin, & Shortridge (2003), Filbeck and Preece (2003), and Fulmer, Gerhart, and Scott (2003), a matched comparison group was developed to test the hypotheses. These aforementioned matching processes matched the for-profit companies in their sample based on the same two-digit SIC code as each listed firm. Other matching criteria differed by study, including closest earnings before extraordinary items, industry, size, operating performance, and market capitalization.

Greenlee and Tuckman (2007) argue that nonprofit organizations may benchmark themselves against other nonprofits in their subsector of similar size, measured by assets or revenues (p. 325). For these reasons, the matched firms were derived by selecting a similar organization based on NTEE code, nonprofit status [i.e. 501(c)(3), 501(c)(4), etc.], and total assets using the premium search function of the website Guidestar.org.
Many of the listed nonprofits have more than one NTEE code, and Guidestar.org premium search returns results for any of the codes, not all. Therefore, each match was created such that it matched at least one of the listed nonprofit’s NTEE codes. Nonprofit status was matched exactly, and total assets was matched as the closest total assets to the listed nonprofit’s. The total assets in the search are the nonprofit’s most recent total assets, which were matched with the listed nonprofit’s most recent total assets.

Furthermore, the matched organizations could not appear on the 50 Best Nonprofits to Work For list at any time. See Appendix C for the list of Best Nonprofits to Work for and their matches.

Financial and leader turnover data were collected from the IRS Form-990 for each year from 2005 through 2015 as sourced from the NCCS or Guidestar.org databases, including change in Principal Officer, number of employees, volunteers, total UBR, net UBR, contributions and grants, program service revenue, investment income, other revenue, total revenue, grants paid, benefits paid, salaries, fundraising fees, total fundraising expense, other expenses, total expenses, revenue less expenses, total assets, total liabilities, net assets, program service expenses, and management and general expenses.

Hypothesis 2 was tested on the same sample and financial data of 306 organizations.

**Operationalization of Variables**

**Independent Variables**

**People Bottom Line Management.** Internal stakeholder accountability, or managing to the people bottom line, is conceptualized as recognition as a great workplace
for the present study. This recognition is operationalized as the inclusion on one of *The NonProfit Times’* Best Nonprofits to Work For lists. *The NonProfit Times* Best Nonprofits to Work For list recognizes fifty U.S.-based nonprofit organizations as great workplaces with a placement on one of their annual lists from 2010 to 2016. The time period was selected as 1) 2010 is the first year the list was published; 2) to maximize the sample size; and 3) because IRS Form-990 financial data are available for the large majority of the sample through 2014. Those nonprofits recognized on the 2016 list would have had to apply in 2015, and much of their data supplied to the Best Companies Group for list consideration would have included information from 2014.

Recognition as a Best Nonprofit to Work For will serve as one of the independent variables in the study, representing people bottom line management, a factor of CSR. Those organizations that have been placed on one of the annual lists are dummy coded with a 1, and a comparison group, discussed above, with a 0, following the precedent of a similar study of for-profit organizations placed on the *FORTUNE* magazine “100 Best Companies to Work for” in America list (Ballou, Godwin, & Shortridge, 2003).

Number of years on the list will also be included as an independent variable, ranging from 0 (not recognized, comparison group) to 7 (recognized on the list years, 2010-2016, inclusive) as well as list rank (top third vs. bottom third of the 2013 list), following a similar method to that of Ballou, Godwin, and Shortridge (2003) who also conducted a study on the *FORTUNE* magazine “100 Best Companies to Work for” in America list data. For list rank, the list year 2013 was chosen for several reasons. First, rank must be compared for one year of the list only as many of the nonprofits have been recognized for more than one year and the sample was matched for one year only;
second, average performance data for 2012 to 2014 is the dependent variable, so 2013 serves as a mid-point for prior and forward performance; and third, 2013 is closest to the year the best nonprofits were matched on 2014 total assets with the comparison group.

Leader turnover is operationalized by a dummy code, with an organization receiving a 1 if the Principal Officer as indicated on the IRS Form-990 changed from the previous year from years 2009-2016 as data on this variable is not available on the form prior to 2009, and a 0 if otherwise. If the Principal Officer field is left blank, no data were collected.

*The NonProfit Times Methodology*

**Eligibility.** The NonProfit Times “Best Nonprofits to Work For” program is managed by the Pennsylvania-based workplace research firm, Best Companies Group, that is independent of The NonProfit Times. It is a voluntary program to recognize the best employers in the nonprofit industry by publishing a list of the selected nonprofits annually in The NonProfit Times. According to the program’s website, for a nonprofit to be eligible for selection onto the list, it must be in business for a minimum of one year, a nonprofit organization with 501(c)3 status, have a facility in the United States (U.S.), have a minimum of 15 employees in the U.S., and must participate as its own legal entity (including subsidiaries of larger organizations) (The NonProfit Times, 2016). For example, a United Way may enter as the national United Way or it may enter as a local affiliate. Management support organizations and consulting firms, even if registered as a 501(c)3, may not participate.
Assessment Process. To select the list, Best Companies Group conducts a two-part assessment process. Part one includes a questionnaire completed by the employer to collect data regarding the organization’s benefits and policies. The questionnaire collects organizational contact, demographic, and industry information, hiring and employment practices, pay and benefits information, information regarding work-life balance and wellness initiatives, training and career development opportunities, corporate culture and communications practices, an organizational photo and other information that could be used by the media for promotional purposes. The primary contact of the organization receives the employer questionnaire and completes it online. The employment questionnaire must be completed and submitted online before part two of the process, an employee engagement and satisfaction survey, will begin. A sample of the Employer Benefits and Policies Questionnaire is included in Appendix A.

Part two, the employee engagement and satisfaction survey includes seventy-eight statements that employees respond to on a 5-point Likert agreement scale, with the following options: Disagree Strongly, Disagree Somewhat, Neutral, Agree Somewhat, and Agree Strongly, along with a Not Applicable option. In addition, the survey includes seven demographic questions and two open-ended questions. The survey collects data on the following categories of employee engagement and satisfaction: 1) Leadership and Planning, 2) Corporate Culture and Communications, 3) Role Satisfaction, 4) Work Environment, 5) Relationship with Supervisor, 6) Training, Development and Resources, 7) Pay and Benefits, and 8) Overall Engagement. For example, one statement under Leadership and Planning reads, “I understand the long-term strategy of this organization.” Another statement under Corporate Culture and Communications reads,
“The organization’s corporate communications are frequent enough.” A sample of the survey may be found in Appendix B.

The survey may be taken online or by paper. A small fee applies if the participating organization chooses the paper-based survey version option. The sampling of the organization and paper-based survey fee varies by organization size. For organizations with 15-199 employees, all employees are surveyed. Those organizations with 15-24 employees must have an 80% response rate (or better) in order to be considered for the list. Organizations with 200-499 employees survey “up to 250” randomly-selected employees, while those with 500-2499 will survey 350 randomly-selected employees and those with 2,500 or more employees survey 400 randomly-selected employees. Best Companies Group performs the random employee selection for organizations with more than 250 employees. Organizations are asked to upload employee email addresses in a portal managed by Best Companies Group. The employee receives a unique website link at the submitted email address to complete the survey online. If an employee does not have a company email address, Best Companies Group provides them with an access code for the employee to take the survey online. The employee data is submitted anonymously, according to the program website.

Best Companies Group combines and analyzes the two sets of data to determine which organizations will receive the recognition as one of the fifty best nonprofits to work for. All participating organizations receive an Employer Benchmark Report at no fee for their own learning. Other, more extensive reports, are available for a fee to the participating organizations.
Social Entrepreneurship

For the current study, social entrepreneurship is conceptualized as the adoption of one or more of the six social entrepreneurship strategies identified by Chandra, Jiang, and Wang (2016), including 1) individual empowerment, 2) collective action, 3) reform the system, 4) build physical capital, 5) evidence-based practices, and 6) prototyping. To operationalize the social entrepreneurship strategy adoption concept, the sample’s mission statements as displayed on their website were reviewed and coded *a priori* using the terms for the six strategies for the number of social entrepreneurship strategies they have adopted. The mission statements were coded using NVivo v. 11 software and reviewed by field experts to increase the reliability and trustworthiness of the analysis. The following themes developed by Chandra, Jiang, and Wang (2016) were applied as *a priori* codes to the mission statements:

1) individual empowerment
2) collective action
3) reform the system
4) build physical capital
5) evidence-based practices
6) prototyping

In statistical analysis, it is important to test variables with at least acceptable levels of internal reliability and validity. How threats to reliability and validity were addressed are discussed below.
Control Variables

The organizational-level variables age and size will serve as control variables, with age operationalized as the years since the founding year on the IRS Form-990 until 2014 (the match comparison year), and size as the natural log of the organization’s 2014 asset found on the IRS Form-990. As mentioned above in the Literature Review, Greenlee and Tuckman (2007) argue that organizations must consider their financial health in light of their stage of development. As organizations in the sample vary on life stage, age will serve as a proxy for this measure. Greenlee and Tuckman (2007) also state that size as measured by revenues or assets should be taken into consideration when benchmarking nonprofit organizations. In the current sample, while the matches were made on total assets, the sample does vary in total assets, and the natural log of the organization’s 2014 assets will serve as the control variable for size. There is precedent for a matching criterion variable to also serve as a control variable in a similar study (Ballou, Godwin, & Shortridge, 2003). Indeed, in Kirk and Nolan’s (2010) study examining the link between mission statement focus and financial performance, they control for both age and size, stating “age and size have traditionally been used as control variables in studies of organizational performance” (p. 481). In addition, Ohlson (1980) found size to be an important predictor of financial performance. Therefore, these controls are necessary to better isolate the important independent variables in the models.

Dependent Variable

Previous studies have found a positive link between great workplace recognition and financial performance in the for-profit sector among publicly traded companies recognized by the FORTUNE magazine 100 Best Companies to Work For ® in America
list, demonstrating the benefit and legitimacy of the recognition as key to financial performance, especially due to the profit maximization and shareholder return mandate of for-profit sector managers (Fulmer, Gerhart, & Scott, 2003; Filbeck & Preece, 2003). Although nonprofit managers are not motivated by the same profit mandate, they are by the mandate of mission maximization (Bryce H. J., 2012; Frigo, 2003). Financial performance is a metric by which the public and nonprofit leaders evaluate how well the organization manages and uses its resources to meet its public support and benefit.

A key component of nonprofit strategic management is financial management such that the organization has both adequate financial resources and uses those financial resources efficiently to carry out its mission (Greenlee, Randolph, & Richtermeyer, 2011; Stone, Bigelow, & Crittenden, 1999). Certain ratios provide practitioners and researchers with the ability to analyze an organization’s financial data to determine its overall health and ability to meet its current and future financial needs in addition to its efficiency in use of funds towards its public, charitable mission (Greenlee, Randolph, & Richtermeyer, 2011). Based on review of literature examining financial health ratios, financial performance is measured in multiple dimensions as described below. Financial performance measures are calculated from data reported on the IRS Form-990.

Nonprofit financial performance is measured by seven ratios averaged over years 2012 to 2014 as Greenlee and Tuckman (2007) recommend ratios are compared over at least 2 or more years: 1) management expense ratio (management and general expense/total expenses), 2) program expense ratio (program expenses/total expenses, 3) fundraising expense ratio (fundraising expenses/total expenses), 4) fundraising efficiency ratio (fundraising expenses/total contributions and grants), 5) net assets/total revenues, 6)
administrative expenses/total revenues, and 7) total liabilities/total assets. The first four
are measures of both firm-level risk (Greenlee & Tuckman, 2007) and use of financial
resource to execute the nonprofit’s mission (Greenlee, Randolph, & Richtermeyer, 2011).
The other three are ratios to predict risk in nonprofit organizations (Greenlee & Tuckman,
2007).

Organizations with a low management expense ratio may have more money to
expend on their programs; whereas organizations with high program expense ratio are
theorized to devote more expenses toward their programs (Greenlee, Randolph, &
Richtermeyer, 2011; Young, 2007). Fundraising expense ratio and fundraising efficiency
ratio should be interpreted together (Greenlee, Randolph, & Richtermeyer, 2011; Young,
2007), a desired low fundraising expense ratio and high fundraising efficiency ratio to
spend less on fundraising and maximize the dollars raised to go toward their programs. It
should be noted that these efficiency measures are often reported in error and should be
interpreted with extreme caution (Greenlee & Tuckman, 2007; Young, 2007).

A high and/or positively-trending net assets/total revenue ratio (Tuckman &
Chang, 1991) is desired as a measure of the organization’s equity balance and “ability to
replace revenue than those with a smaller or negative net worth” (p. 452) and ensuing
favorability by financial markets to assist them, making them less at-risk. Nonprofits
desire a high administrative expenses/total revenue ratio (Tuckman & Chang, 1991) as
they are in a better position to cut back on administrative costs to reduce expenditures
without affecting spending on programs, making them less at-risk. Finally, nonprofit
leaders would look for a low or negatively trending total liabilities/total assets ratio
(Ohlson, 1980) as a measure of leverage and ability to meet its commitments, meaning it is less at-risk (See Table 3).

The balance of the seven ratios will result in a more robust interpretation and understanding of how the independent variables relate to the measures of nonprofit financial health and performance in the nonprofit sector.

Table 3  
Financial Performance Ratios and their Interpretations in Applied Terms

<table>
<thead>
<tr>
<th>Financial Performance Ratio</th>
<th>Interpretation in Applied Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management and General Expense/ Total Expense</td>
<td>Low or decreasing may indicate more efficient use of management and general expenses (Young, 2007) – More money to spend on programs</td>
</tr>
<tr>
<td>Program Service Expense/ Total Expense</td>
<td>High or increasing may indicate efficiency in providing services (Young, 2007)</td>
</tr>
<tr>
<td>Fundraising Expense/ Total Expense</td>
<td>Interpreted along with fundraising efficiency, small fundraising expense ratio and high fundraising efficiency ratio means maximized contributions were received (Young, 2007) – Maximizes funds available for programs</td>
</tr>
<tr>
<td>Fundraising Expense/ Contributions and Grants</td>
<td>High or increasing means more efficiency in fund-raising (Young, 2007)</td>
</tr>
<tr>
<td></td>
<td>High or increasing is desired as a measure of the organization’s equity balance and “ability to replace revenue than those with a smaller or negative net worth”; and financial markets will assist them, less risk (Tuckman &amp; Chang, 1991, p. 452)</td>
</tr>
<tr>
<td>Net Assets/ Total Revenue</td>
<td>High ratio desired as it puts org. in a better position to reduce expenditures without affecting spending on programs (Tuckman &amp; Chang, 1991)</td>
</tr>
<tr>
<td>Administrative Expense/ Total Revenue</td>
<td>Low or decreasing as a measure of leverage and ability to meet its commitments (Ohlson, 1980)</td>
</tr>
<tr>
<td>Total Liabilities/ Total Assets</td>
<td></td>
</tr>
</tbody>
</table>

Data Analysis Plan

NVivo v. 11 was used to code the mission statements at the six themes of social entrepreneurship strategy adoption: 1) individual empowerment, 2) collective action, 3)
reform the system, 4) build physical capital, 5) evidence-based practices, and 6) prototyping (Chandra, Jiang, & Wang, 2016). SPSS v. 22.0.0.0 was used to conduct the hypothesis test regression analyses. The following research question is answered through the quantitative analysis of the data: “Is the practice of CSR effective for nonprofit organizations?” And the following hypotheses are tested by regression analyses:

**Hypothesis 1**

**Hypothesis 1.a.:** Nonprofit firms with a focus on people bottom line management as measured by inclusion on The NonProfit Times “Best Nonprofits to Work For” list will financially out-perform matched nonprofits not recognized on the list.

The following multiple regression model will test Hypothesis 1.a.:

\[ FP = \alpha + \beta_1 \text{List} + \beta_2 \text{Age} + \beta_3 \text{Assets} + \epsilon \]

The dependent variable is \( FP \), or the financial performance of the firm. The primary variable of interest, whether or not the firm has been listed on The NonProfit Times Best Nonprofits to Work For list (List), is represented as a dummy code, with those nonprofits on The NonProfit Times list coded at 1, the matched comparison firms at 0; and the model will control for age as measured from the founding year to 2014 (Age) and size based on the natural log of 2014 total assets (Assets) from its IRS Form-990.

**Hypothesis 1.b.:** Nonprofit firms with a longer tenure on the list will financially outperform matched to a greater degree than those with a shorter tenure.

\[ FP = \alpha + \beta_1 \text{Tenure} + \beta_2 \text{Age} + \beta_3 \text{Assets} + \epsilon \]

In this model, the primary variable of interest is the number of times the nonprofit has been listed on The NonProfit Times list (Tenure), controlling again for age as measured
from the founding year to 2014 (Age) and size based on the natural log of 2014 total assets (Assets) from its IRS Form-990.

**Hypothesis 1.c.** Those nonprofit firms that are ranked in the top third of the list will financially outperform those recognized nonprofits ranked on the bottom third of the list.

\[ FP = \alpha + \beta_1 Rank + \beta_2 Age + \beta_3 Assets + \varepsilon \]

A concern of the study is that the coefficient on List could be due to a bias in *The NonProfit Times’* list selection process. To address this concern, this hypothesis will test the differences in firm performance among listed firms only. If the list is a measure of people bottom line management, those nonprofits ranked at the top would have higher financial performance than those at the bottom. The Rank variable in this model is a dummy variable, with the firms ranked in the top third of the list for year 2013 only as 1 and those in the bottom third for the same year as 0. The model will also control for age as measured from the founding year to 2014 (Age) and size based on the natural log of 2014 total assets (Assets) from its IRS Form-990.

**Hypothesis 1.d.** Leader turnover is negatively related to people bottom line management as measured by inclusion on *The NonProfit Times* “Best Nonprofits to Work For” list.

\[ LIST = \alpha + \beta_1 POChange + \beta_2 Age + \beta_3 Assets + \varepsilon \]

\[ TENURE = \alpha + \beta_1 POChange + \beta_2 Age + \beta_3 Assets + \varepsilon \]

In these model, two dependent variables will tested for the prediction of whether or not an organization is listed on the 50 Best Nonprofits to Work For list from the number of Principal Officer changes over the period 2009-2016 and for the prediction of the tenure
of a nonprofit on the 50 Best Nonprofits to Work For list from the number of Principal Officer changes over the period 2009-2016, controlling for age as measured from the founding year to 2014 (Age) and size based on the natural log of 2014 total assets (Assets) from its IRS Form-990.

**Hypothesis 2**

**Hypothesis 2.** External stakeholder accountability (social entrepreneurial leadership) as measured by the adoption of one or more social entrepreneurship strategies is positively related to nonprofit financial performance.

\[
FP = \alpha + \beta_1 SES_{1...6} + \beta_7 Age + \beta_8 Assets + \epsilon
\]

To test hypothesis 2, financial performance will also serve as the dependent variable, with the independent variables of interest, \(SES_{1...6}\), representing each of the 6 social entrepreneurship strategies, to determine the effect of the nonprofit’s adoption of one or more social entrepreneurship strategies on the firm’s financial performance, again controlling again for age as measured from the founding year to 2014 (Age) and size based on the natural log of 2014 total assets (Assets) from its IRS Form-990.

**Threats to Validity and Reliability**

**Threats to Validity**

Operationalizing internal accountability and people bottom line management as recognition as a best nonprofit to work for by *The NonProfit Times* assumes inclusion on the list is an accurate representation of this dimension of CSR. Hypothesis 1.c. attempts to address this assumption and potential threat to the validity of the tests by comparing nonprofits ranked in the top and bottom thirds of the list to each other. If the list process
accurately differentiates great workplaces, the ranking should be an accurate representation of the process for which the firms may be compared.

Another potential threat to validity arises during the *a priori* coding process of the mission statements in the test of Hypothesis 2. Merriam and Tisdell (2015) describe internal validity as credibility (data are believable from the perspectives of the participants) and external validity as transferability (findings allow for fit within similar contexts) in qualitative methods such as *a priori* coding. To ensure credibility in the coding process and reduce threats to internal validity, the coders will triangulate their findings with multiple sources of the nonprofit’s mission as represented in their mission statements and other strategic documents publicly available. In regard to ensuring transferability to address threats to external validity, I will include excerpts from the mission statements that tie to the applied *a priori* codes and present them in a clear table format.

**Threats to Reliability**

Threats to the reliability of the SES codes may arise during the *a priori* coding process. Merriam and Tisdell (2015) describe reliability as consistency (post hoc, the results are consistent with the data collected but account for the ever-changing context) in qualitative methods. It is important to test inter-rater reliability of the two-coder mission statement coding process. This was done by calculating the kappa coefficient (Cohen, 1960) to ensure the codes reach acceptable levels of reliability (Landis & Koch, 1977).

**Summary**

The research question, “Is the practice of CSR effective for nonprofit organizations?” and related hypotheses were tested in a multiple regression model. Prior
studies involving similar variables have lacked empirical tests and failed to include nonprofit firms in their sampling. The practice of CSR is operationalized on two dimensions: people bottom line management and social entrepreneurship while the dependent variable of financial performance is operationalized as 1) management expense ratio (management and general expense/total expenses), 2) program expense ratio (program expenses/total expenses, 3) fundraising expense ratio (fundraising expenses/total expenses), 4) fundraising efficiency ratio (fundraising expenses/total contributions and grants), 5) net assets/total revenues, 6) administrative expenses/total revenues, and 7) total liabilities/total assets. Threats to validity and reliability were addressed using recommended quantitative and qualitative strategies to ensure the trustworthiness of the study’s findings. The following chapter will present the results of the coding process and statistical tests.
Chapter 4: Results

The purpose of this study is to examine the link between the practice of CSR and a nonprofit firm’s financial performance, controlling for the firm’s age and size. The study is guided by the following research question: “Is the practice of CSR effective for nonprofit organizations?” Five hypotheses are tested:

Hypothesis 1.a.: Nonprofit firms with a focus on people bottom line management as measured by inclusion on The NonProfit Times “Best Nonprofits to Work For” list will financially out-perform matched nonprofits not recognized on the list.

Hypothesis 1.b.: Nonprofit firms with a longer tenure on the list will financially outperform matched to a greater degree than those with a shorter tenure.

Hypothesis 1.c.: Those nonprofit firms that are ranked in the top third of the list will financially outperform those recognized nonprofits ranked on the bottom third of the list.

Hypothesis 1.d. Leader turnover is negatively related to people bottom line management as measured by inclusion on The NonProfit Times “Best Nonprofits to Work For” list.

Hypothesis 2. The practice of social entrepreneurship as measured by the adoption of one or more social entrepreneurship strategies is positively related to nonprofit financial performance.

The results of the hypothesis tests are presented below, starting with an overview of the data collection process, then the descriptive statistics of the sample, followed by the results of the hypothesis tests along with a brief summary.
Data Collection

Data were collected from May 4, 2017 to July 19, 2017 to derive a sample of 153 nonprofits that have been listed on the *The NonProfit Times* “Best Nonprofits to Work For” list between 2010 and 2016. The data collection process followed the sampling methodology mentioned above. Of the listed nonprofits, 144 have a 501(c)(3) status, 7 have a 501(c)(6) status, 1 has a 501(c)(19) status, and 1 has a 501(c)(4) status, as seen in Figure 4. As depicted in Figure 5, 50% of the listed nonprofits have 1 NTEE code in their Guidestar.org record, which was used to create the match; while 33% have 2 NTEE codes, and 17% have 3 NTEE codes. Figure 6 shows the breakdown of the most frequent NTEE codes of the listed nonprofits, with 18% as O50, Youth Development Programs; 13% as P30, Children’s and Youth’s Services, 7% as B90, Educational Services and Schools – Other, 7%; and 7% as P99, Human Services & Other N.E.C.

Similar to the listed nonprofits, of the 153 matched firms, 144 have a 501(c)(3) status, 7 have a 501(c)(6) status, 1 has a 501(c)(19) status, and 1 has a 501(c)(4) status, as seen in Figure 7. However, 69% have 1 NTEE code, 11% have 2 codes, and 20% have 3 codes (see Figure 8). The most frequent codes of the matched firms share the top three NTEE codes with the listed nonprofits of O50, Youth Development Programs, with 18%; P30, Children’s & Youth Services, 10%; and B90, Educational Services and Schools – Other, 6% (see Figure 9).

This brings the total sample to 288 nonprofits with a 501(c)(3) status, 14 with a 501(c)(6) status, 2 with a 501(c)(19) status, and 2 with a 501(c)(4) status (see Figure 10). Seventeen percent have 1 NTEE code, 33% have 2, and 50% have 3 (see Figure 11). The most frequent NTEE codes of the total sample are similar to the listed and matched
nonprofits, of O50, Youth Development Programs, with 17%; P30, Children’s & Youth Services, 12%; and B90, Educational Services and Schools – Other, 7% (see Figure 12). Greenlee and Tuckman (2007) recommend comparing nonprofit firm financial performance within similar subsectors, which the successful matching on NTEE codes provides in this study (see also Figure 13).
Figure 4
Status of The NonProfit Times Listed Nonprofits

Figure 5
Number of NTEE Codes of each of The NonProfit Times Listed Nonprofits
Figure 6
Most Frequent NTEE Codes of The NonProfit Times Listed Nonprofits
Figure 7
Status of Matched Nonprofits

Figure 8
Number of NTEE Codes of Each of the Matched Nonprofits
Figure 9
Most Frequent NTEE Codes of the Matched Nonprofits
Figure 12
Most Frequent NTEE Codes of the Total Sample

- O50 - Youth Development Programs: 17%
- P30 - Children’s & Youth Services: 12%
- B90 - Educational Services and Schools—Other: 7%
- P20 - Human Service Organizations: 6%
- P99 - Human Services—Multipurpose & Other N.E.C.*: 6%

- O30 - Adult, Child Matching Programs: 3%
- G41 - Eye Diseases, Blindness, & Vision Impairment: 3%
- W30 - Military/Veterans’ Organizations: 3%
- W70 - Leadership Development: 4%
- S41 - Promotion of Business (Chambers of Commerce): 4%
- O20 - Youth Centers (includes Boys/Girls Clubs)—Multipurpose: 4%
- N30 - Cancer: 4%
- B20 - Elementary, Secondary Ed: 4%
- P60 - Emergency Assistance (Food, Clothing, Cash): 6%
- T31 - Community Foundations: 3%
- S02 - Management & Technical Assistance: 3%
- P82 - Developmentally Disabled Services/Centers: 3%
- S20 - Community/Neighborhood Development, Improvement: 3%
- L41 - Temporary Shelter for the Homeless: 3%
- P40 - Family Services: 3%
- S09 - Other: 6%
Study Results

Multiple regression analyses were conducted to examine four research hypotheses in the prediction of nonprofit financial performance. Regression analyses to test Hypotheses 1.a., 1.b., and 1.c. were run separately due to multicollinearity among predictor variables LIST and TENURE ($r = .716, p < .01$). Table 4 presents the means, standard Deviations, and intercorrelations for the dependent and predictor variables of hypotheses 1.a.-1.c.
Table 4

Means, Standard Deviations, and Intercorrelations for Dependent and Predictor Variables of Hypotheses 1.a.-1.c.

<table>
<thead>
<tr>
<th>Variable</th>
<th>$M$</th>
<th>$SD$</th>
<th>$MX$</th>
<th>$PX$</th>
<th>$FX$</th>
<th>$FE$</th>
<th>$NA/TR$</th>
<th>$AE/TR$</th>
<th>$TL/TA$</th>
<th>$LIST$</th>
<th>$TENURE$</th>
<th>$RANK$</th>
<th>$AGE$</th>
<th>$ASSETS$</th>
</tr>
</thead>
<tbody>
<tr>
<td>MX</td>
<td>0.13</td>
<td>0.12</td>
<td>1.00</td>
<td>-.253**</td>
<td>-.11</td>
<td>-0.03</td>
<td>.163**</td>
<td>.708**</td>
<td>-0.04</td>
<td>-0.18**</td>
<td>-.144*</td>
<td>-0.21</td>
<td>0.06</td>
<td>0.08</td>
</tr>
<tr>
<td>PX</td>
<td>0.81</td>
<td>0.28</td>
<td>-.253**</td>
<td>1.00</td>
<td>.123*</td>
<td>0.03</td>
<td>-0.09</td>
<td>-.208**</td>
<td>0.07</td>
<td>0.11</td>
<td>0.03</td>
<td>-0.17</td>
<td>-0.05</td>
<td>0.07</td>
</tr>
<tr>
<td>FX</td>
<td>0.03</td>
<td>0.05</td>
<td>-0.11</td>
<td>.123*</td>
<td>1.00</td>
<td>-0.05</td>
<td>-0.10</td>
<td>-0.09</td>
<td>-0.09</td>
<td>.393**</td>
<td>.276**</td>
<td>0.13</td>
<td>0.01</td>
<td>-0.02</td>
</tr>
<tr>
<td>FE</td>
<td>602.69</td>
<td>7431.75</td>
<td>-0.03</td>
<td>0.03</td>
<td>-0.05</td>
<td>1.00</td>
<td>-0.01</td>
<td>-0.03</td>
<td>-0.04</td>
<td>-0.05</td>
<td>-0.01</td>
<td>-0.07</td>
<td>0.03</td>
<td></td>
</tr>
<tr>
<td>NA/TR</td>
<td>2.32</td>
<td>3.46</td>
<td>.163**</td>
<td>-0.09</td>
<td>-0.10</td>
<td>-0.01</td>
<td>1.00</td>
<td>.125*</td>
<td>-0.334**</td>
<td>-0.265**</td>
<td>-.201**</td>
<td>-0.23</td>
<td>0.07</td>
<td>.171**</td>
</tr>
<tr>
<td>AE/TR</td>
<td>0.13</td>
<td>0.25</td>
<td>.708**</td>
<td>-.208**</td>
<td>-0.09</td>
<td>-0.03</td>
<td>.125*</td>
<td>1.00</td>
<td>0.10</td>
<td>-0.11</td>
<td>-0.08</td>
<td>-0.23</td>
<td>-0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>TL/TA</td>
<td>0.26</td>
<td>0.26</td>
<td>-0.04</td>
<td>0.07</td>
<td>-0.09</td>
<td>-0.04</td>
<td>-.334**</td>
<td>0.10</td>
<td>1.00</td>
<td>0.08</td>
<td>0.01</td>
<td>0.18</td>
<td>-0.06</td>
<td>0.10</td>
</tr>
<tr>
<td>LIST</td>
<td>0.50</td>
<td>0.50</td>
<td>-.180**</td>
<td>0.11</td>
<td>.393**</td>
<td>-0.05</td>
<td>-.265**</td>
<td>-0.11</td>
<td>0.08</td>
<td>1.00</td>
<td>.716**</td>
<td>.c</td>
<td>-0.11</td>
<td>-0.01</td>
</tr>
<tr>
<td>TENURE</td>
<td>1.09</td>
<td>1.53</td>
<td>-.144*</td>
<td>0.03</td>
<td>.276**</td>
<td>-0.05</td>
<td>-.201**</td>
<td>-0.08</td>
<td>0.01</td>
<td>.716**</td>
<td>1.00</td>
<td>.406*</td>
<td>-0.11</td>
<td>0.05</td>
</tr>
<tr>
<td>RANK</td>
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<td>0.51</td>
<td>-0.21</td>
<td>-0.17</td>
<td>0.13</td>
<td>-0.01</td>
<td>-0.23</td>
<td>-0.23</td>
<td>0.18</td>
<td>.c</td>
<td>.406*</td>
<td>1.00</td>
<td>-0.26</td>
<td>0.01</td>
</tr>
<tr>
<td>AGE</td>
<td>42.16</td>
<td>35.16</td>
<td>0.06</td>
<td>-0.05</td>
<td>0.01</td>
<td>-0.07</td>
<td>0.07</td>
<td>-0.01</td>
<td>-0.06</td>
<td>-0.11</td>
<td>-0.11</td>
<td>-0.26</td>
<td>1.00</td>
<td>0.186**</td>
</tr>
<tr>
<td>ASSETS</td>
<td>15.99</td>
<td>3.56</td>
<td>0.08</td>
<td>0.07</td>
<td>-0.02</td>
<td>0.03</td>
<td>.171**</td>
<td>0.01</td>
<td>0.10</td>
<td>-0.01</td>
<td>0.05</td>
<td>0.01</td>
<td>0.186**</td>
<td>1.00</td>
</tr>
</tbody>
</table>

*p < .05  **p < .01.
Test of Hypothesis 1.a.

First, seven multiple regression analyses were conducted to examine the prediction of nonprofit financial performance measured by 1) management expense ratio, 2) program expense ratio, 3) fundraising expense ratio, 4) fundraising efficiency ratio, 5) net assets/total revenues, 6) administrative expense/total revenues, and 7) total liabilities/total assets from 50 Best Nonprofits to Work For list recognition, controlling for age and asset size (see Table 5). The financial performance dependent variables are an average of the ratios for each organization from 2012-2014. The list independent variable is a dummy variable taking the value of 1 if the nonprofit has been included on at least one of the 50 best lists from 2010-2016, and a 0 otherwise. The age and assets control variables are for the year 2014.

Three models were statistically significant. First, the model including list recognition (LIST) significantly explains management and general expense ratio variance \( R^2 = .041, F(3, 285) = 4.06, p < .01 \), and LIST \( (B = -.044, t(285) = -3.13, p < .01) \) is contributing significantly and negatively to the model, consistent with the hypothesized direction. Second, the list recognition (LIST) model significantly explains fundraising expense ratio variance \( R^2 = .16, F(3, 292) = 17.88, p < .01 \), and LIST \( (B = .04, t(292) = 7.31, p < .01) \) is contributing significantly and positively to the model, inconsistent with the hypothesized direction. Third, the list recognition (LIST) model significantly explains net assets/total revenue variance \( R^2 = .10, F(3, 293) = 10.678, p < .01 \), and LIST \( (B = -1.74, t(293) = -4.68, p < .001) \) is contributing significantly and negatively to the model, inconsistent with the hypothesized direction.
Table 4

Test of Variation of Listed vs. Matched Nonprofits

\[ FP = a + \beta_1 List + \beta_2 Age + \beta_3 Assets + \epsilon \]

<table>
<thead>
<tr>
<th>Variable</th>
<th>MX</th>
<th>PX</th>
<th>FX</th>
<th>FE</th>
<th>NA/TR</th>
<th>AE/TR</th>
<th>TL/TA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>0.10*</td>
<td>0.04</td>
<td>0.67**</td>
<td>0.09</td>
<td>0.02</td>
<td>0.02</td>
<td>-156.90</td>
</tr>
<tr>
<td>LIST</td>
<td>-0.04**</td>
<td>0.01</td>
<td>0.06</td>
<td>0.03</td>
<td>0.04**</td>
<td>0.01</td>
<td>-892.34</td>
</tr>
<tr>
<td>AGE</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>-18.52</td>
</tr>
<tr>
<td>ASSETS</td>
<td>0.00</td>
<td>0.00</td>
<td>0.01</td>
<td>0.01</td>
<td>0.00</td>
<td>0.00</td>
<td>123.36</td>
</tr>
<tr>
<td>( R^2 )</td>
<td>0.04**</td>
<td>0.02</td>
<td>0.16**</td>
<td>0.01</td>
<td>.10**</td>
<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>( n )</td>
<td>289</td>
<td>289</td>
<td>296</td>
<td>276</td>
<td>297</td>
<td>288</td>
<td>298</td>
</tr>
</tbody>
</table>

* \( p < .05 \) ** \( p < .01 \).

The variables in Table 4 are defined as follows:

- **LIST** = dummy variable taking the value of 1 if the nonprofit has been included on at least one of the 50 best lists from 2010-2016 and 0 otherwise
- **AGE** = age of the nonprofit from year founded indicated on the IRS Form-990 to 2014
- **ASSETS** = the natural log of the total assets for 2014
- **MX** = management and general expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014
- **PX** = program service expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014
- **FX** = fundraising expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014
- **FE** = fundraising expense/contributions and grants (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014
- **NA/TR** = net assets/total revenue (Tuckman & Chang, 1991) averaged 2012-2014
- **AE/TR** = management and general expense/total revenue (Tuckman & Chang, 1991) averaged 2012-2014
- **TL/TA** = total liabilities/total assets (Ohlson, 1990) averaged 2012-2014
Tests of Causality of Hypothesis 1.a.

While better management expense ratio performance of listed nonprofits provides support for hypothesis 1.a. as well as stakeholder theory, it does not establish causality. Two tests attempted to provide evidence on whether nonprofits with greater financial resources could invest in great workplaces or if greater workplaces led to greater financial resources. First, listed nonprofits and their matched comparison control firms for the nonprofits ranked in the 2013 list were compared in an independent samples t-test to compare their average net assets the fourth, third, and second years before they were listed (2009-2011) to their average net assets for the year they were listed plus two forward performance years (2013-2015) (see Table 5). The results of this comparison suggest that listed nonprofits had fewer net assets in the three years prior to being listed ($M = 61,279,179, SD = 187,503,343, n = 48$) than the control firms ($M = 61,279,179, SD = 271,873,761, n = 45$), though there was no statistically significant difference between the means ($t = -.09, p = .929, p < .05$). However, listed nonprofits’ net assets did increase ($M = 148,786,678, SD = 669,116,480, n = 48$) and also increased in comparison to the control firms’ ($M = 85,251,787, SD = 358,056,565, n = 48$) in the forward performance years, however the results were not statistically significantly different likely due to the small sample size ($t = -.58, p = .563, p < .05$).
Second, listed nonprofits versus their matched comparison control firms for the nonprofits ranked in the 2013 list were compared in an independent samples t-test to compare their average total revenue less total expenses the fourth, third, and second years before they were listed (2009-2011) to their average total revenue less total expenses for the year they were listed plus two forward performance years (2013-2015) (see Table 6). The results of this comparison suggest that listed nonprofits had more total revenue less total expenses in the three years prior to being listed ($M = $2,843,551, SD = $7,397,262, n = 48) than the control firms ($M = $989,640, SD = $3,372,360, n = 45), though there was no statistically significant difference between the means ($t = 1.57, p = .121, p < .05$). Moreover, listed nonprofits’ total revenue less total expenses did increase ($M = $31,163,436, SD = $183,500,147, n = 48) and also increased in comparison to the control firms’ ($M = $6,205,998, SD = $20,365,554, n = 48) in the forward performance years, however the results were not statistically significantly different likely due to the small sample size ($t = .93, p = .351, p < .05$).

The results from the two tests of causality suggest that while listed nonprofits did have more total revenue less total expenses than the control firms prior to their list
selection, they had fewer total assets. None of the results were statistically significant, therefore causation conclusions may not be drawn.

Table 6

Comparison of Financial Performance: Total Revenue Less Total Expenses


<table>
<thead>
<tr>
<th>Listed Nonprofits</th>
<th>Control</th>
<th>t-statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,843,551</td>
<td>$989,640</td>
<td>0.937</td>
</tr>
<tr>
<td>n = 48</td>
<td>n = 48</td>
<td></td>
</tr>
</tbody>
</table>

Panel B: Three-Year Average Prior Performance (2009-2011)

<table>
<thead>
<tr>
<th>Listed Nonprofits</th>
<th>Control</th>
<th>t-statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>$31,163,436</td>
<td>$6,205,998</td>
<td>1.571</td>
</tr>
<tr>
<td>n = 48</td>
<td>n = 45</td>
<td></td>
</tr>
</tbody>
</table>

* p < .05  ** p < .01.

Test of Hypothesis 1.b.

Second, seven multiple regression analyses were conducted to examine the prediction of nonprofit financial performance measured by 1) management expense ratio, 2) program expense ratio, 3) fundraising expense ratio, 4) fundraising efficiency ratio, 5) net assets/total revenues, 6) administrative expense/total revenues, and 7) total liabilities/total assets from tenure (0-7 years) on the 50 Best Nonprofits to Work For list (see Table 7). The financial performance dependent variables are an average of the ratios for each organization from 2012-2014. The tenure independent variable is a continuous variable (0-7) of the years a nonprofit has been on the list from the years 2010 to 2016. The age and assets control variables are for the year 2014.

Three models significantly explain financial performance variance. First, the model including tenure significantly explains management and general expense ratio variance \([R^2 = .029, F(3, 285) = 2.89, p < .05]\), and TENURE \((B = -.01, t(285) = -2.52, p < .05)\) is contributing significantly and negatively to the model, consistent with
the hypothesized direction. Second, the model including tenure significantly explains fundraising expense ratio variance \([R^2 = .08, F(3, 292) = 8.28, p < .01]\), and TENURE \((B = .01, t(292) = 4.96, p < .01)\) is contributing significantly and positively to the model, inconsistent with the hypothesized direction. Third, the model including tenure significantly explains net assets/total revenue variance \([R^2 = .07, F(3, 293) = 7.78, p < .01]\), and TENURE \((B = -.46, t(293) = -3.67, p < .01)\) is contributing significantly and negatively to the model, inconsistent with the hypothesized direction.
Table 7

*Test of Variation of Listed Nonprofits' Tenure on the 50 Best List*

\[ FP = a + \beta_1 \text{Tenure} + \beta_2 \text{Age} + \beta_3 \text{Assets} + \varepsilon \]

(Coefficient (t-statistic)  

<table>
<thead>
<tr>
<th>Variable</th>
<th>MX</th>
<th>PX</th>
<th>FX</th>
<th>FE</th>
<th>NA/TR</th>
<th>AE/TR</th>
<th>TL/TA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
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<td>0.04</td>
<td>0.70**</td>
<td>0.09</td>
<td>0.03</td>
<td>-475.27</td>
<td>2794.56</td>
</tr>
<tr>
<td>TENURE</td>
<td>-0.01</td>
<td>0.01</td>
<td>0.00</td>
<td>0.01</td>
<td>0.01**</td>
<td>0.00</td>
<td>284.45</td>
</tr>
<tr>
<td>AGE</td>
<td>0.00</td>
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<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>-18.58</td>
<td>13.16</td>
</tr>
<tr>
<td>ASSETS</td>
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<td>0.00</td>
<td>0.01</td>
<td>0.01</td>
<td>0.00</td>
<td>134.92</td>
<td>173.72</td>
</tr>
</tbody>
</table>

\[ R^2 = .029^* \]

\[ n = 289 \]

* \( p < .05 \) ** \( p < .01 \).  

The variables in Table 7 are defined as follows:  

TENURE = the number of years a listed nonprofit has been on the 50 Best List 2010-2016  

AGE = age of the nonprofit from year founded indicated on the IRS Form-990 to 2014  

ASSETS = the natural log of the total assets for 2014  

MX = management and general expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014  

PX = program service expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014  

FX = fundraising expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014  

FE = fundraising expense/contributions and grants (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014  

NA/TR = net assets/total revenue (Tuckman & Chang, 1991) averaged 2012-2014  

AE/TR = management and general expense/total revenue (Tuckman & Chang, 1991) averaged 2012-2014  

TL/TA = total liabilities/total assets (Ohlson, 1990) averaged 2012-2014
Test of Hypothesis 1.c.

Third, seven multiple regression analyses were conducted to examine the prediction of nonprofit financial performance measured by 1) management expense ratio, 2) program expense ratio, 3) fundraising expense ratio, 4) fundraising efficiency ratio, 5) net assets/total revenues, 6) administrative expense/total revenues, and 7) total liabilities/total assets from rank (top third vs. bottom third of list) on the 2014 50 Best Nonprofits to Work For list (see Table 8).

The financial performance dependent variables are an average of the ratios for each organization from 2012-2014. The rank independent variable is a dummy variable taking the value of 1 if the nonprofit was ranked in the top third of the 2014 list and 0 if in the bottom third. The age and assets control variables are for the year 2014.

None of the models significantly explain financial performance variance (see Table 8).
### Table 8

**Test of Variation of Rank of Nonprofits on the 50 Best List**

\[ FP = a + \beta_1 \text{Rank} + \beta_2 \text{Age} + \beta_3 \text{Assets} + \varepsilon \]

<table>
<thead>
<tr>
<th>Variable</th>
<th>MX</th>
<th>PX</th>
<th>FX</th>
<th>FE</th>
<th>NA/TR</th>
<th>AE/TR</th>
<th>TL/TA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>0.10</td>
<td>0.10</td>
<td>0.74</td>
<td>0.64</td>
<td>-0.17</td>
<td>0.09</td>
<td>89.82</td>
</tr>
<tr>
<td>RANK</td>
<td>-0.03</td>
<td>0.03</td>
<td>-0.09</td>
<td>0.16</td>
<td>0.03</td>
<td>0.02</td>
<td>1.55</td>
</tr>
<tr>
<td>AGE</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.49</td>
</tr>
<tr>
<td>ASSETS</td>
<td>0.00</td>
<td>0.01</td>
<td>0.01</td>
<td>0.04</td>
<td>0.01*</td>
<td>0.01</td>
<td>-3.12</td>
</tr>
<tr>
<td>( R^2 )</td>
<td>0.05</td>
<td>0.07</td>
<td>0.19</td>
<td>0.01</td>
<td>0.29</td>
<td>0.07</td>
<td>0.03</td>
</tr>
<tr>
<td>( n )</td>
<td>32</td>
<td>32</td>
<td>33</td>
<td>32</td>
<td>33</td>
<td>32</td>
<td>33</td>
</tr>
</tbody>
</table>

* \( p < .05 \) ** \( p < .01 \).  

The variables in Table 8 are defined as follows:  
RANK = dummy variable taking the value of 1 if the nonprofit was ranked in the top third of the 2014 list and 0 if in the bottom third  
AGE = age of the nonprofit from year founded indicated on the IRS Form-990 to 2014  
ASSETS = the natural log of the total assets for 2014  
MX = management and general expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014  
PX = program service expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014  
FX = fundraising expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014  
FE = fundraising expense/contributions and grants (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014  
NA/TR = net assets/total revenue (Tuckman & Chang, 1991) averaged 2012-2014  
AE/TR = management and general expense/total revenue (Tuckman & Chang, 1991) averaged 2012-2014  
TL/TA = total liabilities/total assets (Ohlson, 1990) averaged 2012-2014
**Test of Hypothesis 1.d.**

Fourth, a logistic regression analysis was conducted to examine the prediction of people bottom line management measured by a nonprofit listed on the 50 Best Nonprofits to Work For list from years 2010-2016, dummy coded at 1 if on the list during that time period and 0 otherwise and a multiple regression analysis was conducted to examine the prediction of a nonprofit’s tenure on the list measured from 0 to 7, with 0 as no years on the list, and 7 as spending all years on the list from 2010-2016, from leader turnover as measured by Principal Officer change from 2009 to 2016.

Each model significantly explains people bottom line management variance, with PO CHANGE explaining a significant amount of LIST variance \([Cox & Snell R^2 = .02, p < .10]\), and PO CHANGE \((B = -.24, Wald = 3.81, p < .10)\) is contributing significantly and negatively to the model, consistent with the hypothesized direction (see Table 9). In addition, PO CHANGE explaining a significant amount of TENURE variance \([R^2 = .03, F(3, 285) = 2.94, p < .05]\), and PO CHANGE \((B = -.19, t(296) = -2.09, p < .05)\) is contributing significantly and negatively to the model, consistent with the hypothesized direction (see Table 9).
Table 9

*Test of Variation of Leader Turnover*

\[ LIST = \alpha + \beta_1 \text{PO Change} + \beta_2 \text{Age} + \beta_3 \text{Assets} + \epsilon \]

\[ \text{TENURE} = \alpha + \beta_1 \text{PO Change} + \beta_2 \text{Age} + \beta_3 \text{Assets} + \epsilon \]

<table>
<thead>
<tr>
<th>Variable</th>
<th>LIST</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>TENURE</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>( B )</td>
<td>( SE )</td>
<td>( B )</td>
<td>( SE )</td>
<td>( B )</td>
<td>( SE )</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intercept</td>
<td>0.60</td>
<td>0.61</td>
<td>1.00*</td>
<td>0.46</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PO CHANGE</td>
<td>-0.24*</td>
<td>0.12</td>
<td>-0.19**</td>
<td>0.09</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AGE</td>
<td>-0.01*</td>
<td>0.00</td>
<td>-0.01**</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ASSETS</td>
<td>-0.01</td>
<td>0.04</td>
<td>0.03</td>
<td>0.03</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\( R^2 \)

\( 0.02^{††} \)

\( 0.03^{**} \)

\( n \)

149 not listed;
151 listed

300

* \( p < .10 \)** \( p < .05 \)** \( p < .01 \)

The variables in Table 9 are defined as follows:

PO CHANGE = the number of times the Principal Officer on the IRS Form-990 changed from the previous year (= Leader Turnover) from 2009 to 2016

AGE = age of the nonprofit from year founded indicated on the IRS Form-990 to 2014

ASSETS = the natural log of the total assets for 2014

LIST = dummy variable taking the value of 1 if the nonprofit has been included on at least one of the 50 best lists from 2010-2016 and 0 otherwise

TENURE = the number of years a nonprofit has been on the 50 Best List, including non-listed nonprofits (0 to 7 years, from 2010 to 2016)

† Cox & Snell
Test of Hypothesis 2

Hypothesis 2 was tested on the same total sample of the 306 Best Nonprofits to Work For and their matches.

Coding Process

Each organization’s practice of a social entrepreneurship strategy was determined by coding of their mission statement. The mission statements were sourced from the organization’s website, or if unavailable, their Guidestar.org profile, and imported into NVivo as a PDF for coding. They were then coded by 2 raters using a consensus coding approach (MacQueen, McLellan, Kay, & Milstein, 1998). The two raters included the researcher and a research assistant at Eastern Mennonite University’s Center for Interfaith Engagement with an M.A. in conflict transformation and practical experience coding for nonprofit consulting clients. The raters used the six codes and associated topic areas as identified by Chandra, Jiang, and Wang (2016) and detailed in Table 1 as a codebook to reference when applying the codes (MacQueen, McLellan, Kay, & Milstein, 1998). First the raters met to discuss the codebook and how to apply the codes. Second, the raters coded each mission statement on their own and then met to agree on the codes for each nonprofit. The nonprofit received a dummy code of 1 by each rater if they practiced that particular social entrepreneurship strategy, and a 0 otherwise. When the two raters met to check agreement, when agreement was met, the strategy for that particular nonprofit was assigned a 1, and otherwise, a 0.

To increase validity, the raters triangulated their coding by referencing the full strategic plan available on the organization’s website by checking for key words and strategies to confirm the code based on the associated topics. Sample mission statements
associated with the social entrepreneurship codes are presented in Table 9. For example, the Build Physical Capital code is associated with “resource support.” Therefore, The National Society of Collegiate Scholars was coded at Build Physical Capital by each rater as they provide “a million dollars in scholarships annually.”

Inter-rater reliability of the codes was checked, with “substantial” (0.61 to 0.80) to “almost perfect” (0.81 to 1.00) kappa coefficients for the ratings of each code (Cohen, 1960; Landis & Koch, 1977) (see Table 10). Also, descriptive statistics and intercorrelations between the predictor and dependent variables for hypothesis 2 are presented in Tables 12 and 13. None of the predictor variables have high correlations, so all of them were included in the model at the same time.

<table>
<thead>
<tr>
<th>Code</th>
<th>Mission Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Empowerment</td>
<td>We’re a non-profit organization on a mission to create opportunities for individuals and families to reach self-sufficiency through family support services, education, employment, and leadership. We will achieve this mission by creating an environment that rewards excellence and innovation, encourages mutual respect, and maximizes resources. (Brighton Center)</td>
</tr>
</tbody>
</table>
Collective Action

Volunteers of America is a movement organized to reach and uplift all people and bring them to the knowledge and active service of God. Volunteers of America, illustrating the presence of God through all that we do, serves people and communities in need and creates opportunities for people to experience the joy of serving others. Volunteers of America measures its success in positive change in the lives of individuals and communities we serve. (Volunteers of America)

Reform the System

The Human Rights Campaign and the Human Rights Campaign Foundation together serve as America's largest civil rights organization working to achieve LGBTQ equality. By inspiring and engaging individuals and communities, HRC strives to end discrimination against LGBTQ people and realize a world that achieves fundamental fairness and equality for all. (Human Rights Campaign)

Build Physical Capital

The National Society of Collegiate Scholars (NSCS) is an honors organization that recognizes and elevates high achievers. NSCS provides career and graduate school connections, leadership and service opportunities and gives out a million dollars in scholarships annually. NSCS members are deeply committed to scholarship, leadership and service and as a result, are impacting their campus and local communities every day. (The National Society of Collegiate Scholars)

Evidence-Based Practices

The mission of the Allen Institute is to unlock the complexities of bioscience and advance our knowledge to improve human health. Using an open science, multi-scale, team-oriented approach, the Allen Institute focuses on accelerating foundational research, developing standards and models, and cultivating new ideas to make a broad, transformational impact on science. (Allen Institute)
Prototyping

Lead and conduct synergistic research with government, academia and industrial partners to stimulate innovation and creativity.

Deliver unique, collaborative, and comprehensive graduate and continuing education in science and engineering.

Inspire the next generation of aerospace engineers and scientists and provide outreach for the public good.

Incubate and commercialize new intellectual property developed through NIA’s research activities. (National Institute of Aerospace)

---

Table 11

**Inter-Rater Reliability Statistics of Social Entrepreneurship Codes**

<table>
<thead>
<tr>
<th>Code</th>
<th>Kappa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Empowerment</td>
<td>0.886**</td>
</tr>
<tr>
<td>Collective Action</td>
<td>0.721**</td>
</tr>
<tr>
<td>Reform the System</td>
<td>0.855**</td>
</tr>
<tr>
<td>Build Physical Capital</td>
<td>0.800**</td>
</tr>
<tr>
<td>Evidence-Based Practices</td>
<td>0.802**</td>
</tr>
<tr>
<td>Prototyping</td>
<td>0.907**</td>
</tr>
</tbody>
</table>

* * p < .05 ** p < .01.

Individual Empowerment, Collective Action, Reform the System, Build Physical Capital, Evidence-Based Practices, and Prototyping = dummy variables taking the value of 1 if they practice this social entrepreneurship strategy and 0 otherwise.
Table 12

_Means and Standard Deviations for Dependent and Predictor Variables of Hypothesis 2_

<table>
<thead>
<tr>
<th>Variable</th>
<th>M</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>MX</td>
<td>0.13</td>
<td>0.12</td>
</tr>
<tr>
<td>PX</td>
<td>0.81</td>
<td>0.28</td>
</tr>
<tr>
<td>FX</td>
<td>0.03</td>
<td>0.05</td>
</tr>
<tr>
<td>FE</td>
<td>602.69</td>
<td>7431.75</td>
</tr>
<tr>
<td>NA/TR</td>
<td>2.32</td>
<td>3.46</td>
</tr>
<tr>
<td>AE/TR</td>
<td>0.13</td>
<td>0.25</td>
</tr>
<tr>
<td>TL/TA</td>
<td>0.26</td>
<td>0.26</td>
</tr>
<tr>
<td>INDIVIDUAL EMPOWERMENT</td>
<td>0.66</td>
<td>0.48</td>
</tr>
<tr>
<td>COLLECTIVE ACTION</td>
<td>0.20</td>
<td>0.40</td>
</tr>
<tr>
<td>REFORM THE SYSTEM</td>
<td>0.14</td>
<td>0.35</td>
</tr>
<tr>
<td>BUILD PHYSICAL CAPITAL</td>
<td>0.23</td>
<td>0.42</td>
</tr>
<tr>
<td>EVIDENCE-BASED PRACTICES</td>
<td>0.11</td>
<td>0.31</td>
</tr>
<tr>
<td>PROTOTYPING</td>
<td>0.02</td>
<td>0.13</td>
</tr>
<tr>
<td>AGE</td>
<td>42.16</td>
<td>35.16</td>
</tr>
<tr>
<td>ASSETS</td>
<td>15.99</td>
<td>3.56</td>
</tr>
</tbody>
</table>

INDIVIDUAL EMPOWERMENT, COLLECTIVE ACTION, REFORM THE SYSTEM, BUILD PHYSICAL CAPITAL, EVIDENCE-BASED PRACTICES, AND PROTOTYPING = dummy variables taking the value of 1 if they practice this social entrepreneurship strategy and 0 otherwise.

AGE = age of the nonprofit from year founded indicated on the IRS Form-990 to 2014

ASSETS = the natural log of the total assets for 2014

MX = management and general expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014

PX = program service expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014

FX = fundraising expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014

FE = fundraising expense/contributions and grants (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014

NA/TR = net assets/total revenue (Tuckman & Chang, 1991) averaged 2012-2014

AE/TR = management and general expense/total revenue (Tuckman & Chang, 1991) averaged 2012-2014

TL/TA = total liabilities/total assets (Ohlson, 1990) averaged 2012-2014
**BEYOND BENEFICIARIES**

Table 13

*Intercorrelations for Dependent and Predictor Variables of Hypothesis 2*

<table>
<thead>
<tr>
<th>Variable</th>
<th>MX</th>
<th>PX</th>
<th>FX</th>
<th>FE</th>
<th>NA/TR</th>
<th>AE/TR</th>
<th>TL/TA</th>
<th>IE</th>
<th>CA</th>
<th>RTS</th>
<th>BPC</th>
<th>EBP</th>
<th>PROTO</th>
<th>AGE</th>
<th>ASSETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>MX</td>
<td>1.00</td>
<td>-.253**</td>
<td>-.11</td>
<td>-.03</td>
<td>.163**</td>
<td>.708**</td>
<td>-.04</td>
<td>.010</td>
<td>-.07</td>
<td>0.00</td>
<td>0.02</td>
<td>0.00</td>
<td>-0.06</td>
<td>0.06</td>
<td>0.08</td>
</tr>
<tr>
<td>PX</td>
<td>-.253**</td>
<td>1.00</td>
<td>.123*</td>
<td>0.03</td>
<td>-.09</td>
<td>-.208**</td>
<td>0.07</td>
<td>0.06</td>
<td>-.02</td>
<td>-.09</td>
<td>-.01</td>
<td>0.04</td>
<td>0.02</td>
<td>-0.05</td>
<td>0.07</td>
</tr>
<tr>
<td>FX</td>
<td>-.11</td>
<td>.123*</td>
<td>1.00</td>
<td>-.05</td>
<td>-.10</td>
<td>-.09</td>
<td>-.09</td>
<td>-.03</td>
<td>0.05</td>
<td>0.02</td>
<td>-.05</td>
<td>-.03</td>
<td>-.07</td>
<td>0.01</td>
<td>-0.02</td>
</tr>
<tr>
<td>FE</td>
<td>-.03</td>
<td>0.03</td>
<td>-.05</td>
<td>1.00</td>
<td>-.01</td>
<td>-.03</td>
<td>-.04</td>
<td>-.11</td>
<td>-.03</td>
<td>0.01</td>
<td>-.03</td>
<td>0.213**</td>
<td>-.01</td>
<td>-.07</td>
<td>0.03</td>
</tr>
<tr>
<td>NA/TR</td>
<td>.163**</td>
<td>-.09</td>
<td>-.10</td>
<td>-.01</td>
<td>1.00</td>
<td>.125*</td>
<td>.334**</td>
<td>-.01</td>
<td>-.07</td>
<td>-.08</td>
<td>.231**</td>
<td>0.04</td>
<td>-0.01</td>
<td>0.07</td>
<td>.171**</td>
</tr>
<tr>
<td>AE/TR</td>
<td>.708**</td>
<td>-.208**</td>
<td>-.09</td>
<td>-.03</td>
<td>.125*</td>
<td>1.00</td>
<td>-.03</td>
<td>-.05</td>
<td>-.02</td>
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<td>-0.01</td>
<td>-0.04</td>
<td>-0.01</td>
<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>TL/TA</td>
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<td>0.07</td>
<td>-.09</td>
<td>-.04</td>
<td>.334**</td>
<td>0.10</td>
<td>1.00</td>
<td>-.04</td>
<td>-.06</td>
<td>0.07</td>
<td>0.09</td>
<td>-.02</td>
<td>-.05</td>
<td>-.06</td>
<td>0.10</td>
</tr>
<tr>
<td>IC</td>
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<td>0.06</td>
<td>-.03</td>
<td>-.11</td>
<td>-.01</td>
<td>-.03</td>
<td>-.04</td>
<td>1.00</td>
<td>-.04</td>
<td>-.10</td>
<td>.353**</td>
<td>-.139*</td>
<td>-.124*</td>
<td>.146*</td>
<td>0.08</td>
</tr>
<tr>
<td>CA</td>
<td>-.07</td>
<td>-.02</td>
<td>0.05</td>
<td>-.03</td>
<td>-.07</td>
<td>-.05</td>
<td>-.06</td>
<td>-.04</td>
<td>1.00</td>
<td>.132*</td>
<td>-.02</td>
<td>-.02</td>
<td>-.06</td>
<td>-.05</td>
<td>-.03</td>
</tr>
<tr>
<td>RTS</td>
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<td>-.09</td>
<td>0.02</td>
<td>0.01</td>
<td>-.08</td>
<td>-.02</td>
<td>0.07</td>
<td>-.10</td>
<td>.132*</td>
<td>1.00</td>
<td>-.09</td>
<td>.186**</td>
<td>-.05</td>
<td>0.03</td>
<td>-.07</td>
</tr>
<tr>
<td>BPC</td>
<td>0.02</td>
<td>-.01</td>
<td>-.05</td>
<td>-.03</td>
<td>.231**</td>
<td>0.06</td>
<td>0.09</td>
<td>.353**</td>
<td>-.02</td>
<td>-.09</td>
<td>1.00</td>
<td>-.05</td>
<td>0.05</td>
<td>.176**</td>
<td>0.03</td>
</tr>
<tr>
<td>EBP</td>
<td>0.00</td>
<td>0.04</td>
<td>-.03</td>
<td>.213**</td>
<td>0.04</td>
<td>-.01</td>
<td>-.02</td>
<td>-.139*</td>
<td>-.02</td>
<td>.186**</td>
<td>-.05</td>
<td>1.00</td>
<td>.118*</td>
<td>-.03</td>
<td>0.05</td>
</tr>
<tr>
<td>PROTO</td>
<td>-.06</td>
<td>0.02</td>
<td>-.07</td>
<td>-.01</td>
<td>-.01</td>
<td>-.04</td>
<td>-.05</td>
<td>-.124*</td>
<td>-.06</td>
<td>-.05</td>
<td>0.05</td>
<td>.118*</td>
<td>1.00</td>
<td>-.10</td>
<td>-.01</td>
</tr>
<tr>
<td>AGE</td>
<td>0.06</td>
<td>-.05</td>
<td>0.01</td>
<td>-.07</td>
<td>0.07</td>
<td>-.01</td>
<td>-.06</td>
<td>.146*</td>
<td>-.05</td>
<td>0.03</td>
<td>.176**</td>
<td>-.03</td>
<td>-.10</td>
<td>1.00</td>
<td>.186**</td>
</tr>
<tr>
<td>ASSETS</td>
<td>0.08</td>
<td>0.07</td>
<td>-.02</td>
<td>0.03</td>
<td>.171**</td>
<td>0.01</td>
<td>0.10</td>
<td>0.08</td>
<td>-.03</td>
<td>-.07</td>
<td>0.03</td>
<td>0.05</td>
<td>-.01</td>
<td>.186**</td>
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</tr>
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</table>

* p < .05   ** p < .01.

**INDIVIDUAL EMPOWERMENT (IE), COLLECTIVE ACTION (CA), REFORM THE SYSTEM (RTS), BUILD PHYSICAL CAPITAL (BPC), EVIDENCE-BASED PRACTICES (EBP), AND PROTOTYPING (PROTO) = dummy variables taking the value of 1 if they practice this social entrepreneurship strategy and 0 otherwise**

**AGE = age of the nonprofit from year founded indicated on the IRS Form-990 to 2014**

**ASSETS = the natural log of the total assets for 2014**

**MX = management and general expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014**

**PX = program service expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014**

**FX = fundraising expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014**
FE = fundraising expense/contributions and grants (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014
NA/TR = net assets/total revenue (Tuckman & Chang, 1991) averaged 2012-2014
AE/TR = management and general expense/total revenue (Tuckman & Chang, 1991) averaged 2012-2014
TL/TA = total liabilities/total assets (Ohlson, 1990) averaged 2012-2014
Seven multiple regression analyses were conducted to examine the prediction of nonprofit financial performance measured by 1) management expense ratio, 2) program expense ratio, 3) fundraising expense ratio, 4) fundraising efficiency ratio, 5) net assets/total revenues, 6) administrative expense/total revenues, and 7) total liabilities/total assets from 6 social entrepreneurship strategies (see Table 10).

The financial performance dependent variables are an average of the ratios for each organization from 2012-2014. The independent variables are a dummy variable taking the value of 1 if the nonprofit practices that social entrepreneurship strategy and 0 if otherwise. The age and assets control variables are for the year 2014.

Two models significantly explain financial performance variance. First, the full model with all six social entrepreneurship strategies significantly explains fundraising efficiency ratio variance \([R^2 = .06, F(8, 267) = 2.21 \ p < .05]\), and EVIDENCE-BASED PRACTICES \((B = 4795.07, t(267) = 3.15, \ p < .01)\) is contributing significantly and positively to the model, consistent with the hypothesized direction. Second, the full model with all six social entrepreneurship strategies significantly explains net assets/total revenue variance \([R^2 = .10, F(8, 288) = 3.89, \ p < .01]\), and BUILD PHYSICAL CAPITAL \((B = 2.09, t(288) = 4.09, \ p < .01)\) is contributing significantly and positively to the model, consistent with the hypothesized direction.
### Table 14

**Test of Variation of Social Entrepreneurship Strategy**

\[ FP = \alpha + \beta_1 IE + \beta_2 CA + \beta_3 RTS + \beta_4 BPC + \beta_5 EBP + \beta_6 PROTO + \beta_7 AGE + \beta_8 ASSETS + \epsilon \]

<table>
<thead>
<tr>
<th>Variable</th>
<th>MX</th>
<th>PX</th>
<th>FX</th>
<th>FE</th>
<th>NA/TR</th>
<th>AE/TR</th>
<th>TL/TA</th>
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<tr>
<td></td>
<td>( B )</td>
<td>( SE_{B} )</td>
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<td>( SE_{B} )</td>
<td>( B )</td>
<td>( SE_{B} )</td>
<td>( B )</td>
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<td>0.01</td>
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</tr>
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<tr>
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<td>0.02</td>
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<td>0.05</td>
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<td>0.01</td>
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<tr>
<td>BPC</td>
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<td>-0.01</td>
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<td>0.01</td>
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<tr>
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<td>0.06</td>
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<td>4795**</td>
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<tr>
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<td>0.00</td>
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<tr>
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<td>0.01</td>
<td>0.01</td>
<td>0.00</td>
<td>0.00</td>
<td>88.62</td>
</tr>
</tbody>
</table>

\[ R^2 \] 0.03 0.02 0.02 .06* .10** 0.01 0.04 0.01 0.02 0.02 0.02 0.02

\[ n \] 289 289 296 275 297 288 298 298

* \( p < .05 \) ** \( p < .01 \).

The variables in Table 14 are defined as follows:

**INDIVIDUAL EMPOWERMENT (IE)**, **COLLECTIVE ACTION (CA)**, **REFORM THE SYSTEM (RTS)**, **BUILD PHYSICAL CAPITAL (BPC)**, **EVIDENCE-BASED PRACTICES (EBP)**, AND **PROTOTYPING (PROTO)** = dummy variables taking the value of 1 if they practice this social entrepreneurship strategy and 0 otherwise

**AGE** = age of the nonprofit from year founded indicated on the IRS Form-990 to 2014

**ASSETS** = the natural log of the total assets for 2014

**MX** = management and general expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014

**PX** = program service expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014

**FX** = fundraising expense/total expense (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014

**FE** = fundraising expense/contributions and grants (Greenlee, Randolph, & Richtermeyer, 2011) averaged 2012-2014

**NA/TR** = net assets/total revenue (Tuckman & Chang, 1991) averaged 2012-2014
AE/TR = management and general expense/total revenue (Tuckman & Chang, 1991) averaged 2012-2014
TL/TA = total liabilities/total assets (Ohlson, 1990) averaged 2012-2014
Summary

Figure 14: Summary of Results

1. Recognition on List 0/1 (0 not on list; 1 on list 2010-2016); N = 306
   - Supported \( R^2 = .02^* \)

2. Social Entrepreneurship Strategy
   - Adoption of one or more of 6 social entrepreneurship strategies (0/1 dummy code x 6); N = 306
   + Supported: \( MX R^2 = .04^{***} \)
   - Not Supported: \( FX R^2 = .16^{***} \)
   + Supported: \( NA/TR R^2 = .10^{***} \)
   - Not Supported: No significant results

3. List rank (Dummy coded 1 on top 3rd of 2014 list; 0 on bottom 3rd of 2014 list); N = 33
   + Supported: \( MX R^2 = .03^{**} \)
   - Not Supported: \( NA/TR R^2 = .07^{**} \)

4. Leader Turnover
   - Principal Officer Change 2009-2016 from IRS Form-990; N = 306
   - Supported \( R^2 = .03^{**} \)

5. # of years on list 0-7 (not on list to on list 2010-2016); N = 306

6. List rank (Dummy coded 1 on top 3rd of 2014 list; 0 on bottom 3rd of 2014 list); N = 33

Financial Performance

1. \( MX = \) management and general expense/total expense for each org. averaged 2012-2014
2. \( PX = \) program service expense/total expense for each org. averaged 2012-2014
3. \( FX = \) fundraising expense/total expense for each org. averaged 2012-2014
4. \( FE = \) fundraising expense/contributions and grants for each org. averaged 2012-2014
5. \( NA/TR = \) net assets/total revenue for each org. averaged 2012-2014
6. \( AE/TR = \) management and general expense/total revenue for each org. averaged 2012-2014
7. \( TL/TA = \) total liabilities/total assets for each org. averaged 2012-2014

Control Variables

- Age (Year Founded on IRS Form-990 to 2014)
- Asset Size (natural log of Total Assets in 2014)

Note: Control variables were largely non-significant across all models.

\* \( p < .10 \) \* \( p < .05 \) \* \( p < .01 \)
In summary, three of the four hypotheses received partial support, and two of the three also returned results disconfirming the hypotheses as represented in Figure 14. Hypothesis 1.a., that financial performance by firms listed between 2010-2016 as one of the 50 Best Nonprofits to Work For by *The NonProfit Times*, was supported in that those listed had better management and general expense ratio performance on average between 2012-2014 based on IRS Form-990 reported data. However, listed firms performed worse on the fundraising expense ratio and net assets/total revenue. This is also the case with hypothesis 1.b. measuring nonprofits with a longer tenure on the list, but to a lesser degree with lower significance, effect size, and slope values in the same models to predict management and general expense ratio, fundraising expense ratio, and net assets/revenue. Hypothesis 1.c., that a higher rank on the list predicts financial performance, received no support at a statistically significant level. Sample size likely affected the power in this case.

Hypothesis 2, that the practice of social entrepreneurship predicts financial performance, did receive support with the evidence-based practices strategy positively and significantly predicting the fundraising efficiency ratio and the build physical capital positively and significantly predicting net assets/total revenue.

An overall concern is that, while the results reported here are statistically significant, the effect sizes are small. The results are interpreted and discussed in Chapter 5, with recommendations and conclusions to follow.
Chapter 5: Discussion, Conclusions, and Recommendations

Indeed, nonprofit organizations are facing market level risks and greater accountability pressures that leaders must respond to strategically in order to survive and thrive in the current and future operating environments. The practice of CSR has proven to increase financial performance in for-profit corporations; however, there has been no empirical examination of CSR practice in nonprofit firms and its link to financial performance. The purpose of this study was to examine the link between the practice of CSR and a nonprofit firm’s financial performance, controlling for the firm’s age and size. The research question, “Is the practice of CSR effective for nonprofit organizations?”, has guided the study, and four hypotheses were tested.

Summary of the Findings

This particular study does lend support for CSR practice, including people bottom line management and the adoption of one of six social entrepreneurship strategies, contributing to the financial health of nonprofit organizations. Specifically, people bottom line management relates positively to the efficient use of management and general expenses, which can mean that a nonprofit with a great workplace can contribute to the potential for the organization to devote more of its resources toward its programs. However, the study also found that great nonprofits to work for perform worse on the fundraising expense ratio and net assets/total revenues. If listed and longer-tenured nonprofits are making more efficient use of management and general expense, the data suggest the excess funds may go toward less effective use of fundraising dollars and a need to improve their leverage. Leader turnover has negative effect on a nonprofit being listed and on an organization’s tenure on the list. With much of the sample only
recognized for one year on the list, leader turnover is one factor they may consider if they would like to continue to build and be recognized for a great workplace.

Organizations that adopt evidence-based practices as a social entrepreneurship strategy, the findings of the present study suggest, can see better fundraising efficiency, while those that adopt a strategy of building physical capital can see better net assets/total revenue. The strategies are likely connected to the types of work performed by the nonprofit, resulting in a natural connection between these variables, discussed below.

**Interpretation of Findings**

The study’s findings partially support prior research investigating the relationship between best workplace recognition and financial performance. Similar to Filbeck and Preece (2003), Fulmer, Gerhart, and Scott (2003), Ballou, Godwin, and Shortridge (2003), the present study found that the listed organizations out-performed a matched sample on the key measure in their sector from the test of hypothesis 1.a. In this case, the nonprofit sector values managerial efficiency such that a nonprofit may devote more of its resources to providing program services. Listed nonprofits and nonprofits with a longer tenure on the list show a reduction in the management and general expenses ratio, allowing them to devote more resources to performing their mission. Causation was not able to be established.

However, the results of the current study also refuted this previous literature. Listed nonprofits and those with longer tenure on the list perform worse on the financial performance ratio fundraising expense, meaning that while the listed and longer-tenured nonprofits show a reduction in the management and general expenses ratio, their fundraising expense ratio is higher. This means that more money spent on fundraising...
expenses could translate to less money spent on program services. However, listed nonprofits show a positive prediction of the program expenses ratio. They do out-perform non-listed nonprofits on how much they spend on program versus total expenses, but the result is not statistically significant. In addition, listed and longer-tenured nonprofits perform worse on the net assets/total revenues performance metric predicting financial risk. This may have to do with the large representation of youth-and children-serving organizations and schools. While their management and general expense ratios are efficient, they are not putting the extra money into savings, increasing their risk exposure. Another interpretation could be that the organizations that care enough about their public reputation to become a recognized best nonprofit to work for work on the ratios that the public may care about at the expense of other, more important, measures of financial health such as net assets/total revenue.

Despite the unsupportive findings, it is important to note that nonprofits with great workplaces actually lead to a more efficient average management and general expenses ratio compared to a matched comparison group. This dispels the notion by many that creating a great workplace would incur greater management costs relative to total expenses for higher salaries and benefits and perks such as on-site fitness centers and free food (Crowley, 2013). Or, at the very least, great workplace recognition does not hurt the management efficiency. A nonprofit recognized for its workplace practices can be more managerially efficient, rather than less. This bodes well for a sector that values this metric, especially at a time when they are trying to do more with less.

The results testing hypothesis 1.c. that higher-ranked nonprofits will out-perform lower-ranked nonprofits were not statistically significant. This disconfirms results by
Fulmer, Gerhart, and Scott (2003) who were concerned that the list selection process reflects a bias toward higher performing organizations and used rank to test the extent to which the degree of workplace attitudes predicts financial performance as an internal reliability measure of the list selection process itself. They found that rank did predict financial performance at the $p < .10$ level, although only “marginally” (p. 337). Fulmer, Gerhart, and Scott (2003) tested this hypothesis on a sample size of 125, which is much higher than the sample sizes of 32-33 in the present study. The small sample size starting with only 50 listed nonprofits, rather than the 100 of the FORTUNE list, may have led to less power, which is addressed in the limitations and recommendations later. Or, the 50 Best Nonprofits to Work For list process may not have internal reliability. Future research on a larger sample size, preferably with matches developed for listed nonprofits each year, is suggested to further test this hypothesis.

The findings from testing hypothesis 1.d., that leader turnover does negatively predict list recognition and tenure on the 50 Best Nonprofits to Work For list, are consistent with the findings from previous literature (Giambista, Rowe, & Riaz, 2005; Ballinger, 2005; Fee & Hadlock, 2004; Murnieks, Allen, & Ferrante, 2011). The findings also support the theory of relative standing and leader-member exchange theory and the importance of new leaders building relationships and trust between themselves and their employees. It could be that leaders with longer tenure are operating in more stable organizations and are able to invest the time and resources for recognition as a great nonprofit to work for. New leaders often feel the pressures of immediate needs and may not be able to invest their valuable time in such a recognition process. Overall, the results
point to the positive role leadership plays in great workplace recognition at least in the nonprofit sector and perhaps in other sectors.

In regard to the prediction of financial performance from social entrepreneurship strategy of hypothesis 2, two of the models were significant. First, the evidence-based practices strategy was the only significant predictor of fundraising efficiency. Greenlee, Randolph, and Richtermeyer (2011) argue that fundraising efficiency should be interpreted along with the fundraising expense ratio. In this case, evidence-based practice predicts a non-significant decrease in the fundraising expense ratio by 1%, indicating that the adoption of this particular strategy may out-perform other strategies on this important metric to measure a nonprofit’s efficient use of fundraising expenses. As noted in Table 1, the evidence-based practices strategy is comprised of conducting research and information-based practices. Nonprofit organizations that conduct research often receive large grants or contributions from donors who value this strategy. This may lead to an increase in fundraising efficiency due to the fact that they receive a larger number of grants and contributions based on their strategic approach of conducting research, which inherently relies on more contributions and grants than organizations with other missions. Their efficiency in developing these types of financial resources should be noted as a positive result supportive of hypothesis 2.

Second, build physical capital significantly and positively predicted net assets/total revenue, a metric predicting financial risk in nonprofit organizations. Again, referencing Table 1, the topics associated with build physical capital include build facilities, financial, and resource support. The strength of this particular strategy is in developing and providing resources for the organization to carry out its mission, such as
providing clients with financial support or other physical resources that they can use to better their lives. In this sense, the connection between the build physical capital strategy and the net assets/total revenue performance metric is a logical one and confirmed statistically by this model.

With only two out of the six social entrepreneurship strategies predicting positive financial performance, the hypothesis is not fully supported. This reflects previous research that also found conflicting results, such as the Morris et al. (2007) study that did not find a link between entrepreneurial orientation and financial performance in nonprofit organizations while the 2010 study by Pearce, Fritz, and Davis did find a positive association between entrepreneurial orientation and organizational performance measured by growth in voluntary giving on a sample of 250 religious congregations. However, the present study does add to the social entrepreneurship literature to suggest a positive link between two social entrepreneurship strategies and two financial performance variables in nonprofit organizations. This extends the body of literature by empirically testing social entrepreneurship at the strategy level, which few if any studies have done previously.

Overall, as most of the models were non-significant, there is less support for all of the hypotheses. This could be that CSR practices internal to nonprofit organizations may not matter as much as they do for for-profit organizations. Also, for-profit organizations are driven by their financial performance due to their profit motive. That may be the reason for the stronger connection between their CSR practices and financial performance than in nonprofit organizations. Another interpretation of the many non-significant results is that other financial performance variables are more important to
CSR practices than the ones chosen for the present study. The control variables are also non-significant in many of the models, which may mean that age and asset size do not relate to the chosen financial performance dependent variables and others should be chosen to represent organizational lifecycle and size. It is also important to note that the subsectors of many of the best nonprofits to work for in the sample are youth- and children-serving organizations. Perhaps they are rated as great workplaces due to their missions, which the employees enjoy, while not leading to better financial performance. This would be worth further exploration in future studies.

**Limitations of the Study**

The limitations to validity and reliability that arose from the execution of the study are important should be noted. First, the study may be limited by the matching process and development of the sample due to the lack of accessible databases and searches of the variables of interest for nonprofit organizations. Nonprofit databases are not as robust as those for large, publicly-traded companies, making the matching process less robust. Greenlee and Tuckman (2007) also note that one of the most comprehensive databases, Guidestar.org, recently significantly raised its fees. As a student researcher, I was able to obtain free access to the Guidestar.org premium search feature after the approval of my application, which allowed me to develop the matched comparison portion of the sample based on a search by NTEE code, status, and most current total assets. Through this process I was able to match the listed nonprofit with another nonprofit; however only by one of their sometimes 2-3 NTEE codes. In addition, the database and search function limited the match to only one year, which would be the most current year of data available for that nonprofit. Previous studies increased their
sample size, and perhaps their reliability, validity, and power, by creating a separate match for each year a company appeared on the *FORTUNE* list based on financial metrics for separate years. They also matched exactly on the SIC code, for which the company only had one. Upon contacting Guidestar.org to inquire about assisting me to develop matches for the listed nonprofits for each year they appear on the list, they informed me that it would range in the high thousands of dollars, which is beyond the financial budget of the present study. Future research could seek funding to cover this cost for a more robust matching process.

Second, the 50 Best Nonprofits to Work For list is much smaller than the *FORTUNE* 100 Best Companies to Work For, which resulted in a smaller sample size. It also potentially led to the non-significant results for hypothesis 2.c. regarding the rank, as there were fewer nonprofits to compare the top and bottom third of the rank for fewer than 50 organizations, due to the need to remove incomplete data.

Third, the Best Companies Group, which administered the list process, was contacted several times for access to their data, which was denied, as well as to clarify and specify the organizations on their list, which they were also not willing to provide. This resulted in a smaller sample size.

Finally, the self-reported data on the IRS Form-990 likely introduced error into the data and analysis as there is no uniform way to allocate costs between management and general expenses, program expenses, and fundraising expenses, nor is the tax return audited (Greenlee, Randolph, & Richtermeyer, 2011). In addition, as mentioned above, the interpretation of the management and general expense and program service expense ratios should be made with caution (Greenlee & Tuckman, 2007). While they are used by
certain watchdog groups like Charity Navigator as a measure of a nonprofit’s efficient use of funds such that it can or does spend more on program services, there are no hard and fast rules in allocating these funds on the IRS Form-990. This leads to the potential for organizations to inflate these numbers, especially if they know that certain donors are using them to make funding decisions. Also, while efficient use of management and general funds can mean program services receive more funding, the organization also needs money to pay staff and invest in the growth of its operational capacity. Therefore, these ratios should be interpreted within this context and can limit the impact of the results that have provided some support for some of the hypotheses.

**Recommendations**

**Recommendations for Future Research**

Despite the above-mentioned limitations, the present study has many strengths on which future research may build. First, this study demonstrates that it is possible to compare nonprofits recognized as great workplaces to a matched comparison group and generate significant results. Future studies would do well to develop the matches based on all of the NTEE codes of the listed nonprofit and for each year the nonprofit was listed. This would generate a sample size with greater power in order to confirm or refute the results presented here. The process would require greater collaboration with a nonprofit database organization such as Guidestar.org to develop custom reports. Special funding or other arrangements would be needed for such an endeavor.

Second, other measures of nonprofit financial performance beyond the seven presented here should be tested in future studies. Third, future research should compare the listed nonprofits on financial performance not only to a matched comparison group
but also to a sector or subsector comparison group as Greenlee, Randolph, and
Richtermeyer (2011) recommend. Fourth, further research should investigate the extent to
which donors valued listed nonprofits more after they were announced as a great
workplace. The present study is a better examination of financial performance concurrent
with list recognition due to the available data. Future studies could examine if the list
recognition resulted in increased grants and contributions or other performance measures.
This would be possible in future years with more listed nonprofits or the sampling
methodology mentioned above in order to generate an adequate sample size.
Furthermore, as leader turnover negatively predicted list recognition and tenure on the
list, future research should repeat the study on a different sample to determine if the
hypothesis holds.

Fifth, further research on social entrepreneurship should focus at the strategic
level. While the present study adds to the literature by empirically testing the relationship
between one of six social entrepreneurship strategies and seven nonprofit financial
performance measures, future studies may focus on testing the strategies against other
financial performance measures, either in the nonprofit or for-profit sectors. For example,
other measures may include the nonprofit’s ability to better raise unrestricted funds, or
the for-profit’s market value or sales as a measure of ability to scale services to certain
under-represented customers.

Sixth, the present study was the first to apply the six strategies mined by Chandra,
Jiang, and Wang (2016) as a priori codes as an independent variable to predict financial
performance of nonprofit firms. The strategies are practice-based and the results from the
current study suggest a priori codes developed from a practice base can enhance
BEYOND BENEFICIARIES

research. In addition, it provides further precedent for utilizing the strategies in further research.

Finally, follow-up qualitative interviews with leaders would enhance this line of research to explain the results found here.

Recommendations for Practice

Nonprofit leaders can recognize the practice of CSR can benefit their organization in several ways. First, by practicing better people bottom line management, they can potentially improve the management efficiency of their organization. Second, their tenure at the organization can improve the tenure of the firm as recognized for its human resource practices as a great workplace. This should encourage those that are recognized on the list to stay longer, and those that may be recognized in the future, not to leave their organizations if they would like to maintain their company’s workplace recognition and ensuing benefits. Nonprofit boards must discourage such executive turnover, and when it is necessary, have adequate succession plans in place to limit employee disengagement after the leader departs. Third, leaders of listed nonprofits should both celebrate their better management efficiency while at the same time examining their fundraising expense and leverage. Finally, leaders looking to adopt one or more social entrepreneurship strategies can test evidence-based practices and building physical capital if seeking to improve their fundraising efficiency ratio and net assets/total revenue, respectively.
Conclusions

Nonprofit organizations can take advantage of the benefits of a great workplace at a time when they need it most. Through the proactive practice of CSR, nonprofits can realize better management efficiency, fundraising efficiency, and asset performance. However, the results of this exploratory study more likely suggest that there is not a strong link between CSR practice within nonprofit organizations and financial performance, perhaps due to their public benefit, not profit-driven motive. Leaders play a significant role in maintaining a great workplace through their turnover behavior and strategic decision-making to guide the nonprofit to realize these benefits. Given these findings, leaders must take their responsibility seriously to adopt practices and strategies that benefit multiple stakeholders in their organizations that can in turn lead to better efficiency and performance. This can result in the sector moving beyond beneficiaries of corporate philanthropy to a more sustainable practice of CSR.
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Appendix A: Sample of Employee Benefits and Policies Questionnaire of the “50 Best Nonprofits to Work For” Assessment

Best Companies Group

1500 Paxton Street, Harrisburg, PA 17104
phone 717/309.1570 • fax 717/236.8803 • www.bestcompaniesgroup.com

Work/Life Balance and Wellness Initiatives Continued:

56: As a standard year-round practice, does your organization offer employees the option to work flexible hours or a compressed work week?
○ Yes
○ No

A compressed work week is one in which an employee has the flexibility to work more hours per day in order to work fewer days per week (e.g., four 10-hour days per week instead of five 8-hour days per week). Please answer "Yes" only if a compressed work week option is available year-round, and not just during off-peak seasons.

57: What dress code applies to the majority of your employees?
○ Business
○ Business Casual
○ Casual
○ Uniforms

Business attire generally means suits with a matching jacket and ties for men, and dresses or pant/skirt sets for women. Business Casual refers to more relaxed attire such as trousers and collared shirts without a tie or jacket for men, and slacks/skirts with blouses or sweaters for women. A Casual dress policy may allow blue jeans, sweatpants and/or sweatshirts, shorts, t-shirts and thong-style sandals. Uniforms refer to organization-issued or required standardized clothing such as scrubs for healthcare staff, jumpsuits or workpants/shirt sets for mechanics, required colors and/or styles of clothing for restaurant servers, etc.

58: Does your organization provide any workplace facilities to promote exercise and fitness?
○ Yes
○ No

On-site fitness facilities may include a gym, workout room, exercise equipment, lockers, a shower, walking/jogging trail, bike racks, etc.

If yes, please briefly describe up to three facilities provided at your workplace which promote exercise and fitness.

One of Three: Facilities to promote exercise and fitness:

______________________________________________________________
______________________________________________________________

250
Appendix B: Sample of Employee Engagement and Satisfaction Survey of the “50 Best Nonprofits to Work For” Assessment

Employee Engagement and Satisfaction Survey

Fill in each circle completely using a DARK BLUE or BLACK PEN, not a pencil. Do not use “x” or “/” marks. To ensure your anonymity, mail your completed survey in the postage-paid envelope provided. Upon receipt of your survey, your answers and comments will be added to those of your fellow workers and summarized as a group. The number in the right hand corner of this document is for data processing only and cannot be tracked to any individual’s survey responses. If you have any questions or comments, contact Best Companies Group at support@bestcompaniesgroup.com.

1. Overall, I am very satisfied with my employer: ..........................................................

How do you feel about each of the following specific matters? (Fill in a single response for each statement below)

2. This organization’s leadership and planning:

- I understand the long-term strategy of this organization..............................................
- I have confidence in the leadership of this organization..............................................
- The leaders of this organization care about their employees’ well being...........................
- Senior leaders live the core values of the organization..............................................
- There is adequate planning of departmental objectives..............................................
- There is adequate follow-through of departmental objectives......................................
- The leaders of this organization are open to input from employees............................

3. The organization’s corporate culture and communications:

- This organization’s corporate communications are frequent enough.....................................
- This organization’s corporate communications are detailed enough............................
- I have a good understanding of how this organization is doing financially.........................
- I can trust what this organization tells me......................................................................
- This organization treats me like a person, not a number..................................................
- This organization gives me enough recognition for work that is well done....................
- Staffing levels are adequate to provide quality products/services....................................
- Quality is a top priority with this organization...............................................................
- Safety is a top priority with this organization...............................................................
- I believe there is a spirit of cooperation within this organization.................................
- My employer enables a culture of diversity ....................................................................
- I like the people I work with at this organization...........................................................
- At this organization, employees have fun at work..........................................................
- I feel I can express my honest opinions without fear of negative consequences...............  
- Changes that may affect me are communicated to me prior to implementation.................

Not Applicable
## Appendix C: Final Sample of Best Nonprofits to Work for and their Matches

<table>
<thead>
<tr>
<th>Best Nonprofit to Work for</th>
<th>Classification</th>
<th>NTEE Code 1</th>
<th>NTEE Code 2</th>
<th>NTEE Code 3</th>
<th>Total Assets</th>
<th>Matched Firm</th>
<th>Classification</th>
<th>NTEE Code 1</th>
<th>NTEE Code 2</th>
<th>NTEE Code 3</th>
<th>Total Assets</th>
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