

Nonprofit Board Turnover and Financial Performance: Examining Optimal Board Turnover Rate in United Way Organizations

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Conflicts of Interest

The author declares no potential conflict of interest.

Abstract

This article examines the effects of governing board turnover on nonprofit financial performance: resource acquisition and utilization. Governing board members play key roles in connecting organizations with external environments and ensuring that executives properly manage the organizations to achieve organizational missions. They also help with effectively attracting and appropriately utilizing financial resources. Given the importance of governing board members, any turnover occurring to the board should affect nonprofit financial performance. Using insights from organizational theories, we argue that the relationship between board turnover and the ability of United Way organizations to acquire and utilize funds is nonlinear (first positive and then negative). We find general support for the hypothesis, which yields implications for both research and practice of board governance and human resources management in the nonprofit sector.

Keyword: Nonprofit board turnover, nonprofit financial performance, optimal board turnover rate, turnover-performance relationship, United Way organizations

Introduction

Nonprofit organizational performance is profoundly affected by the occurrence of turnover (Jamison, 2003; Selden & Sowa, 2015). Especially, given that human resources play an even more critical role in nonprofits whose work is labor intensive (Pynes, 2008), the dearth of studies that examine the turnover-performance link in the nonprofit sector is surprising.

Adopting organizational theories, this article investigates the relationship between turnover and performance in the context of the U.S. United Way (UW) organizations. In doing so, the paper focuses on the effects of governing board turnover on nonprofit financial performance, specifically with regard to the acquisition and allocation of financial resources.

United way (UW) is a “federated system of community public foundations” (Paarlberg, Ghosh Moulick, Puyvelde, 2017, p. 1119), which units community-based partners around common social causes (Daly, 2008; Graddy & Wang, 2009; Paarlberg & Ghosh Moulick 2017). As important players in the nonprofit sector, these placed-based foundations raise funds from various donors and distribute these financial resources to community-based social initiatives within a specific geographic community (Paarlberg, Ghosh Moulick, Puyvelde, 2017, p. 1119). Given that UW organizations distribute funds to other charities and pursue charitable purposes by themselves, UW organizations are generally considered as both foundations and 501(c)(3) public charities. Each local UW organization is a separate 501(c)(3) entity, being run by executives and board of directors. Like other nonprofits, local UW organizations’ governing boards are usually made up of volunteers without managerial responsibilities, who are vested with the quintessential task of oversight (Wright & Millesen 2008). As overseers, board members collectively ensure that nonprofits utilize resources appropriately to accomplish their mission (Brown, 2005; Miller, 2002; Miller-Millesen, 2003) and that executives serve the

interests of philanthropic stakeholders (Miller, 2002). To further illustrate, boards establish criteria for program evaluation and monitor programmatic resource allocation by executives (Miller-Millesen, 2003). Yet, the influence of boards goes often beyond oversight. Boards affect all aspects of nonprofits, including their financial performance (Brown, 2005, 2007; Green & Griesinger, 1996; Herman & Renz, 2000; Preston & Brown, 2004). Board members often span organizational boundaries (Miller-Millesen, 2003) and help organizations develop and sustain a critical network of philanthropic financial resource providers (Hager et al., 2002; Brown, 2005). Boards, therefore, play an essential role in improving and sustaining the financial performance of nonprofits, specifically with regards to the “acquisition” and “utilization” of critical financial resources (Lee & Nowell, 2015, p. 305).

Adopting perspectives from resource theories and agency theory, this paper attempts to explain the relationship between board turnover and nonprofit financial performance. Specifically, we argue that at modest levels of board turnover, the ability of organizations to acquire and utilize funds would improve since new board members can infuse the organizations with fresh knowledge and resource ties. In other words, even if organizations lose some board members, they can still invigorate their financial performance. If board turnover is frequent and too high, however, it can lead to a loss of critical resources for organizations and confusion in fund allocation decisions. In summary, there is potentially an optimal level of board turnoverⁱ from the standpoint of financial performance. We test the argument using data from UW organizations and reveal an inverted-U shaped—first positive and then negative—relationship between the turnover rate of UW governing board members and the ability to acquire and utilize financial resources.

The rest of the article proceeds as follows. We first discuss the relationship between

governing board turnover and financial performance. In doing so, we begin with illustrating the roles of nonprofit board members and explaining financial performance as an important dimension of nonprofit organizational performance. We then establish a link between turnover and financial performance in the context of nonprofit management and develop testable hypotheses using resource theories and agency theory. Next, we provide details of the data, variables, and the analytical methods utilized in this study along with the results and interpretation. After that, we conclude by discussing the implications, contributions, future research agenda, as well as the limitations of this paper.

Governing Board Turnover and Nonprofit Financial Performance

The Roles of Governing Board Members

Nonprofit organizations are operated through a system of governance, which is “the function of oversight that a group of people assumes when they incorporate under the laws of a state for an organizational purpose that qualifies for nonprofit status” (Ott & Dicke, 2016, p. 2). Scholars have conflicting views on how to define nonprofit governance; whether it should refer to the function of the board of directors or should broadly incorporate the strategic leadership of nonprofits that are associated with executives’ management decisions (Chait et al., 2011; Cornforth, 2012). Regardless of taking either perspective, the role of nonprofit board is quite substantial (Herman & Heimovics, 1990; Herman & Renz, 2000), as it has the final authority on nonprofits’ governing decisions (Ott & Dicke, 2016, p. 2; Widmer, 1993, p. 344).

Several studies have identified different responsibilities of the board (Brown, 2005; Chait, Holland, & Taylor, 1991; Herman & Heimovics, 1990; Herman & Renz, 2000), which can be summarized into six major categories: contextual, political, strategic, analytic, educational,

and interpersonal dimensions (Brown, 2005; Chait et al., 1991). Board members acknowledge the organization's professional context, ensures tax-exempt and nonprofit status of the organization, and monitors executives' decision-making (contextual). Furthermore, they connect the organization with key constituencies in the external environments, help with networking and fundraising, and improves visibility of the organization (political). They also guide a long-term vision of the organization and help establish viable plans for organizational operations (strategic), and offer valuable insights on solving problems and better achieve organizational missions (analytic). In addition, the board ensures that trustees and other key stakeholders are informed about the organizational decision-making (educational), and cultivate a culture of inclusiveness for organizational meetings and activities (interpersonal).

In sum, boards are involved in almost all aspects of nonprofit organizations and can, therefore, greatly influence nonprofit performance (Brown, 2005; Brown et al., 2016; Green & Griesinger, 1996; Harris, 2014). The following section explains financial performance, especially in terms of organizational abilities to acquire and utilize financial resources, as an important dimension of nonprofit organizational performance.

Nonprofit Financial Performance: Resource Acquisition and Utilization

Nonprofit performance is notoriously difficult to measure (Sawhill & Williamson, 2001) as it is multidimensional (Brown et al., 2016; Forbes, 1998; Sowa et al., 2004) since it can vary depending on the missions of nonprofits (Kaplan, 2001). Since a single measure of performance continues to elude us, nonprofit scholars use various measures based on the research context and the objective of a study. Lee and Nowell (2015) present a framework for assessing nonprofit performance by looking at “how well a nonprofit has constructed effective internal process and

structures to use the resources efficiently and effectively toward the advancement of the organization's mission" (p. 305). In this sense, financial performance, especially regarding how organizations obtain and utilize its financial resources, can carry significant weight in shedding light on nonprofit organizational performance.

First, nonprofit financial performance relates to resources base and, therefore, is of great importance (Bowman, 2011; Carroll & Stater, 2008; Chikoto & Neely, 2014). It offers nonprofits the resources to "seize opportunities" and respond to "unexpected threat[s]" (Bowman, 2011, p. 38), enabling organizations to accomplish their mission and create value for the communities they serve. Second, financial performance is valuable because it can be applied systematically across the panoply of nonprofits, often with dissimilar mission (Eckerd & Moulton, 2011). Third, it allows for the development of other critical dimensions of organizational performance (AbouAssi & Jo, 2017), such as human capital development, establishment of managerial systems, learning and innovation, and so forth (Brown et al. 2016). Given such importance, this paper focuses on financial performance, more specifically, the "acquisition" and "utilization" of financial resources in nonprofit organizations.

Given nonprofit board's roles described in the previous section, the governing board turnover can significantly affect nonprofits' financial performance. Board members engage in organization's finance, assist organizations' resource acquisition efforts, and ensure that resources are spent to key programs that resonate with organizational mission. These roles are closely related to organizations' abilities to effectively obtain and appropriately utilize financial resources, and thus, any change to the board, including turnover, can have effects on organizational financial performance. The following section further discusses this relationship and propose research hypotheses.

Theories on Governing Board Turnover and Nonprofit Financial Performance

Traditional management theories argue that turnover can be disruptive since organizations are exposed to sudden changes that can negatively affect the current functions of an organization. Throughout the various stages of growth, organizations develop and routinize a set of strategies, activities, and processes that can enable their success; once they reach a state of “structural inertia,” any change to their goals, policies, and rules can be harmful (Hannan & Freeman, 1984). Stability and routinization are usually preferred over sudden change and disruption in organizations, as it reduces the risk of failure and increases the chances of high performance (Haveman, 1992, p. 50). Similarly, nonprofit financial performance tends to thrive in stable environments. External environmental changes, like the 2008 recession, often results in financial stress (e.g., due to reduced donations) (Salamon et al., 2009) and a simultaneous spike in demand for the social services offered by nonprofits (Calabrese, 2011; Chikoto & Neely, 2014). Disruption in the organizational environment, such as turnover, can have negative consequences for the financial wellbeing. Yet, several scholars have also argued that turnover is not a necessarily bad phenomenon (Abelson & Baysinger 1984; An, 2019; Meier & Hicklin 2008; Wynen et al. 2019). A certain level of turnover can improve performance if well managed, as it can resolve organizational inefficiency by implementing new and innovative ideas (Abelson & Baysinger 1984; Meier & Hicklin 2008; Wynen et al. 2019; Sørensen & Stuart, 2000). Given both disadvantages and advantages, we posit that the effects of governing board turnover on organizations’ financial performance (i.e., acquisition and utilization of financial resources) are nonlinear, first positive and then negative.

First, governing board turnover has a nonlinear relationship with organizations’ resource

acquisition. According to the resource-based theory, an organization has competitive advantage when it implements “a value creating strategy not simultaneously implemented by any current or potential competitors” (Barney, 1991, p.101), and to do so, the organization should have “unique resource” that enables it to be better informed about such strategy (Barney, 1991, p, 104). Each board member can be this unique resource to the organization (Brown, 2005; Hillman & Dalziel, 2003; Miller-Millesen, 2003); the member is equipped with particular expertise and can advise the organization about effective strategies for fundraising (Brown, 2005). When board turnover occurs and a new member joins the governing board, she or he can bring new ideas that help the organization develop competitive advantage in acquiring financial resources from external environments. For instance, long-standing members may have stuck to fundraising strategies that do not work in a changing environment and/or that are very similar to other competitors in the industry; and in this case, the organization no longer has competitive advantage in fund acquisition. Furthermore, even if current board members have been successful in helping with fundraising, at some point, they might exhaust their potential fundraising contacts. In those situations, the governing board turnover can function as a beneficial organizational change that brings competitive advantage to the organization, allowing for better acquisition of external financial resources. Studies indeed show that a modest amount of turnover is part and parcel of innovation and performance improvement (Sørensen & Stuart, 2000), and resource acquisition is not an exception.

However, scholars also caution against the disproportionately high level of turnover, as it indicates a loss of key organizational resource brokers (Pfeffer and Salancik, 2003; Casciaro and Pirsorkki, 2005). From this perspective, newly coming or long-standing, all board members are a vital asset to all organizations because boards connect them to critical external resources

(Hillman & Dalziel, 2003; Malatesta & Smith, 2014). Board members act as boundary spanners and connect an organization to a unique set of resource networks in its external environment (Hillman & Dalziel, 2003; Miller-Millesen, 2003). Board members serve as ambassadors by promoting the reputation of their affiliate organizations in the local community and broader society (Miller-Millesen, 2003). By serving as a bridge to the external environment, board members can significantly increase the ability of organizations to acquire resources from existing and potential donors and funders. Stability in the board can allow the organization to pursue a coherent funding mission. Board turnover, then, can reduce the available and potential pool of financial resource network (for examples from corporate governing boards, see Denis & Denis, 1995; Kang & Shivdasani, 1995), if it occurs too often.

In sum, board turnover has its advantages and disadvantages in organizations' abilities of acquiring financial resources. As voluntary workers, board members do not usually take on significant managerial roles (Wright & Millesen, 2008, p. 323). Therefore, board turnover at lower levels may not significantly affect the organizational operations, including resource acquisition activities. As long-standing board members leave, an organization will also benefit from the infusion of new members who are usually professionals in their field with current knowledge on how to better acquire financial resources based on their experience, background, and network. But if board turnover is high and occurs frequently, the negative consequences of turnover—like the destabilization of resource networks, turbulence, and loss of resources—will become salient among organizations. Given the significant costs associated with high turnover, after a certain threshold, board turnover will undermine nonprofit financial performance. By integrating these arguments, we obtain a nonlinear relationship—first positive (low turnover) and then negative (high turnover)—between board turnover and acquisition of financial resources in

nonprofit organizations, as hypothesized below:

Hypothesis 1: Turnover of board members will have an inverted-U shaped relationship with the acquisition of financial resources in organizations.

Second, we posit the same nonlinear relationship between governing board turnover and another dimension of financial performance – abilities to utilize financial resources. Again, the departure of long-standing members and arrival of new members can help an organization's endeavors to develop a better strategy to allocate funds to different recipients and different programs, thereby improving the chance to get competitive advantage in resources management (cf. Barney 1991). Previous research shows that allocation choices can be highly path-dependent and biased in favor of established recipients (Paarlberg & Ghosh Moulick, 2017). Long-standing board members may allocate resources to programs that are not helpful for meeting the needs of future clients or keeping organizational missions. In other instances, even if the board members have been successful in fund utilization during the past years, they might have lost the grasp of evolving allocation priorities. In these situations, new board members can be the harbinger of fresh ideas and expertise that can help the organization evolve with a changing environment. New board members can also offer valuable advice different from existing board members who may be involved in the organization for a long time and, therefore, deeply entrenched in the routinized processes of fund allocation. In short, governing board turnover may have a positive impact on the organization's resource utilization performance.

An excessively high level of turnover, however, can have negative consequences on effective utilization of financial resources from the perspective of the agency theory. The theory postulates the relationship between the nonprofit governing board and the executive director(s) as a principal-agent relationship (Brown, 2005; Hillman & Dalziel, 2003; Miller-

Millesen, 2003). As an oversight mechanism, the board controls executives and ensures whether the executives make and implement decisions that appropriately serve the interests of stakeholders and pursue organizational missions (Miller, 2002). For doing so, board members establish the criteria for evaluating various programs and monitor the executives' decisions for allocating resources to different programs and recipients (Miller-Millesen, 2003). As new board members (i.e. new principals) can have a different set of interests and priorities, board turnover can derail pre-existing fiscal policies and fund allocation strategies and instill chaos in organizations. Such turbulence, emanating from high levels of board turnover, can lead to confusion among the staff regarding how best to utilize financial resources, and thus, can negatively affect organizations' financial performance in terms of resource utilization.

Given these arguments, turnover in the governing board has a nonlinear relationship with nonprofit financial resource utilization, first positive and then negative. The costs of turnover may not be a great deal at the low level of turnover. If board turnover takes place frequently, however, the hypothesized bad consequence of turnover, such as confusion in setting priorities for fund allocation due to multiple principals, becomes evident significantly increasing the costs of turnover. In short, after a certain point of governing board turnover (i.e., an optimal level of turnover), an organizational ability of appropriately allocating financial resources can be undermined. Therefore, we hypothesize:

Hypothesis 2: Turnover of board members will have an inverted-U shaped relationship with the utilization of financial resources in organizations.

Data and Methods

To test the hypotheses, we use U.S. based UW organizational data as well as data from

U.S. communities where they operate. In doing so, we collate the data from multiple sources: Internal Revenue Service (IRS) 990 electronic filer database in 2013 and 2014, IRS 990 digitized forms in 2014, and American Community Survey 5-year estimates between 2010 and 2014.ⁱⁱ To create our database, we first obtained financial performance measures as well as organizational characteristics data from the IRS 990 digitized forms. Second, for county-level community characteristics variables, we acquired data from American Community Survey. Third, we derived the list of the names of governing board members from the electronically filed IRS 990 database, which serves as a basis for calculating the governing board turnover rate. In 2013 and 2014, approximately 53 percent of nonprofit organizations filed their tax forms electronically.

From the electronically filed IRS 990 database, we initially obtained 780 UW organizations. Upon merging this data with IRS 990 digitized forms, 254 observations are excluded, which means that the 254 UW organizations did not file their tax forms through traditional means. From this merged data, excluding organizations with less than three governing board membersⁱⁱⁱ and with no financial information, a total of 518 observations for this study are used in the sample dataset.

To investigate the nonlinear relationship between governing board turnover and the two UW financial performance measures (i.e. financial resource acquisition and distribution), we employ quadratic regression models, including a quadratic term of governing board member turnover rates. In a quadratic regression model, severe multicollinearity often becomes a problem since it biases estimated standard errors. The results from Variance Inflation Factor (VIF) assessment, however, suggest that the set of models in this paper does not suffer from severe

multicollinearity.^{iv} Lastly, to ensure that the results are not driven by the previous year's financial circumstances, we include lagged dependent variables in each set of models. This serves as a robustness check, which may help alleviate some concerns of reverse causality.

Variables

Dependent Variables

To measure financial resource acquisition and utilization in community philanthropy, we look at UW total contributions and UW total allocations toward partner nonprofits, respectively. These two variables capture distinct and important dimensions of nonprofit financial performance (Lee & Nowell, 2015). Also, board turnover can affect each of these dimensions differently, as suggested by past research in business contexts (for more details see Kaplan, 1994; Kang & Shivdasani, 1995). From nonprofit research, we know that boards can have unique and dissimilar (also direct and indirect) effects on various aspects of nonprofit financial performance, such as promoting donations, streamlining organizational goals, and setting policies to bolster mission (see Brown & Guo, 2010). Since both variables (the amounts of total contributions and total allocations, in USD) are highly skewed to the right, we log-transform both variables.

Key Independent Variables

UW governing board member turnover rate is the primary independent variable. To calculate this, we first match the names of board members between two time periods—2013 and 2014. In doing so, we obtain all governing board names from electronically filed IRS 990 forms between 2013 and 2014 tax years, and then remove all titles associated with the names and only retain information on voluntary governing board members.^v Second, using the Stata package ‘matchit,’ we create the Jaccard similarity coefficient of the list of board member names between the two time periods; the matchit command splits words into grams of two moving

characters and then calculates a similarity index. Third, except for exact name matches between the two time periods, we manually check all observations with a similar score higher than 0.5, to ensure an actual match and boost the number of exact name matches. As an illustration, Bob and Robert or Bill and William were initially coded as unmatched, which is corrected through the manual checking process. Human coding errors in the list of board member names are also fixed. Finally, using the number of matches and the count of total board members, we calculate the governing board turnover rate as:

$$\begin{aligned} & \textit{Board member turnover rate} \\ & = \left(\frac{\textit{Total number of board members in 2013} - \textit{Board name matches between 2013 and 2014}}{\textit{Total number of board members in 2013}} \right) \\ & \times 100 \end{aligned}$$

Using the board size in 2013 as the base, the measure successfully excludes any new board members that might have joined in 2014. In this regard, this measure is distinct from changes in board size and appropriately captures the turnover rate of board members. A limitation of this measure is that it does not exclude name changes. For instance, if a board member changed her/his name due to marriage or another reason, this metric will count it as turnover.^{vi} A histogram of board turnover rate, depicted in figure A1 in the Appendix, show meaningful heterogeneity in this key predictor across UW organizations.

Controls

We include various control variables that capture UW organizational and community characteristics. For organizational characteristics, we control for total fundraising expenditures, program revenue including dues, and organizational size and age. The first two variables are commonly used controls in research related to nonprofit financial performance (*e.g.*, Frumkin &

Kim, 2001; Harris & Ruth, 2015). Due to the high level of skewness in these measures, we log-transform both variables. Organizational size and age are also well-known factors that can affect nonprofit financial performance (Paarlberg et al., 2018; Prentice 2017). As a proxy for organizational size, we employ the total number of employees (logged).^{vii} We operationalize organizational age by subtracting the initial tax-exempt year from the current tax filing year.

Furthermore, while many nonprofits operate across geographical areas, counties still serve as an important boundary for the economic and social activities of nonprofits (Paarlberg et al., 2018; Polson, 2017). We, therefore, account for community characteristics at the county level, which can affect organizations' financial resource acquisition and utilization,^{viii} including proxies for community capacity to give (Shier and Handy 2012) and need for nonprofit services in the community. These controls are: percent of people with bachelor's degree, size of the community (population, logged), and community wealth indicators (median family income, logged; percent of unemployment).^{ix} Summary statistics for all the variables included in this paper is presented in Table 1. Correlation coefficients of all variables are also presented in Table A1 in the Appendix.

[Table 1 about here]

Results

Tables 2 and 3 show three models. Model 1 tests a linear relationship between the outcome and board turnover rate. Model 2 adds a squared term of governing board turnover rates. Model 3 includes a lagged dependent variable as a robustness check.

[Table 2 about here]

Table 2 shows the effects of board turnover in UW organizations on total contributions

(logged). In model 1, board turnover rate is positively associated with total contributions albeit not statistically significant. Since our theory posits a nonlinear relationship, however, it will be premature to conclude no relationship between governing board turnover and total contributions without testing the nonlinear relationship. Model 2 investigates a potential nonlinear relationship between the two by adding the squared term of board turnover to Model 1. To conclude that an inverted-U shaped relationship exists, as hypothesized, both the linear and squared terms of the board turnover rate must be statistically significant in the model. The results in model 2 show that both direct and squared terms of the board turnover rate are statistically significant. Board turnover, initially, has positive effects on the amount of total contribution to UW organizations ($b=0.0289$; $p<0.01$). But after a certain point, excessive board turnover starts to damage total contribution to these organizations or financial resources acquired from their external environment ($b=-0.00045$; $p<0.05$). *Ceteris paribus*, the first derivative of the equation in Model 2 gives us the optimal board member turnover rate of about 32 percent for total contributions in the sampled UW organizations. Figure 1 offers a graphical representation of this relationship and depicts the optimal turnover rate calculated from Model 2.

[Figure 1 about here]

As seen in Figure 1, board turnover rate and total contributions have an inverted-U shaped relationship, first positive and then negative. This provides strong support for the first hypothesis. We see here that up to a point turnover in UW organizations' boards is likely to lead to more contributions. As soon as board turnover exceeds about 32 percent, however, total contributions are more likely to decrease; the slope for board turnover quickly drops after it passes this optimal point. Since the mean board turnover rate in the sample is about 22 percent,

UW organizations in the sample are functioning on the left-hand side of the inverted-U curve and can benefit from replacing some board members.

In Model 3, the lagged variable of total contributions is included to ensure the above results are not driven by the previous year's values. We see the inverted-U shaped relationship between board turnover and total contributions remains unchanged, after controlling for the lagged dependent variable. It suggests that the hypothesized nonlinear effect of the governing board turnover on the ability of UW organizations to acquire financial resources, or their total contributions, is robust.

[Table 3 about here]

Table 3 looks at another financial performance measure for UW organization, total allocations toward partner nonprofit organizations (logged; hereafter total allocations). Model 1 shows no statistically significant linear relationship between board turnover rate and total allocations. Model 2 further tests the nonlinear hypothesis between the two. Model 2 suggests that an inverted-U shaped relationship does exist between the two. In other words, board turnover rate would increase total allocation toward partner nonprofit organizations initially ($b=0.023$; $p<0.01$). Once the turnover rate exceeds a certain point, it will start decreasing the total amount of resources being allocated to partner nonprofits by sampled UW organizations ($b=-0.0004$; $p<0.01$). Holding all other variables constant, the optimal governing board turnover rate for total allocation is about 28 percent. Figure 2 presents the relationship graphically using Model 2.

[Figure 2 about here]

Figure 2 depicts an inverted-U shaped relationship between board turnover and total allocations. Board turnover rate increases the total amount of resources allocated to partner

organizations, initially. But as soon as the turnover rate exceeds about 28 percent, the slope quickly switches to a decreasing rate. Given that the mean board turnover rate in the sample (about 22 percent) is lower than the optimal turnover rate, there is still room for better managing board member turnover in sampled UW organizations. In other words, once a board member leaves, a newly appointed replacement board member may help boost the resource allocation to UW partner nonprofits to push her/his agenda further.

The inverted-U shaped relationship, however, disappears in model 3 when controlling for the total allocation in the previous year. Considering that the coefficient of the lagged dependent variable is close to 1, it is possible that the amount of total allocations to partner organizations in sampled UW entities is entirely autoregressive. Board turnover may not have a direct effect on resource allocation toward partner nonprofits in the short-term but in the long-term. In other words, UW and other similar organizations may strive to allocate financial resources to their partner organizations in a systematic manner, rather than being affected by the agenda of certain board members and vicissitudes of their internal governance.

Discussions and Conclusions

The UW governing boards are vested with the quintessential task of oversight of charitable organizations (Ott & Dicke, 2016). Since these organizations and their internal choices remain nebulous, their governance also remains poorly understood in nonprofit research. Yet these organizations remain an important conduit for valuable resources and social action. The importance of governing boards is undeniable, especially when it comes to the financial performance of organizations (Widmer, 1993; Ott & Dicke, 2016). Examining the effects of board turnover on fund acquisition and utilization capabilities of UW organizations,

therefore, is both a timely and important issue in both theory and practice of nonprofit management.

This article finds general support for a nonlinear relationship, first positive and then negative, between board turnover and financial performance—specifically financial resource acquisition and utilization by UW organizations. The results suggest that turnover in the governing board may increase the amounts of total contributions and allocations up to a certain point, after which it starts hurting both aspects of financial performance. It is worth noting that such inverted U-shaped relationship remains significant only for the total amount of contributions after controlling for the previous year's values. This indicates that the nonlinear relationship between board turnover and financial performance holds for both in the short- and long-term horizons for the resources that these organizations attract from the external funders (total contributions). The nonlinear relationship, however, may only hold in the long term with regards to the resources that are utilized for serving various organizational purposes (total allocations). These results offer three important implications for both theory and practice of nonprofit management, especially with regard to board turnover and nonprofit financial performance.

First, a modest amount of board turnover can be beneficial for nonprofit organizations. It can help organizations attract financial resources—immediately after turnover and also in the long run—as indicated by the results from the models on total contributions. This result provides strong support to the resource-based theory. Each board member can serve as a unique organizational resource that promotes the organization's competitive advantage (cf. Barney, 1991), regarding its ability to raise funds from external environments (Brown, 2005; Miller-Millesen, 2003). New board members can bring a new set of expertise and

knowledge to the organization in developing fundraising strategies and help the organization tap into a new set of funder networks. It is worth noting that the resource network they bring with them and the advice they give for effective fund acquisition, at this stage, may be based on their professional experience rather than their knowledge about the organization. Hence, the positive effects of board turnover for organizations can manifest quickly in acquiring resources from the external environment (as indicated by the result that holds for both short-term and long-term horizons). Such positive effects of board turnover on financial resource acquisition can become harmful if turnover happens too frequently. This again resonates with the theoretical mechanisms hypothesized in this paper, as the departure of long-standing board member indicates a loss of unique organizational resource (Brown, 2005; Miller-Millesen, 2003). In sum, board turnover can provide organizations with both advantage and disadvantage (i.e. obtaining new resource networks, but losing long-standing resource networks), and thus, proper turnover management – such as achieving an optimal level of turnover – may help organizations accomplish competitive advantage in terms of attracting resources from external environments.

Second, board turnover also has an inverted-U shaped relationship with the other dimension of nonprofit financial performance explored in this paper—the organizational ability to utilize financial resources. But the results here suggest that this is perhaps valid only in the long term. This seems reasonable considering theories on transaction costs, specifically on learning costs (cf. Amirkhanyan et al. 2020). While new board members can immediately offer advice on fundraising based on their prior experience and network, it should take some time for them to contribute to effective resource utilization, since doing so requires the development of organization-specific knowledge. Such knowledge includes, for example, the

scope and range of services provided, various organizational activities, current managerial practices, administrative rules and procedures, among many others—as well as their expected role in the organization (Wright & Millesen, 2008). All of these cannot be learned in the short term. Only after new board members have accumulated the organization-specific knowledge, can they make significant contributions to the improvement of the organization's capacity to effectively utilize financial resources. This explains the insignificant nonlinear effects of board turnover on allocations to partner organizations aligned with UW mission, after the inclusion of the lagged value for allocations. Methodologically, it also is possible that this relationship is autoregressive (due to the coefficient being close to 1 in the lagged dependent variable) and, therefore, we encourage future scholars to further investigate this issue more with panel data. Theoretically, it would be interesting for future studies to explain the short-term and long-term effects of turnover on organizational financial performance using the lens of transaction cost theories.

Lastly, we observe here that board turnover costs imposed to the UW organizations becomes more significant as board turnover rates increase. After a certain point, the benefits of an additional new board member do not outweigh its costs; additional turnover starts to affect the organization's ability to acquire and utilize financial resources negatively after the point. As expected from the perspectives of agency theory, rampant turnover can induce an organization with multiple new principals who may have different sets of interests and potentially conflicting advice for the organization (Herman & Renz, 2008; Miller, 2002). It can, in turn, lead to confusion and present a buffer against making and implementing key managerial decisions. Thus, it is important for these organizations to maintain board turnover rate at a modest level and avoid high

levels of turnover in their ultimate governance unit, to build a financially sustainable and capable organization. In other words, there might be a level of optimal turnover – for the sample UW organizations as suggested in this paper. Further investigation of optimal turnover rates in different types of nonprofit organizations can be a promising research topic for future scholars.

The study is not without its limitations, which suggests a set of future research agendas. First, the board turnover rate measurement in this paper could be slightly inflated, since it does not account for name changes. This article also uses an overall turnover measure, which does not distinguish types of turnover, namely voluntary and involuntary turnover (i.e. whether board members in the sample left voluntarily or were forced out). As these relate to the quality of workers who leave the organization, different types of turnover may have different effects on organizational performance broadly, and financial performance more specifically. Some recent studies have accounted for this issue in the context of public organizations (An, 2019; Meier and Hicklin 2008; Wynen et al. 2019) and private firms (Gelbbeek & Bax 2004), and found evidence on different effects of turnover on performance (An, 2019). The examination of this issue in the context of nonprofits would add to the knowledge base on nonprofit human resources management. Third, this paper tests a direct relationship between board turnover and nonprofit financial performance. Yet, there could be moderators in this relationship that merits further investigation, including organizational size and age. To illustrate, as larger and older organizations might have become inflexible and function ineffectively (Freeman, Carroll, & Hannan 1983; Stinchcombe 1965), board turnover would have more positive effects in these organizations. On the contrary, turnover in smaller and younger organizations may have more negative effects on financial performance, as these organizations have not yet achieved

organizational stability that can buffer the costs of board turnover (Freeman, Carroll, & Hannan 1983; Stinchcombe 1965). In short, costs and benefits of turnover experienced by organizations can differ depending on a variety of factors, including size and age. Further investigation of these moderating relationships could be a valuable next step from the current research. Fourth, while this paper focuses on board turnover, it will equally be worthwhile to examine the relationship between board growth on nonprofit performance. As each board member can bring new set of resource networks, addition of new members – as the board grows – may affect financial performance of organizations. We suggest testing this relationship using perspectives from key organizational theories, such as resource theories. Fifth, this paper employs cross-sectional analyses. Although we control for the past performance measure across models, it does not fully reveal the potential dynamic relationship between board turnover and nonprofit financial performance. We encourage future scholars to further examine this relationship using panel data. Doing so can allow dynamic analyses, and further help address the potential causality issue inherent in the turnover-performance relationship. Lastly, this paper speaks directly to the issue of board turnover on financial performance of UW organizations. Future studies should also examine this topic in other types of nonprofits and could also test the effects of board turnover on other types of nonprofit outcomes.

Despite limitations, the study makes important contributions to the field of nonprofit management. First, it is among the first attempts to test the nonlinear relationship between governing board turnover and nonprofit financial performance. By doing so, it offers empirical support to the theoretical argument that organizational change, including turnover, is not a necessarily bad thing and it should be properly managed rather than minimized (An 2019). Second, the paper develops theoretical

mechanisms on the nonlinear relationship between turnover and performance, using perspectives from resource theories and agency theory. This adds to the theory base on nonprofit human resources management and could be applied to investigating other mechanisms of board governance. Third, it offers a valuable lesson on managing governing board in practice; a certain level of turnover in the board can be beneficial for financial performance. In sum, findings from this study have implications for human resources management, finance, and capacity building in nonprofit organizations.

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Tables

Table 1. Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
<i><u>Dependent variables</u></i>					
Total contributions, logged	518	13.54	1.69	2.30	18.60
Total allocations, logged	453	13.31	1.63	2.30	18.47
<i><u>Key independent variable</u></i>					
% Governing board turnover	518	22.24	15.06	0	80
<i><u>Nonprofit characteristics</u></i>					
Fundraising expenditures, logged	518	4.76	3.55	2.30	13.21
Program revenues, logged	518	4.61	3.82	2.30	16.64
Organizational size	518	2.86	0.60	2.30	5.59
Organizational age	518	44.41	15.21	0	80
<i><u>Community characteristics</u></i>					
Median family income, logged	518	11.02	0.19	10.40	11.78
Population, logged	518	11.61	1.11	8.84	16.12
% Bachelor's degree	518	15.10	4.77	5.01	38.23
% Unemployment	518	5.21	1.30	0.89	9.88

Note. Organizational size is the total number of employees, logged and organizational is measured subtracting its reported ruling year from the tax filing year reported in IRS 990 forms.

Table 2. The effects of governing board turnover rates on total contributions

Dependent variable:	Total contributions, logged		
	Linear	Nonlinear	AR
Governing board turnover	0.004 (0.003)	0.029** (0.010)	0.019* (0.009)
Governing board turnover squared		-0.0005* (0.000)	-0.0003+ (0.000)
L. Total contributions, logged			0.636** (0.154)
Fundraising expenditures, logged	0.022* (0.011)	0.020+ (0.010)	0.003 (0.005)
Program revenues, logged	-0.029 (0.023)	-0.028 (0.023)	-0.019 (0.017)
Organizational size	1.802** (0.163)	1.791** (0.155)	0.679* (0.321)
Organizational age	0.022** (0.005)	0.022** (0.004)	0.008 (0.006)
Median family income, logged	0.403 (0.339)	0.383 (0.333)	0.041 (0.152)
Population, logged	0.142 (0.089)	0.137 (0.087)	0.042 (0.072)
% Bachelor's degree	0.000 (0.011)	0.000 (0.010)	-0.005 (0.006)
% Unemployment	-0.059 (0.039)	-0.058 (0.039)	-0.044* (0.022)
Constant	1.549 (3.676)	1.646 (3.612)	1.841 (1.711)
R-Squared overall	0.5903	0.5988	0.7954
N	518	518	515

Note: + $p < 0.10$, * $p < 0.05$, ** $p < 0.01$; robust standard errors in parenthesis; AR=autoregressive.

Table 3. The effects of governing board turnover rates on total allocations toward partner nonprofits

Dependent variable:	Total allocations, logged		
	Model 1 Linear	Model 2 Nonlinear	Model 3 AR
Governing board turnover	0.001 (0.004)	0.023** (0.008)	0.000 (0.004)
Governing board turnover squared		-0.0004** (0.000)	0.000 (0.000)
L. Total allocations, logged			1.005** (0.036)
Fundraising expenditures, logged	0.004 (0.012)	0.003 (0.012)	-0.002 (0.007)
Program revenues, logged	0.015 (0.011)	0.015 (0.011)	0.005 (0.004)
Organizational size	1.393** (0.116)	1.391** (0.108)	0.021 (0.033)
Organizational age	0.013** (0.003)	0.012** (0.003)	0.001 (0.001)
Median family income, logged	0.113 (0.463)	0.078 (0.458)	-0.097 (0.247)
Population, logged	0.386** (0.063)	0.382** (0.060)	0.011 (0.020)
% Bachelor's degree	0.012 (0.010)	0.012 (0.010)	0.002 (0.004)
% Unemployment	-0.120** (0.046)	-0.123** (0.045)	-0.024 (0.018)
Constant	3.292 (4.958)	3.572 (4.901)	0.777 (2.500)
R-Squared overall	0.5923	0.5996	0.8899
N	453	453	446

Note: + $p < 0.10$, * $p < 0.05$, ** $p < 0.01$; robust standard errors in parenthesis; AR=autoregressive.

Figures

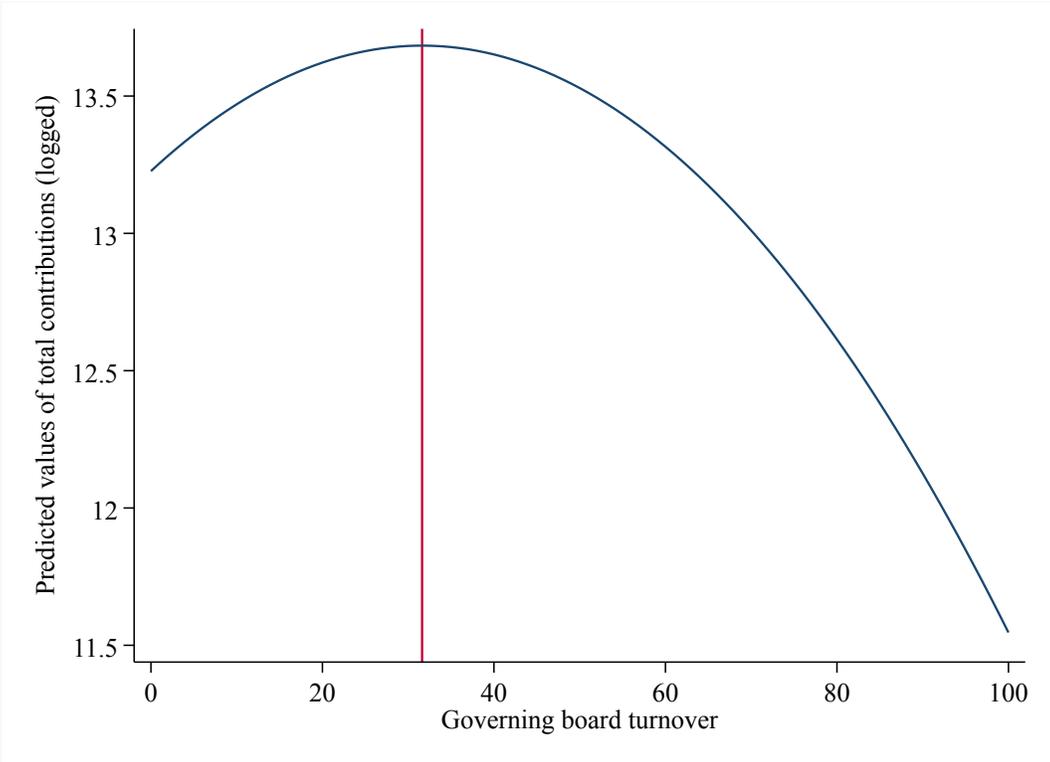


Figure 1. Predicted margins of governing board turnover rates on total contributions (logged)

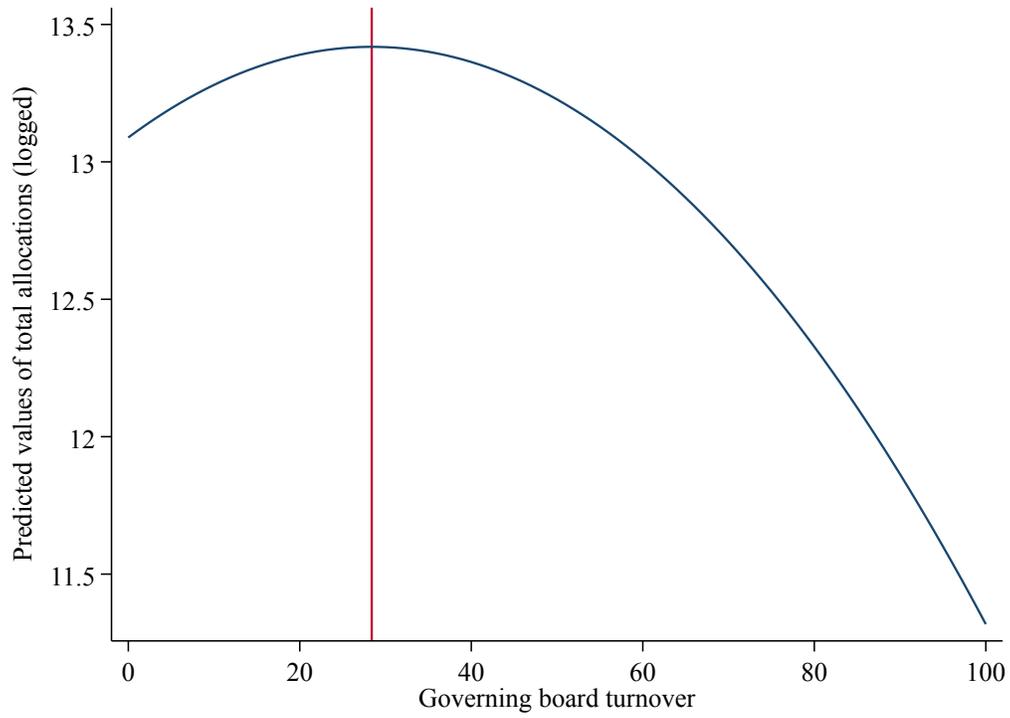


Figure 2. Predicted margins of governing board turnover rates on total allocations toward partner nonprofits (logged)

Appendix

Table A1. Correlation coefficients of all variables

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total contributions (1)	-								
Total allocations (2)	0.81	-							
Board turnover rates (3)	-0.03	-0.04	-						
Fundraising expenditures (4)	0.12	0.10	-0.01	-					
Program revenues (5)	0.32	0.34	0.01	0.02	-				
Organizational size (6)	0.78	0.73	-0.04	0.10	0.44	-			
Organizational age (7)	0.32	0.30	-0.03	0.07	0.10	0.23	-		
Median family income (8)	0.25	0.25	-0.08	0.13	0.09	0.23	0.05	-	
Population (9)	0.64	0.62	-0.13	0.13	0.25	0.66	0.25	0.40	-
% Bachelor's degree (10)	-0.01	-0.02	0.08	-0.13	0.05	0.00	0.05	-0.68	-0.12
% Unemployment (11)	0.05	0.04	-0.04	-0.01	0.05	0.11	0.07	-0.27	0.23

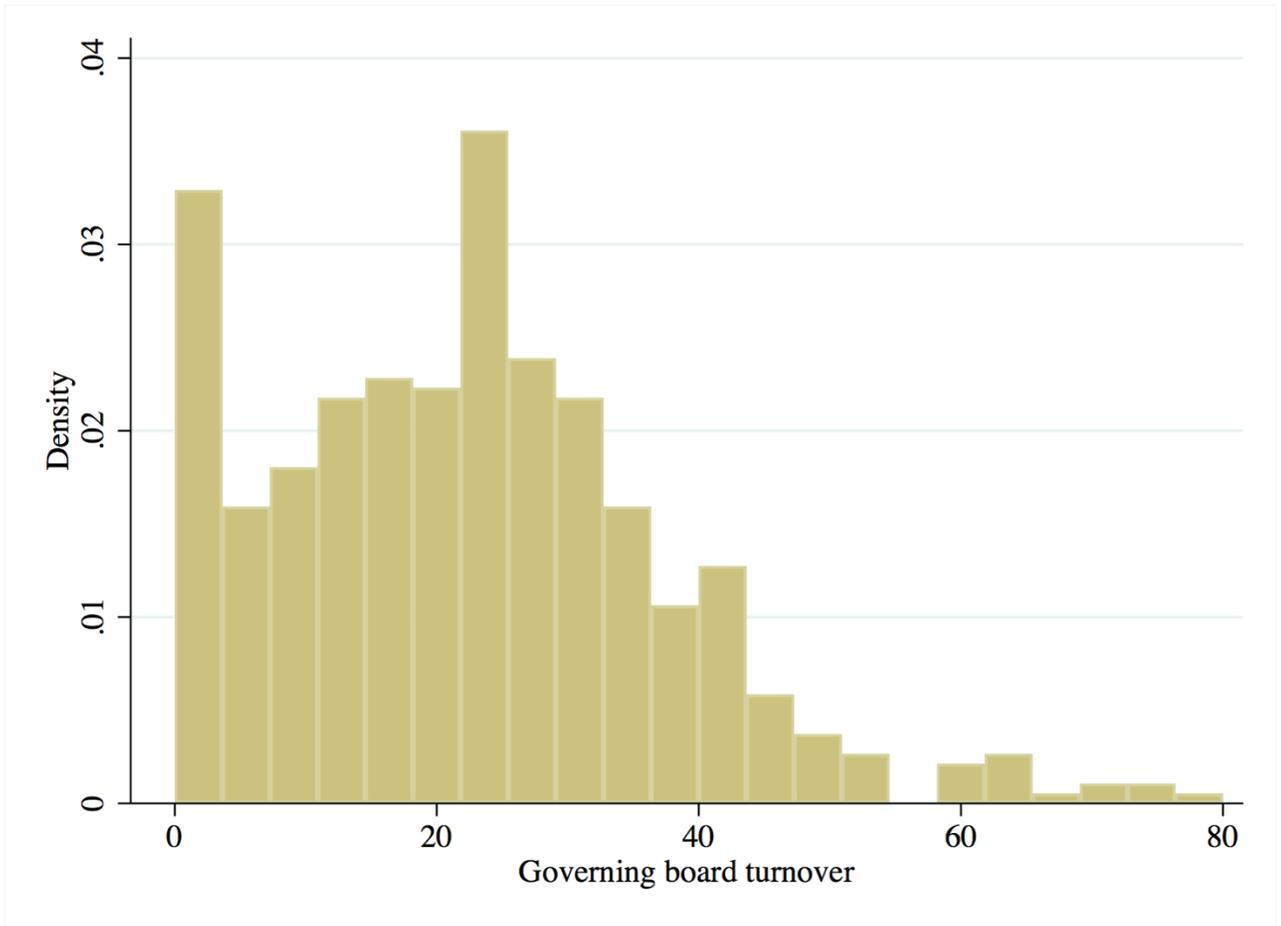


Figure A1. Histogram of Governing Board Turnover Rates in United Way Organizations

Endnotes

ⁱ Either too low or high turnover rates can be an indication of organizations being operationalized inefficiently (for more details see Abelson and Baysinger (1984) and An and Meier 2020). Optimal turnover rate refers to an equilibrium status where turnover does not affect performance neither positively nor negatively.

ⁱⁱ In gathering data, this paper uses calendar year rather than fiscal year.

ⁱⁱⁱ The substantive results remain the same whether or not I exclude these observations. I exclude observations with less than three governing board members since most states require at least three governing board members to start a nonprofit.

^{iv} The average VIFs for the contribution and allocation models are lower than 3 and VIF coefficients of all independent variables are lower than 7.

^v The list of governing board member names includes key officers and employees in addition to board members. Since many nonprofits use different titles for key officers and employees, to safely exclude them all, I only retain board members who are not compensated by UW organizations or voluntary governing board members.

^{vi} We also create an alternative measure of board turnover, by splitting all names by words and matching those disaggregated names with regular expressions. The correlation coefficient of the two measures is 0.98 and the substantive results do not differ between the two measures. We retain the board turnover measure created with 'matchit,' since it is more time efficient and easily replicable.

^{vii} Previous scholars also use total expenditures, total revenues, and total assets as organizational size proxy measures. Since those financial variables are highly correlated with lagged financial performance measures, to avoid potential severe multicollinearity issues, we operationalize the total number of employees as organizational size.

^{viii} In addition to country level factors, it is also possible that state level factors (e.g., board term limit policy or economic development) may affect the hypothesized relationship. When controlling for the term limit policy across states or adding the state fixed effects in the models, the results across models remain consistent (results available upon request).

^{ix} While log-transforming variables, if the variables include observations with the values of zero, we re-scale those first by adding 10 not to drop any observations.