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UNDERSTANDING COMMUNITY DYNAMICS IN THE STUDY OF GRAND CHALLENGES: HOW NONPROFITS, INSTITUTIONAL ACTORS, AND THE COMMUNITY FABRIC INTERACT TO INFLUENCE INCOME INEQUALITY

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This paper provides a conceptual model that explains how competitive and institutional dynamics at the community level influence the ability of welfare-oriented nonprofits to eradicate income inequality. To test our framework, we build a large and unique seven-year panel dataset consisting of data from 245 U.S. communities. We find that increasing the number of welfare nonprofits is beneficial for reducing community inequality, but only up to a point, after which resource competition decreases their effectiveness. This competition for resources is also present when a high density of elite-oriented nonprofits operates in the same community. Hypotheses focused on the institutional dimension receive mixed support. As predicted, welfare nonprofits are more effective when they operate in communities with strong law enforcement capabilities and less effective in politically conservative local contexts. Contrary to our expectations, however, we find that welfare nonprofits are less effective in demographically heterogeneous local contexts and when the government provides effective social policies, thus indicating a possible substitution effect. Surprisingly, nonprofit effectiveness is increased in highly financialized local contexts. Together, our results indicate that issues of competition, institutional alignment, and community support in the context of grand challenges are more complex than originally thought.

Among the multiplicity of complex social ills, the sustained growth in income inequality is at the top of Western governments' policy agenda (Avent, 2015). U.S. President Barack Obama called income inequality the "defining challenge of our time," and international organizations such as the World Economic Forum and the International Monetary Fund have described inequality as one of the greatest problems the world will face in the coming years (Dabla-Norris, Kochhar, Suphaphiphat, Ricka, & Tsounta, 2015). Income inequality is significant because it produces several socially corrosive consequences. In an extensive review, Wilkinson and Pickett (2010) highlighted a wide range of outcomes related to income inequality, such as psychological problems (higher stress and anxiety and lower self-esteem), health issues (greater obesity and drug abuse), and social harm (lower trust and social mobility and higher violence and crime rates). Eventually, these consequences solidify the cycle

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of inequality, thus reinforcing a negative feedback loop. Even from a purely economic perspective, inequality has deleterious effects. Economists believe that inequality means high costs for economic development (Stiglitz, 2013), particularly because it generates social discontent and fuels political instability. Such factors create uncertainty in the politico-economic environment, which ultimately reduces investment (Alesina & Perotti, 1996).

Income inequality is particularly problematic at the community level. Researchers have recently begun to observe that metropolitan areas are a key driving force behind inequality (Baum-Snow & Pavan, 2013). Furthermore, even within the same country, geographic communities vary widely in their levels of income inequality (Glaeser, Resseger, & Tobio, 2009). This renewed focus on communities draws on the notion that, although grand challenges—that is, large, complex, unresolved societal problems—are global in nature, they are instantiated in local, territorially bounded contexts (Brenner, 1998). Community income inequality in particular is fueled by the unequal distribution of economic and innovation activity (Breau, Kogler, & Bolton, 2014), as demonstrated by several of the world's richest metropolitan areas whose income inequality figures are on a par with those in underdeveloped countries. In 2014, several U.S. communities showed extraordinary income inequality levels. San Francisco, frequently regarded as a highly progressive locality, had a slightly higher Gini coefficient—the standard measure of income equality—than Rwanda, Miami showed a higher Gini index than Kenya, and Boston had a greater coefficient than the Ivory Coast (CIA, 2015). These comparisons should be considered with caution given that the lowest percentile of the population in these U.S. areas has a mean income equal to the highest percentiles in underdeveloped economies. Nonetheless, there is increasing urban inequality worldwide, including in major cities such as London, Mexico City, Shanghai, and Paris, where a high increase in the value of rent-generating assets primarily benefits a minority of people (Stiglitz, 2013).

Although reducing community income inequality is a daunting task, many organizations are focused on addressing this grand challenge. Most notably, welfare-oriented nonprofit organizations seek to solve this problem (Marwell, 2004). Welfare nonprofits are tax-exempt organizations with the social mission of eradicating income inequality through the provision of products and services that significantly increase the economic well-being of individuals at the bottom of income distribution (Allard & Small, 2013). Such services include affordable housing, job training, adult education, childcare, crime prevention and vocational rehabilitation (Marquis, Davis, & Glynn, 2013)—all activities that empower the disadvantaged population to increase their economic standing (Allard & Small, 2013). Furthermore, welfare-oriented nonprofits lift communities up by promoting local laws, such as housing regulations, that specifically benefit low-income people (Lichterman & Eliasoph, 2014), and by providing social customized services to address local needs (Allard, 2008).

Communities play a central role in enabling organizations such as welfare nonprofits to address complex social problems effectively (Allard & Small, 2013; Mair & Martí, 2006). *But which actors and features in these communities specifically influence the effectiveness of nonprofits when addressing grand challenges?* In this paper, we develop and empirically test a framework consisting of two key community-level dynamics that influence the effectiveness of welfare nonprofits in decreasing income inequality: (1) resource competition and (2) the local institutional context. Resource competition centers on the process by which nonprofit organizations strive to reduce environmental uncertainty by securing critical resources. Thus, competitive dynamics reveal that nonprofit organizations might not only cooperate but also compete for resources such as grants, volunteers, and attention (Chetkovich & Frumkin, 2003). The second dimension, the local institutional context, emphasizes how community actors and specific features of the community fabric can either empower or limit nonprofits' actions, depending on the degree to which the rules, norms, and beliefs they define are perceived to be aligned with the nonprofits' mission (Battilana, Leca, & Boxenbaum, 2009). Therefore, our framework integrates both competitive and institutional influences to explain the effectiveness of organizations dealing with grand challenges.

Our paper contributes to a number of fields. First, it advances the incipient literature on grand challenges by offering a conceptual framework that provides a structured assessment of the key elements that have an impact on organizational success in addressing grand challenges. In this sense, our work suggests that issues of competition, institutional alignment and community support are vitally important to better understand the tensions and opportunities that organizations encounter when addressing grand challenges such as income inequality.

Second, we add to the stream of research that looks at the links between local communities and organizations. A large part of this literature has studied how local communities affect organizations (Marquis & Battilana, 2009). Our work extends this idea by suggesting that communities not only influence organizations but that the collective action of these organizations can also affect local communities by, as shown in this article, changing the level of inequality. Moreover, by studying income inequality at the community level, we move beyond the analysis of macro-level policies to emphasize the importance of analyzing the role of formal organizations in eradicating income inequality at the local level (Allard & Small, 2013). Indeed, while grand challenges are frequently classified as national-level problems, significant within-country variance remains in the degree to which social problems emerge and influence people's lives. By focusing on communities, we take advantage of this heterogeneity to suggest more fine-grained policymaking recommendations at the metropolitan area level.

Third, we contribute to nonprofit organization studies. Prior work has put the emphasis on resource partitioning and economic motives to explain the effectiveness of nonprofit organizations. We show that effectiveness resulting from a greater density of welfare nonprofit organizations is limited not only by extreme levels of density (when the benefits of the agglomeration are offset by the drawbacks of competition) but also contingent on institutional arrangements and the traits of the communities in which the nonprofit organizations operate.

Finally, we add to institutional theory by applying some of its key tenets to the context of grand challenges and highlighting the limits of current theory in fully explaining the complexity of grand challenges. Our results reveal that some institutional influences that were expected to positively shape nonprofit effectiveness actually diminish it when such institutions are perceived as substitutive. Conversely, we also found situations in which institutions were expected to have a negative influence on nonprofit effectiveness but the evidence indicated otherwise. These unexpected results shed light on the complex nature of grand challenges' institutional processes and open exciting research avenues for institutional scholars.

THEORY AND HYPOTHESES

Organizational Effectiveness and Grand Challenges in Communities

Management scholars have become increasingly interested in research that investigates grand challenges—that is, large, complex, unresolved societal problems—and the role of organizations in addressing these issues effectively (Ferraro, Etzion, & Gehman, 2015; George, Kotha, Parikh, Alnuaimi, & Bahaj, 2015; Marwell & McQuarrie, 2013). Due to the novelty of grand challenges, we currently lack a solid analytical framework for examining the complex interactions and unforeseen dynamics that influence organizations' ability to produce social change (Leca, Battilana, & Boxenbaum, 2008). Such a theoretical framework requires careful examination of the link between organizational action and the context in which these organizations are embedded. This context comprises multiple organizations, key institutional actors, and local cultural characteristics that either support or hinder the action of organizations addressing grand challenges.

Furthermore, examining organizational effectiveness in the context of grand challenges demands a clear specification of the level of analysis. We focus on geographic communities, building on the notion that individuals and organizations are rooted in specific geographical locations where the consequences of grand challenges are reflected and enacted (Marquis & Battilana, 2009; Peredo & Chrisman, 2006). We use the definition of communities as "a local level of analysis corresponding to the populations, organizations, and markets located in a geographic territory and sharing, as a result of their common location, elements of local culture, norms, identity, and laws" (Marquis & Battilana, 2009: 286). For the purpose of empirical analysis, such a definition delimits the physical bounds of a community as a metropolitan statistical area (MSA), a definition used in organizational studies (Greve & Rao, 2012; Lounsbury, 2007).

In our specific setting, there are two advantages when it comes to determining how community dynamics influence the effectiveness of nonprofits that seek to eradicate income inequality. First, communities are clearly delimited geographic fields for analyzing grand challenges and organizational action. Thus, this setting allows us to overcome definitional vagueness and to discover strong implications for local policy makers and organizational managers (Lawrence, Suddaby, & Leca, 2009). Second, our focus on communities allows us to account for organizational embeddedness in a specific geographic environment (Marquis, Glynn, & Davis, 2007). This context influences the ability of welfare-oriented nonprofits to eradicate income inequality through the dynamics of resource competition and institutional influence. In the next sections, we look at these two types of community dynamics in detail.

Resource Competition and Nonprofit Effectiveness

The ability of actors to address social problems effectively depends largely on the acquisition of critical resources (Leca et al., 2008). Social movement researchers have recognized that the availability of resources is fundamental to the success of collective action because mobilizing a movement and generating awareness are costly activities (Edwards & McCarthy, 2004). Meanwhile, nonprofits compete for donations and grants, volunteer time, and community attention (Chetkovich & Frumkin, 2003). Competition unfolds not only among nonprofit organizations attempting to address a specific grand challenge, but also with other nonprofits with different goals and constituents. We consider these two facets.

The Relationship Between Nonprofit Density and Community Income Inequality

The capacity of communities to address social problems depends largely on the density of local nonprofit organizations (Selsky & Smith, 1994; Skocpol, Ganz, & Munson, 2000; Small, 2009). Welfare-oriented nonprofits in particular constitute a key node within communities as a result of their ability to offer services to the underserved and to mobilize collective action to challenge the structural bases of inequality. Welfare-oriented nonprofits offer a wide range of services in diverse arenas such as health, social interventions, crime prevention, child protection, employment preparation and rehabilitation, housing support, and disaster relief (Marwell, 2004). Given the critical nature of these services in empowering the disadvantaged, inequality is expected to be lower in communities with a greater density of welfare nonprofits. A greater density of welfare nonprofits in a community also denotes greater civic engagement, which is a key element of solving grand challenges (Ferraro et al., 2015).

Institutional scholars have advanced arguments as to why a greater density of welfare-oriented nonprofits should decrease community income inequality. Greve and Rao (2012) argued that when community members evaluate nonprofit organizations as addressing a social problem effectively, they increase the legitimacy of these organizations, thus setting the stage for the founding of other nonprofit organizations. In a similar vein, scholars have found empirical evidence indicating that nonprofit colocation can increase the likelihood of collaborative strategies (York & Zychlinski, 1996), opportunities for mutual learning (Baldassarri & Diani, 2007), the drive for greater professionalization (Hwang & Powell, 2009), and the ability to mobilize community efforts. All of these factors strengthen the ability of nonprofits to reduce income inequality.

However, it is unlikely that the benefits of density will persist indefinitely. There is evidence to suggest that a greater density of welfare nonprofits will lead eventually to increased competition (Baum & Singh, 1994). When a community has few organizations, competition with others for scarce resources can be avoided easily; however, as the number of competitors grows, it becomes more difficult to avoid competition. Indeed, after reaching critical mass, nonprofit organizations start competing over grants, donations, staff, volunteers, and community attention (Buckingham, 2009). Confirming this idea, Castaneda, Garen, and Thornton (2008) developed a model that showed that increased competition led nonprofits to divert some of their resources from programs and services to promotional expenditure and that the various tensions generated by competition were amplified by colocation in a community.

Therefore, we suggest that a greater density of welfare-oriented nonprofit organizations will reduce inequality up to a point, but competitive pressures will then outweigh the benefits of legitimacy and increased participation. Nonprofit organizations need to reach critical mass and gain social recognition to be effective at addressing large social problems (Battilana et al., 2009; Edwards & McCarthy, 2004). However, as density attains high levels, competition will also intensify, ultimately leading nonprofits to become less effective as a result of greater spending on activities not related to programs. In addition, as donors divide their grants and contracts among an ever-growing number of welfare organizations, the amount received by each nonprofit individually will not suffice to build the capacity needed to alter income inequality levels significantly. Lower financial endowments prevent nonprofits from both reaching the scale to have a significant impact and from covering the necessary expenses in coordination costs, planning, and knowledge to achieve their goals (Stone, Bigelow, & Crittenden, 1999).

A clear example is provided by the Portland–Vancouver–Hillsboro MSA. According to Charity Navigator, a reputable source of nonprofit-sector data, the offer of charitable programs and services in the Portland community between 2007 and 2008 rose enough to move Portland into the top 10 U.S.

communities for program growth (Moody, 2008). However, the sector growth was followed by a sharp increase in costs. In 2008, Portland nonprofits spent as much as 9.2% of their total budgets on fundraising alone, with a fundraising efficiency of 11 cents to raise a dollar. This level of efficiency is much lower than in other areas, such as Miami (6.5 cents to raise a dollar), Detroit (8 cents) and Indianapolis (9 cents).

Thus, we expect a greater density of welfare nonprofits to lead to an increase in the collective effectiveness in reducing inequality up to a point, after which the significant increase in the density of welfare-oriented nonprofits in an area will lead to greater competition and a less socially efficient allocation of resources. We therefore hypothesize as follows:

Hypothesis 1a. The density of welfare-oriented nonprofit organizations has a curvilinear (convex) effect on income inequality at the community level.

Competition with elite-oriented nonprofit organizations. Welfare-oriented nonprofits also face direct competition with nonprofit organizations that reflect different interests and beneficiaries. An extensive set of community nonprofits focuses on arts, culture, and education issues aimed at enhancing the local cultural context while preserving traditional values (Marquis et al., 2013). Institutional scholars have categorized these nonprofits as *elite-oriented* given that their goals are better aligned with the interests of the upper classes (Marquis et al., 2013). Elite-oriented nonprofits differ substantially from welfare-oriented nonprofits in terms of scope and, most notably, in the composition of their direct beneficiaries. Beneficiaries of the former include primarily white-collar, college-educated residents, while recipients of the latter include lower-tier workers and minorities. Given these specific goals and constituencies, elite-oriented nonprofits can easily become a means for drawing social boundaries through the diffusion of tastes, preferences, and cultural practices (Lizardo, 2006). Therefore, the participation and support of elite nonprofits represent an effective vehicle for donors to signal status and power and, thus, to create an exclusive clique (DiMaggio, 1987).

This ability of elite cultural and educational institutions to attract and reward wealthy donors easily (Ostrower, 1997) places welfare-oriented nonprofits in a particularly weak position to secure financial resources. In 2012, of the 50 largest individual gifts to public charities, 34 went to educational institutions, primarily universities (e.g., Columbia, Harvard, and Yale); nine went to art organizations; and none went to welfare-oriented nonprofits.[1] (The remaining donations went to medical and conservation charities.) This suggests that wealthy donors—who represent 42% of all individual donations (https://philanthropy.com/article/As-Wealthy-Give-Smaller-Share/152481)—put a premium on personal prestige by donating to prestigious colleges and selective educational institutions (Holmes, 2009). Lacking the status of such institutions, welfare nonprofits are driven to increase their fundraising efforts to either reach new donors or convince wealthy donors to switch their contributions. Paradoxically, to external audiences this increase in fundraising also signals a wasteful or inefficient use of resources (Lecy & Searing, 2015), ultimately reducing the ability of nonprofits to secure grants efficiently (Ashley & Faulk, 2010).

Additionally, there is a political argument regarding the influence of elite-oriented nonprofits. A greater density of them indicates a tighter network among the upper classes and greater cohesion among the corporate elite (Heemskerk, 2007; Marquis et al., 2013). This in turn can largely shape the action and orientation of welfare-oriented nonprofits. Domhoff (2009) reviewed evidence from case studies in which tightly knit local elites in effect captured welfare organizations through their active participation on boards and their ability to access funding. According to the author, capturing nonprofits allows elites to ensure that the involvement of U.S. government in daily life remains at minimum levels. Elites accomplish this objective through the use of grants and contracts from corporations and family foundations to co-opt opinion-influencing associations such as charitable groups. Further evidence indicates that donations from elites frequently come with strings attached, including demands for right-wing political advocacy, excessive donor promotion, diversion from the original goals, and reduction of the more contentious activities in which the nonprofit participates (Stone et al., 1999). Hence, in communities that witness a strong density of elite-oriented nonprofits, the efforts of welfare-oriented nonprofits are more likely to be challenged and undermined.

Hypothesis 1b. A greater density of welfare-oriented nonprofit organizations will be less effective at reducing income inequality in communities with a greater density of elite-oriented nonprofit organizations.

[1] Large charitable gifts equate to donations of $1 million or more (https://philanthropy.com/factfile/gifts).

The Local Institutional Context as an Enabler of and Constraint on Nonprofits' Actions

Organizations engaged in addressing grand challenges are likely to be influenced both positively and adversely by their local institutional context. To dissect these complex relationships between the local institutional context and organizations addressing grand challenges, we build on Scott (2001) and establish an analytical distinction between *community actors*, who embody the regulative and social-normative institutional pillars, and the *community fabric* in which the local cultural-cognitive institutions are embedded. We suggest that alignment of the rules, values and expectations of community actors with the mission of welfare nonprofits will enable welfare nonprofits to exploit the value congruence required to mobilize community support and attention (Battilana et al., 2009; Wade-Benzoni et al., 2002). In contrast, if the community actors and fabric are misaligned, this will hamper the ability of welfare nonprofits to reduce inequality.

Community Actors: Regulative and Social-Normative Pillars

Government enforcement capability. Governments have the capacity to establish and enforce rules and thus affect organizational behavior and performance (Scott, 2001). Local governments with greater enforcement capabilities are better able to signal the importance of local social services, help local organizations take advantage of federal policies aimed at helping low-income individuals, develop effective partnerships with welfare service providers, and influence firms' employment policies on sensitive topics such as race and gender discrimination (Brief, Butz, & Deitch, 2005; Guthrie & McQuarrie, 2005; Marquis & Battilana, 2009; Selsky, 2005). All these activities establish both regulative and normative rules that align with nonprofits' mission of reducing income inequality, not only by penalizing those who contradict the rules and rewarding those who conform to them (Scott, 2001), but also by legitimizing the debate on social problems in the local policy arena (Doh, 2003). Welfare nonprofits build on this established legitimacy, thereby increasing their ability to raise awareness about income inequality issues and to mobilize community support to address this problem (Edwards & McCarthy, 2004).

Governments with greater enforcement capacities also send a signal regarding the level and nature of corporate social action (Campbell, 2007). More specifically, local governments influence corporate philanthropy by establishing a clear mindset regarding the appropriate levels of giving (Marquis et al., 2007). In communities with greater government enforcing mechanisms, welfare nonprofits will perceive a sense of trust in regulative institutions that will support their work because such work is viewed as being congruent with the rules and mandates established in the local context, thus enhancing the impact. Hence, we hypothesize as follows:

Hypothesis 2a. A greater density of welfare-oriented nonprofit organizations will be more effective at reducing income inequality in communities with greater government enforcement capabilities.

Weak social policy. While strong government enforcement aligns with the mission of organizations addressing grand challenges, weak or ineffective government social policies can undermine organizations' effectiveness. Weak government policies affect nonprofit effectiveness in two main ways. First, they discourage civic participation and engagement with voluntary organizations through misplaced incentives and lack of infrastructure support (Skocpol, 1999; Skocpol et al., 2000). A consequence of this lack of support is less willingness to look for synergies with nonprofit organizations and thus a failure to address grand challenges through joint, collaborative efforts (Selsky, 2005). Second, weaker government policies are normally accompanied by a less supportive legal framework for nonprofits (Smith & Grønbjerg, 2006). Irvin (2005), for example, found that stronger regulation of nonprofit reporting standards imposed a high cost for nonprofit organizations but yielded no visible advances in preventing fraudulent activity or abnormally low donations to nonprofit organizations. In their study of the home health services sector, Clarke and Estes (1992) found that macro-level policies in the field (e.g., prospective reimbursement) forced nonprofits to adopt the strategies and structures of for-profit firms to remain viable. Such changes had unforeseen consequences, such as the limitation of services to minorities and the privatization of the health sector. In sum, these studies have suggested that weaker government policies do indeed undermine the efforts of nonprofit organizations in a myriad of ways.

In the specific case of income inequality at the community level, institutional research has suggested several arguments about why weak government policies will mitigate the effects of a greater density of welfare nonprofits. First, weaker social policies imply a significant reduction in the government services that form the backbone of the safety net in poor communities. Lack of basic government assistance—either through cash or noncash benefits such as food stamps—implies greater marginalization of the poor and fewer chances of accessing meaningful employment opportunities (Deschenes, McLaughlin, & O'Donoghue, 2006). Such marginalization debilitates the work of welfare-oriented nonprofits aimed at helping individuals achieve market opportunities. Moreover, since welfare nonprofits face several structural limitations, they have neither the power nor the resources to be an effective substitute when there is an absence of government social policies aimed at helping low-income individuals (Guo, 2010). Second, in communities with weak social policies, ties between welfare nonprofits and governments tend to be less robust, so there is a failure to develop the interconnections and complementary infrastructure required to address a complex social problem such as income inequality effectively. Finally, given that the actions of welfare-oriented nonprofits are less likely to be legitimized in a context with such severe institutional shortcomings (Smith & Grønbjerg, 2006), welfare nonprofits will be at a disadvantage when it comes to gaining support and mobilizing for social change. Thus, we posit the following:

Hypothesis 2b. The greater density of welfare-oriented nonprofits will be less effective at reducing income inequality in communities with weak social policies.

Labor institutions. Leveraging the capacity of legitimate community actors is particularly important for organizations aiming to solve grand challenges because the complexity of these social problems makes them unlikely to be solved by any single organization (Ferraro et al., 2015). In particular, labor institutions provide important normative support for the action of nonprofit organizations, given their value congruence and moral alignment (Wade-Benzoni et al., 2002). Central among labor institutions are unions, which are important community actors that share with welfare nonprofits the goal of protecting and empowering an economically vulnerable category of individuals. For this reason, institutional theorists view unions and nonprofits as resource-mobilizing organizations with complementary interests (McAdam & Scott, 2002).

Unions enhance the effectiveness of welfare-oriented nonprofits through two main mechanisms. First, labor unions help institutionalize social norms of fairness and equity by increasing the fairness of contracts and employment relations (Western & Rosenfeld, 2011). There is empirical evidence that these taken-for-granted norms help narrow pay inequality among races, genders, and less skilled workers (Metcalf, Hansen, & Charlwood, 2001). Therefore, in communities where norms of equality and social protection are prevalent, nonprofit organizations are able to devote fewer resources to generating awareness and seeking donors, and can allocate more resources and greater managerial attention to the actual provision of products and services (Kistruck, Qureshi, & Beamish, 2013). Such a focus should increase nonprofits' ability to help people improve their economic condition, thus reducing income inequality.

Second, unions can enhance the efforts of nonprofits through collaboration and partnerships (Selsky, 2005). For example, several welfare-oriented nonprofits in the Chicago area have partnered with the Service Employees International Union to leverage this union's power to exercise its voice. A greater voice allows welfare nonprofits to increase social awareness and gain exposure, thus improving the likelihood of them receiving financial support. Unions also benefit greatly from joint work with nonprofits. Nonprofits help unions form stronger local political coalitions that can prevent plant closures, provide support for minimum wage policies, and organize local collective action (de Graauw, 2015). We therefore hypothesize as follows:

Hypothesis 3. In highly unionized local contexts, a greater density of welfare-oriented nonprofits will be more effective at reducing income inequality at the community level.

Financial institutions. Certain community actors can also promote local norms that reduce the ability of organizations to address grand challenges. In such cases, community actors sustain norms that are antithetical to the mission of nonprofits, thereby reducing the nonprofits' sense of appropriateness (Battilana et al., 2009). These community actors create new barriers to raising awareness and reduce the legitimacy of local nonprofits. A growing body of evidence suggests that local financial institutions are prominent community actors that have important effects on individual attitudes, including civic behavior and willingness to participate in civic initiatives.

Martin (2002) provided ample evidence of the normative effect of financial institutions on individual behavior, a process that he termed the "financialization of daily life." He showed how financial thinking negatively affected family life, increased personal ambition, and eroded long-term thinking. He further argued that the individual management of financial risks disengaged people from collectivities as a way to protect their families from contingencies. Davis (2009) also showed how individual identity shifted from citizens and employees to "investors:" financially oriented individuals who eventually come to think of their homes as investment assets. According to the author, this *portfolio* view of society in which "talent, personality, friends, family, homes, and community all became kinds of securities" (2009: 194) erodes local relationships. The loss of community bonds limits the capacity of individuals to engage in cooperative behavior that could help the disadvantaged (Putnam, 2001). In communities with lower reciprocity norms and obligations, actors organizing to solve complex social problems have greater difficulty in leveraging existing resources.

Hypothesis 4. In highly financialized local contexts, a greater density of welfare-oriented nonprofits will be less effective at reducing income inequality at the community level.

Disentangling the Community Fabric: The Cultural-Cognitive Pillar

Demographic heterogeneity. Nonprofit organizations operate not in a vacuum but in a specific setting with well-established social and demographic characteristics (Padgett & Ansell, 1993). This setting defines the communities' identity and provides shared mental frameworks to create common definitions of situations and references to assess them (Marquis & Battilana, 2009). Thus, the community fabric—including its demographic characteristics, ingrained cultural beliefs and shared frames of reference—will influence the effectiveness of welfare-oriented nonprofits.

There is general agreement among scholars that a critical characteristic of the community fabric in relation to social problems is its demographic heterogeneity, such as its racial and cultural diversity (Brief, Umphress, et al., 2005; Frey, 2014). Racial minorities, for instance, represent a central constituent for welfare-oriented nonprofits, which frequently orient their action toward helping these minorities, with actions such as encouraging firms to adopt minority hiring practices and guarantee decent salaries for both skilled and unskilled workers. However, the efforts of nonprofits to improve the economic condition of people at the bottom of the income distribution encounter resistance. Previous studies have demonstrated how racial segregation remains a prevalent feature of the U.S. labor force (Carrington & Troske, 1998; Reskin, McBrier, & Kmec, 1999).

Despite these barriers to racial integration, recent evidence has indicated that the action of welfare-oriented nonprofits can, in fact, be facilitated in a demographically diverse community. Social psychologists have found that individuals embedded in multicultural communities are more culturally competent (Fong & Gibbs, 1995), which can lead to reduced racial biases in job searches within cities (Neckerman & Kirschenman, 1991). Moreover, psychologists have found that exposure to demographic diversity stimulates creative thinking and cognitive flexibility, thereby inhibiting stereotyping and increasing tolerance (Crisp & Hewstone, 2007; Tadmor, Galinsky, & Maddux, 2012). Multiracial communities are closer to the traditional idea of the U.S. as a conglomerate of melting-pot communities (Frey, 2014) with reduced interethnic conflict, which positively affects individual attitudes to workplace diversity (Brief, Umphress, et al., 2005). Diverse communities also demonstrate a stronger altruistic disposition, which manifests in the generation of progressive policies and the creation and support of organizations that champion wealth redistribution (Parekh, 2001). A community that displays these features is therefore more likely to provide greater material and social support to the action of organizations that explicitly align with this mindset. As a consequence of these dynamics, local welfare-oriented nonprofits can dedicate less time and fewer resources to reducing racial prejudice and cultural discrimination (Singer, 2006). Instead, these organizations can devote greater effort to implementing programs that concretely help people improve their economic condition.

From a grand challenge perspective, tolerance and diversity represent fundamental values that enable the development of a "participatory architecture"—that is, a series of rules of engagement that enables heterogeneous actors to interact productively over prolonged time spans (Ostrom, 1990). Participatory structures are key to enable organizations to engage in robust action that helps solve social problems (Ferraro et al., 2015). Particularly with regard to income inequality, diverse communities are more open to a redistributive mindset because they encourage greater egalitarianism in social attitudes (Crisp & Turner, 2011). Welfare-oriented nonprofits can leverage this mindset effectively and engage in both short- and long-term tactics aimed at reducing the income inequality gap.

Hypothesis 5a. In demographically heterogeneous local contexts, the greater density of welfare-oriented nonprofits will be more effective at reducing income inequality at the community level.

Political ideology. Political ideology is also a central pillar of the community fabric. Individuals who lean toward certain political ideologies are more likely to share a cognitive framework that strongly influences how they interpret and make sense of the world. In the case of conservatives, such a framework includes a tendency to "value individualism, free market mechanisms, and a limited role for government" (Detomasi, 2007: 815). Scholars have regarded political conservatism as an important barrier to solving a diverse set of grand challenges. For instance, people in conservative communities are likely to focus less on social and environmental problems and more on supporting an economic logic (Lee & Lounsbury, 2015), and they often attribute poverty to individual responsibility rather than structural causes (Zucker & Weiner, 1993).

In politically conservative communities, welfare-oriented nonprofit organizations are less likely to develop the value congruence necessary to gain local support (Wade-Benzoni et al., 2002). In such cases, cultural-cognitive misalignment can lead to wasted effort on fundraising and a diminished ability to gain community support. Moreover, as many welfare-oriented nonprofits are seen as defying the status quo through requests for policy changes, they can be regarded as a challenge to the existing system (Domhoff, 2009). In many cases, welfare-oriented nonprofits need to show at least some degree of compliance with prevalent conservative values, which affects the intensity and boldness of actions geared toward more significant social changes (Yaziji & Doh, 2013). Hence, we present the following hypothesis:

Hypothesis 5b. In politically conservative local contexts, the greater density of welfare-oriented nonprofits will be less effective at reducing income inequality at the community level.

METHODS

Data and Sample

To test our hypotheses, we built a large and unique seven-year panel dataset with data from 2006 to 2012 on 245 U.S. communities. We operationalized communities as MSAs as defined by the Office of Management and Budget according to 2010 delineations (Office of Management and Budget, 2010). An MSA is a core urban area with a population of at least 50,000. The inclusion of 245 MSAs implies that 64% of all U.S. MSAs are included in our sample. This rate is larger than that used in previous studies, which typically focused on either the 50 or 100 largest metropolitan areas. Although we wanted our sample to be as inclusive as possible, it was not possible to include all U.S. metropolitan areas, given the limited data availability for many of the study's main variables, such as *labor unions* and *demographic heterogeneity*. However, we ensured the inclusion of the 100 largest U.S. metropolitan areas (as in previous research).

Measures

Dependent variable. Our dependent variable, *community income inequality*, was operationalized as the community's Gini index, the most widely used measure of inequality. A Gini value of 0 means that all households have equal income. On the other hand, a value of 1 means that only one household has all of the income, while all others have none (maximal inequality). Thus, higher Gini index values are indicative of greater levels of inequality. This information was gathered from the yearly data collected through the American Community Survey (ACS). This is an ongoing survey conducted by the U.S. Census Bureau that provides timely estimates for the social characteristics and infrastructure of U.S. communities. ACS data have been used frequently in both economic studies (Long, Yemane, & Stockley, 2010) and sociological studies (Lyons, 2007). Census Bureau data are also a reliable source of community indicators for management studies (Marquis et al., 2007). Theoretically, the Gini index is calculated as the deviation between the Lorenz curve (the observed cumulative income distribution) and a perfectly equal income distribution. For convenience, however, the Census Bureau relies on the Gini calculation developed by Dasgupta, Sen, and Starrett (1973), using the following formula:

$$Gini = \frac{2}{\mu n^2} \sum_{i=1}^{n} iX_i - \frac{n+1}{n} \qquad (1)$$

where μ is the population mean, n is the weighted number of observations, and X_i is the weighted income of individual i weighted by individual i's rank in the income distribution.

Independent variables. Our main independent variable, *welfare nonprofit density*, was calculated as the Herfindahl index of the revenues of a community's welfare nonprofits. The Herfindahl index takes into account not only the number of welfare nonprofits but also their relative size in relation to their sector, which plays an important role in terms of competition (Mark, 1999), as indicated in the following formula:

$$H = \left(\sum_{i=1}^{N} s_i^2 \right) \tag{2}$$

where s_i is the market share of the welfare-oriented nonprofit organization i within the MSA, and N is the total number of welfare nonprofits.

We collected nonprofit data from the National Center for Charitable Statistics (NCCS) (2015) at the Urban Institute. NCCS data are regarded as the gold standard in the study of nonprofits (Powell & Steinberg, 2006), and its data have also been used in management studies (Marquis et al., 2013). The NCCS produces the Core File dataset annually. This dataset is based on the Internal Revenue Service's annual Return Transaction Files and contains data on *all* public charities that report gross receipts of at least $50,000 and that were required to file Form 990 or Form 990-EZ. In this way, the NCCS Core File dataset excludes very small nonprofit organizations, which allows us to include only poverty-fighting nonprofits with substantial operations. This is important given the low administrative hurdles to creating a nonprofit, which could lead to an inflated estimation of the nonprofit density within a given community.

In selecting our sample for our main independent variable, we carefully selected welfare nonprofits that have a direct impact on mitigating inequality—that is, those related to human services. Human service organizations represent a specific set of welfare nonprofits whose goal is to eradicate income inequality through direct programs and services. (See the codes of the National Taxonomy of Exempt Entities [NTEE], in Table 1.) These nonprofits typically focus on two different set of activities: (1) programs that help individuals reintegrate into the labor market, and (2) services that help poor people to achieve a better economic position. The activities of nonprofits focused on the former type of action include vocational rehabilitation and training, employment preparation and procurement, and the reintegration of minorities, disabled individuals or former prisoners into the labor force. Therefore, these nonprofits rely strongly on market mechanisms to fight inequality. On the other hand, nonprofits that provide support services focus on issues such as the development of affordable housing and help in searching for it, the establishment of child and youth care centers for working parents, and the provision of personal social services that supplement government benefits. Hence, these services complement market-based solutions by addressing other barriers to closing the income inequality gap. The final NTEE codes included in our analysis are tabulated in Table 1.

In a second stage, we grouped welfare nonprofits by community. We used the current delineations file obtained from the Census Bureau website (http://www.census.gov/population/metro/) to match the nonprofit zip code with its respective MSA. We then calculated the Herfindahl index of the revenues of welfare nonprofits in each community using the "total nonprofit revenues" data point from the NCCS dataset to compute market shares. Finally, because the Herfindahl index decreases with the number of nonprofits, we reversed this variable by multiplying it by -1 to show density instead of concentration and thus facilitate interpretation of the estimated coefficients.

To calculate the moderator variable *elite nonprofit density*, we relied on the NTEE classification and sampled all those nonprofits whose primary activity was recreational and whose recipients could typically be identified as *elite*. When no clear elite orientation was identifiable, we adopted a conservative approach and excluded all nonprofits that might have a welfare orientation. The types of elite nonprofits included in our sample are indicated in Table 1. After identifying the elite nonprofits, we applied the same procedure used to work out welfare nonprofit density and calculated an inverse Herfindahl index for elite nonprofits.

The moderator variables involving community actors were estimated as follows. *Government enforcement capability* was calculated as the total number of enforcement actions (e.g., fines) taken by the Employee Benefits Security Administration against firms that failed to comply with labor laws (within the boundaries of the MSA) per 1000 firms operating in the MSA. By looking at enforcement actions, we are able to approximate the government's ability to identify and sanction companies that have failed to comply with labor laws, most commonly relating to welfare benefit issues such as employer obligations, health benefits, and employee retirement income security. Indeed, it has been shown that

TABLE 1
NTEE Codes for Elite and Welfare Nonprofits

Type	NTEE subcode	Description	Type	NTEE subcode	Description
Welfare	B3	Vocational & technical schools	Welfare	P2	Human service organizations
Welfare	I2	Crime prevention	Welfare	P3	Children & youth services
Welfare	I3	Correctional facilities	Welfare	P4	Family services
Welfare	I4	Rehabilitation services for offenders	Welfare	P5	Personal social services
Welfare	I7	Protection against abuse	Welfare	P6	Emergency assistance
Welfare	J2	Employment preparation & procurement	Welfare	P7	Residential care & adult day programs
Welfare	J3	Vocational rehabilitation	Welfare	P8	Centers for the independence of specific populations
Welfare	J4	Labor unions			
Welfare	K3	Food programs	Elite	A2	Arts & culture
Welfare	K4	Nutrition	Elite	A3	Media & communications
Welfare	L2	Housing development	Elite	A4	Visual arts
Welfare	L3	Housing search assistance	Elite	A5	Museums
Welfare	L4	Temporary housing	Elite	A6	Performing arts
Welfare	L5	Homeowners' & tenants' associations	Elite	A7	Humanities
Welfare	L8	Housing support	Elite	A8	Historical organizations
Welfare	M2	Disaster preparedness & relief services	Elite	A9	Arts services
Welfare	M4	Safety education	Elite	T2	Private grantmaking foundations
Welfare	M6	Public safety benevolent associations	Elite	T3	Public foundations
Welfare	O2	Youth centers & clubs	Elite	T4	Voluntarism promotion
Welfare	O3	Adult & child matching programs	Elite	T5	Philanthropy
Welfare	O4	Scouting	Elite	T7	Federated giving programs
Welfare	O5	Youth development programs	Elite	T9	Named trusts NEC (not elsewhere classified)

a weakened capacity by the state to enforce labor law is a key factor for understanding income inequality (Kochan & Riordan, 2016). To calculate our measure of *weak social policy* we gathered data about direct actions undertaken by the government regarding income, considering (1) supplements to social security, (2) cash or equivalents given to people in conditions of poverty, and (3) food stamps. Supplemental security income directly provides cash to meet basic needs for food, clothing, and shelter. It is tailored specifically to help disabled minorities, the elderly population or those with very low levels of income. Cash assistance provides monetary benefits for households and individuals under economic strain that might not be eligible for other government programs. Finally, food stamps provide low-income people with assistance in purchasing food at supermarkets, convenience stores, and other food retailers. Our final measure was calculated as the total number of households receiving at least one of these direct benefits divided by the number of households below the poverty line. This measure is expected to reflect the intensity of government policies in each MSA aimed at reducing income inequality. Because we are describing weak government policies, we reversed the measure. The variable *labor institutions* was approximated with *union coverage*, which was calculated as the ratio of workers covered by a union contract to the total MSA workforce. We collected this information from Hirsch and Macpherson (2003), who compiled MSA unionization information based on the Current Population Survey (CPS) and provide a yearly update on these statistics through their website (http://www.unionstats.com). The CPS asks workers yes or no questions about whether they are a member of a labor union or an employee association similar to a union. The category of financial institutions approximated with *financial presence*, which was calculated as the percentage of firms in the community belonging to the finance and insurance sector (North American Industry Classification System code 52). This measure includes all establishments engaged in either conducting financial transactions or facilitating those transactions, such as banks, financial brokers, investment funds, and insurance underwriters.

Community fabric variables were determined as follows. We developed two proxies for *demographic heterogeneity*: racial diversity and national origin diversity. Both measures were calculated as the Blau index (Blau, 1977), using the following formula:

$$1 - \sum p_k^2 \quad (3)$$

where p is the proportion of individuals within the k^{th} category.

National origin diversity spanned 30 nationalities. To calculate *racial diversity*, we included the following seven racial groups: Hispanic, white, black or African-American, Asian, native Hawaiian, two or more races, and other race. In both cases, an index closer to 0 indicates lower diversity, and the maximum (at $(k - 1)/k$) occurs when the members of a community are evenly distributed among races. Because it has been shown that racial diversity has a direct impact on inequality, this variable was also included as a control. To calculate *conservative political ideology* (*red MSA*), we followed Di Giuli and Kostovetsky (2014) and created a dummy variable that equaled 1 if the majority of people in the community had voted Republican in the previous presidential election. Data were obtained from David Leip's Atlas of U.S. Presidential Elections (http://uselectionatlas.org/). Because these data are available at the county level, we aggregated the county-level number of votes at the MSA level, using the census delimitation file.

Control variables. We controlled for several factors that could influence community inequality. New technologies significantly increase the demand for capital and skilled labor over low-skilled and unskilled labor by eliminating many jobs through automation or by upgrading the skill level required to attain or retain those jobs (Card & DiNardo, 2002). Research has found that technological advances accounted for nearly one-third of the widening gap between the 90th- and 10th-percentile earners over the previous 25 years in OECD countries (OECD, 2011). We account for this effect of *technology* by including the variable *ICTshare*, which is the share of information and communication technology (ICT) managers among the total number of workers in the Bureau of Labor Statistics figures. Educational level also plays an important role in influencing income inequality because it determines access to jobs, productivity, and levels of pay (Becker & Chiswick, 1966; Mincer, 1958). We control for *education* by including the proportion of the metropolitan area population with a college degree among those surveyed by the ACS. We also included the following as controls: *minimum wage* and *estate taxes* (the inheritance tax rates for the state in which the metropolitan area is located), both of which are frequently cited policies for reducing inequality (Stiglitz, 2013). All specifications include the average per capita revenues of welfare nonprofits (*welfare nonprofits' revenues per capita*) to control for the level of saturation of charitable giving at the community level. Our models also controlled for the economic prosperity and dynamism of the community by including community *GDP per capita* and *population growth* (the percentage increase in population from the previous year). Finally, we included year dummies to control for macroeconomic trends between 2007 and 2012 that might have influenced community income inequality levels during the period of the study.

Statistical Models

With a seven-year panel, we used fixed-effects regression models to test our hypotheses. Fixed-effects models include a dummy for each community, allowing us to capture unobserved, time-invariant factors that affect community poverty (Wooldridge, 2012). By including both community and year dummies, we controlled for the average differences across cities in both observable and unobservable predictors, thereby reducing any possible omitted variable bias. Thus, the coefficients in our models represent within-community differences across years. The use of a fixed-effects model was indicated by a Hausman test, which rejected the hypothesis that the random-effects model is not significantly different from the fixed-effects model for all the specifications reported.

To reduce the spurious correlation between the welfare-oriented nonprofit density and income inequality, we included several community-level control variables. However, even after we included multiple controls, some unobservable time-variant variables may be correlated with nonprofit density in the error term, introducing a bias in the ordinary least squares (OLS) estimates of the marginal effect of welfare nonprofit density. Thus, we use instrumental variables to address the potential remaining endogeneity of *welfare-oriented nonprofit density*. The instruments used were lagged with respect to the dependent variable and included in the estimated models by considering the best model fit, their quality (validity and strength) and the parsimony of the model specification (Paxton, Hipp, & Marquart-Pyatt, 2011).

A good instrument is a variable that is correlated with an explanatory variable (in our case, welfare-oriented nonprofit density) and not correlated with the residuals of the dependent variable (in our case, community income inequality). In attempting to meet these conditions, we considered these instruments: the density of other nonwelfare nonprofits, organ donations, and larceny-theft. All these variables are expected to explain the density of welfare-oriented nonprofits but they say little about how effective such nonprofits are at reducing inequality. In other words, these instruments would influence income inequality only through their effect on welfare nonprofit density, thus representing valid exclusion restrictions.

Density of other (nonwelfare) nonprofits. While the density of nonprofits not focused on human services is not expected to have an impact on community income inequality, we believe it is a good proxy for the propensity of the population to contribute to the nonprofit sector, and so we expect it to be correlated with welfare nonprofit density.

Organ donations. We expect the number of organ donors to be a proxy for the level of social capital and, thus, to be correlated with the propensity for charitable contributions and thus with *welfare nonprofit density*. Information on organ donations was obtained from the Organ Procurement and Transplantation Network.

Larceny-theft. We expect the level of larceny-theft[2] to influence the level of interpersonal trust (Paxton et al., 2011), an important dimension of social capital. Thus, we expect larceny-theft to be correlated with the propensity for charitable contributions and thus with *welfare nonprofit density*. Information on larceny-theft was obtained from the FBI.

To corroborate the validity of the instruments considered, we used the Sargan test for testing overidentifying restrictions for all reported models. The strength of the instruments was assessed by estimating reduced-form equations with and without the excluded instruments and calculating the partial R-square. In addition, to help eliminate the possibility of reverse causality, we lagged both the independent and control variables (Kenny, 1979). Finally, reported standard errors are robust to heteroskedasticity.

[2] The Federal Bureau of Investigation (FBI) defines larceny-theft as "the unlawful taking, carrying, leading, or riding away of property from the possession or constructive possession of another. Examples are thefts of bicycles, motor vehicle parts and accessories, shoplifting, pocket-picking, or the stealing of any property or article that is not taken by force and violence or by fraud" (https://www.fbi.gov/about-us/cjis/ucr/crime-in-the-u.s/2010/crime-in-the-u.s.-2010/property-crime/larcenytheftmain).

RESULTS

Table 2 reports the descriptive statistics and correlations for the variables used in this study. In our data, the community with the lowest Gini coefficient was the Hinesville–Fort Stewart metropolitan area (0.35), a small community from Georgia with a population slightly higher than 70,000. The community with the highest Gini value was Sebastian–Vero Beach (0.56) in Florida, with a population of more than 140,000 people and an unemployment rate of more than 30%. The highest correlation in our study is between the estate tax rate and unionization levels (0.56). Although this is clearly a high correlation, it is similar to levels obtained in other studies using communities as the level of analysis (Marquis, 2003; Marquis et al., 2013). To check rigorously for multicollinearity problems, we calculated the variance inflation factor (VIF) for each regression. None of the VIF values was larger than 5, which is well below the threshold of 10, indicating no multicollinearity bias.

All the estimated models include community and year fixed effects. The reported results correspond to the instrumental variable estimations explained in the previous section. Table 3 reports the results of the models used to test Hypotheses 1a and 1b. Model A includes only the basic control variables and *welfare nonprofit density*. The control variables have the expected sign but most are not significant, probably because of their low variation across time and the use of community fixed effects. The model shows that a marginal increase in welfare nonprofit density is associated with lower income inequality. Model B shows that the quadratic term of welfare nonprofit density is highly significant, providing strong support for Hypothesis 1a. Figure 1 illustrates this nonlinear relationship: income inequality decreases as welfare nonprofit density increases up to a point, and then income inequality starts increasing again. In fact, the estimated coefficients indicate that welfare nonprofit density is in the range of negative marginal returns for approximately 15% of the MSAs. Model C tests for the negative moderator effect of *elite nonprofit density* and provides highly significant support for Hypothesis 1b.

We then proceeded to test the moderator effects of community actors (Hypotheses 2a, 2b, 3, and 4). The results are reported in Table 4. As hypothesized, Model A shows that government enforcement capability positively influences the effectiveness of welfare nonprofit density at reducing income inequality. However, contrary to our expectations, Model B shows not only a lack of complementarity but, to

TABLE 2
Descriptive Statistics and Correlations

	Variables	Mean	*SD*	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1.	Community income inequality	0.45	0.03																
2.	Welfare nonprofit density	−0.12	0.09	0.07															
3.	Elite nonprofit density	−0.17	0.22	0.22	0.42														
4.	Gov. enforcement capability	0.03	0.09	0.22	0.08	0.26													
5.	Weak social policy	−0.83	0.25	0.02	0.01	0.29	0.31												
6.	Workers' unionization	12.83	7.68	−0.24	0.17	0.10	0.06	0.28											
7.	Financial presence	0.08	0.02	0.14	0.08	0.14	0.08	−0.07	−0.32										
8.	National origin diversity	0.80	0.10	−0.23	0.20	0.18	−0.12	−0.02	0.21	−0.48									
9.	Racial diversity	0.39	0.15	0.33	−0.19	−0.01	0.31	0.23	−0.11	−0.08	−0.01								
10.	Red city	0.56	0.49	−0.03	−0.27	−0.28	−0.13	−0.35	0.35	−0.13	0.20	−0.21							
11.	ICT share	0.006	0.01	0.15	0.15	0.35	0.34	0.31	0.09	0.20	−0.01	−0.32	0.37						
12.	Education	0.34	0.08	0.16	0.12	0.44	0.15	0.11	0.08	0.27	−0.13	−0.31	0.17	027					
13.	Tax rate	0.10	0.01	−0.22	0.21	0.16	0.10	0.15	0.56	0.09	−0.02	0.32	0.13	0.17	0.22				
14.	Minimum wage[a]	6.41	2.03	−0.20	0.12	0.08	0.05	0.22	0.37	−0.01	0.25	0.21	0.34	0.13	0.18	0.42			
15.	Welfare nonprofit revenues per capita	7.72	0.94	−0.01	0.12	0.12	0.17	0.15	0.33	−0.02	0.21	0.17	0.35	0.24	0.16	0.27	0.27		
16.	GDP per capita[b]	36.65	10.81	0.21	0.21	0.48	0.25	0.33	0.10	0.02	0.06	0.17	0.25	0.25	0.24	0.02	−0.01	−0.01	
17.	Population growth	2.65	22.19	0.07	0.06	0.09	0.37	0.09	−0.03	−0.01	0.07	0.05	0.05	0.25	0.05	0.08	0.03	0.08	0.07

[a] In U.S. dollars per hour.
[b] In thousands of U.S. dollars.

some extent, substitution between welfare nonprofits and government actions to reduce inequality. Model C does not provide support for the positive moderating role of labor institutions, while Model D suggests that financial institutions increase the effectiveness of welfare nonprofits, contrary to our expectations. We also report the results of the models used to test Hypotheses 5a and 5b regarding the moderator effect of community fabric. Model E shows no support for our prediction that welfare-oriented nonprofits are less effective at reducing income inequality in MSAs with greater national origin diversity (Hypothesis 5a), while Model F shows that the impact of racial diversity is contrary to our predictions. We discuss possible explanations for the unexpected findings in the "Discussion and Implications" section.

Finally, as expected, we find that welfare nonprofits are less effective in MSAs with a conservative political orientation (Model G), providing support for Hypothesis 5b. We estimate several models (available upon request) to corroborate the robustness of the reported results summarized next. We used alternative inequality measures apart from the Gini coefficient as the dependent variable. The results hold using the ratio of the average income of the richest 20% of the population to the average income of the poorest 20%. The results are also robust to the use of alternative control variables to measure education, technology, and labor market regulation. These results remain qualitatively unchanged if we control for racial *composition* (the proportion of nonwhite ethnic groups). However, given the high correlation between this variable and *racial diversity*, we did not include it in the reported models. To explore the effect of competition further, we estimated a model for per capita fundraising expenditure in the MSAs and found that a stronger nonprofit density was associated with a significantly higher level of per capita fundraising expenditure. This relationship is consistent with the idea that increasing competition leads to an inefficient level of fundraising expenditure at some point, thus hindering the effectiveness of welfare nonprofits (as we argued in Hypothesis 1a).

Given the nature of grand challenges, and to offer a more nuanced interpretation of the findings, we also explored other nonlinear effects of the moderators. Many of the models we ran experienced multicollinearity issues. However, one that did not suffer from this problem was the interaction between the quadratic term of racial diversity and welfare nonprofit density. We found that the effect of nonprofit density in reducing inequality is greatest at

TABLE 3
Results of Two Stages Least Squares Fixed-Effects Models of Welfare Nonprofit Density on Community Income Inequality

Variables	Model A	Model B	Model C
Controls			
Technology	0.14**	0.14**	0.15**
Education	0.04	0.09	0.03
Estate taxes	−0.06†	−0.02†	−0.02†
Minimum wage	−0.07†	−0.05†	−0.01
Welfare nonprofits' revenues per capita	0.02	0.06	0.03
GDP per capita	−0.03	−0.03	−0.07
Population growth	−0.02	−0.03	−0.01†
Year dummies	Yes	Yes	Yes
Moderators			
Elite nonprofit density	—	—	0.12
Main effects			
Welfare nonprofit density	−0.89*	0.03	−0.71
Welfare nonprofit density^2	—	0.41**	—
Interactions			
Welfare nonprofit density × elite nonprofit density	—	—	0.08**
F-statistic	10.68**	10.09**	10.97**

Notes: Main effect variables and moderators are mean-centered to facilitate interpretation.
† $p < .1$
* $p < .05$
** $p < .01$

intermediate levels of racial diversity, and weaker at both low and high levels of diversity. Plausible explanations for these results (available upon request from the authors) are discussed in the next section.

Another issue we explored is the extent to which the estimated moderator effects are sustained over time. To analyze this issue, we included a lagged structure of the main independent variable (welfare nonprofit density), which provides a stricter test for the causal relationships implied by the hypotheses. While the coefficients of variables lagged one period remained significant, variables lagged two periods or more were generally not significant at 10%, suggesting no persistence in the estimated effects.

An additional concern was that the level of income inequality of an MSA could be influenced by different aspects of neighboring MSAs. To control for the existence of spatial effects, we included in all the

FIGURE 1
a. Curvilinear Relationship Between Welfare Nonprofit Density and Community Income Inequality
b. Moderator: Elite Nonprofit Density

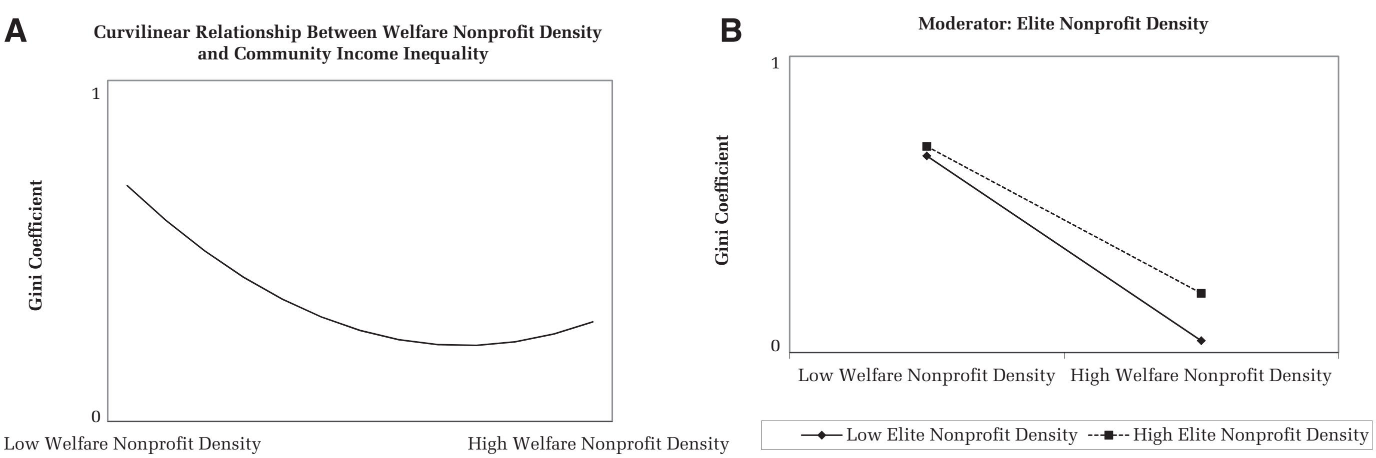


TABLE 4
Results of Two Stages Least Squares Fixed-Effects Models of Welfare Nonprofit Density on Community Income Inequality

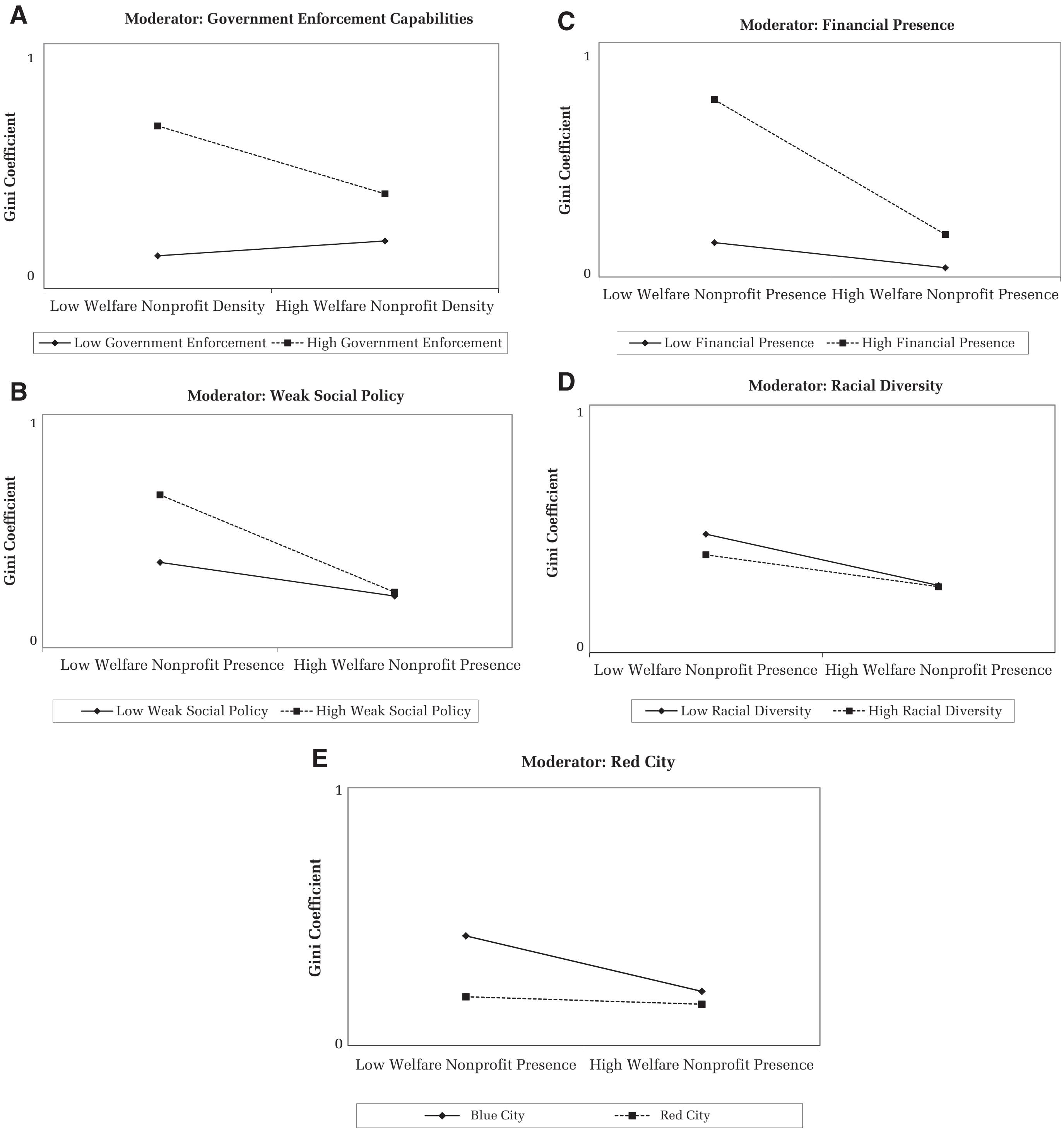
		Community actors			Community fabric		
Variables	**Model A**	**Model B**	**Model C**	**Model D**	**Model E**	**Model F**	**Model G**
Controls							
Technology	−0.21	−0.28	0.07	0.06	0.05	0.07	0.11
Education	0.09	0.07	0.02	0.39	0.13	0.08	0.12
Estate taxes	−0.34*	−0.45**	−0.16*	−0.25	−0.08	−0.29*	−0.26*
Minimum wage	−0.20	−0.21†	−0.09	−0.07	−0.11	−0.22†	−0.15†
Welfare nonprofits revenues per capita	0.02	0.06	0.01	0.18	0.01	0.05	−0.09
GDP per capita	−0.03	−0.20*	−0.10†	−0.07	0.01	−0.05	0.02
Population growth	0.02	−0.01	0.01	−0.08	0.01	−0.01	0.01
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Moderators							
Government enforcement capabilities	1.20†	—	—	—	—	—	—
Weak social policy	—	1.52	—	—	—	—	—
Union coverage	—	—	−0.05	—	—	—	—
Financial presence	—	—	—	41.99**	—	—	
National origin diversity	—	—	—	—	−0.03	—	—
Racial diversity	—	—	—	—	—	0.11	—
Red MSA	—	—	—	—	—	—	−0.49
Main effect							
Welfare nonprofit density	4.64	3.25	3.37	3.65	−1.54	−4.61	−9.45*
Interactions							
Welfare nonprofit density × gov. enforcement capabilities	−12.67*	—	—	—	—	—	—
Welfare nonprofit density × weak social policy	—	−191.33**	—	—	—	—	—
Welfare nonprofits × union coverage	—	—	−0.19	—	—	—	—
Welfare nonprofits × financial presence	—	—	—	−992.34**	—	—	—
Welfare nonprofits × national origin diversity	—	—	—	—	4.10	—	—
Welfare nonprofits × racial diversity	—	—	—	—	—	15.41*	—
Welfare nonprofit density × red MSA	—	—	—	—	—	—	14.64**
F-statistic	7.12**	6.14**	6.85**	3.48**	5.42**	4.68**	6.91**

Notes: Main effect variables and moderators are mean-centered to facilitate interpretation.
$^{\dagger}p < .1$
$^{*}p < .05$
$^{**}p < .01$

estimated models two additional control variables: the *weighted average of welfare nonprofit density of neighboring MSAs* and the *weighted average of income inequality of neighboring MSAs*. Both variables are lagged with respect to the dependent variable, like the other independent variables in the models. We calculated a weight matrix where the elements of the matrix *ij* represented the distance between the geographic center of MSA*i* and the geographic center of MSA*j*. We defined a cut-off distance, above which spatial effects were assumed to be 0, and finally we row-standardized the values. Using this weight matrix, we calculated the weighted average of the welfare nonprofit density and the weighted average of the Gini coefficients and included both variables as additional controls. We repeated this procedure for different cut-off distances as a sensitivity analysis. The results described above are robust to the inclusion of these two additional control variables. In addition, although both variables were not significant in all the specifications, the significance of some of the estimated moderator effects improved after including these additional controls.

Finally, another potential concern in our instrumented models was the issue of heteroskedasticity. Econometricians recommend that two-stage least squares estimation be upgraded to a generalized method of moments procedure (GMM) when the model is overidentified and sample size is large enough. Therefore, we followed Bascle (2008) and re-estimated all models using a continuous-updating estimator (CUE), which is a GMM estimation applied to limited information maximum likelihood. CUE

FIGURE 2
a. Moderator: Government Enforcement Capabilities b. Moderator: Weak Social Policy c. Moderator: Financial Presence d. Moderator: Racial Diversity e. Moderator: Red City



also prevents any possible biases derived from relatively weak instruments. Our results are consistent to this alternative model specification.

DISCUSSION AND IMPLICATIONS

Our theoretical and empirical analyses provide new ways of understanding the role that organizations can play in addressing grand challenges. We explored how community dynamics influence the ability of welfare-oriented nonprofits to reduce income inequality. We highlighted the tensions faced by these organizations as they secure resources and build legitimacy within their local contexts, and explored how these tensions influenced their ability to reduce income inequality effectively.

On the one hand, we find consistent evidence that a greater density of welfare nonprofits is beneficial for reducing income inequality at the community level. This suggests that, through the collective effort of organizations and institutions, grand challenges can be tackled effectively. However, the benefits of agglomeration are not persistent indefinitely. At a certain point, greater density spurs competition for scarce resources and produces a socially inefficient shift in resource allocation. That is, resource competition weakens the ability of welfare nonprofits to reduce income inequality. This result finds a strong basis in the idea that inefficiency is a consequence of the diversion of resources from program-related initiatives to activities such as fundraising and advertising aimed at guaranteeing nonprofits' survival and continued operation (Feigenbaum, 1987). Therefore, the benefits of increased legitimation become offset by high levels of competition. We find that there is also competition from other nonprofits that better fulfill the status-enhancing needs of local elites, such as cultural institutions.

On the other hand, hypotheses focused on the local institutional context either received moderate support or revealed an opposite relationship to the one predicted. With regard to local government as a central community actor, our evidence shows that governments can become a double-edged sword for nonprofit organizations tackling grand challenges. We find that the effect of greater density of welfare nonprofits is stronger in communities with greater government enforcement capabilities. Through actions such as enforcing labor laws and employer obligations, governments level the playing field and set appropriate rules of corporate behavior (Marquis et al., 2007). Such a context facilitates the action of welfare nonprofits aimed at empowering the disadvantaged and enhancing their economic position. However, and contrary to our expectations, weak government social policies also increase welfare nonprofits' effectiveness. A plausible explanation is that because nonprofits arise partly to compensate for market and state failures (Grønbjerg & Paarlberg, 2001), a lack of government intervention signals to community constituents that social problems remain unaddressed, thus increasing the legitimacy of and perceived need for welfare nonprofits.

The relationships between welfare nonprofits and actors representing the normative institutional pillar also seem to be more complex than predicted by the theory when applied to grand challenges. Labor institutions—that is, actors normatively aligned with welfare nonprofits—do not seem to significantly increase the effectiveness of welfare nonprofits at reducing community income inequality. A plausible explanation for this might be a declining degree of trust between welfare nonprofit organizations and unions, which prevents both sides from taking advantage of their value congruence and overlapping goals. One cause for the decline in trust could be the recent shift of unions toward recruiting members in community-based welfare nonprofits. Welfare nonprofit leaders are quite skeptical about the unionization of their labor force, not only for financial reasons but also because of the consequences that a culture of unionization would have on the nonprofit sector (Peters & Masaoka, 2000).

Contrary to our expectations, we found that a financial institution presence had a positive impact on the effectiveness of nonprofits at reducing income inequality. It is surprising to find that communities with a greater weight of financial institutions—whose values are deemed to be incongruent with welfare nonprofits' mission—are more likely to provide an institutional context where a greater density of welfare nonprofits leads to a more effective decrease in income inequality. (See the "Implications for Research" section for plausible explanations.)

Finally, our findings regarding the influence of the community fabric on the effectiveness of welfare nonprofits also yielded mixed empirical support. In line with much of the research on community diversity (Frey, 2014; Frey & Farley, 1996), we expected community demographic heterogeneity—both national and racial composition—to enhance the positive effect of nonprofit density on reducing income inequality. However, national origin diversity does not seem to influence nonprofits significantly, and racial composition has a significant but negative effect. The latter result implies that welfare nonprofits display a lower ability to reduce income inequality in communities with a heterogeneous racial composition. However, additional empirical analyses found this relationship to be nonlinear, with both high and low levels of racial diversity reducing nonprofit effectiveness. At high levels of diversity, the benefits of heterogeneity and integration seem to be outweighed by the effects of segregation and racial prejudice (Bobo & Zubrinsky, 1996). This undermines social cohesion and civic engagement, therefore reducing the effectiveness of welfare nonprofits (Stolle & Howard, 2008). At the same time, a low level of racial diversity also diminishes the effects of nonprofit density, probably because nonprofits need to invest greater resources in generating awareness. Finally, and as predicted, we found that political conservatism reduced the ability of welfare-oriented nonprofits to reduce income inequality. This finding is aligned with the large body of literature that relates a conservative ideology to a clearly defined set of psychological needs and motivations (for a review, see Jost, Glaser, Kruglanski, & Sulloway, 2003), some of which are opposed to those advocated by nonprofits.

Implications for Research

From a theoretical perspective, our results invite scholars to reconsider the link between community dynamics and organizational effectiveness in the context of grand challenges. On the one hand, the institutional approach helps explain how aligned regulation and misaligned cognitive beliefs influence organizational behavior and effectiveness. On the other hand, theory might fall short in explaining the other hypothesized relationships. This suggests that previous theoretical insights should be considered carefully when applied to deeply ingrained societal problems such as income inequality.

An interesting finding is that misaligned regulative and normative pillars actually increase the ability of welfare nonprofits to reduce income inequality at the community level. We advance two alternative explanations for these findings. The first explanation involves the increasing rationalization of the nonprofit sector. Rationalization of the third sector involves the transformation of nonprofits from informal associations of volunteers to formally structured organizations with clear routines, a greater prevalence of management experts and, most centrally, an increasingly instrumental orientation (Hwang & Powell, 2009; Putnam, 2007). Although welfare nonprofits have increased their professionalization and transparency as a result of this trend, it is likely that these gains came at the expense of them being perceived as substitutes for weak government action in fighting inequality. Hence, it seems reasonable that citizens have come to view welfare nonprofits and governments as alternative mechanisms for dealing with income inequality, since both parties are increasingly sustained by an instrumental logic (Hwang & Powell, 2009; Scott, 2001). At the same time, a greater instrumental orientation is likely to enhance the alignment between welfare nonprofits and financial institutions. Anecdotal evidence has suggested that financial institutions are increasingly willing to support community nonprofits provided that these organizations have "a track record, fiscal discipline, good recordkeeping, and committed volunteers" (Greene, 2012: 5), all of which are aligned with current efforts toward greater nonprofit professionalization. Financial institutions also rationalize their support as a way to increase community goodwill (in times of decaying reputation) and to promote their business in the local market area.

A second interpretation of our findings involves consideration of issues relating to institutional contradiction and social change. Institutional scholars have noted how misalignment among institutional pillars can become a source of contradiction, thus producing an unstable tension within the social system—in our case, the local community (Seo & Creed, 2002). Welfare nonprofits might be better able to exploit these contradictions by critically contrasting the current state of affairs (e.g., increased income inequality) with institutional shortcomings (e.g., weak or ineffective government). These contradictions allow welfare-oriented nonprofits to emphasize the failings of institutionalized rules and values and to create an open space for action by demonstrating how supporting their cause will ensure there is improvement in the eradication of income inequality (Fligstein, 1997). Therefore, increased support comes from a shift in collective consciousness that transforms local citizens from passively accepting the outcomes of current institutional arrangements to actively supporting organizations, such as welfare nonprofits, that aim to eradicate these negative outcomes.

Also from a theoretical perspective, this study presents an "organizational approach" to the study of income inequality, which is a novel perspective from which to analyze this grand challenge. The literature on income inequality has traditionally centered on domains such as labor economics and urban sociology, with an overarching focus on issues such as technological change, the polarization of the labor market, and the antecedents of inequality at the individual, family, and neighborhood levels (Autor, Katz, & Kearney, 2006; Dabla-Norris et al., 2015; Piketty, 2014; Sampson, 2012). Although these perspectives have yielded important insights into the nature and consequences of income inequality, an organizational approach is better equipped to unravel the interactions between formal organizations and local institutions (Schneiberg & Clemens, 2006), particularly as they affect outcomes for highly disadvantaged people (Allard & Small, 2013). Thoroughly exploring such relationships is essential given the central role of formal organizations in providing low-income people with the resources needed to bridge the income inequality gap. Management researchers are especially well positioned to accomplish this goal by developing novel theoretical insights and fine-grained mechanisms that will help strengthen the organizational view of income inequality.

Policy Implications

Scholars addressing grand challenges have implicitly assumed that greater participation would have a monotonically beneficial effect in reducing the negative effects of grand challenges (Ferraro et al., 2015). However, increased participation eventually leads to greater competition. In our setting, our findings cast doubt on the often-held assumption that increasing the number of welfare nonprofits within a community will inevitably reduce income inequality. This finding has important policy implications, given the substantial amount of resources allocated to nonprofits not only directly through contracts, grants, and training, but also indirectly through their tax-exempt status. Hence, in periods in which the public-sector budget is under strain, trading direct tax revenues for a larger nonprofit sector might not translate into a proportional reduction in income inequality, especially at high levels of competition.

We derive two policy recommendations to address this issue. First, local governments might be able to reduce competition by concentrating their resources on those with a demonstrated capacity to help disadvantaged people in the community effectively and substantially. Although this focus can reduce the diversity of welfare-oriented nonprofits in a locality, it can help build greater capacity for those with an outstanding track record. Second, local agencies should help nonprofits develop more accurate and transparent performance measures. Such measures could also become a basis for potential donors to evaluate nonprofits, allowing them to choose the ones that they consider to be the most efficient at using resources to achieve their social goals.

The results regarding the influence of the institutional context also suggest several major policy implications. First, greater enforcement of labor laws can actually set the appropriate context for welfare nonprofits to significantly reduce income inequality. Second, direct government social policies seem to reduce the effectiveness of nonprofits, thus suggesting that greater coordination between government and organizations addressing grand challenges is needed to exploit complementarities and avoid possible crowding out. Finally, the importance of racial integration policies must be recognized to reduce the negative effect of segregation on income inequality and to leverage the activity of welfare nonprofits.

Managerial Implications

Our findings show that nonprofit organizations addressing grand challenges cannot afford to ignore local competitive and institutional dynamics when assessing their ability to comply with their mission. A careful assessment of these complex dynamics is a central undertaking for nonprofit decision makers, especially given the strong dependence of nonprofits on outsiders and their continued need for support (Corbin, 1999). In addition, competitive pressures appear to be especially problematic for nonprofit organizations, which are traditionally defined—and self-identified—as nonmarket actors. Nonprofit organizations could respond to resource competition in various ways. One possible solution is the creation of cross-sector collaborations that take advantage of each partner's specific capabilities to solve a complex social problem. Cross-sector alliances have been shown to be effective in the fight against other social challenges, such as diseases that receive little attention (Selsky, 2005).

Nonprofits could also address competition and defend their niches by relying on fine-grained financial and social impact indicators, rather than by increasing advertising or fundraising. The competitive pressure from other nonprofits would also call for a more specialized profile of worker in nonprofits, particularly individuals with experience in the private sector, to respond adequately to competition. However, this rationalization of the third sector (Hwang & Powell, 2009) could also undermine the nature of the voluntary work by infusing it with too much of an instrumental logic. One possibility is that welfare nonprofits could increase coordination efforts with other nonprofits in order to share resources and hence avoid competing for them.

Limitations and Future Directions

We believe that the limitations of the present study represent a valid starting point for future research into grand challenges at the community level. First, due to the breadth of our study, some of our measures might represent relatively rough proxies of the hypothesized constructs. Our measure of enforcement capability, for example, captures the ability of governments to enforce firms' behaviors that increase inequality in the workplace, but the measure is limited to labor law. Considering other measures of government law enforcement might yield greater granularity regarding which and how government programs influence the effectiveness of organizations tackling grand challenges.

Second, our study focused on the linear moderating effects of community actors and fabric on the effectiveness of welfare nonprofits. While linear effects might provide a suitable starting point for examining grand challenges at the community level, future research could refine our analysis further by focusing on nonlinear effects and relationships. For example, it would be theoretically interesting to analyze how different levels of racial heterogeneity within the community influence the effectiveness of welfare nonprofits.

Finally, although scholars have noted that income inequality and poverty are highly related in industrialized countries, we have not devoted specific attention to the link between these major social problems. Nevertheless, we recognize that disentangling the differences between the two social ills and understanding how welfare nonprofits' action affects each of them could become an exciting avenue for future research into grand challenges.

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