Improving Board Diversity:

LESSONS FROM SWEDEN AND NORWAY

Patrice Onwuka

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Executive Summary

Countries around the world have adopted the goal of creating gender-equal societies. One avenue to achieve this goal, in their view, is through greater female representation on corporate boards. The case for increasing gender diversity on corporate boards is made on economic and ethical grounds. Common opinion asserts that diversity is good for business and delivers good outcomes for women. The purpose of this white paper is to review examples of countries that have imposed both mandatory and voluntary gender quotas and determine the effectiveness of these actions.

For decades, societies pushed companies to adopt diversity practices voluntarily. Impatient with the pace of progress, some legislative bodies now pursue mandatory gender and racial quotas. The United States does not mandate gender diversity for corporations on a federal level, but the state of California has attempted to impose gender and racial quotas. Recently, lower courts overturned these mandates. Some business entities require gender and racial diversity. For example, the Nasdaq Stock Market is beginning to require that companies listed on its exchange meet gender and racial diversity requirements or force them to explain in writing why they have failed to do so.

The bottom line is that the issue of quota mandates is not settled, nor will cultural pressure to increase “Diversity, Equity and Inclusion” (DEI) through representation on boards and leadership abate. Often, legislation and regulation that affect for-profit entities spread to nonprofit organizations, resulting in a shift from mission and increased costs that can divert resources away from the individuals and causes that they serve. Accordingly, it is still important to test the assumption that diversity makes boards more effective, improves firm performance, and leads to better outcomes for women in society.

With little data from the United States, this white paper examines two other countries that have increased female board representation through mandates or voluntary action: Norway and Sweden. In both cases, empirical research is mixed at best on questions of board effectiveness and firm performance but offer no causal evidence linking the two. Also, data indicate that the only women who have measurably benefitted from greater female representation on boards are the female board members themselves, so-called “golden skirts.” Most women down the professional ladder were no better off. That Sweden has made strides close to those of Norway without a mandate is a compelling argument for why voluntary measures are as effective as government mandates, without the downsides of regulation.

This analysis is not only instructive for the leadership of private firms but for governance structures in the nonprofit sector. Diversity mandates promulgated upon the for-profit sector may eventually be imposed upon the charitable sector, which can raise compliance costs and negatively impact the ability for nonprofits to achieve their missions. Indirectly, organizations lose charitable dollars when firms suffer financially and exit that state or regulated jurisdiction as a result.

The Case for Board Diversity

Board diversity has been a popular topic in the corporate and nonprofit sector for years. As societies work toward what they consider greater equality for women and representation of minority groups in positions of authority, board diversity is viewed as a signal of progress.

Boards of directors serve a critical governance role in corporations and noncorporate organizations. These structures provide direction, strategy, oversight and accountability. As fiduciaries, board members protect the entity's assets and shareholder investments. An effective board is critical to the success of a firm. Academics have sought to understand board effectiveness and policymakers have sought to turn academic findings into actionable goals.

Board independence has long been recognized as key to effectiveness. Conventional wisdom holds that board members harboring conflicts of interest would not execute their monitoring role as effectively, for example, being more reluctant to question management's decisions than those operating independently. Board members with family ties to the CEO or who provide consulting or other services to the firm are examples of potential conflicts. Also, boards composed of members from outside of the firm appear to positively affect the quality of the board's decisions on major issues such as CEO replacement, acquisitions and executive compensation.[1]

Diversity of board membership has gained steam as a signal of independence and thereby, effectiveness. Diversity can be broadly defined to include a variety of visible (race/ethnicity, gender, age, etc.) and less visible characteristics (religion, educational background, geographic background, occupation, worldview, etc.). The basic argument is that heterogeneity allows boards to engage in deeper conversations or debates and then to develop a broader range of alternatives.[2] On homogeneous boards, members share similar opinions, which leads to a high level of unity and cohesion, but also conformity and the potential failure to challenge the thinking of management, which is critical to the monitoring function of the board.[3]

Unfortunately, measuring board diversity is often reduced to observing one or two visible dimensions: gender and race. Such a myopic view of diversity glosses over the less visible characteristics that can add insight, experience and knowledge to a board even if the members share the same gender or ethnic background. Similarly, a narrow view of diversity overstates the value associated with visible characteristics and neglects how uniform those individuals may be on less visible dimensions. For example, how much diversity of perspective is created by a board comprised of men and women of varying races if they all grew up in wealthy, connected families and boast the same Ivy League pedigrees, compared with a board whose members are all male but who have varying educational and socio-economic backgrounds?

Every board does not value different types of diversity the same. For nonprofit boards, the latter board makeup in the previous example may be more advantageous in pursuing an organization's mission. For example, a charity helping troubled teen boys may highly value an all-male board comprised of individuals including those who have spent time in the juvenile justice system as well as executives and professionals.

Conversely, a corporate board made up of people with similar educations and jobs might suit the task of better performance. As the central bank of the United States, the Federal Reserve Bank is charged with ensuring a sound economy, stable financial institutions and secure money supply. The men and women who serve as governors (or board directors) in the Federal Reserve system share similar educational and professional backgrounds that demonstrate they grasp core knowledge of banking, finance and economic policy.

Boards of directors have long been dominated by men. Now, gender (and racial) homogeneity (i.e., the "old boys' club") is viewed as working against the goal of independence and efficiency.[4] Firms and organizations are admonished to cast a wider net in recruiting women (and racial minorities) to boards of directors in hopes of delivering better bottom lines for firms and better outcomes for society.

Over the past five decades, the private sector has moved to embrace women on corporate and noncorporate boards on economic and ethical grounds. The percentage of female directors of S&P 500 boards has grown 34% over the past five years and 105% over the past decade.[5]

On the economic side, board diversity as measured by gender and/or race is promoted as leading to better performance among corporations, but the research is mixed. Researchers have observed nonfinancial impacts of gender diversity as well. Standing above the C-suite, the boardroom is the pinnacle of glass ceilings for women to break through in the private sector. Altogether, these arguments are presented as compelling reasons for why corporations and noncorporate entities should seek to increase female representation on boards of directors.

The pace of progress achieved by voluntary actions has been too sluggish for those who demand gender equality right now. Policymakers have shifted away from waiting patiently for the private sector to embrace greater female representation voluntarily to encouraging it and even legislating it in some countries, including one state in the United States and quasi-government, self-regulating organizations.

The question remains whether empirical research validates the need for government action. Gender quotas, which set specific board member requirements determined by legislatures, may boost female participation, but that does not necessarily equate to better economic performance for firms or better social outcomes.

The charitable sector has a stake in this discussion. Corporate board policies may be foisted upon nonprofit boards regardless of whether they enhance or undermine organizations' missions. Also, policies that undercut corporate effectiveness and reduce profits leave fewer funds available for charity.

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Current Laws and Board Makeup

U.S. LANDSCAPE

As noted, U.S. firms are increasingly embracing more women (and minorities) on their boards of directors. According to one analysis, 22.5% of board seats in the Fortune 500 are held by women. Women also represent 30% of all S&P 500 directors — the most ever. During the 2021 proxy season, the S&P 500 boards added 456 new independent directors and nearly half (43%) are women.[6]

In the United States, Congress has not established a national gender quota for corporate boards. In 2019, the House of Representatives passed legislation requiring some companies to disclose the racial, ethnic and gender makeup of their boards of directors and executive officers, but it did not advance through the Senate.[7] In 2018, the state of California passed legislation requiring that boards of directors of all publicly-traded companies headquartered in the state have at least one female and increase that number over time depending on board size.[8] (Similar legislation passed three years later pertaining to race.) However, this law (and the separate racial diversity board quota law) has been invalidated as unconstitutional by a state court.[9] It will likely be appealed, perhaps eventually to the U.S. Supreme Court.

On the regulatory side, the Securities and Exchange Commission approved a proposal in 2021 to encourage greater board diversity. In addition to requiring board diversity disclosures for Nasdaq-listed companies, the new rules mandate that companies have a minimum of two "diverse" board members or explain why they don't.[10] This quota is under judicial review.

Efforts to codify or regulate gender diversity are guaranteed to continue despite legal challenges. In the meantime, cultural pressure in the private sector to include gender board targets as a part of doing business continues to mount and spread.

EUROPE

In recent years, much attention has been given to the topic of increasing women's participation on corporate boards in the United States. Proponents often look overseas to European countries for a global perspective on boardroom diversity. From 2008 to 2015, 32 countries implemented boardroom diversity policies that included legal quotas for listed or state-owned firms (eight and five countries respectively), governance code amendments (26 countries), and disclosure requirements (four countries).[11]

Forcing or threatening to force firms to increase the gender diversity of their governing bodies has yielded significant results in the makeup of boards. In 2017, women comprised 25% of board members of publicly listed companies, up from 11% in 2008.[12] In Norway, Sweden and Italy, women fill 35% or more of corporate board seats and in France, almost 45% of board seats. Although higher than the 22.5% of board seats that women occupy in the United States, it is not significantly higher as one might expect given the government efforts.

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A Discussion of Greater Gender Board Diversity

ECONOMIC ARGUMENTS

Beyond greater board independence, advocates argue that there is a business case or economic argument supporting greater female board participation. The most substantive argument is that gender composition can improve a firm's financial performance. There is a large body of research examining the relationship between gender diversity on corporate boards and firm performance. However, much of it is inconclusive. Some studies find positive effects to support the arguments above and others find the opposite or no effect.

Positively, a 2015 study of accounting, stock market and corporate governance data from 3,876 public firms in 47 countries found that those with more female directors enjoy better firm performance by market and accounting measures. The research concluded that "a gender-imbalanced board signals to shareholders that management is less independent and more entrenched, resulting in lower firm market values."[13]

In a 2005 study, professors Kathleen Farrell and Philip Hersch find a positive relationship between return on asset and the likelihood of adding a woman to the board for hundreds of Fortune 1000 firms, but they do not find a significant market reaction.[14] Similarly, a study of 2,500 large Danish firms also found that the proportion of women in top management positions and on the board positively affected firm performance.[15]

Female board presence is correlated with a company participating in philanthropy, potentially increasing in innovation and problem solving.[16]

Conversely, in a 2008 empirical analysis, professor David Carter and colleagues found that neither ethnicity nor gender had an impact on firms' financial performance.[17] Another study of the relationship between corporate board diversity and firm financial performance in the U.S. delivered conflicting results (both positive and negative relationships). Companies with weak governance experienced a positive impact on firm financial performance, but inversely, companies with stronger governance had a negative impact on financial performance.[18] The presence of women on boards appears to make governing bodies tougher monitors. However, researchers theorized over monitoring becomes counterproductive. Interestingly, they concluded against gender quota legislation.

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completely male boards only when they are at least 30% female.[19] In another study, researchers concluded that female board presence might have a negative impact on firm performance if women are only selected out of societal pressure.[20]

It may be that the quality of the board candidates and the traits, skills, and experience that they bring lead to a better-performing board, not just that any woman is added to the board. As we discuss below, in countries that were compelled to add more women, companies did not necessarily perform better.

If the data are so inconclusive, why is it considered conventional wisdom that greater gender diversity improves firm performance? In a business journal article for the Wharton School of the University of Pennsylvania, professor Katherine Klein criticizes the unsupported claim perpetuated by the popular press and fund managers. She faults nonrigorous, nonpeer-reviewed studies conducted by consulting firms, information providers and financial institutions such as McKinsey, Thomson Reuters and Credit Suisse as the source of unsupported findings of causation.[21]

As Klein explains, by examining the over 100 rigorous peer-reviewed studies of board gender diversity, one finds that companies do not perform better when they have women on the board nor do they perform worse. Furthermore, there is either a very weak relationship or no relationship at all between board gender diversity and board performance.

Many studies zero in on particular countries or indexes. However, even two meta analyses within the past few years confirm that there is not a clear business case for increased gender diversity on corporate boards. One analysis synthesized findings from 140 studies covering more than 90,000 firms from over 30 countries.[22] The other examined data from 20 studies and concluded, "Many scientific studies have investigated the relationship between female representation on corporate boards and firm financial performance, but, so far, the results are contradictory. The results of the current meta-analysis show that a higher representation of females on corporate boards is neither related to a decrease nor to an increase in firm financial performance, confirming findings from a similar meta analysis on this topic."[23]

Klein noted, "In sum, the research results suggest that there is no business case for — or against — appointing women to corporate boards. Women should be appointed to boards for reasons of gender equality, but not because gender diversity on boards leads to improvements in company performance."[24] Whether women should be appointed to boards for gender equality or other reasons is a separate question. However, it is not definitive that gender diversity on boards leads to improvements in company performance.

NONECONOMIC ARGUMENTS

A dearth of female representation on corporate boards is also viewed as an issue of ethics. In the United States, for example, women comprise 57.4% of the U.S. labor force and 51.8% of all workers employed in management, professional and related occupations in 2019.[25] However, they occupy 1 in 4 directorships (27%).[26]

Among public companies, women fare better, holding 30% of the director seats on S&P 500 company boards and 26% of Russell 3000 company board seats.[27] The argument is that boards of directors should reflect the larger labor force and economy.

Many studies have identified a variety of positive outcomes that result from greater gender diversity on corporate boards. Female board representation boosts female representation at the leadership level.[28] It signals to both external and internal stakeholders that the company is more progressive.[29] There may be positive correlation between female board presence and companies' engagement with corporate social responsibility.[30] Researchers even point to women's positive behaviors in board meetings such as attending more often, being prepared, asking questions, debating issues and collaborating. There is some evidence that they generally hold their organizations to higher ethical standards.[31] There is also evidence of a correlation between women on boards one year and women being added to leadership the next for S&P 500 firms.[32]

There is also an argument that increasing the number of women on boards would lead to better outcomes for all women, especially younger women. That argument does not bear out. In Norway, gender gaps did not close, except for between male and female board members. There weren't significant increases in women at the executive or managerial levels and young women weren't particularly drawn to degrees that would lead to the C-suite track.[33]

Countries should reconsider the adoption of gender board quotas on economic or societal grounds. As following examination of two countries with high gender representation demonstrates, adding more women to the corporate boards may not improve outcomes. Even if policymakers decide that there are good reasons to push an agenda that expands female participation on boards, mandates are not the only way, or the most effective way, to achieve that end.

Case Studies

The question of whether legal quotas increase female board participation is largely settled. What remains uncertain is whether women's presence increases corporate performance and whether economic or nonfinancial benefits can only be achieved through mandatory diversity requirements rather than voluntary action or self-regulation.

The studies on corporate performance and gender diversity are mixed. As noted, some studies, particularly by consulting firms, information providers and financial institutions, show positive outcomes based upon correlation, but not causation.[34] Empirical research is far murkier; some studies show a large positive effect and others find negative outcomes. The results can depend on how soon after the quota has been implemented that the data is analyzed and whether other factors are controlled for. Over the longer term, we may see short-term effects of the quotas change or reduce. Perhaps firms will evolve to make board appointments differently or the pool of qualified women to select from will increase.[35]

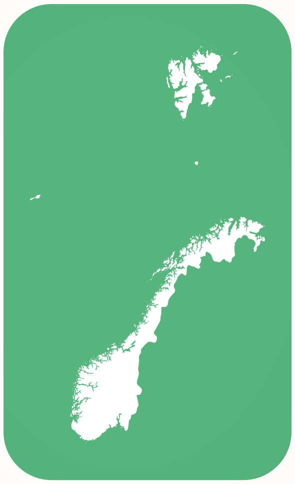
Policymakers would be wise not to implement new legal mandates that could lead to negative outcomes based upon inconclusive data. Unfortunately, that is the direction that global leaders are moving. In 2022, the European Union ended a 10-year effort to enact legislation across Europe by agreeing to a first-ever gender quota for corporate boards. The law requires that for listed companies in all 27 EU member countries, women must comprise at least 40% of nonexecutive board seats or 33% of executive and nonexecutive roles combined by mid-2026.[36]

Comparing the empirical research on diversity efforts for corporate boards in Norway and Sweden can be insightful on this topic. Both countries have increased gender representation on boards through opposite strategies: Norway through mandates and Sweden through voluntary actions. However, the mixed research results on corporate performance signal that increasing the number of women on boards does not guarantee that companies will do better or that women down the career ladder will move up.

NORWAY

Norway became the first country to regulate board gender composition. In 2003, it passed legislation that set a target of 40% female presence on the boards of all publicly traded limited liabilities and state-owned companies by 2009. Firms made some progress toward this goal voluntarily, but not enough for the government. And so, in 2006, Norway mandated that they meet this quota by 2008. If a company did not comply, it would be shut down, denied registration as a business, and forced to pay fines until it complied.

All publicly listed firms in operation complied with this quota. Norway's largest listed companies had approximately 20% female representation when it was first implemented and that increased to 43% in 2008.[37] It is not surprising that imposing a mandate and attaching such harsh punitive measures would spur compliance. However, further examination of the increase in women's participation reveals that it came about as the most qualified women joined more than one board, leading to a smaller-than-predicted increase in the overall number of women on corporate boards nationwide.



Although Norway is held up as evidence that quotas work in accelerating boardroom culture change, advocates often paint an incomplete picture. The economic impacts are not entirely positive. The quota prompted some firms to delist rather than comply. A study of the effect of Norwegian board quotas on female labor market outcomes noted that of the 563 firms that were public limited liability companies (known as ASAs) in 2003, only 346 remained ASA by 2005 and only 179 by 2008.[38] As a result, the number of board positions reserved for women were ultimately smaller than what lawmakers expected when the law was passed. The companies that delisted tended to be successful, small, young, with powerful owners, no dominating family owner, and few female directors.

On the question of corporate performance, various studies demonstrate mixed results. An analysis of financial data for publicly listed firms affected by the quota found a short-term decline in corporate profitability.[39] The increase in women's board representation did not affect corporate decisions. Perhaps their views aligned with those of male board members, or they chose to go along with majority views, or they found no reason to push the board and firm to make different decisions.

Also, revenues and nonlabor costs of firms affected by the policy were similar to those unaffected by the policy. The biggest observed difference with companies affected by the quota law was in their labor policies. These firms laid off fewer employees, causing their labor costs to rise in the short term and profits to be lower.[40]

A different study 20 years after Norway's gender quota had been in place found no effect on firm profitability. In an interview, one of the study's authors explained, "The share price was virtually unaffected by these legislative changes." In addition, "We found no differences in operating profits over time. The imposed female quota had no effect on companies' value development." In short, the companies did neither better nor worse.[41]

Based on survey data from 120 Norwegian firms, researchers Sabina Nielson and Morten Huse concluded that the mere presence of women directors was not enough to influence board strategy. However, females with similar professional experiences but different values to men were found to improve board decision-making.[42]

Beyond the bottom line, the quota law failed to achieve the gender equality advancements for all women that advocates anticipated. The quota law did not close gender gaps in pay or unleash new opportunities for Norwegian women at the bottom or even near the top to climb the ladder. In studying government administrative data of Norwegians between the ages of 16 and 64 for the years 1986-2010, Bertand et al. found that the expected trickle-down effect to female workers outside of the boardroom did not materialize. Little changed in terms of labor market outcomes among seasoned professionals or younger women after the reform came into effect. Gender gaps in earnings did not close for those at the top or those early in their careers. There was no systemic improvement of female participation in C-suite roles and no increase in the share of young women obtaining business degrees, which would lead them to top roles in firms. Additionally, marital status and fertility were unaffected.[43]

So, despite the view that younger women would be inspired by greater female representation on boards, the empirical evidence finds no significant change in outcomes for young women, those at the managerial level and even those in the C-suite. Only women at the board level benefitted in a significant way. This finding undercuts the nonfinancial argument that gender board quotas are good for the advancement of all women.

SWEDEN

Sweden follows Norway as a leader in women's board participation. Often recognized as a model for gender equality, Sweden boasts gender-balanced assemblies and strong female representation in the public sector. According to a business ranking of European countries, Sweden has the third-highest female representation on corporate boards with 38% of board members being women.[44] In addition, it has the second highest female representation at the executive level and third highest percentage of women chief financial officers.[45]

The Swedish nation provides a notable contrast to Norway in its approach to achieving gender equality. Sweden diverged from Norway and other European nations including Spain, Belgium, France, Germany, Iceland, Italy and the Netherlands by never imposing a gender quota for its corporate boards.

The increase in representation on boards to date was achieved through voluntary actions. Some credit institutions in the political realm with driving pressure for and against greater female representation.[46] Others credit the looming threat of legislative mandates with spurring listed companies to take voluntary action.

In 2002, Swedish Deputy Prime Minister Margareta Winberg threatened to impose a mandatory board quota if listed companies did not increase the percentage of females on their boards to 25% —a 20 percentage point increase —within two years. Researchers Joakim Jansson and Bjorn Tyrefors posited that the anticipatory effect of her threat led to a fast and substantial increase in the share of females on boards of approximately 5-10 percentage points —a 100% to 200% increase.[47]

Conversely, women's equality overall did not benefit, and actually worsened. Increased female representation on boards did not lead to an increase in female CEOs, either in the short or long runs. In fact, as women CEOs were recruited to sit on boards, their executive chairs were filled by men.[48] Firms were acting in anticipation of pending legislation, but over time impacts observed may lessen.

Other research paints a less rosy picture about the connection between board gender diversity and company performance in Sweden. Regression analysis of a panel of Swedish firms shows that from 2000 to 2005, the share of female directors increased by almost 10 percentage points, from 4.14% to 14.14%.[49] However, gender diversity has "a negative and significant effect on firm investment performance." More recent analysis of 255 Swedish firms from 2006 to 2011 found that gender composition of the corporate boards had no effects on their financial performance. Interestingly, they did conclude that companies might benefit financially from boards with younger average ages.[50]

In a master's thesis, Rebecca Källqvist and Rebecka Äremann posited that the female board members' impact on board decisions and firm performance depends on reaching a participation level of at least 30%. They viewed the Swedish female board representation of 24% as an insufficient level to significantly affect either firm governance or performance.[51]

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OTHER COUNTRIES

The experiences of other countries lead to the same inconclusive results. A study of Italian corporate boards found that board diversity did not have positive effects on firm performance, and that legislative quotas would not necessarily lead to better outcomes.[52]

A Danish study of management diversity and firm performance of 2,500 Danish companies from 1992 to 2001, found ambiguous results. After controlling for observed factors such as the firms' age, size, sector and export orientation, the proportion of women among top executives and on boards of directors tended to have a significantly positive effect on firm performance. However, that evaporated when controlling for unobserved firm-specific factors.

Conclusion

Increasing the number of women in corporate and nonprofit board rooms may serve many purposes. Contrary to conventional wisdom, gender diversity at the board level does not necessarily lead to better corporate performance or guarantee better outcomes for women along the professional ladder. At best, there is little or no effect on firm performance. There may be other financial and nonfinancial benefits to increasing gender diversity, but each firm should decide board composition based upon factors beyond just the visible dimensions of gender (and race/ethnicity) if it wants to be effective.

Private sector diversity mandates on for-profit entities hold implications for the nonprofit sector as well. Nonprofit organizations are mission-driven, and diversity requirements may lead to organizations not recruiting people best equipped to help nonprofits solve difficult problems and achieve their missions. Organizations may also incur added recruitment costs to meet the quotas despite having constrained budgets. Every new dollar for compliance costs is one less dollar available to provide critical services.

There is also the argument that mandates cause financial harm to corporations, leaving fewer dollars available for the philanthropic sector. They also impose regulatory costs and penalties on firms that can eventually cause them to relocate. When businesses exit, they take their charitable corporate dollars with them, draining local nonprofits and foundations of resources to serve the community.[53]

Lawmakers should not be hasty to implement gender mandates for corporate boards based on false assumptions about economic payoffs or ethics. Companies have already been moving toward embracing more women and may seek ways to avoid the mandates (such as delisting). Other countries prove that increased female participation on boards can be achieved through voluntary measures.

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About the Author

Patrice Onwuka is a senior adjunct fellow at Philanthropy Roundtable. Patrice is also director of the Center for Economic Opportunity at the Independent Women's Forum and a Tony Blankley Fellow at The Steamboat Institute. She also co-hosts WMAL-FM's morning show O'Connor & Company, the leading talk radio station in the D.C. area, every Friday.

Patrice has worked in policy, advocacy and communications roles in Washington, D.C. for more than a decade on issues related to the economy, employment, technology and philanthropy. She is a frequent guest on Fox News, Fox Business and PBS programs. Her opinions have appeared in The Washington Post, USA Today, Barron's, CNBC, Bloomberg and other national outlets. She hosts a column on Newsmax.com and is a contributor to the Washington Examiner and The Hill. Patrice immigrated to the U.S. from the Caribbean. She holds a bachelor's degree from Tufts University and a master's from Boston College.

About True Diversity

This paper is a part of the Philanthropy Roundtable's True Diversity initiative, which provides an equality-based and holistic framework for embracing diversity. True Diversity's approach values every person as a unique individual and empowers charitable organizations with the freedom and flexibility to advance their missions and help those in need.

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Philanthropy Roundtable is a nonprofit organization dedicated to building and sustaining a vibrant American philanthropic movement that strengthens our free society. To achieve this vision, the Roundtable pursues a mission to foster excellence in philanthropy, protect philanthropic freedom and help donors to advance liberty, opportunity and personal responsibility.

Philanthropy Roundtable

1120 20th Street NW, Suite 550 South, Washington, D.C. 20036

philanthropyroundtable.org