

Does the money go where it needs to go? Testing the  
relationship between foundation giving and social need in California

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### Abstract

Because foundations have tax-exemption from the IRS, it is expected that they will meet a need that is not being met by the government. However, there are many who believe that there is a discrepancy in foundational giving in California because the perception is that foundational giving goes to select counties and others, especially those in the Central Valley, do not receive a fair amount of funding when considering similar populations and needs of the counties. To test this hypothesis, data on giving from four of the largest foundations in California for one year were gathered along with data on social needs indicators for every county in California to test whether there is a correlation between foundational giving and social needs.

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## CHAPTER 1

### INTRODUCTION

#### **Introduction**

Foundations are a major source of funding for nonprofit organizations. Within the state of California there is a perceived problem with foundational giving: counties within the Central Valley do not receive comparable levels of funding to counties in northern and southern California, thus needs of many citizens of that area not being met. Moreover, this is a problem because, if the assumption is correct, foundations are not serving their purpose. If foundations are not serving their expected purpose, then they should not receive tax-exemption, which is allotted with the belief that foundations will help to meet some need that the government is unable to meet. To understand this problem, it is necessary to first be familiar with how this became a public policy issue.

#### **Background**

In recent years, research institutes have become more and more interested in foundational giving in California. As the ethnic make up of the state becomes more and more diverse, there is greater interest in which non-profit organizations are being funded and at what level. There is an assumption by research institutes, such as the Greenlining Institute and Philanthropic Initiative for Racial Equity, that there is not enough funding of non-profit organizations that are run by ethnic minorities and/or focused on serving minority populations. Moreover, they would argue that part of the problem stems from the fact that the boards of directors are not ethnically diverse. While foundations may disagree with the assumption that there is a link between their ability to effectively do their job and the number of minorities on their boards or at the administrative level, the data raise some concerns.

Although people of color make up over 50% of the population in California, the boards of directors and administrative level staff in California foundations do not reflect the population. Non-Hispanic whites make up 41.7% of the total population in California, (California General, 2009) yet they make up the vast majority of foundation boards of directors and executive staff. According to a study by the Foundation Center, 76% of executive staff are white, 86% of foundation chief executives and 86% of boards of directors are white (McGill, 2009). Conversely, gender representation is not an issue, there are vast numbers of women in the field in high level positions. White women make up 42% of the total 72% of white executive staff and 53% of the total 86% white chief executives (more than half of white executives and executive staff); however, they are not represented as well on boards of directors. Women make up 36% of the total 86% of white board members; women of color make up 6% while men of color make up 8% (McGill, 2009). In short, whites represent nearly twice as much of the percentage of population that they actually make up in California.

While the data may raise some concerns regarding diversity, the question of whether this makes a difference in a foundation's ability to do its job is still unanswered. Those who began to question the ethnic makeup of California foundations would argue that it does, indeed, make a difference. Moreover, these same groups would argue that just as boards seek diversity of skills to ensure a more effective board of directors, boards should be comprised of ethnically diverse individuals so as to ensure that they are well prepared to respond to the emerging grant-making opportunities presented by our nation's changing demographics (Gonzalez-Rivera, 2009). Moreover, a diverse board helps to keep the organization on track with its mission statement because the diverse backgrounds may help to keep the board in tune with needs and help to understand the best way in which to go about meeting the needs ("Building a Diverse," 2008).

More still, the Greenlining Institute argues that its previous research indicates that there is a strong correlation to board diversity and the percentage of dollars going to minority run-organizations (Gonzalez-Rivera, 2009). More importantly, there is a question of who is receiving funding, or how much of funding is directed towards populations of color? Another issue may be whether funding is reaching those who are in need; in other words, is social justice giving at an appropriate level? Social justice giving is support that works for structural change in order to increase the opportunity of those who are least well off politically, economically, and socially (Lawrence, 2009); these groups are most often ethnic minorities. As such, it is important to know how much funding is going to organizations targeting minorities because minorities in California have greater percentages of their population living below poverty. More specifically, the percentage of whites living below the poverty level is 7%, Hispanics: 18%, Asians: 9.8%, and African-Americans: 19.8% (Schwarm, 2009). Although it is not the sole indicator, poverty is usually a sign of social need.

Because this issue has become so important to many in the non-profit sector, in 2007, assemblyman Joe Cotto introduced Assembly Bill 624 into the California Assembly. The bill would have forced nonprofit organizations with assets over \$250,000,000 to report data on their board and staff regarding diversity as well as the number of business contracts and grants awarded to businesses and nonprofits run by minorities (Valencia, n.d.). This information would have been posted on the foundations' websites and available to the public for viewing. This bill was a result of the Greenlining Institute's work to ensure racial equity in foundational giving in California. However, there was never a vote on the bill.

Rather than continuing to push the legislation through to the governor's desk, a group of foundations reached a compromise with the legislative proponents of the bill. In exchange for

ending any further promotion of the bill, the foundations agreed to provide, “Increased grant support—over and above ongoing commitments—...to nonprofit organizations serving minority-led and other grassroots community-based organizations serving diverse and/or low-income communities totaling more than \$20 million; joint community-based regranting programs in Northern and Southern California to provide leadership training, technical assistance, and organizational capacity support to smaller, minority-led and other grassroots organizations...(with a) total commitment over three years...in excess of \$10 million; research and analysis (including evaluation of these new initiatives)...to...better understand the current state of minority leadership in California’s nonprofit community and how best to support those leaders and organizations,” (Cohen, 2009). A policy solution has yet to be enacted.

Although foundations agreed to increase training, capacity building, and so on, a sufficient solution has not been reached. This discussion is stemming from the previously discussed issues regarding racial equity in foundational giving; however the problem that should be addressed is the lack of comparable giving to central California. As previously stated, it is assumed that there is a much greater amount of giving in counties in northern and southern California than in counties in the Central Valley; the problem must be addressed.

In subsequent chapters, this research will determine whether the discrepancy in foundational giving does, in fact exist between counties within California.

### **Importance**

This study is of importance to all inhabitants of counties within California’s Central Valley. This study will help to determine whether there are, indeed, substantial unmet needs in the Valley. Moreover, it will be but the first step into more important future research that will be

able to answer greater questions than simply assessing which variables influence grant-making. These possible future research questions will be discussed in chapters to come.

Most importantly, this research will benefit citizens in the Central Valley whose needs may not be met as a result of the possible discrepancy. If this is the case, it is of the utmost importance that further research be conducted to determine what if any action should be taken. Thus, the optimum outcome of this study would be to present policy makers with added information on the issue of foundational giving and the question of whether they meet the communities needs, thereby providing them with greater information to decide whether to proceed with any policy changes.

Similarly, this is of interest to the public because the reason for allowing a foundation tax exempt status is that there is an expectation that the foundation will help to meet a community need that is not otherwise being met. Thus, if foundations are not meeting this expectation, why are they enjoying tax exemption? Moreover, if foundations can and do improve the manner in which they provide resources, one can assume they will be able to reach more of those who are in need, which should in turn also alleviate some of the burden on government and ultimately the taxpayer. Impact of funding could stand to be improved as well if there is an area in which resources are at a greater need. Thus, foundations should view this as a positive outcome as well because they are expected to be interested in how to improve the impact of their funding because they should want to maximize the use of their dollars.

## CHAPTER 2

### LITERATURE REVIEW

#### **Introduction**

Foundations and non-profit organizations operate in complex systems, just as private entities in the public sector do. Foundations and nonprofit organizations must navigate intricate systems that can at times be more difficult than the private sector. The public sector is held to a higher standard than the private sector, and rightly so because they utilize taxpayer dollars more so than private businesses. Because foundations and nonprofit organizations function in a highly complex environment, it is important to utilize theoretical tools to help understand their nature, actions, and any difficulties they may face. Hence, it is important to give some scholarly perspective on the question of whether there is a discrepancy in foundational giving in California through a review of literature. However, there is one difficulty in conducting the research for this project: this is a relatively new subject and thus there is no known literature that relates directly to the topic. As such, a review of stakeholder theory literature will be reviewed in its place because, as will be explained below, of its relevance and usefulness in understanding the world of foundations.

Stakeholder theory suggests, in short, that corporate executives should take all stakeholders and their interests into consideration when making management decisions. Freeman defines stakeholders as, “*Any group or individual who can affect or is affected by the achievement of the firm’s objectives,*” (p. 25, 1984). However, the more widely accepted form of management in the private sector is shareholder management. Shareholder management is the practice in which business executives concern themselves solely with the interest of their shareholders, thus their primary objective is to maximize shareholders’ profits (Freeman, 1984).

Although stakeholder theory developed as a management technique for the private sector, it can also be transferred to the public sector. For example, stakeholder theory suggests that business executives should be accountable to shareholders, consumers, business partners, and so on. Similarly, it could be said that foundation executives should be beholden to multiple stakeholders, such as donors, nonprofit organizations, the government, taxpayers, and others. Latter portions of the chapter will further discuss the relationship between stakeholder theory and foundational giving; however, before that discussion, there must be a greater understanding of stakeholder theory.

### **Stakeholder Theory**

R. Edward Freeman brought stakeholder theory to light with his book Strategic Management (1984). Freeman outlined the need and use of the theory in his book that was the jumping point for many of the works to follow on stakeholder theory. Freeman argues that the environment in which businesses operate has become too turbulent to follow the traditional shareholder managerial model. It is no longer possible to simply predict what will maximize the bottom line, which requires only the consideration of the shareholders' interests when making business decisions; Freeman argued that corporate managers must include all stakeholders and set goals based on their respective interests. To support this statement, he discussed various groups and why they should be considered stakeholders. Some of the groups Freeman included are consumer advocates and the government.

Consumer advocates can affect a firm's goals through their own actions; for example, a consumer advocacy group could have the aforementioned impact if the consumer advocacy group lobbies congress to take legislative action. In addition, they can affect a firm by launching public campaigns against the firm. For example, if an automobile safety advocacy group

released information about an automaker revealing that the automaker knowingly kept a particular model with possibly fatal defects on the market, that would likely impact a firm's actions; it could possibly also force government action.

Government is the most obvious of the group when it comes to affecting the firm's objectives because the government sets laws and regulations that impact private and public entities. Through lobbying, firms can influence government. Government can also be affected by firms' objectives as well if the firms are accomplishing their goals through ethically questionable means. More specifically, government is affected in that they have to act on these questionable activities. For example, the Ford Foundation was called into question for unethical practices when it granted funding to an international nongovernmental organization that promoted anti-Semitic and anti-Israel ideals. This funding resulted in a Congressional investigation questioning the legality of the tax-exempt funding of an extremist group. Conversely, the government affected the Ford Foundation in that the Congressional investigation prompted the foundation to issue a press release stating that it was not aware of the organization's activities and that the foundation would increase its international efforts to combat anti-Semitism (N/A, 2003).

### **Development of Stakeholder Theory**

Freeman also provides some context as to how stakeholder theory developed. The following section is derived from Freeman's book on stakeholder theory (1984). He states that the first known use of the term "stakeholder" was in a memo at the Stanford Research Institute (SRI) in 1963. The term was used to "generalize the notion of the stockholder as the only group to whom management need be responsive," (p. 31, 1984). As such, the original definition of the term was "those groups without whose support the organization would cease to exist." (p. 31,

1984). Moreover, SRI researchers suggested that without an adequate understanding of stakeholders' needs and concerns, business managers would not be able to successfully manage a business or develop effective business objectives. From SRI's concept, more literature developed that would ultimately lead to Freeman's model of Stakeholder Theory. The literature that ensued includes works in corporate planning, systems theory, corporate social responsibility, and organization theory.

Various ideals arose within the corporate planning literature. As Freeman states, there were those who suggested the importance of stockholders would diminish and the importance of other stakeholders would increase. Moreover, the concept was used in works that discussed project management, effective corporate planning processes, project set strategies, organization development for multi-national corporations, and more. Because planning, strategy, and policy are connected to providing the organization with some direction, Freeman argues that it is clear that an understanding of the overall environment and its ability to impact an organization is essential.

Systems theory also provided some analysis of the concept stakeholder theory. Select literature suggested "many societal problems could be solved by the redesign of fundamental institutions with the support and interaction of the stakeholders in the system," (p. 37, 1984). Furthermore, the system design could only be accomplished with the inclusion of all stakeholders. Corporate social responsibility literature discussed the concept of stakeholders by suggesting the inclusion of groups often thought of as adversarial to the firm and lessened the emphasis put on satisfying the firm. Moreover, strategic managers were to play the role of communicators with stakeholders. Perhaps more important to the development of the

stakeholder approach, there was a push for responsiveness rather than responsibility, which allowed the case to be more closely tied to traditional areas of strategy and organization.

Organization theory literature includes discussion of understanding the organization-environment relationship and populations of organizations and their evolution. Network analysis also goes further into the concept of the organization set and the attention to stakeholders. More still, the literature touches on strategically interdependent organizations and uncertainties that come with interdependence.

### **Common Themes**

There are various themes that recur in stakeholder theory literature. Some of these are the issue of accountability, determining which stakeholders should be included, and the issue of shareholders' property rights.

Accountability is likely the most common theme in the literature. The literature discusses stakeholder theory as a method of accountability for private corporations. More specifically, it discusses social accountability or corporate social performance (CSP). This issue alludes to the fact that corporations should be beholden to society as a whole, not simply the shareholders. There, of course, are those within the management field who do not agree with the need for CSP. In the literature reviewed, the majority of authors felt that there was some need for CSP (Freeman, 1984) (Donaldson & Preston, 1995) (Jawahar & McLaughlin, 2001) (Kaler, 2006). There are many factors that are a part of CSP. These factors are issues such as environmental damage that a corporation may cause or how a corporation maintains current jobs rather than sending jobs overseas. Accountability also plays an important role in the question of how foundations fund non-profit organizations. The main concern of those who question the rationale behind the grant awards process is accountability; more specifically, are foundations

being held accountable to the provision of their tax-exempt status that requires them to meet needs that are not being met?

Much of the literature also includes discussion on which stakeholders should be taken into consideration. The number of stakeholders could easily grow to an unmanageable level. Thus, it is important to have a clear idea of which groups should be included. Some of the stakeholders Freeman suggests should be included are governments, employees, customers, competitors, and media; however, some may argue that competitors should not be included as a stakeholder (Donaldson & Preston, 1995) (Jones, 1995) (Kochan & Rubinstein, 2000). But when considering Freeman's definition of stakeholder, competitors should definitely be included because competitors can and have affected firms' objectives.

For example, chain grocery store 1 decides to start carrying organic produce and thus takes much of chain store 2's customers. Chain grocery store 2 will likely have to include increasing the number of organic products sold in stores to attempt to regain some of its customers, thus being affected by chain grocery store 1. In turn, chain store 2 deciding to sell organic products will impact chain store 1 by deciding to sell organic produce because many of the customers chain store 2 lost will likely come back to chain store 2 because they now sell organic products. Thus, competitors must be included as stakeholders.

Another issue that is brought up multiple times in the literature is shareholders' property rights (Donaldson & Preston, 1995) (Freeman, Wicks, & Parmar, 2004) (Kaler, 2006). Those who do not agree with stakeholder theory as a corporate management strategy most often discuss this issue. Those in favor of stakeholder theory also discuss the issue, but usually to discuss how the notion of shareholders' property rights is incorrect. The argument opponents of stakeholder theory set forth is that it is unacceptable to consider stakeholders in their decision making

process because as shareholders, they own part of the corporation and as such only their interests should be taken into account. Moreover, any other property owners would not be asked to open up their property to allow others to benefit from it. For example, if someone purchases a car, the automaker would not then stipulate that the owner of said car must allow others to somehow benefit from that car. However, proponents of stakeholder theory could argue that no one actually owns a company, but rather shares of that company.

Similarly, there is debate as to who foundations should take into consideration when making decisions in the grant making process. For example, should foundations consider how individual non-profit organizations would be impacted if another NPO is funded over them or what any other outsiders, such as research institutes or the general public, would think when a foundation awards grants.

### **Shortcomings of Literature**

Although there are numerous articles and books written on stakeholder theory, there are issues that remain in the literature. One of these issues is that there is no one accepted view of what stakeholder theory is to be used for. There are descriptive/empirical, instrumental, and normative uses for stakeholder theory. Without any consistency, it could prove difficult to get to any greater understanding of stakeholder theory. In other words, the discussion on the theory could be stunted by the lack of any single accepted use of the theory.

Another point left out of the literature is an explanation of how to choose stakeholders. There are some who discuss which stakeholders should be used, but that is only a matter of opinion that may differ from author to author. There is also some discussion on the difference between stakeholders and influencers, stakeholders have a stake in a firm's actions, while an influencer can influence a firm's goals and its ability to achieve them; however they do not stand

to lose or gain from the firm's actions (Donaldson & Preston, 1995). However, there is still no clear distinction of which of the stakeholders should be included.

### **Relevance to Research Question**

As previously stated, this theory is meant to provide some scholarly context to this relatively new research topic. It provides some importance to the question of whether there is a discrepancy in foundational giving in California. More specifically, it helps to discern whether it matters if foundations are providing comparable funding to all counties of similar population size within California. Furthermore, should there be a concern with whether foundations are meeting the expectation that comes with their tax-exemption, which is that foundations are helping to fill some unmet need? Additionally, examples of how the theory transfers to the public sector will help in understanding its relevance.

It can be said that foundations also have multiple stakeholders to consider in their decision making process. Foundations must be accountable to many groups and many within the group are the same as those of private entities. For example, government, employees, and clients (consumers in the case of the private sector) are stakeholders of foundations and corporations. In addition, it could be said that foundations manage through a hypothetical "donor management" system, being that foundations at time focus most on donor intent when deciding which organizations will receive funding. This is not to say that donor intent is not as important in making funding decisions; however, if following stakeholder theory, there must be a balance of interests when making these decisions.

Freeman states that stakeholder theory, above all, is about survival (1984). As such, it could be said that foundations should utilize stakeholder theory for the same purpose- if foundations want to survive, they must hold themselves accountable to multiple stakeholders.

For example, if a foundation wants to maintain its 501(c)(3) status (tax exemption), it must consider the government's rules and regulations. Thus, no one can make a profit from the foundation's activities, the foundation must spend at least 5% of its dollar assets every year, file an IRS form 990, and so on. If foundations do not hold themselves accountable to these regulations, they could lose 501(c)(3) status.

Additionally, if foundations do not consider donors' intent when making funding decisions, it may lead to a loss of donors. Without donors, there would be no foundation; once again, survival may come into question. Employees are also stakeholders, and if employees somehow become alienated by their employers' actions, they may quit their jobs. Without employees, a foundation may not survive. However, that's not to say that no foundation can survive without employees because very small foundations may be able to utilize volunteers.

## CHAPTER 3

### METHODOLOGY

#### **Introduction**

As stated in previous chapters, the purpose of this research is to show whether California foundations are serving the purpose expected of them as IRS 501(c)(3) tax-exempt organizations, which is that they meet some need that the government is unable to meet. Hence, data was collected to shed some light on what may affect a county's chances of receiving adequate foundational funding.

#### **Level of Analysis**

Counties were chosen as the level of analysis because there is sufficient information available to complete the test for this study. More specifically, ample data are available to provide an indication of social need within each county in California. In addition, this is the preferred choice because it provides a good general understanding of what the circumstances of a given area are. However, this generalization could also prove negative; it could be a problem if it is not general enough, meaning if it is too broad.

For example, it could be a problem if the area is not general enough. More specifically, it may not be as informative if there is a difference in funding by region, and not by county. For example, testing by region would be more useful in determining whether certain regions receive greater funding than others. For example, comparing funding from areas near the coastal regions to funding from regions further from coastal regions might help in better understanding the rationale behind the decision making process when awarding grants. Similarly, there may be an issue if the county is too broad of a level of analysis. If one city receives a much greater amount of funding than another city that is within the same county and has similar population and similar

needs, the discrepancy may not be detected. Greater funding in one city within that same county may help to balance out the level of funding to a level that seems appropriate for the size and overall need of the county.

### **Data Collection**

First, data from four of the five largest non-profit organizations were collected from the organizations' IRS form 990-PF (tax filing form), which are all from the year 2009. The form 990-PF lists all the individual grants paid in that given year; it includes the name of the agency/organization awarded a grant(s), its address, and the dollar amount of each grant. Some foundations' 990-PF also provided information on the purpose of the grant. In collecting the data, each foundation was given a code number: one, two, three, or four. There was no method to the assignment of numbers; numbers were randomly assigned to each foundation in the sample. The information collected from each form 990-PF was the assigned foundation code, award amount, and the awardees' zip code. However, not every grant award was included in the data set.

Because these are four of the five largest foundations in California, there were a very large number of grants awarded in 2009; thus, not every award was included in the data set. A sample from each foundation's 990 was selected to be included in the data set. Awardees that do not have 501(c)(3) status were not included in the data set. Schools were also not included in the sample because they are not relevant to the purpose of determining the need of a county. To choose which grants were included in the data set, the selection started at the first grant awarded to a 501(c)(3) organization in California. Starting from the top, every fourth grant awarded to an organization in California was added to the data set. If the fourth organization was not located in California, the next organization located in California was added, then continued on to the next

fourth award. This process continued for every foundation's form 990-PF. Upon completion of one data set, the data were put in order by zip code then added into their respective counties.

The same was done for the subsequent forms 990-PF.

### **Variables**

Once the data for each foundation were collected, the data for the independent variables were collected and input to a spreadsheet. In choosing the independent variables, the rationale was to select variables that would likely indicate some social need within a given community. The test was to determine whether social needs indicators correlate to the number of grants awarded in a county.

As previously stated, foundations are allotted IRS 501(c)(3) status because there is an expectation that they will fill some need that the government is not meeting, as such it would be expected that foundation funding would be awarded to areas in which the greatest needs exist. Thus, to determine which counties have greater needs, social needs indicators were chosen as independent variables. The independent variables are poverty, high school drop-out rate, median income, political affiliation, and as a control variable, population. Although political affiliation is not a social needs indicator, it was included as a starting point to determine if there are any other indicators that influence the grant making process. It also serves as an indicator of ideology.

### **Poverty**

Poverty was the most obvious choice as an indicator of need because if a person or family is living in poverty, there are numerous needs that come with it, such as assistance with housing, food, transportation, childcare, healthcare, and so on. This study utilized the U. S. Census Bureau's definition of poverty: Following the Office of Management and Budget's (OMB)

Statistical Policy Directive 14, the Census Bureau uses a set of money income thresholds that vary by family size and composition to determine who is in poverty (enter reference). If a family's total income is less than the family's threshold, then that family and every individual in it is considered in poverty. The official poverty thresholds do not vary geographically, but they are updated for inflation using Consumer Price Index (CPI-U). The official poverty definition uses money income before taxes and does not include capital gains or noncash benefits (such as public housing, Medicaid, and food stamps) (Small area income, 2010). Poverty was chosen because it encompasses many needs, such as housing, health care assistance, food insecurity, and so on.

#### Dropout Rate

The California Department of Education's definition of dropout rate was used for this study; it is defined as, "Reported Grade 9-12 dropout total minus reenrolled grade 9-12 dropouts plus grade 9-12 lost transfers" (Dropouts, 2010). Dropout rate is used as a needs proxy because it is assumed that most dropouts likely have some unmet need. It may be money, so they drop out of school to get a job and help their family. There are some who become parents early and thus feel that they must leave school. Some may also feel that they cannot complete school on their own because it becomes too challenging, so they quit.

#### Median Income

Median income is used as the United States Census Bureau defines it: median income divides the income distribution into two equal groups, one having incomes above the median, and other having incomes below the median (Small area median income, 2009). Median income was chosen because it would be expected that with a higher median income there would be fewer needs.

### Political Affiliation

Political affiliation was operationalized as percentage of registered Republicans in each county (Registration by county, 2011). Although political affiliation is not a social needs indicator, it was included as a starting point to determine if there are any other indicators that influence the grant making process.

### Population

Population was operationalized as its widely used definition- the number of people living in a given area, in this case it is each county in California (Population estimates, 2009).

### Model

The hypothesis for this research is that poverty, dropout rate, median income, political affiliation, and population correlate to foundational giving. Thus, the model is as follows:

$$\text{poverty} + \text{drop-out rate} + \text{median income} + \text{political affiliation} + \text{population} = \text{foundational giving}$$

### Limitations

The sample size included in the research is one of the main limitations within the study. Although there are approximately 800 entries in the data set, this is a relatively small sample size considering the number of foundations within California and the vast number of grants awarded within one year's time. This limitation is a result of the time constraint.

The number of independent variables included in the study is also a limitation. There could be many factors that influence decisions in grant making. The variables included are but a limited selection of indicators that focused on social need. Moreover, the political affiliation variable was included as a starting point for studying the influence of ideology in grant making.

There are many other indicators that could be at play, some of which are other social needs, ideology, and more.

This study focused specifically on California. The findings are not intended to be indicative of foundations' grant making process outside of California. The data used in this study are representative of California and are not meant to represent any area outside of California. More specifically, all areas outside of California will not be identical; ethnic make-up, income, and all other variables will differ from state to state. As such, the findings cannot be utilized outside of California.

## CHAPTER 4

## RESULTS AND DISCUSSION

**Description of Data**

The data set includes entries from four California foundations; within the data set are 795 entries from the four foundations. This was not the total of grants made by the foundations for one year; this is a random sample of each foundation. The average total for each county is \$4,045,703.

The data set of independent variables includes only thirty-six entries per variable because not every county was included in the data set of the dependent variable. This is because the data set, which was a random sample, did not include grant(s) for every county in the state. The averages for each independent variable are as follows: income: \$ 47,401; poverty: 14.6%; dropout: 5.7%; population: 957,826; political affiliation: 32%.

**Results**

Table 1

Constant	415
Income	-189
Poverty	-383
Dropout	-511
Republican	-731*
Population	0.717
R-Square	0.25
Number of Observations	35

\*Significant at the 0.01 level.

The only statistically significant variable in the test is the political affiliation, or specifically, the percentage of registered Republicans in each county. There is a negative correlation between the political affiliation variable and the dependent variable, meaning that the greater the percentage of registered Republicans in a county results in less foundation funding. This result is significant at the 0.01 level. Moreover, the R-square for the model is 0.25, which indicates that twenty five percent of the variance on the dependent variable is explained by the model; this leaves 75% of the variance unaccounted for. Thus, greater research is necessary to further understand foundations' grant making rationale.

### **Key Findings**

In completing the analysis, the data have shown that the variables have no significant correlations, with the exception of political affiliation. The original hypothesis would suggest that there should be a positive correlation between the independent variables (median income, (foundation grants)); however, this was not the case. The data did show a negative correlation between the independent variable of Republican and the dependent variable. At first glance it may seem that there are no significant findings in the data. However, it is equally as important to know what variables do not explain what influences foundations' decisions in awarding grants.

First, this is important in noting because it shows that the variables that one would think should have a positive correlation, because they indicate social needs, in fact have no correlation. This is important because, again, foundations maintain tax-exemption with the expectation that they will fill some unmet need. This finding helps to set the stage for future research and helps to point any further studies in another direction by knowing that all but one independent variable have no significant correlation to the independent variable. Moreover, because the decisions foundations make in determining whether to support an organization remain unknown, it leaves

many questions to be answered. The only variable that did have a significant correlation is the variable of political affiliation- percentage of population registered as Republican. However, the reason for this is left to speculation. This will be covered in a subsequent section.

### **Future Research**

To better understand foundational giving and the question of whether foundations provide sufficient funding for all counties in California, further research is necessary. There are many new questions that can be included in any further research to help answer the aforementioned question. Because there were various factors left out of the data set, a result of the time constraints, the main change in research will be to add to the data set. Aside from including multiple years' worth of data, such as IRS forms 990 and independent variables, data from various types of foundations should be included. For example, foundations that restrict giving to certain areas within California were not included in the data set, only foundations that provide giving throughout California were included, but if more extensive work is to be done on this topic, the aforementioned foundations should be added.

Including foundations that focus on specific geographic areas of California would help to better understand whether there are any disparities in foundational giving. If foundations that fund only specific geographic locations were included, it would more accurately measure how much money a county is receiving. More specifically, if certain areas are already more heavily funded than others when only counting state-wide foundations, there may be an even greater discrepancy in giving if the areas that receive more from state-wide foundations also enjoy the benefits of geographically focused foundations. Additionally, in expanding the data set, it would likely increase the number of counties included in the data set. In turn, including more counties in the data set would increase the level of confidence in the analysis.

Foundations that focus funding on a specific need, such as the arts and education, were not included. Such foundations should also be included in the data set of future research. Moreover, because this study focused on foundational giving and its relation to social need, in the future the focus on social need should also be omitted. Thus, if the focus were on a general understanding of need the independent variables would have to expand to include other indicators of need. A possible independent variable to measure needs in the area of the arts would be percentage of public schools that offer music and/or art classes. To measure needs in education, a possible independent variable would be teacher and administrative turnover rate in public schools from elementary to secondary levels. Because student needs vary from district to district, it would likely take a school district quite a bit of time to develop strong curriculum that meets the needs of its students, a school district would likely struggle more with greater turnover. Moreover, the longer teachers and administrators work in a certain area, the more likely they are to form bonds within that particular community that would likely help in meeting students' educational needs.

Because the independent variables do not show any statistically significant correlation to the dependent variables, new independent variables would be needed to better understand what effects grant-making. Additionally, new independent variables are important because the test resulted in a low r-square, 75% of the variance on the dependent variable remains unaccounted for. Other indicators of social need may be helpful, as well as others that are not indicators of need, but may have some effect. Other social needs indicators that could be included are crime rate (specifically property crimes) and percentage of population whose first language is not English. Because crime is often the result of social needs, such as poverty and lack of education/skills, this would help in determining the level of need.

Percentage of population whose first language is not English would be a strong indicator of need because it is highly likely that if English is not one's first language, he/she has likely emigrated from a foreign country. Moreover, many people immigrate to the United States because they believe they will have greater opportunities here than in his/her native country. Thus, they will likely have unmet needs. For example, if a person enters the United States not having a strong grasp of English, he/she will have trouble finding a sufficiently paying job, much less health insurance health insurance, regardless of his/her level of experience/education, thus resulting in health related needs which are can be considered social needs because they are often the result of poverty. Not speaking English is a need in itself, one that is usually met by the nonprofit sector through night classes and the like. Moreover, this could also be an educational need when the non-English speakers are school-aged.

Aside from social needs, other possible needs indicators that could be included are environmental needs. The number of days per year with poor air quality could be one variable to measure environmental needs. Another indicator of environmental need could be the incidence of violations of environmental regulations within one year.

Adjusting the level of analysis in the study would also help in understanding the nature of foundational giving. More specifically, analyzing the data by region could help in understanding. For example, if the state were broken up into the three major regions: Northern California, Central California, and Southern California, this may alter the results of the analysis. This could be helpful in assessing any regional disparities in giving. Furthermore, in analyzing data at the regional level, it could prove helpful in determining whether proximity to funding, meaning proximity to the foundations, has any relationship to being awarded grants. This level

of analysis would be helpful in this case because many foundations are located in Northern and Southern California.

Conversely, the level of analysis could be changed to be more specific. As mentioned in the previous chapter, it could be helpful to study a more focused area such as by zip code. Studying by zip code could be helpful in better understanding how foundations make funding decisions. The reason for this is that there could be some larger grants in one area that does not share the same demographics as another area, but receives greater funding. Thus, studying the variables at a smaller level will provide a better understanding of what is happening in the grant-making process. Along with a more focused level of analysis, interviewing foundations' decision makers could also shed some light on the matter.

The inclusion of case studies could also prove helpful in future research. The case studies would essentially be a comparison of at least two foundations- one that provides funding throughout California and another that does not state a geographic preference, but has provided funding to a smaller geographic area. The case studies would analyze the two foundations by studying the IRS forms 990, Boards of Directors, political interaction, diversity of administrative staff, social capital, and so on to assist in attaining a better understanding of the grant-making process.

Because the test results showed only one statistically significant correlation, the political variable used is certainly in need of greater study. The challenge in continuing the study of the political link will be to operationalize political activities. For example, to determine what the findings of this test mean, it would be helpful to measure the frequency with which a county's political elite utilize their political capital to bring foundational funding to nonprofit organizations in their respective counties. More specifically, an operationalization of use of

political capital would have to be thought of for the research, then used to determine if Republican elites within a given county utilize their power less than their non-Republican counterparts to lobby foundations for funding for their respective counties. Because Republicans typically are not as concerned with social needs issues as Democrats are, it could be possible that Republican elites are not utilizing their political capital to attract greater foundational giving. It may be the case that Republican elites use their political capital to lobby foundations to fund non-profit projects that do not involve social needs issues, but do so for other projects.

Another possible approach would be to take a closer look at the conservative counties that are receiving less funding as compared to similar-sized democratic counties with similar demographics. Further analysis could help to determine whether they are receiving less because they need less. In other words, the overall need of the counties may differ.

### **Summary**

The test yielded results that leave much to be pursued. Although there is some understanding of what does not affect grant making, there is still a larger question of what does affect grant making. Moreover, the test result in some important findings in that they vaguely imply that foundations may not be using criteria that would be expected to make funding decisions. In other words, foundations are not necessarily providing funding to where it is needed.

The results left many questions to be asked in future research. Among these questions, some of the larger issues to be analyzed are whether Republican elites utilize their political capital to produce greater funding in areas they serve? Is social capital a factor in determining

grant making? Is there a regional discrepancy in how grants are made? When continuing research, how will key terms, such as political and social capital, be operationalized?

With more time the answers to the questions could be found. It is imperative that these questions be answered because organizations' livelihood could depend on this. Without funding, many organizations cannot survive; thus, an understanding of this process is essential.

## CHAPTER 5

### SUMMARY & CONCLUSIONS

#### **Summary**

Foundations are a major source of funding for nonprofit organizations. Within the state of California some perceive a problem with foundational giving because there is an assumption that counties in Northern and Southern California receive greater foundational funding than counties within the Central Valley. Because of this perceived problem and as ethnic diversity in California increases, interest in this issue grows. More specifically, there is greater interest in which non-profit organizations are being funded and at what level.

Some research institutes, such as the Greenlining Institute and Philanthropic Initiative for Racial Equity, believe that there is not enough funding of non-profit organizations that are run by ethnic minorities and/or focused on serving minority populations. Moreover, said institutes would suggest that part of the problem stems from the fact that foundations' boards of directors are not ethnically diverse.

However, foundations would disagree with the assertion that they cannot effectively do their jobs because of a supposed lack of diversity within administrative staff and/or boards of directors. In fact, some foundations argue that they are not the problem, but rather the nonprofit organizations are at fault because they do not have skilled staff who can effectively seek foundational support. More specifically, foundations argue that such nonprofit organizations do not have staff who have the skills to write successful proposals.

To address this issue, legislation was presented in the state Assembly. The legislation would have forced nonprofit organizations with assets over \$250,000,000 to report data on their board and staff regarding diversity as well as the number of business contracts and grants

awarded to businesses and nonprofits run by minorities. This information would have been posted on the foundations' websites and available to the public for viewing. However, a vote was not held; rather a compromise was made between proponents of the legislation and certain foundations' representatives to increase the level of funding provided to non-profit organizations in the way of training and assistance in capacity building and the like.

There is no known literature that directly relates to the topic because this is a relatively new issue. Stakeholder Theory literature was reviewed to help discern whether it matters if foundations are providing comparable funding to all counties of similar population size within California. Furthermore, it helps to answer the question of whether anyone should be concerned with foundations meeting the expectation that comes with their tax-exemption, which is that foundations are helping to fill some unmet need.

Accountability is the most common theme within the reviewed literature. The majority of authors felt that there was some need for CSP (corporate social responsibility) (Freeman, 1984) (Donaldson & Preston, 1995) (Jawahar & McLaughlin, 2001) (Kaler, 2006). There are many factors that are a part of CSP. These factors are issues such as environmental damage that a corporation may cause or how a corporation maintains current jobs rather than sending jobs overseas. Accountability is essential in understanding this issue in that this research is ultimately about foundations' accountability as it relates to their status as tax-exempt entities.

The literature also includes discussion on which stakeholders should be taken into consideration because the number of stakeholders could easily grow to an unmanageable level. Thus, it is important to have a clear idea of which groups should be included. Freeman suggests that some of the stakeholders that should be included are governments, employees, customers, competitors, and media; however, some may argue that competitors should not be included as a

stakeholder (Donaldson & Preston, 1995) (Jones, 1995) (Kochan & Rubinstein, 2000).

Similarly, there is debate as to who foundations should take into consideration when making decisions in the grant making process. For example, should foundations consider how individual non-profit organizations would be impacted if another NPO is funded over them or what any other outsiders, such as research institutes or the general public, would think when a foundation awards grants.

Another prominent issue in the literature concerns shareholders' property rights (Donaldson & Preston, 1995) (Freeman, Wicks, & Parmar, 2004) (Kaler, 2006). Those who do not agree with stakeholder theory as a corporate management strategy discuss this issue most. However, those in favor of stakeholder theory also discuss the issue, but usually to discuss how the notion of shareholders' property rights is incorrect. The argument opponents of stakeholder theory set forth is that it is unacceptable to consider stakeholders in the making corporate decisions because as shareholders, they own part of the corporation and as such only their interests should be taken into account. Likewise, foundations question whether outside influence should affect the grant awards process because the issue of donor intent may become compromised. More specifically, if an endowment is established with the purpose of supporting the arts in a local community, the donor's intent would be superseded if funds were redirected to another area in which there is a greater need. Just as it is argued that shareholders should be the only stakeholders taken into account, it is assumed that the donor's intent is the primary interest in awarding grants.

One issue with the shortcomings of the literature is that there is no one accepted view of what stakeholder theory is to be used for. There are descriptive/empirical, instrumental, and normative uses for stakeholder theory; thus, the discussion on the theory could be stunted by the

lack of any single accepted use of the theory. Another point left out of the literature is an explanation of how to choose stakeholders. There are some who discuss which stakeholders should be used, but that is only a matter of opinion that may differ from author to author.

The data collection followed the review of literature. The county was chosen as the level of analysis because it provides for sufficient data for this study. More specifically, ample data are available to provide an indication of social need within each county in California. To begin the process, data from four of the five largest non-profit organizations were collected from the foundations' IRS form 990's (tax filing form), which are all from the year 2009. The information collected from each form 990 was the assigned foundation code, amount paid per award, and the zip code of the awardees. A sample size was randomly selected from each foundation because there were a number of grants made by each of the four foundations.

Once the data for each foundation were collected, the data from the independent variables were collected and input to a spreadsheet. The independent variables are poverty, high school dropout rate, median income, political affiliation, and as a control variable, population. In completing the analysis, the data have shown that the variables have no significant correlations, with the exception of political affiliation; the data did show a negative correlation between the independent variable of Republican and the dependent variable. With these results, it is clear that further research is necessary.

In future research, the main change in the method will be to increase the data set. Along with including multiple years of data from IRS forms 990 and new independent variables, data from various types of foundations should be included. New independent variables would be needed to better understand what effects grant-making because the independent variables do not show any statistically significant correlation to the dependent variables. Other indicators of

social need may be helpful, as well as others that are not indicators of need, but may have some effect, such as the political variable. Adjusting the level of analysis in the study would also help in understanding the nature of foundational giving; for example, analyzing the data by region or a more focused area such as by zip code.

The inclusion of case studies could also prove helpful in future research. Another possible step would be to take a closer look at the conservative counties that are receiving less funding as compared to similar sized democratic counties with similar demographics. Further study of the political variable would be important because it is the only statistically significant variable.

### **Conclusion**

Because the test did not show any correlation between the dependent variable and the independent variables that indicate social need, more research is necessary to attain a better understanding of foundational giving. This is important because foundations receive tax-exemption with the expectation that they will meet a need unmet by the government. Thus, it is important to know whether foundations are deserving of this benefit. Moreover, during these difficult economic times it is even more important to ensure that needs are being met; more specifically, needs of all are being met not just select few who live in certain areas. Many residents of California are struggling at this time, so it is important that all counties receive their fair share of assistance. Furthermore, there is no way of making any policy recommendations without further research to identify the influencing factors.

A problem arises in deciding what is fair or what is needed and how that should be determined. Foundations faced the possibility of regulation in the past and avoided this by making deals with legislative proponents of the regulation. As such, if they do not want to face

government regulation, they should make conscious efforts to ensure fairness in the grant-making process. Although at this time there is no way of determining whether they are being fair because neither a positive nor negative correlation resulted in the statistical test, it remains questionable. More specifically, because foundations are supposed to meet an unmet need, it would be expected that there would have been a positive correlation between the dependent and independent variables, except the political variable. The fact that there is no positive correlation begs the question of what is it that influences decisions in grant making?

In addition, aside from the morality/ethics of the issue, at a time when governments, especially in California, continue to struggle to pay their bills, it is important to know that tax-exempt entities are deserving of that status. While some may argue that there is no stipulation on where that money is given, it could be argued that the need may not necessarily exist in certain areas if said areas are receiving more than is really needed in foundational funding.

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**From:** Steve Suter, Research Ethics Review Coordinator

### **Subject: Protocol 11-23: Not Human Subjects Research**

Thank you for bringing your protocol, "**Foundational Giving in California**" to the attention of the IRB/HSR. On the form "*Is My Project Human Subjects Research?*" you indicated the following:

I want to interview, survey, systematically observe, or collect other data from human subjects, for example, students in the educational setting. **NO**

I want to access data about specific persons that have already been collected by others [such as test scores or demographic information]. Those data can be linked to specific persons [regardless of whether I will link data and persons in my research or reveal anyone's identities]. **NO**

Given this, your proposed project will not constitute human subjects research. Therefore, it does not fall within the purview of the CSUB IRB/HSR. Good luck with your project.

If you have any questions, or there are any changes that might bring these activities within the purview of the IRB/HSR, please notify me immediately at 654-2373. Thank you.




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Steve Suter, University Research Ethics Review Coordinator