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The Family Difference? Exploring the Congruence in Grant Distribution Patterns Between Family and Independent Foundations

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Keywords: family foundations; grantmaking; foundation governance

Key Points

- Using a broad group of family and independent foundations from a representative sample of Georgia foundations, the authors examined differences in giving patterns between family and independent foundations.
- Findings confirm the result of previous work that studied large foundations.
- There are no substantial differences between family and independent foundations' preferences even when controlling for a nonprofit's location and size.
- These findings are relevant for discussions about the role of non-family members on boards.

Introduction

The sector's best data to date on grant distribution patterns of family foundations show that, by and large, the subsector distribution of grants made by this distinct group of foundations is similar to that of independent foundations (Foundation Center, 2011). This is an interesting and, perhaps, somewhat different finding than might be initially expected. Presumably, family involvement, the distinguishing characteristic of family foundations, influences grantmaking priorities and interests in ways that are not as prevalent in the broader set of independent foundations (Ylvisaker, 1990). Within family foundations, giving interacts with and is informed by geographic roots, family passions, and concern with family-name reputation (National Center for Family Philanthropy, 2011). These are all factors that are expected to influence the causes foundations will choose to support (Gersick, Lansberg, & Davis,

1990). Yet, the congruence of subsector patterns in grantmaking by family and independent foundations show that, ultimately, the causes family foundations choose to support are not dissimilar to the choices made by nonfamily-influenced foundations.

For some this may be cause for alarm; for others, a reason to celebrate. On the one hand, these data challenge the mutual value-added perspective – the notion that family involvement has unique value not only for the family but also, and perhaps more importantly, for philanthropic giving. This perspective has become an accepted frame among some industry groups focused on family foundations. On the other hand, congruence in philanthropic grantmaking may be a welcomed sign of mimetic or normative isomorphism (Powell & DiMaggio, 1991) to some industry groups working to bring together the diverse field of institutional philanthropy toward the development of a cohesive philanthropic sector. Regardless, these patterns in subsector giving are findings that are worth both further empirical investigation and reflection on what some of the underlying drivers and implications of this congruence might be.

Although the pattern of congruence between family- and independent-foundation giving to particular subsectors may seem trivial, it is in fact crucial in terms of today's concerns about stakeholder involvement in philanthropy and the popular fixation with the mythology of foundations being closed, "black-box" organizations (Diaz, 1999).

First, the congruence in subsector preferences signals a potential transcendence of grantmaking based on broader societal values over personal values among family foundations. A controversial issue in discussions of foundation governance has been whether greater diversity and representation should be required on foundation boards to better reflect the diverse values and perspectives of the public (Odendahl & Diaz, 2002). Family foundations, whose boards are often populated by family members and close family associates of the original donor, have been at the center of this debate. In the words of one of the main proponents of this perspective, “many foundations, especially those small and medium-sized funds controlled by family members, regard their assets as ‘our money’ not quasi-public and publicly accountable funds” (Eisenberg, 2005, p.10). According to this view, family involvement would lead to grantmaking decisions that perpetuate the self-interests of the family rather than the public. The congruence in subsector giving patterns is evidence to the contrary. Furthermore, the similarity in giving patterns between family and independent foundations weakens the justification that this particular group of foundations should be singled out in the debates over the composition and structure of foundation boards.

Second, the pattern of congruence provides some indication that foundations, which have been broadly and historically understood as closed and impermeable by the outside world, may operate more as open systems. In organization theory, organizations are characterized as open systems when they are dependent on and interact frequently with their external environments (Kast & Rosenzweig, 1972). The congruence of family- and independent-foundation giving to similar subsectors challenges the perspective of those critics who have long assumed that foundations, which enjoy a relatively high degree of autonomy, operate with little influence from the social and economic environment. However, these findings suggest that a higher degree of autonomy does not give foundations license to be irresponsive to their external environment. In fact, Gersick (2004) reminds us that unlike personal philanthropy, which can occur outside of the scope of public awareness, a foundation must exist in

the social context. It is highly likely that the giving behavior of both family and independent foundations are largely shaped by the nonprofit market structure, competitiveness in the nonprofit market, public priorities, and learning across the philanthropic sector – all factors that could drive differently governed foundation grantmaking to converge.

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Although the patterns observed in the Foundation Center report shed new light on foundation grantmaking, the congruence in subsector preferences may not be representative of the population of family foundations. First, the *Key Facts on Family Foundations* (2011) report focuses on a sample of large foundations. It is not clear whether the patterns of giving highlighted in this report reflect giving preferences of smaller and more locally based foundations. To test the generalizability of the pattern of congruence beyond large foundations, we conducted an empirical analysis comparing the subsector giving of family and independent foundations on a representative sample of Georgia foundations. The value of our analysis, beyond the focus on a broader range of family foundations, is the use of multivariate statistical tests that allow us to simultaneously control for nonprofit size and nonprofit location, isolating the impact of subsector effects from these two factors which also influence grant distribution patterns (Gersick, 2004; Grønbjerg, Martell, & Paarlberg, 2000; Price & Buhl, 2009; Weiss, 2000). The research methodology and analyses are detailed in the next section.

In short, the findings from the empirical analysis reveal that there are no major distinctions in subsector giving patterns of family foundations and independent foundations in this sample of Georgia foundations, even with controls for nonprofit size and location. These findings are consistent with the congruence pattern observed in the Foundation Center report and provide evidence that this pattern may be more widespread among foundations of different sizes. We hope that these findings will prompt future research that will test these patterns using a larger representative sample of foundations and that future research will be undertaken to explore the factors underlying the congruence.

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These findings of congruence, both in the Foundation Center report and in our Georgia sample, have important consequences for the broader domain of philanthropic research and for philanthropic practice. Specifically, it may call for philanthropy scholars to move beyond the notion of foundations as closed systems and formulate theories more in line with an open-systems perspective. Ultimately, this may call for a broadened perspective that is inclusive of the external environment when conducting studies of foundation behavior. For philanthropic practitioners, the findings call for greater introspection and critical thinking about current and future operations of the sector. It may well be time to examine the extent to which grants are internally determined or externally driven and whether there is, in the end, any unique value of foundation governance on giving.

An Empirical Test of the Congruence Pattern: Georgia Foundations

In this section we turn our attention to an empirical test of the congruence pattern¹ found in the Foundation Center's *Key Facts on Family Foundations* report (2011) using a representative sample of family and independent foundations in the state of Georgia. Using both descriptive statistics and logistic regression analyses, we model differences in grant distribution between family foundations and similar independent foundations. First, we compare descriptive summaries of grants distributed by family foundations and independent foundations. Second, we use logistic regression to model whether family and independent foundations have different likelihoods of making a grant to nonprofits of a particular subsector, controlling for size and location.

Sample and Data

Foundations included in this study were purposefully selected using a stratified sample design to ensure representation of the 1,573 foundations headquartered in the state of Georgia during 2005 along a number of dimensions including the geographic location, foundation type, foundation size, and giving priorities. For this study, we use a sample of 62 family and independent foundations. To compile the grants data, grantee names and addresses were manually gathered from each foundation's 990PF (private foundation) IRS forms. Financial and descriptive information for the grantees and foundations were then gathered from 2005 IRS 990PC (public charity) forms from the Core Files compiled by the National Center for Charitable Statistics.

In this sample, there were 486 grants distributed by family foundations and 719 grants distributed by independent foundations. In addition to the 1,205 grant recipients, we included 5,309 matched nonprofit organizations that did not

¹ In general, the patterns of subsector distribution of family foundation grants were closely matched to the giving patterns of independent foundations. Family foundations were slightly less likely to give for arts and culture, environment, and human services, and slightly more likely than independent foundations to provide funding for education, health, international affairs, and science and technology. These slight differences were not significant enough to affect the overall similarity in giving patterns.

TABLE 1 Organizational Characteristics of Family and Independent Foundations

	Family foundations	Independent foundations
Median of total giving	\$1,113,300	\$3,729,845
Mean of total giving	\$5,036,902	\$14.8 million
Median assets	\$19.9 million	\$85 million
Mean assets	\$34.4 million	\$257 million
Median age	16	51
Mean age	24	42
Atlanta foundations	36.83%	64.67%
Other Urban County foundations	43.83%	31.57%
Rural County foundation	19.34%	3.76%
Observation count (# of grants)	486	719

receive grants to build the probability model for logistic regression. Nonrecipient organizations are IRS Form 990-reporting 501(c)3 organizations that were registered in the state of Georgia in 2005 but did not receive a grant from any of the foundations in our sample during 2005. Since we do not have access to which nonprofits applied for grants and did not receive funding, we selected nongrant recipient organizations using multiple selection criteria. First, we restricted the data to nonprofit organizations that are likely to seek foundation grant support. We reduced the data to organizations that rely on donation income for some portion of their annual revenue by excluding nonprofit organizations that reported \$0 in contributions on their 990 form.² Second, we restricted the data to nonprofit organizations that fit the expressed giving priorities of sampled foundations. We referred to the National Taxonomy of Exempt Entities (NTEE-CC) subsector categories of the grant-recipient organizations as proxies for the grant priorities of the sampled foundations and excluded nonprofit organizations in the sample that did not fall within one of the grantee NTEE-CC subsector categories. Third, we further restricted our sample of nonrecipients to organizations in counties where grant recipients are located.

² Since we are using 990 data from 2005, we do not have a detailed breakdown of revenue and expenses in these data. Therefore, we could not separate organizations who only received government grants or other types of support. Instead we used contributions, which is an aggregate of individual donations, gifts, and grants.

Variable Descriptions and Methods

Foundation Type

For the purposes of this article,³ we identify family foundations as those foundations where more than 50 percent of the board members are family members of the original donor. When we initially saw that board members shared the same last name as the original donor, we coded them as a family member.⁴ For many of the foundations in our sample we were able, through Internet research, to take into account relatives who may have changed their last name from the original donor (grandchildren or women who married). Independent foundations are defined as the converse, where fewer than 50 percent of the board members are family members of the original donor.⁵ Table 1 includes a descriptive assessment of the characteristics of the foundations in the sample. Family foundations in the sample are smaller (in terms of total giving and assets), younger, and

³ There are several definitions of a family foundation offered by other institutions and authors (Foundation Center; Gersick, 2004). We acknowledge these definitions and rely on components of these definitions in order to create the operationalization of family foundation that we used for the purposes of this article.

⁴ We also coded whether or not the board president was a family member of the original donor, since some definitions of family foundations focus on whether or not a family member serves as chairperson of the board. In only two instances did we find a foundation where more than 50 percent of the board membership was family members of the original donor and the president was not a family member. It was important to us that we used a second definition of family foundations as a check on our operationalization.

⁵ There are no independent foundations in our sample that have more than 40 percent of the board that is related to the original donor.

TABLE 2 Percentage of Grants Given by Family and Independent Foundations

	Family-foundation grantees	Independent-foundation grantees
Nonprofit location		
Atlanta Area Counties	43.62***	57.86***
Other Urban Counties	36.63***	26.7***
Suburban Counties	3.91	4.87
Rural Counties	15.84***	10.57***
Subsector		31.57%
Arts, culture, and humanities	18.72***	10.43***
Higher education	3.91***	8.62***
Education	16.87	17.94
Environment	4.94	5.98
Health	10.08***	15.72***
Hospitals	1.44	1.67
Human services	29.84*	24.9*
Religion	3.91***	1.53***
International	1.03	0.97
Public and societal benefit	8.64	10.99
Unknown	0.62	1.11
Mutual benefit	0	0.14
Org. size (total revenues)	\$45.2 million	\$55.8 million

Note: *** (p < 0.001), ** (p < 0.05), * (p < 0.1)

represent a greater share of foundations located in rural and suburban areas when compared with independent foundations. However, the majority of both family and independent foundations are located in the metro Atlanta region. Both groups of foundations are smaller than the foundations included in the Foundation Center report.

Subsector

Our independent variables of interest are dichotomous variables representing each of the NTEE subsector classifications (arts, education, health, human services, environment, higher education, hospitals, religion, mutual aid, public benefit, international, and unknown nonprofits).⁶

⁶ In regression analysis, there is a reference group for each set of variables. In our models the reference group for subsector is human services, meaning that human services is left out of the regression equation. For example, the coefficient on the education variable is telling us the difference between the probability of being selected as a grantee for education nonprofits as compared to the probability that a human services organization is selected as a grantee.

Controls

We control for both the size and location of nonprofits in our regression models. Size is operationalized as the log of total revenues. Size is found in previous studies to be a significant predictor of whether or not a nonprofit receives contributions (Church & Parsons, 2008). Our location variable divides the state into five regions: Atlanta, Metropolitan Atlanta, Other Urban Areas in Georgia, Suburban Areas in Georgia, and Rural Areas in Georgia.⁷

Logistic Regression

We run two comparable logistic regression models. In the first, the dependent variable is coded 1 if a nonprofit was a recipient (grantee) of a family-foundation grant and 0 if a nonprofit was not awarded a grant (nongrantee) by a fam-

⁷ For our location variables the reference group is other urban areas (not including Metropolitan Atlanta), meaning that we can interpret the coefficients on our location variables as being more or less likely to be selected as a grantee as compared to nonprofits in other urban areas.

TABLE 3 Logistic Regression

	Family-foundation grantees	Independent-foundation grantees
Subsector		
Arts	1.169*** (0.260)	0.826*** (0.172)
Higher education	1.000* (0.560)	0.547 (0.412)
Education	0.0357 (0.262)	-0.121 (0.158)
Hospitals	-2.584*** (0.598)	-2.924*** (0.472)
Environment	0.473 (0.435)	0.534** (0.254)
Health	-0.368 (0.334)	0.323* (0.165)
International	-0.221 (1.043)	-0.207 (0.451)
Public benefit	-0.0739 (0.296)	-0.291 (0.188)
Religion	-0.687 (0.486)	-0.659** (0.256)
Unknown	-0.137 (0.752)	-0.410 (0.445)
Size		
Total revenues (log)	0.525*** (0.0427)	0.451*** (0.0255)
Location of NP		
Metropolitan Atlanta	0.964*** (0.193)	-0.0515 (0.121)
Suburban Counties	-0.691* (0.415)	-1.159*** (0.215)
Rural Counties	-0.00442 (0.277)	-0.430*** (0.152)
Constant	-10.19*** (0.644)	-7.407*** (0.359)
Observations	3,061	3,453
Pseudo R2	.2364	.1940
Note: Human Services (NTEE subsector reference group) and Other Urban Area Counties (Location reference group). Standard errors in parentheses. *** (p < 0.001), ** (p < 0.05), * (p < 0.1)		

ily foundation. In the second regression model, the dependent variable is coded 1 if a nonprofit was a grantee of an independent foundation and 0 if a nonprofit was not awarded a grant by

an independent foundation. In this way, we can compare the results we get from the first model on family-foundation grantmaking directly with the results we get from the second model on inde-

pendent-foundation grantmaking. For example, to compare the differences in grantmaking to arts organizations we can look at the coefficient on arts in these two regression models to determine whether being an arts organization makes you more or less likely to receive a grant from a family foundation (in model 1) than an independent foundation (in model 2).

For both groups the largest proportion of their grants went to nonprofits located in central city areas.

Descriptive Analysis

First, we conduct a descriptive analysis of foundation giving patterns before moving to the logistic regression analysis. In the descriptive analysis, we are able to initially determine the differences in those grantees that are selected by family foundations versus those that are selected as grantees by independent foundations. (The descriptive statistics are summarized in Table 2.) Our descriptive analysis indicates a statistically significant difference (determined by t tests of differences between means) between family and independent foundations in terms of the location of grant recipients. However, for both groups the largest proportion of their grants went to nonprofits located in central city areas. Descriptive statistics also reveal that the patterns of giving by NTEE subsector are fairly similar between family and independent foundations. This finding is consistent with the Foundation Center report. Both types of foundations gave the greatest proportion of their grant awards to human service nonprofits. Yet, family foundations gave a larger percentage of their grants to support arts and religious nonprofits than did independent foundations. On the other hand, independent foundations gave a larger percentage of their grant awards to health and higher education nonprofits. Interestingly the patterns of subsector giving, though similar among family and independent foundations in the sample, are different from the dominant patterns of large foundations in the Foundation Center

report, where health and education were the most preferred categories.

Logistic Regression

We conducted two logistic regression models to test for differences in grant-recipient selection between family foundations and independent foundations. (The results of the logistic regression are summarized in Table 3.) Regression results indicate that family and independent foundations select grantees from similar subsectors even when holding size and location constant. For both family and independent foundations, grantees are more likely to be arts organizations (than human services) and less likely to be hospitals (than human services). These results are statistically significant at the .001 level. Although size and location are included in our regression models as control variables, the results on these variables are worth noting. The location of nonprofits has a considerable role in grantee selection. Family foundations demonstrate preferences in funding nonprofits that are within a metropolitan area, while independent foundations do not demonstrate this type of location-based preference. Both family and independent foundations demonstrate a preference to fund larger nonprofits, and these results are significant at the .001 level.

Conclusion

Findings from the empirical analysis reveal that family and independent foundations display similar preferences in subsector distribution of grants. This finding supports the congruence pattern in the Foundation Center report, which was focused on large foundations. The Georgia sample had the advantage of including a broader cross-section of family and independent foundations and, because all the foundations are located in the same state, there was similarity in the external environment that could potentially drive the giving patterns. What we learn from this study is that the two groups of foundations ultimately display similar subsector preferences even if families are involved in the governance of family foundations.

We encourage future research that will examine the factors underlying the congruence pattern in family and independent foundations grant distribution as indicated in the Foundation

Center's *Key Facts on Family Foundations* report and confirmed in this study through a national sample of funders. We also encourage future research to explore the determinants of grant distribution among foundations with contrasting types of governance structures and mechanisms. Research in this arena may help scholars empirically determine what influence board governance truly has on grantmaking distribution, rather than continue speculation and normative assumptions about a connection between board composition and resultant grantmaking decisions.

Finally, it should be mentioned that we've focused here on one aspect of board governance, the structure and composition of philanthropic boards. There are many other aspects of governance that could be affecting the grant decisions of foundation boards, which may explain the congruence pattern we've found in this paper. For philanthropic practitioners the question remains: Does board composition and structure play a large role as the sector purports, or are there other aspects of board governance that influence grantmaking decisions?

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