

TITLE OF PROJECT:

Assessing the Role of Foundation Grants in Achieving Sustainable Fundraising by Canadian Charities

PROJECT PARTICIPANTS

Principal applicant: Iryna Khovrenkov, Associate Professor with the Johnson Shoyama Graduate School of Public Policy at the University of Regina.

Research students: This project involved four research students: two Master students and two PhD students. Their specific involvement is presented in Part V of this report.

PROJECT'S KEYWORDS

Fundraising, foundation grants, charity T3010 data, human services charities

PART I – PROJECT FINDINGS

Research Context:

The fundraising function of charitable organizations is essential for ensuring their sustainable operations (Andreoni, 2006; Lee and Shon, 2018). Regrettably, the COVID-19 pandemic has eroded this function for many charities and the struggle to attract donations is continue to prevail. Recognizing that charities require long-term solutions to sustain their operations, Canadian government has legislated to increase foundations' disbursement rate to boost support to the charitable sector. From January 1, 2023, foundations with investment assets exceeding \$1 million are required to pay out a rate of 5% instead of the previous 3.5% to charities. What does the passing of such regulation mean for charities and their fundraising efforts? Would greater foundation dollars to charities spur greater fundraising? Using Canada's rich charity data, I seek to understand what happens to charities' fundraising expenses when they receive foundation grants.

Theoretical nonprofit literature hypothesizes that charitable organizations that engage in "greater marketing, as reflected in fundraising expenses, will receive greater foundation funding" (pg. 23, Faulk, 2011). A strand of quantitative charity finance literature that documents the effects of institutional grants on charitable fundraising is dominated by studies exploring the effects of government grants on charities' fundraising efforts (Andreoni and Payne, 2011; Thornton, 2014; Hughes, Lusketch and Rooney, 2014). These studies find that government grants discourage fundraising by charities as funds move away from fundraising and towards providing charitable services. Looking to the influence of foundations, as another type of institutional funder, on fundraising, earlier quantitative work confirms a positive relationship. Using a sample of 932 nonprofit organizations in Georgia, U.S. that receive foundation grants,

Faulk (2011) concludes that as the number of foundations double, nonprofit fundraising expenses rise by 7 percent. In a more recent study, Wang (2023) derives the effect of matching grants to 62 Indiana (U.S.) community foundations on their fundraising expenses. She finds a positive but modest increase in fundraising expenses, which could be attributed to a small sample size.

With Canada's rich charity data, I am able to utilize a sample of 19,061 social welfare and community charitable organizations that have received a foundation grant between 2003 and 2018 to test the main research hypothesis.

Main Research Hypothesis:

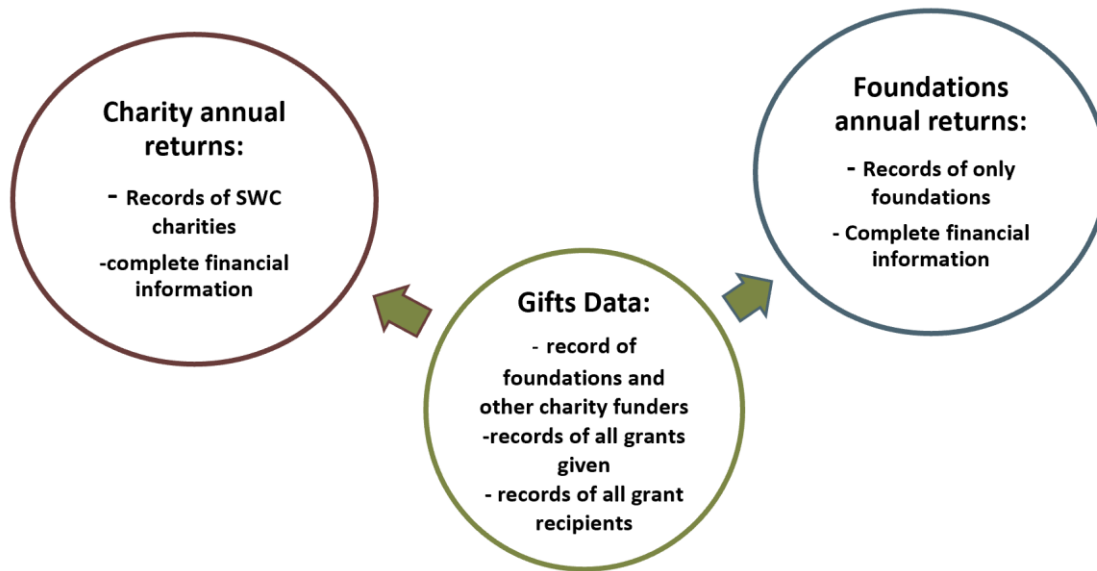
Fundraising expenses of charitable organizations increase when these organizations receive foundation grants.

Research Design:

In order to test the main research hypothesis, I use data from Canada Revenue Agency (CRA) tax filings (T3010 return) of social welfare and community (SWC) charitable organizations between 2003 and 2018. I focus specifically on SWC charities because human service organizations are viewed by the public as more essential (Morreale, 2011). I compile a unique dataset where SWC charities can be matched with their foundation donors (Figure 1). This matching exercise provides a sample of 19,061 SWC charities for this study.

A unique feature of Canadian charity data compared to charity data in other countries (e.g., IRS 990 return) is that it classifies 'giving to charities' into three separate categories: donations from individuals, institutional grants, and government funding. CRA groups giving from foundations and other registered charities into an "institutional grants" category. By matching detailed foundation grants data with the data on charitable organizations, I am able to parse out grants given specifically by foundations to these charities. This separation is important to arrive at accurate results which otherwise will be distorted by the effect of aggregated contributions (Faulk, 2011). Additionally, CRA data includes detailed information on charitable activities, such as fundraising and their financial operations (e.g., the flow of assets, revenues, and key expenditures). The richness of the data and a large sample will allow to arrive at robust findings.

Figure 1: Data Matching Overview



Findings:

I estimate the effect of foundation grants on fundraising expenses using a censored regression model (Tobit model). This model addresses a generally known issue, that is well-documented in the nonprofit literature, on charities reporting zero fundraising expenses (Thornton, 2014).¹ In our sample, fundraising expenses are zero for 30% of charity-year observations. I find that a 3% increase in foundation grants would lead to a 1% increase in fundraising expenses. This finding confirms the main research hypothesis that charity fundraisers exhibit a positive response to foundation grants. However, this preliminary result requires further verification. The reason is because charities that actively fundraise will be disproportionately successful in grant applications (Faulk, 2011). I am currently carrying out further analysis to ensure that these results are robust.

Research Contributions:

This research offers a few contributions to the literature and non-profit practice:

- *Scholarly:* this research utilizes a sizeable dataset for determining the relationship between foundation grants and fundraising activities. It relies on a sample of 19,061 social welfare and community charities in Canada as opposed to 62 and 932 U.S. registered charities used in previous studies about the effect of foundation grants on fundraising. Using a larger sample allows to derive more accurate and credible results.

¹ The issue of non-profit organizations reporting zero fundraising has been widely documented. For example, see “The Quality of Financial Reporting by Nonprofits: Findings and Implications”
<https://www.urban.org/sites/default/files/publication/57736/311045-The-Quality-of-Financial-Reporting-by-Nonprofits.PDF>

- *Practical*: informs charities' fundraising practices about the relationship between fundraising and foundation grants. Charities may benefit from greater visibility of donations they receive from larger donors.
- *Policy*: offers new evidence that can assist government in forming policies that encourage giving to charities (by foundations and individuals).

PART II – CHANGES AND IMPLICATIONS

1. Changes to the project plan.

As identified in the grant proposal, I planned and budgeted for one Master student to assist with the work related to this research grant. Unfortunately, a Master student that was hired at the start of the project with interest in nonprofit field experienced mental health challenges in their program of study and decided to leave the University. While another student was able to join the project, the selection process took longer than expected due to a specialized area of research, and this resulted in a slower pace for completing the working paper.

2. Changes in my/our teaching.

As Described in *Part IV Integration of Project Content into Courses*, research insights from this project have led to the creation of the module on Fundraising as part of the graduate course *JGS 811 Foundations of the Nonprofit Sector*.

3. Other influences, links, or extensions.

Presenting the findings from this research at the Association for Research on Nonprofit Organizations and Voluntary Action (ARNOVA) conference led to further discussions about policies around foundation giving, particularly disbursement rates. There was interest about how recent changes to disbursement quota (<https://pfc.ca/new-disbursement-quota-is-now-law-and-in-force-what-you-need-to-know/>) will impact foundations and therefore grantmaking to a broader charitable sector.

PART III – KNOWLEDGE SHARING

1. Conference presentations already done.

As described in the grant application, under the Knowledge Dissemination section, preliminary findings of the project would be presented at a session dedicated to “Philanthropy, Fundraising and Giving” as part of the Association for Research on Nonprofit Organizations and Voluntary Action (ARNOVA) conference. I was excited for the research findings to be presented at this conference and was glad to receive constructive feedback from other researchers and practitioners.

November 18, 2022

✓ Fundraising Strategies: Interplay between Donors, Fundraisers and Beneficiaries

10:30 AM-12:00 PM ET

Philanthropy, Fundraising, and Giving
Room 205Can Charities Achieve Sustainable Fundraising? The Influence of Foundation Grants on Charities' Fundraising Efforts
Iryna Khovrenkov, University of Regina; Natasha Steinbeck, University of ReginaA Novel Approach to Legacy Donations with Long-Term Benefits to Donors, Nonprofits and Beneficiaries
Natalie Webb, Naval Postgraduate School; Daniel Solow, Case Western Reserve University; Robin Symes, RetiredWho Cares Nonprofit Performance? The Roles of Trust and Performance Verification on Charitable Giving
Shinyoung Park, IUPUI; Jiwon Suh, University of Texas, ArlingtonDate
Friday, November 18thSession Chair
Heather MacIndoe, UMass Boston

2. Future knowledge sharing plans.

I will be working over the summer months on finalizing the development of the following pieces as part of the knowledge sharing plan:

1. A plain-language communication brief to members of the Saskatchewan Nonprofit Network.
2. A special edition on *Philanthropy and Fundraising* will showcase the research findings and will be published on the Canadian Philanthropy Research Network (Philab, <https://philab.uqam.ca/en/>);
3. One peer-reviewed research paper to be submitted for open-access publication (e.g., *Canadian Journal of Nonprofit and Social Economy Research*, which showcases research relevant to Canada's non-profit sector);

PART IV – INTEGRATION OF PROJECT CONTENT INTO COURSES

In Winter 2023 semester, I taught JSGS 811 Foundations of the Nonprofit Sector as part of the Social Economy, Cooperatives, and the Nonprofit Sector graduate certificate. This course has been updated to include a completely new module on fundraising which incorporates this project's background literature and findings. I will be teaching this course again in Winter 2024.

For additional context, here is the course overview as provided in the JSGS 811 syllabus:

This course is designed to provide an overview of the non-profit sector within historical and contemporary contexts. The first part of the course will provide students with a thorough lay of the non-profit scene in Canada including the role of charitable foundations in a Canadian society as a steadily growing type of charities. Some time will also be spent on establishing the regulatory environment in which non-profit organizations operate. The second part of the course will begin by establishing how non-profit organizations are governed and financed. Given that nonprofits are addressing significant community needs with constricting financial resources, the roles of the boards in ensuring financial sustainability will be discussed. The remaining topics will be centered around fundraising and the role of charities in contributing to public policy debates.

Course number & title	Semester	Enrolled number of students
JSGS 811: Foundations of the Nonprofit Sector	Winter 2023	12
JSGS 811: Foundations of the Nonprofit Sector	Winter 2024	15 (approximate)

PART V – RESEARCH ASSISTANT INVOLVEMENT

This grant has prioritized student research training. I worked with a PhD student from McMaster University to assist with data cleaning and dataset creation. Since charity T3010 data used for the analysis is stored on the server at McMaster University' Secure Empirical Analysis Lab (SEAL), hiring a student already working at the lab was efficient since the student already had ample knowledge of the data. Another PhD student obtained training in presenting preliminary findings of this grant's research to academic and non-academic audiences by attending a conference in Raleigh, North Carolina. I also involved two Master students in literature compilation and synthesis. Initially, I planned and budgeted for one Master student. Unfortunately, a Master student that was hired at the start of the project experienced mental health challenges in their program of study and decided to leave the University. Another Master student has joined the project and assisted with literature synthesis writing.

Names and Tasks	Degree Type and University
Parmida Soltani – data cleaning and dataset creation	PhD, McMaster University
Natasha Steinback – conference	PhD, University of Regina
Mackenzie Bell – literature compilation (left university)	Masters, University of Regina
Gabriela Camacho – literature synthesis	Masters, University of Regina

ACKNOWLEDGEMENTS

The research presented in this report was made possible with the support of the AFP Foundation for Philanthropy Grant. I am grateful to the AFP Foundation for Philanthropy for the opportunity to contribute new insights around the relationship between foundation grants and fundraising. I am also thankful that this funding made it possible to train students in literature synthesis, data analysis and academic writing.

Selected References

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