A COMPARATIVE ANALYSIS OF COMPANY-SPONSORED AND INDEPENDENT FOUNDATIONS

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As organizational researchers continue to scrutinize the various implications of greater corporate involvement in the provision of social goods and services, it is important to also consider the effects of company sponsorship on the behavior of philanthropic foundations. With their accumulated funds and social influence, foundations play central mediating roles within the U.S. nonprofit sector. Moreover, because independent and company-sponsored foundations are established with the same basic function and fiduciary responsibilities, a structured comparison of the two foundation types allows us to isolate the specific implications of corporate involvement in the support of nonprofit organizations. Applying organizational theories that emphasize resource access and resource dependence, we propose that company-sponsored foundations benefit from having access to the resources of sponsoring companies. They are also influenced by the market-based motivations of their for-profit sponsors. Consistent with these expectations, our matched-sample analysis shows that company-sponsored foundations tend to raise more funds and distribute grants with lower paid administrative overheads. However, their grant-making is also more dispersed and less relational over time. We discuss the implications of these findings for the nonprofits that rely on foundation support, and for broader debates about the implications of greater corporate involvement in the social sector.
“What organizational scholars have to say about corporate involvement in societal affairs seems essential, for the risks of involving companies in broad societal problems may match the risks of excluding them” (Margolis and Walsh, 2003, p. 296).

INTRODUCTION

Mounting pressures on states to reduce spending and a concomitant pressure on corporations to fill the funding voids make Margolis and Walsh’s (2003) call to action increasingly relevant. As such, much ink has spilled over the various roles that companies might play in addressing social and environmental concerns. This is evident in the considerable attention that is devoted to the design and performance of corporate philanthropy programs (Smith, 1994; Porter et al., 2002).

Accompanying the widespread activity and commentary is a more limited number of organizational studies that systematically probe the benefits and costs of greater corporate involvement in societal affairs. Thus, it has been suggested that “we know little about the ways that corporations form relationships with local governments, local nonprofit communities, and the priorities they assign to the philanthropic practices on which they engage” (Guthrie 2010). This limited academic engagement is troubling because the benefits and costs of greater corporate involvement are potentially enormous. Protagonists point to improved funding access, superior efficiency, and enhanced program sustainability as rewards for greater corporate involvement. Detractors argue that the additional market-based motivations that come with corporate support create problems when it comes to increased societal reliance on the corporate sector.

These contrasting positions are variably featured in published commentaries and analyses.
For example, whereas Porter et al. (2002) emphasizes the latent benefits associated with aligning competitive and social interests within corporate philanthropy programs, Burt’s (1983) empirical analysis of corporate giving highlights the instrumental motivations behind these corporate contributions. According to Burt, corporate philanthropy is a form of advertising that can reduce uncertainty for the company by building loyalty among its consumers. Atkinson and Galaskiewicz (1988) and Galaskiewicz (1997) reinforce this latter concern by documenting how nonprofit organizations’ reliance on corporations links the funding of social projects to the interests and performance of funding corporations and their managers. This tension is revisited in a more recent study by Marquis et al. (2011), which shows that having more major corporations in a city has positive implications for the growth of local nonprofits, but more so for those that cater to the needs and interests of elites. In other words, the incremental resources that come with greater corporate support may cause a tilting of priorities away from perhaps more pressing social causes.

In this paper, we add to these studies by examining a more subtle, but equally important channel of corporate support for nonprofits – company sponsorship of philanthropic foundations. Foundations are organizations that are set up to support socially-oriented activities, typically by administering grants to nonprofit organizations (Ylvisaker, 1987; Prewitt, 2006). Every year in the United States, large and iconic foundations (like the Rockefeller Foundation and the Bill and Melinda and Gates Foundation) along with thousands of small and medium sized foundations make billions of dollars of grants to a myriad of nonprofits. Relative to individual donors (see Vesterlund, 2006), foundations can potentially offer more concentrated financial support, which allows them to encourage and support
larger-scale social initiatives. In doing so, they often leverage superior connections to government officials and other societal elites (Fleishman 2009). As such, foundations are thought to “shape the actions of others by granting money and defining particular activities, purposes, achievements, and people as worthy of gifts, grants, awards, and prizes” (Anheier and Hammack 2010).

In the following analysis, we compare and contrast the fundraising and granting behaviors of two types of philanthropic foundations: company-sponsored and independent. Independent foundations are privately funded by individuals or groups of individuals and make up the majority of foundation giving in the United States. Company-sponsored foundations (CSFs) are typically governed by a board of trustees made up of executives and directors of their parent corporations (Nelson 1970). These ties to active for-profit companies raise questions regarding how sponsoring companies might influence foundation behavior and performance.

We propose that links to sponsoring companies will affect how foundations raise and then distribute funds. Consistent with theory and evidence about corporate diversification (Montgomery 1994), resources and routines from company sponsors should allow foundations to more effectively raise funds and then disburse them with lower administrative overheads. However, because sponsoring companies also need their philanthropic efforts to enhance competitiveness and therefore profitability, the grant making of their affiliated foundations should be less focused (or more dispersed) than that observed in otherwise similar independent foundations. Confounding desires to link foundation giving to brand development or stakeholder management impedes a CSFs ability to focus on and build

1 In 2006, the roughly 40 million Americans that itemized charitable contributions on their tax returns gave an average of $4,109, while the more than 70,000 registered foundations gave an average of $538,102 (see www.nccsdataweb.urban.org and http://www.foundationcenter.org/findfunders/statistics).
relationships with a smaller and more targeted set of grantees.

We develop these ideas before analyzing fundraising and grant-making data collected from matched samples of company-sponsored and independent foundations. Our results show that CSFs differ from their independent counterparts in several important respects. They tend to raise more funds and administer foundation tasks with lower paid administrative overheads. Despite this heightened ability to make funds available for distribution, CSFs also tend to distribute smaller grants and have less continuous relationships with their grantees. That said, we find no evidence that CSFs are more or less likely to fund specific types of nonprofits, such as more elite-oriented or more local organizations.

These findings suggest a double-edged effect of corporate involvement in foundation work. Corporate sponsorship allows more financial resources to flow into the nonprofit sector, yet the additional extrinsic motivations of company sponsors lead to a more shotgun approach to grant making. This latter influence works against a CSF’s ability to strategically channel resources toward a limited number of societal projects.

The balance of this paper is structured as follows. The next section provides some historical information about philanthropic foundations in the United States. Building from this set-up, we develop a set of predictions about specific differences between company-sponsored and independent foundations. These predictions are tested in an analysis of a matched sample of company-sponsored and independent foundations operating in the United States in 2005 and 2009. We conclude the paper by discussing the implications of our findings for the growing research that focuses on the behavior and impacts of philanthropic foundations, and for the broader research community that is examining the benefits and costs of greater corporate
involvement in the provision of social goods and services.

PHILANTHROPIC FOUNDATIONS IN THE UNITED STATES

In the United States, nonprofit organizations address the wide range of social issues that are otherwise left unsupported by the government and corporate sectors. To perform their social functions, they rely on financial support from individuals, companies, foundations. In 2012 (the most recent year for which data are available), individuals in the United States donated $228.93 billion, while corporations and foundations contributed $18.15 billion and $45.74 billion, respectively. To better understand these critical support flows, researchers have studied the drivers of individual giving (see Vesterlund, 2006) and corporate giving (see Useem, 1987). However, the third main pillar of support for U.S. nonprofits has received considerably less scholarly attention (for notable exceptions, see Anheier and Hammack 2010 and Fleishman 2009).

American philanthropic foundations can be traced to the late eighteenth century. However, they did not become prominent institutions until the sectarian era of the nineteenth century and the concomitant birth of a new industrial class, characterized notably by the wealthy industrialists Andrew Carnegie and John D. Rockefeller (Anheier and Hammack 2010). Carnegie famously argued that the duty of the wealthy is “to provide moderately for the legitimate wants of those dependent on him; and after doing so to consider all surplus revenues which come to him as trust funds, which he is called upon to administer ... in the manner which, in his judgment, is best calculated to produce the most beneficial results for the community” (Carnegie 1889). In this spirit, Carnegie used his wealth and influence to

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stimulate the construction of over 2,800 public libraries across the United States (Dowie 2001).

As Carnegie was setting a stage for industrialist philanthropy, John D. Rockefeller was using his position to improve society by finding and then eliminating ‘the root causes of many societal ills’. As his personal fortune grew, it became increasingly difficult to manage these diverse socially oriented activities. Seeking someone with experience to manage his philanthropic endeavors, he hired the Reverend Fredrick Gates, who is credited as being one of the first and prototypical professionals in the philanthropic sector. These practices of strategic giving and hiring professionals were the forerunners of the modern philanthropic foundation (Prewitt 2006).

Other wealthy individuals were similarly motivated to create foundations. Clearly, there were legal, tax and other financial benefits associated with moving personal wealth into philanthropic foundations. However, Nielsen (2002) concludes that at least half of the largest private foundations were created out of a sense of social responsibility and that a third of them were created with specific social purposes in mind. This practice of allowing large amounts of financial wealth to be professionally managed to target and pursue specific social objective continues in what Anheier and Hammack (2010) call a fourth period of American philanthropy. A high-profile and relatively recent example of this new period of philanthropy occurred in 2006, when Warren Buffet donated $31 billion to the Bill and Melinda Gates Foundation, whose focused approach is indicated in its guiding principle: “We take risks, make big bets, and move with urgency. We are in it for the long haul.”\(^3\) Examples of the sectors that foundations currently fund and operate in include global health and development (Bill and

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\(^3\) See [www.gatesfoundation.org/about/Pages/guiding-principles.aspx](http://www.gatesfoundation.org/about/Pages/guiding-principles.aspx).
Melinda Gates Foundation), democratic and accountable government (Ford Foundation), climate change (Hewlett Foundation), and education and economic development (Woodruff Foundation).

In the 1950s, U.S. companies – and not just their owners – began to diversify into the foundation business by creating their own foundations. This movement placed CSFs alongside independent foundations and challenges us to think about the implications of company sponsorship on foundation behavior.

**IMPLICATIONS OF COMPANY SPONSORSHIP**

It took a 1952 court ruling to give managers the ability to engage in corporate philanthropy without the risk of legal repercussions. In 1951, the A.P. Smith Manufacturing Company made a $1,500 donation to Princeton University that was subsequently challenged in court by a group of investors. In the following year, the court ruled in favor of the management of A.P. Smith in a pivotal ruling that paved the way for the rapid growth in the number of CSFs. Thus, Nelson (1970) reports that the vast majority of the largest CSFs that were active in the mid-1960s were established after 1950. Although many of these CSFs disappeared in the merger and acquisition waves of the 1980s, the rise of new company wealth in the 1990s has led to a resurgence of CSFs in the United States (Galaskiewicz et al. 2006). Today, it is estimated that 40 percent of all U.S. companies have their own philanthropic foundations (Guthrie 2010).

In terms of their stated and fiduciary objectives, a CSF is no different than its independent counterpart (Galaskiewicz and Sinclair-Colman 2006). Both are nonprofit grant-making organizations set up to gather funds from various sources and then distribute those funds to other nonprofits that are pursuing specific societal objectives. The only structural difference
between the two types hinges on who controls foundation decision-making. Thus, if CSFs are found to behave differently on average than independent foundations, the root cause must stem from the contributions and influences of the sponsoring companies. In the former respect, CSFs can benefit from access to resources and routines that are housed in their sponsoring companies. In the latter respect, notions of resource dependence (Pfeffer and Salancik 1978) suggest that these benefits come with obligations to also address the additional motivations of the sponsoring companies.

The most salient factor that distinguishes CSFs from independent foundations is their formal association with active for-profit companies, which have been variably described as bundles of productive resources (Penrose 1959) and routines (Nelson and Winter 1982). Through these formal affiliations, CSFs have access to these resources and routines. So, while all foundations can draw from the coffers and networks of directors and supporters to raise funds, CSFs have a broader organizational platform from which to draw. For instance, a number of sponsoring companies have sizeable employee matching gifts programs, which can provide significant fundraising platforms for some CSFs. Consider that IBM’s annual employee campaigns generate roughly $35 million per year.⁴ The financial surpluses generated by active businesses can further augment the pools of funds from which CSFs can draw. Moreover, the parent companies can boost the coffers of the foundation during boom times so that giving can continue during less profitable ones. Finally, sponsors also have marketing capabilities that are honed by private sector competition. These capabilities can translate into more effective social marketing campaigns (Kotler and Zaltman 1971; Lee and Kotler, 2011) that allow CSFs to more effectively tap into available financial resources.

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We expect similar benefits on the cost side of the ledger. To maximize the funds available for distribution to nonprofits, foundations should seek to minimize what they pay for administrative expenses. Relative to their independent counterparts, CSFs can draw on idle human and technical resources housed within sponsoring companies through various forms of cross-subsidization. Managers – whose salaries are paid by the sponsor company – can be assigned part-time or temporary roles within the affiliated foundation (Galaskiewicz and Sinclair-Colman 2006). Similarly, office space or equipment can be made available for foundation administration. Finally, company sponsors can also transfer accumulated administrative efficiencies – again developed in the context of market competition – to their affiliated foundations. These intangible insights should allow CSFs to use their borrowed and purchased inputs more efficiently.

With the prospect of these inter-organizational transfers and subsidies, we predict that CSFs will be more effective at raising funds for subsequent disbursement than independent foundations (Hypothesis 1). We also predict that company-sponsored foundations will perform their administrative tasks with lower paid overhead expenses (Hypothesis 2).

While receiving these kinds of support, it is assumed affiliated foundations must also align their social objectives with the broader market-based goals of their sponsors. To be clear, this does not have to imply any observable impacts on foundation behavior or performance (Galaskiewicz and Sinclair-Colman 2006). In their analysis of corporate philanthropy, Brown et al. (2006) stress that “agency cost theory also contemplates that managers and directors may authorize gifts out of an altruistic belief that firms have a social responsibility to contribute to worthy causes.” In this view, company managers redeploy excess company profits for the benefit of society and not shareholders (see also Atkinson and Galaskiewicz
This kind of social motivation is frequently cited by the executives who engage in
corporate philanthropy for religious, political, or other personal reasons (Galaskiewicz 1997).
This worldview suggests that the two types of foundations will not *a priori* be distinguishable
from one another. Like the individuals who drive decision-making of independent
foundations, the managers that run CSFs may hold similar social beliefs and thus behave in a
similar fashion.

However, we recognize the potential for a higher-order motivation on the part of private
companies to maintain and enhance profitability, even as they consider their philanthropic
options (Galaskiewicz and Sinclair-Colman 2006). The various aspects of corporate
philanthropy have long been viewed within the broader context of corporate social
responsibility and have thus become linked with concerns about firm profitability. This
perspective is rooted in skepticism among shareholders about funding the extracurricular
activities – social or otherwise – of managers, and is concomitantly mired in legal debates
about the limited social responsibilities of the shareholder-owned company (Friedman 1970).
Consistent with this position, Navarro (1988) tests a theoretical model that shows how profit
maximization is an important motive driving the philanthropic contributions of corporations.

Specific company benefits of philanthropy relate to increasing sales or company goodwill.
Companies also use philanthropy to preserve power and autonomy in their environments
suggests that philanthropy allows corporations to meet the demands of various stakeholders
and thereby secure the resources necessary for survival. In support of this thesis, Burt (1983)
shows how industries that are dependent on consumer demand reduce uncertainty in that
demand by advertising *and* giving more to charities. More specifically, Brown *et al.* (2006)
find that oil companies allocate more money to nonprofits that focus on the environment, pharmaceutical firms allocate more to health-related causes, and firms in industries with little international exposure tend not to give to international causes.

Traditional foundation impact is driven in part from building long-term relationships with selected nonprofits. For example, some of the larger foundations have deep and long-term relationships with specific universities or hospitals. However, one of the accepted goals of corporate philanthropy is to associate a company’s brand and image to a wide range of social issues. Another goal is to address the varied social interests of numerous customers and employees. These additional market-based motivations of CSFs relate less to the tangible social improvements that come from committed relationships and more to the symbolic association of the company with a range of organizations. Therefore, we expect that, at the margin, CSFs will give out more grants (Hypothesis 3a) and that the average size of their grants will be smaller (Hypothesis 3b). Moreover, because the symbolic value of claims of social support lasts beyond the duration of any specific grant, CSFs that face a multitude of demands to appease various company stakeholders will tend to shift their support dynamically and be less relational in their grant making. Thus, we predict that CSFs will be less likely to offer ongoing support to their grantees in the form of multi-year grants (Hypothesis 4).

Our final predictions relate to the sector and geographic focus of CSFs. Several analyses of the patterns and implications of corporate philanthropy focus on the sector focus of company donors. Guthrie (2010, p. 187) provides a useful snapshot of how U.S. companies allocate their philanthropic dollars. Roughly two-thirds (63 percent) of the companies in his sample funded projects for the underprivileged, while 40 percent gave to health-related programs. When
asked specifically about their philanthropic focus, the top categories named by corporations were education and health. These were followed by the arts, social inequality, environment protection and economic development. In their more focused assessment of the effect on local nonprofits of having more local corporate headquarters, Marquis et al. (2011) show that elite-oriented causes (i.e., those related to arts, culture, and humanities, philanthropy, and recreation and sport) tend to receive preferential support in cities that have dense and connected corporate supporters. This finding is consistent with the idea that company sponsors tilt their grant-making in ways that support their competitive interests, as the beneficiaries of elite-oriented nonprofits are probably in the best position to further company interests.

In respect of geography, there is additional evidence that corporate giving tends to be concentrated in the region that houses corporate headquarters because giving is guided by a CEO’s personal ties to local philanthropic leaders (Galaskiewicz 1997). This emphasis on the local determinants of corporate philanthropy is elaborated in Marquis et al.’s (2007) theoretical exposition of the ways that localized institutional and cultural conditions influence giving patterns. One recent study finds that attracting the corporate headquarters of a publicly-traded company produces an additional three to ten million dollars in gifts for local nonprofits due to a combination of highly-paid executives moving into the city and direct donations from the corporation (Card et al. 2010). In his study of corporate philanthropy in the Twin Cities, Galaskiewicz (1997) found that companies spent roughly 70 percent of their philanthropic funds on local nonprofits. This observation is comparable to that of McElroy and Siegfried (1986), who suggest that corporate giving tends to be motivated by a desire to be responsive to respected peers in the local business community.
These specific observations of company giving do not necessarily translate into comparative predictions of grant-making by CSFs versus independent foundations. In fact, Marquis and Battilana (2009) present a more general overview of the range of local influences on various kinds of organizations. In this respect, it is possible that the leaders and managers of independent foundations are just as embedded in local networks and just as susceptible to local community influences. Thus, a plausible null hypothesis is that all foundations tend to bias their giving toward supporting elite-oriented and local nonprofits. However, if company sponsors do place additional emphasis on these factors in order to bolster support for business-related issues, then we can make our final predictions. CSFs will tend to give a larger percentage of their financial support to elite-oriented nonprofits (Hypothesis 5a) and a smaller percentage to social service organizations (Hypothesis 5b). CSFs will also tend to spend a greater percentage of their grant dollars on nonprofits located in the same state (Hypothesis 6).

DATA AND ANALYSIS

In the next section, we present the results of an analysis of the fundraising performance and grant-making behavior of matched random samples of philanthropic foundations that operated across the United States in 2005 and 2009. The 2010 edition of The Foundation Directory Online reports on the top 97,000 U.S. foundations by total giving. From this source, we selected a random sample of ten percent of all CSFs, proportionately weighted by state concentration. To obtain a corresponding sample of independent foundations, we matched each of these CSFs to an independent foundation that was established in the same year and in the same state. This matching procedure accounts for differences in the temporal and spatial conditions that imprint foundations when they are established (Stinchcombe 1965). We then
extracted financial information for the 2005 and 2009 tax years from the tax forms (i.e., Form 990s) filed by each sampled foundation. These forms were obtained from the National Center for Charitable Statistics (NCCS) or from Guidestar.org.

The foundations in our sample differ in ways that clearly impact the flow of funds into the nonprofit sector. A closer look at several of them brings these differences to light. First, there is variance in the size of the endowments that foundations develop and draw from. Foundations like the Ann Ratner Charitable Foundation (an independent foundation established in 2003) hold few assets – in this case, roughly $9,300 in 2005 – and rely primarily on year-to-year contributions from supporters. At the other end of the continuum, the Monsanto Fund (a CSF founded in 1962) deploys the investment proceeds from a roughly $9 million endowment. In addition to endowment income, foundations vary in their ability to raise funds from other sources. The John P. Murphy Foundation raised zero funds from outside sources in 2009, while the Bank Atlantic Foundation raised more than $700,000 in 2005 alone. Similar differences are seen in the overhead expenses that foundations incur. These expenses are material because every dollar that a foundation spends on administration functions does not make its way to a nonprofit. The Dorothy D. Graham Scholarship Fund spent roughly 32.5 percent of its total expenses on overhead in 2009. At the other extreme, the CORE Construction Foundation spent less than one percent of its total expenses on overhead in that same year.

There are also differences in the patterns of grant-making across foundations. For example, the Taco John’s Foundation gave grants that averaged just $907 in 2009, compared to grants from the Dan E. and Neva L. Brannin Foundation that averaged more than $39,000. Along with these differences in average grant size are differences in the tendency to support the same
nonprofits over time. Of the nonprofits funded by the Merklin Family Foundation in 2005, none were supported again in 2009. By contrast, 80 percent of the nonprofits funded by the Lipton Foundation in 2005 were also funded four years later.

Finally, many foundations give disproportionately to local nonprofits. For example, in 2005, the Sung Family Foundation gave all of its grants to nonprofits based in its home state of New York. On the other hand, the Mitsubishi Electric American Foundation gave none of its 2009 grants to nonprofits based in its home state of Virginia. These same foundations also differ in the causes that they support. More than 70 percent of the grants from Mitsubishi Electric American Foundation went to social welfare organizations. The Sung Foundation, by comparison, made all of its grants to nonprofits that focus on education.

**Variables**

For our econometric analysis, we created a set of variables that expand upon these observations and permit tests of our six hypotheses (see table 1 for variable definitions). The *Funds raised* variable measures the total dollars raised by a foundation in each year. This variable was log-transformed to account for its pronounced skew. The *Administration ratio* variable equals a foundation’s total administrative expenses in a year divided by the sum of its administrative and total grant expenses. It therefore measures the percentage of funds that are used for overhead functions rather than for the direct support of nonprofits.

**Table 1 about here**

Tests of our latter hypotheses require specific information on grants and grantees. We extracted these data manually from the sampled foundations’ tax returns. Every year,
foundations provide comprehensive rosters of their grantees in Section XV of their 990 forms. These provide the names of all grantees and the size of the corresponding grants. The Count of grants is the total number of grants made by a foundation in a given year. The Average grant size equals a foundation’s total grant expenses in a year divided by the total number of grantees. Again, this variable was log-transformed.

The Grantee continuity variable measures the durability of funding relationships between a foundation and its grantees. Beginning with the sample of grantees in 2005, we manually searched through the entire roster of foundation grantees in the 2009 observation year. A match was recorded when we found a grantee with the same name and geographic location (regardless of the size of the current or subsequent grant) in that subsequent year. The continuity measure is calculated as the number of sampled grantees that received grants across the two observation years divided by the number of sampled grantees in 2005. This variable ranges from zero (when no nonprofits receive repeated support from the foundation) to one (when the foundation commits to repeated support for all grantees).

The variables that describe the sector and geographic focus of each foundation required additional information about the philanthropic focus and headquarters location of each grantee. Unfortunately, there is no uniform reporting of this information for the more than 61,000 grants made by the sampled foundations in the two years covered in our analysis. Therefore, for each foundation in each year, we manually searched for this data from either thirteen grantees or a randomly-selected thirteen percent of all reported grantees, which ever number was larger.5 A very small number of grantees with indiscernible names, with

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5 Preliminary data searches suggested that these targets would ensure the required information for at least ten grantees from each foundation in each year, or from at least ten percent of the larger foundations’ grantees.
international locations, or part of bulk grants (i.e., multiple grants made to multiple entities with no way to distinguish individual grantees) were set aside. For the remainder, reported grantee names were entered into online repositories of public charity information (i.e., Guidestar.org, the NCCS database and Google) to locate Employee Identification Numbers (EINs). Using these EINs, we searched the NCCS Core Files to determine the philanthropic sector classification and headquarters state for each grantee. In the end, we were able to clearly identify sector and state for roughly 80 percent of the sampled grantees (roughly 11,000 in total).

The NCCS uses the National Taxonomy of Exempt Entities (NTEE) to classify nonprofits into 26 groups ranging from arts/culture/humanities to mutual/membership benefit organizations. We used this classification to determine whether a grantee is considered elite-oriented or social welfare. Here, we followed Marquis et al. (2011) and classified arts/culture/humanities, philanthropy and recreation/sport nonprofits (NTEE Categories A, T, and N) as elite-oriented. Social services grantees focus on mental health, employment, housing, healthcare, public safety, youth development, human services, civil rights, public benefit and food/nutrition (NTEE Categories E, F, J, K L, M, O, P, R and W). After assigning each grantee to its orientation group, we calculated percentages of total grants at the foundation level. The Percent elite-oriented variable is the percentage of funds that a foundation grants to elite-oriented nonprofits, while the Percent social welfare variable is the corresponding

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6 Three types of grant recipients are not required to report tax information and therefore do not show up in nonprofit databases: individuals (who receive scholarships or financial assistance), religious organizations, and (particularly public) schools. We used the name of the recipient and other information reported by the foundation to identify these three types.

7 When we could only determine the identity of a parent organization or some other affiliate, we used the parent or affiliate EIN for philanthropic sector classification and coded the location as missing. Location information was also supplemented with data reported on the tax forms.

8 See [www.nccsdataweb.urban.org](http://www.nccsdataweb.urban.org).
percentage given to social welfare nonprofits.

The headquarters information from each grantee was used to calculate the total funds that each foundation grants within its home state. A foundation’s home state is defined as the location listed in the Foundation Center’s *Foundation Directory Online*. The *Percent in-state* variable is the percentage of funds given to nonprofits that are located within the same state.

**Analysis**

Our empirical strategy examines systematic differences that are attributable to a foundation being company-sponsored. All models control for foundation age and include a fixed year effect for 2009. State fixed effects are also included to account for any unobserved heterogeneity across states. Because we effectively over-sampled CSFs, we estimate probability-weighted regression models, with the weights being the share of sampled CSFs and independent foundations in each state in each year. The total counts for each foundation type were obtained from the *Foundation Center* website.\(^9\) Finally, to account for the non-independence of the same-foundation observations, we cluster the models’ error terms on foundations.

Models 1 and 2 contain additional controls for the asset size (logged) for each foundation. In the *Funds Raised* model, foundations with larger asset bases may rely more heavily on earned income and feel less pressure to raise additional funds. In the *Administration ratio* model, foundations that have large endowments to manage may incur additional overhead expenses relative to those that rely on current donations alone. We also control for the total expenditures of each foundation (logged) in Models 2 through 7. Due to possible economies of

\(^9\) See [www.foundationcenter.org](http://www.foundationcenter.org).
scale, larger foundations may have lower administration ratios. Larger foundations may also tend to give more or larger grants simply because they have more money to distribute. Finally, larger foundations might also tend to spread their larger sums of money across more sectors or geographies.

Our sample began with 287 CSFs and 287 independent foundations observed in two different years. Missing grant-level data reduced the final sample to 1,027 observations across two years. The sample is further reduced to 498 for the grantee continuity analysis because this variable is based on just one time interval; 2005 to 2009. Table 2 provides descriptive statistics and pair-wise correlations for all variables of interest.

**Table 2 about here**

**RESULTS**

The coefficient estimates reported in Table 3 indicate little in the way of systematic variation in regard to foundation age. We also find that although foundations raised significantly fewer funds in 2009 (likely due to the effects of a deep recession), there were no other discernible period effects.

**Table 3 about here**

Systematic differences emerge when we examine the coefficients associated with the CSF variable. Model 1 reports a positive and significant effect on total funds raised. The estimated effect suggests that, all else equal, CSFs tend to raise roughly three times more per year than their independent counterparts. This effect is not due to the fact that the endowments of CSFs tend be smaller. While the average of the log-of-assets control variable is slightly smaller for
CSFs (12.41 compared to 12.90 for independent foundations), its estimated coefficient is not significantly different from zero. Thus, we find support for our first hypothesis – CSFs are f

Model 2 focuses on the foundations’ administration ratios. It seems sensible that foundations that spend more money in a given year (i.e., the CSFs on average) might benefit from economies of scale. As expected, the effect of the log of total foundation expenditures variable on the administration ratio is negative and significant. We also find that foundations with more assets under management incur additional expenditures that make their administration ratios significantly larger. Notwithstanding these two effects, the negative coefficient on the CSF variable suggests that, all else equal, they operate with lower paid overheads.

These two significant CSF effects corroborate our expectation that the additional resources and routines made available to CSFs tend to make more funds available for grantee organizations, both in terms of overall fundraising and more efficient administration. However, given their added motivation of connecting with numerous customers and employees, and otherwise addressing the interests and social proclivities of a wide range of company stakeholders, grant making in CSFs is also expected to be less focused. The positive and significant coefficient on the CSF variable in model 3 suggests that CSFs spread their funds across a larger number of grantees. This effect is evident even after controlling for the fact that CSFs also tend to have more funds to spend. We also find, as expected, that total foundation expenditures has a positive and significant effect on average grant size (model 4).

That said, the negative and significant coefficient estimate in model 4 suggests that grants from CSFs tend to be smaller on average. More specifically, the estimated effect implies that

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10 To assess the generalizability of the results obtained from our random matched sample of independent foundations and CSFs, we re-estimated models 1 and 2 on the complete roster of active U.S. foundations in 2005 and 2009 and obtained a similar pattern of results (see models A1 and A2 in the Appendix).
grants from CSFs are, on average, roughly 44 percent smaller than grants from independent foundations. Thus, although CSFs are able to raise and disperse more funds in a given year, they also tend to distribute them in smaller amounts.

Model 5 shows that CSFs are also significantly less likely than independents to continue funding any specific grantee across the two years in the sample. On average, approximately 40 percent of the sampled recipients of grants from independent foundations in 2005 received additional grant support four years later, compared to roughly 28 percent for the CSF grantees. This result supports our fourth prediction.\(^{11}\)

The final models in table 3 consider how grant-making is distributed across nonprofit sectors and geographic regions. The results in models 6 and 7 suggest that there are no statistical differences in the propensity to grant to elite-oriented or social welfare nonprofits. The simple averages corroborate these insignificant coefficients. On average, the CSFs in the sample give 15.3 percent of their grant dollars to elite-oriented nonprofits and 26.5 percent to social welfare organizations. These figures compare with 15.2 percent and 23.3 percent for the independent foundations. We obtain a similar null result when we focus on the extent to which foundations grant to local (i.e., in-state) nonprofits in model 8. In this case, CSFs spend 68.9 percent of their funds on in-state nonprofits, while the independents spend 70.4 percent. Overall, we find no evidence of differences in the sector or geographic composition of grant-making between the two foundation types, and thus have no support for hypotheses 5 and 6.\(^{12}\)

\(^{11}\) The continuity measure may be driven in part by some foundations giving very few grants to the same smaller set of organizations over time. In this respect, higher grantee continuity among independent foundations might be due to them making fewer grants overall. However, in an unreported model, we found no difference in the estimated CSF effect on grantee continuity after adding a control for the total number of grants made in 2005.

\(^{12}\) In unreported variants of models 3 through 8, we added an additional control for the administration ratio. The finding (from model 3) that the two types of foundations spend different amounts on overhead might imply...
DISCUSSION AND CONCLUSION

There have been calls for more research into the role that corporations do and should play in the provision of social goods and services. This includes a focus on the linkages and relationships between corporations and nonprofit organizations (Galaskiewicz and Sinclair-Colman 2006; Marquis et al. 2011; Davis 2013). We heed these calls by spotlighting the actual resource flows through company-sponsored foundations to the nonprofits that work in the social sector.

Given their similar stated and fiduciary objectives, a plausible null hypothesis is that CSFs are no different than their independent counterparts. According to Hannan and Freeman (1986), “an organizational form gives unit character to a population of organizations.” If the population of philanthropic foundations in the United States has this unitary character – defined by having large amounts of wealth professionally managed to pursue specific social interests – then we should not expect to find behavior and performance differences between samples of company-sponsored and independent foundations. In fact, this is what we would conclude in the context of the sector and geographic distribution of grants made by the two types of foundations. Notwithstanding a plausible competitive logic that might lead CSFs to favor supporting elite-oriented and local nonprofits, we found no systematic differences across these two grantee distributions.

However, more nuanced intra-population examinations in other sectors have shown how seemingly similar populations of organizations can actually house multiple hybrid and quasi organizational forms, each with different behavioral tendencies (Ruef 2000). More

underlying differences in how grant-making decisions are made, which might confound the results that we report. However, we find the results are virtually unchanged from those reported in Table 3.
specifically, select studies have examined the implications of organizations that blend a social logic – e.g., that associated with the traditional norms of universities (Oliver and Montgomery 2000) or economic development organizations (Battilana and Dorado 2010) – with the logic that pervades the traditional market-based sector. These studies suggest that introducing the latter market-based logic and influence does have ramifications for organizational behavior.

Our findings resonate with these studies by revealing certain differences between company-sponsored and independent foundations. Sponsoring companies provide organizational platforms that allow CSFs to raise funds more effectively and to administer themselves with lower paid overheads. However, they are also imprinted by the profit-seeking orientation and corporate interests of their sponsors. This latter imprinting introduces additional motives for grant making that lead CSFs to give smaller grants and to have more ephemeral relationships with grantees.

These latter differences have tangible implications for the nonprofits that rely on foundations for support. Whereas more funds are made available by each CSF, any nonprofit that seeks grants from a CSF should expect a smaller grant with less chance of continued support over time. This creates problems for nonprofits that are seeking robust and reliable funding partners, especially in a climate wherein philanthropic supporters are tightening purse strings. On the other hand, because these CSFs tend to give in this more fluid and dynamic fashion, grant-seeking nonprofits without prior relationships to foundations have a greater chance of obtaining funds from a CSF compared to an independent foundation. In this way, the more varied access points to CSFs may help foster innovation and change by making some foundation funds more widely available.
The systematic differences that we have uncovered imply that the CSF may indeed be a distinct organizational form within the broader population of philanthropic foundations. Recognizing this fact moves the discussion of foundations from one that implies a unitary set of behavioral expectations (i.e., to raise and give funds for the betterment of society) to one that recognizes the different antecedent and therefore imprinting conditions that gave birth to and thus shaped the evolution of the distinct CSF organizational form. In particular, the logic that allows for-profit organizations to lend their resources and routines to philanthropic foundations comes with a corollary logic that blurs the boundary between societal and market objectives.

More generally, this analysis foreshadows a deeper appreciation of the implications of nonprofit sector rationalization that comes with more ‘businesslike’ approaches to the provision of social impacts. The nonprofit sector has been characterized in recent decades by its “sweeping moves toward importing business models and practices, which may transform charitable groups into more instrumental, purpose organizations” (Hwang and Powell 2009). Company sponsorship of philanthropic foundations may represent the cleanest example of this confluence of business and charity. If CSFs move to the forefront of the recent trend toward more rationalized forms of philanthropy, then our findings raise a cautionary flag about unintended consequences. The more obvious implications of more company sponsorship – i.e., greater fundraising effectiveness and organizational efficiency – seem unambiguously positive for organizations in the nonprofit sector. However, the more subtle effects – i.e., movements away from strategically and consistently supporting a smaller set of grantees – alter the traditional expectations that nonprofits have come to have in respect of this third pillar of philanthropic support. Perhaps more importantly, if independent
foundations aspire to resemble their company-sponsored counterparts due to the pressures of rationalization, then these subtle unintended consequences may become even more salient.

These possibilities clearly warrant further investigation, and our paper suggests several starting points for potential research agendas. If the observed differences between CSFs and their independent counterparts are due to the mechanisms that we propose (i.e., resource-sharing and the desire to appeal to a wider range of stakeholders), then we might expect to find further differences within a larger sample of CSFs. Larger companies or those with greater levels of slack might be better positioned to raise funds or administer their foundations more effectively due to the prospect of greater resource-sharing. On the other hand, companies with more diverse employees or those that operate in multiple sectors or geographies might be even more likely to give smaller grants and distribute them more broadly if our proposed stakeholder mechanism is indeed driving the results that we obtain. Moreover, if direct and indirect pressures from investors are indeed driving the observed differences in granting behavior, then focus might shift to whether company sponsors are public or privately-held. If privately-held company sponsors behave more like independent foundations than their publicly-held counterparts, we would have more support for the expectation that CSFs are indeed constrained by pressures from their profit-oriented shareholders. Finally, research conducted at a different level of analysis – e.g., the local community – might reveal further differences among CSFs based on the location of the sponsor’s headquarters or their ties to local elites (Marquis 2011; Galaskiewicz 1997; Useem 1984; Laumann et al. 1978). In this latter respect, it will also be interesting to determine whether the characteristics of these local networks have differential effects on decision-making within independent versus company-sponsored foundations.
Progress along these varied lines of inquiry will provide a more detailed response to Margolis and Walsh’s (2003) call by moving past the opening questions of whether and how corporate involvement has implications for the workings of the social sector, to addressing what kinds of corporations and contributions tend to deliver these different implications.
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Useem, M.

Vesterlund, L.

Ylvisaker, P. N.
<table>
<thead>
<tr>
<th>Variable Name</th>
<th>Definition</th>
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<tr>
<td>Funds raised</td>
<td>Dollars raised, logged</td>
</tr>
<tr>
<td>Administration Ratio</td>
<td>Administrative expenses ÷ (administrative expenses + total grant expenses)</td>
</tr>
<tr>
<td>Count of grants</td>
<td>Count of grants made in current year</td>
</tr>
<tr>
<td>Average grant size</td>
<td>Total grant expenses ÷ total number of grantees</td>
</tr>
<tr>
<td>Grantee continuity</td>
<td>Sampled grantees with grants in both years ÷ grantees with grants in 2005</td>
</tr>
<tr>
<td>Percent elite-oriented</td>
<td>Dollar value of grants to elite-oriented nonprofits ÷ total grant expenses</td>
</tr>
<tr>
<td>Percent social welfare</td>
<td>Dollar value of grants to social welfare nonprofits ÷ total grant expenses</td>
</tr>
<tr>
<td>Percent in-state</td>
<td>Dollar value of grants to same-state nonprofits ÷ total grant expenses</td>
</tr>
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### TABLE 2. Descriptive Statistics and Correlations (N=1,027)

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<th>Variable</th>
<th>Mean</th>
<th>Std. Dev.</th>
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<th>2.</th>
<th>3.</th>
<th>4.</th>
<th>5.</th>
<th>6.</th>
<th>7.</th>
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<th>9.</th>
<th>10.</th>
<th>11.</th>
<th>12.</th>
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<td></td>
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</tr>
<tr>
<td>2. Foundation age</td>
<td>11.49</td>
<td>10.92</td>
<td>-0.01</td>
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<tr>
<td>3. Year = 2009</td>
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<td>-0.01</td>
<td>0.16</td>
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<td>4. Total expenditures</td>
<td>11.34</td>
<td>1.90</td>
<td>0.18</td>
<td>0.12</td>
<td>0.01</td>
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<td>5. Assets</td>
<td>12.65</td>
<td>3.19</td>
<td>-0.08</td>
<td>0.17</td>
<td>0.12</td>
<td>0.49</td>
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<td>6. Funds raised</td>
<td>6.32</td>
<td>5.90</td>
<td>0.29</td>
<td>-0.08</td>
<td>-0.15</td>
<td>0.27</td>
<td>-0.16</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>7. Administration Ratio</td>
<td>0.13</td>
<td>0.17</td>
<td>-0.23</td>
<td>0.07</td>
<td>0.04</td>
<td>-0.14</td>
<td>0.09</td>
<td>-0.19</td>
<td></td>
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<tr>
<td>8. Count of grants</td>
<td>58.62</td>
<td>309.55</td>
<td>0.12</td>
<td>0.07</td>
<td>0.00</td>
<td>0.30</td>
<td>0.13</td>
<td>0.17</td>
<td>-0.05</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Average grant size</td>
<td>8.60</td>
<td>1.50</td>
<td>0.02</td>
<td>-0.03</td>
<td>0.01</td>
<td>0.63</td>
<td>0.31</td>
<td>0.08</td>
<td>-0.16</td>
<td>-0.04</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>10. Percent elite-oriented</td>
<td>0.15</td>
<td>0.25</td>
<td>0.00</td>
<td>0.09</td>
<td>0.02</td>
<td>0.15</td>
<td>0.07</td>
<td>0.01</td>
<td>-0.05</td>
<td>0.09</td>
<td>0.01</td>
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<td></td>
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<tr>
<td>11. Percent social welfare</td>
<td>0.250</td>
<td>0.30</td>
<td>0.05</td>
<td>-0.02</td>
<td>-0.01</td>
<td>0.07</td>
<td>0.09</td>
<td>0.00</td>
<td>0.01</td>
<td>0.00</td>
<td>0.02</td>
<td>-0.17</td>
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<tr>
<td>12. Percent in-state</td>
<td>0.70</td>
<td>0.37</td>
<td>-0.02</td>
<td>-0.03</td>
<td>0.00</td>
<td>-0.07</td>
<td>-0.04</td>
<td>0.06</td>
<td>0.08</td>
<td>-0.12</td>
<td>-0.05</td>
<td>0.10</td>
<td>0.06</td>
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<tr>
<td>13. Grantee continuity&lt;sup&gt;a&lt;/sup&gt;</td>
<td>0.35</td>
<td>0.31</td>
<td>-0.18</td>
<td>0.05</td>
<td>-</td>
<td>0.03</td>
<td>0.14</td>
<td>-0.09</td>
<td>0.02</td>
<td>0.04</td>
<td>0.16</td>
<td>0.06</td>
<td>0.00</td>
<td>0.10</td>
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<sup>a</sup> N = 498
### TABLE 3. Regression Results

<table>
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<tr>
<th></th>
<th>Model 1&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Model 2&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Model 3&lt;sup&gt;b&lt;/sup&gt;</th>
<th>Model 4&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Model 5&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Model 6&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Model 7&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Model 8&lt;sup&gt;a&lt;/sup&gt;</th>
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</thead>
<tbody>
<tr>
<td><strong>Funds Raised</strong></td>
<td>-0.051***</td>
<td>0.839***</td>
<td>-0.437***</td>
<td>-0.118***</td>
<td>-0.013</td>
<td>0.023</td>
<td>-0.022</td>
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<tr>
<td></td>
<td>(0.439)</td>
<td>(0.150)</td>
<td>(0.121)</td>
<td>(0.030)</td>
<td>(0.020)</td>
<td>(0.024)</td>
<td>(0.030)</td>
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</tr>
<tr>
<td><strong>Foundation age</strong></td>
<td>-0.023</td>
<td>0.000</td>
<td>0.022***</td>
<td>-0.019**</td>
<td>0.001</td>
<td>0.001</td>
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<tr>
<td></td>
<td>(0.035)</td>
<td>(0.001)</td>
<td>(0.007)</td>
<td>(0.009)</td>
<td>(0.002)</td>
<td>(0.001)</td>
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<td><strong>Year = 2009</strong></td>
<td>2.032***</td>
<td>-0.002</td>
<td>-0.047</td>
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<td>-</td>
<td>0.009</td>
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<td></td>
<td>(0.456)</td>
<td>(0.013)</td>
<td>(0.060)</td>
<td>(0.063)</td>
<td>(0.018)</td>
<td>(0.022)</td>
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<tr>
<td><strong>Total expenditures (log)</strong></td>
<td>0.024***</td>
<td>0.398***</td>
<td>0.682***</td>
<td>0.019</td>
<td>0.010</td>
<td>0.016*</td>
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<td></td>
<td>(0.007)</td>
<td>(0.045)</td>
<td>(0.073)</td>
<td>(0.013)</td>
<td>(0.008)</td>
<td>(0.009)</td>
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<tr>
<td><strong>Assets (log)</strong></td>
<td>-0.158</td>
<td>0.013***</td>
<td>-</td>
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<td>-</td>
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<tr>
<td></td>
<td>(0.103)</td>
<td>(0.004)</td>
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<tr>
<td><strong>Constant</strong></td>
<td>9.594***</td>
<td>0.285**</td>
<td>-1.448*</td>
<td>0.953</td>
<td>-0.105</td>
<td>-0.030</td>
<td>-0.171*</td>
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<td></td>
<td>(3.588)</td>
<td>(0.125)</td>
<td>(0.755)</td>
<td>(1.128)</td>
<td>(0.129)</td>
<td>(0.112)</td>
<td>(0.093)</td>
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<td><strong>Observations</strong></td>
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<td>1,027</td>
<td>1,027</td>
<td>1,027</td>
<td>498</td>
<td>1,027</td>
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<tr>
<td><strong>Adj. R-squared</strong></td>
<td>0.156</td>
<td>0.133</td>
<td>-</td>
<td>0.589</td>
<td>0.209</td>
<td>0.159</td>
<td>0.117</td>
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<td><strong>State Fixed Effects</strong></td>
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<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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</table>

<sup>a</sup> Probability-weighted ordinary least squares regression with error terms clustered on foundation and state fixed effects

<sup>b</sup> Probability-weighted negative binomial regression with error terms clustered on foundation and state fixed effects

* p<0.1, **p<0.05, ***p<0.01
APPENDIX. Regression Results from All Foundations in 2005 and 2009

We assembled most of the information required to estimate the first two models, the ‘Funds Raised’, and ‘Administration Ratio’ models, on the complete roster of independent and company-sponsored foundations operating in 2005 and 2009 (information for the assets variable were not readily available). As the table below demonstrates, the estimated CSF effects are similar in the overall and reduced random and matched samples.

<table>
<thead>
<tr>
<th>Model A1*</th>
<th>Model A2*</th>
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<tr>
<td><strong>Funds Raised</strong></td>
<td><strong>Administration Ratio</strong></td>
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<tr>
<td>Company-sponsored</td>
<td>4.112***</td>
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<td>Foundation age</td>
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<td>Total expenditures (log)</td>
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<td>Constant</td>
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