

ABSTRACT

MANDEVILLE, JOHN ARTHUR. Strategic Investment: Philanthropic Influence in Public Policy. (Under the direction of James H. Svara.)

Each year private philanthropic foundations allocate millions of dollars through thousands of grants to influence public policy. Due to legal restrictions, direct foundation involvement in public policy is limited. Foundations serve as sponsors for other nonprofit organizations that act as policy agents within policy systems. The long-term effectiveness of nonprofit policy agents is enhanced by development of the organization's operational capacity. Well-managed, and well-funded organizations that can effectively convey information to policy makers can be effective policy agents.

This research explores public policy grant maker funding for the capacity development of policy agents. Three dimensions of capacity development are considered. These dimensions are (1) research and communication capacity, (2) resource acquisition capacity, and (3) management and governance capacity. It is hypothesized that foundations engage in holistic investment in the capacity of policy agents. Holistic investment involves grant maker support for the comprehensive development of all dimensions of policy agent capacity. Consideration is given to the attributes of public policy grant makers that provide funding for capacity development. The grant making records of 407 public policy grant makers for awards made around the year 2000 are considered in this research.

The study concludes that holistic investment in policy agent capacity is not a wide spread practice among public policy grant makers. There is no clear pattern of grant maker support for the comprehensive development of grantee capacity. Public policy grant making is influenced by foundation wealth and the number of staff employed by the foundation. Social acceptance of policy issues also appears to influence funding for capacity

development. Foundations that have an interest in funding policy in less controversial policy areas such as art and culture, education, and health are more likely to support capacity development. Public policy grant makers that provide support in more controversial areas such as social action, the rights and needs of disadvantaged groups, civil rights, advocacy, and community improvement are less likely to provide support for capacity development.

Strategic Investment: Philanthropic Influence in Public Policy

by
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DEDICATION

This work is dedicated to my father, the late Victor J. Mandeville (1921 – 2003). His personal commitment to his role as a parent laid the foundation for my achievements in all aspects of my mortal life. Within the context of my life, Victor's sacrifice stands second only to the sacrifice of our Lord, Jesus Christ. In emulation of Victor's sacrifice as a parent, I have placed the academic achievement represented by this document beneath the importance of raising two children. Now, as my children have passed to adulthood, the personal goal of the completion of study leading to the Ph.D. has been achieved.

BIOGRAPHY

John Mandeville was born in New Bedford, Massachusetts, on September 28, 1952. He spent the first twenty-six years of his life as a resident of New England. After the completion of his undergraduate study at the University of Massachusetts at Dartmouth, John attended North Carolina State University. In 1978 he earned his Master of Science Degree in Sociology at NCSU. While in graduate study at NCSU he met his future wife Wanda J. Strickland. As parents, the Mandeville's have raised two successful and happy children.

At the age of 47, with parenting responsibilities behind and a successful career in government drawing to a conclusion, John returned to North Carolina State University in pursuit of the degree of Doctor of Philosophy in Public Administration. With the completion of the degree, John has fulfilled a personal challenge that has remained since his withdrawal from doctoral study at Brown University in 1978 in order to devote time to his family. A challenge remains to use hard earned education skills and life experience to promote the growth of wisdom and knowledge among young people in higher education.

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As I complete this work, I must acknowledge the patience, support, and wisdom of many individuals.

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Chapter One: Introduction

The Aspen Institute has referred to philanthropic foundations as private institutions that are required to serve a public purpose (Philanthropy ... 2002, p. 5). The public purposes of philanthropy have often intruded into the domain of public policy making. During the first half of the twentieth century a few large foundations, established by wealthy industrialists, played a dominant role in the development of national policy. Presidents Woodrow Wilson and Herbert Hoover became masters in the use of foundation support to funding activities that would not be acceptable to Congress (Karl and Karl, 1999, 62). Congress also used foundation resources to explore policy areas that were politically sensitive (Karl and Karl, 1999, 58). Despite the “cozy” association between the foundation community and government, public scrutiny, particularly from Congress has produced regulatory constraint upon the role of philanthropy in the public policy process. This scrutiny has also produced caution among foundations that choose to become involved in potentially controversial policy issues (Magat, 1979, 31). In response to scrutiny, foundations have learned to strategically invest in non-profit “policy actors” that act in their interests in policy systems. Through a process of cultivating and promoting non-profit agency capacity foundations have maintained an active role in the public policy process.

Private philanthropy in the United States is deeply involved in promoting initiatives to affect public policy. In 1998, American foundations made over 9,500 awards to charitable organizations, worth over \$1 billion, for grants in the area of public policy and public affairs (“Grant\$ for ...”, 1999, ix). The magnitude of grant making in this field suggests that involvement in policy formation process is important to foundations. Research

suggests that foundations have learned to creatively exploit their resources through the strategic investment of grant making resources, careful staff management and organizational networking to work within the legal constraints that are applied to them under federal law. The current state of foundation involvement in the policy process is the product of a long and evolved process of philanthropic initiative and Congressional oversight. Throughout the course of the history of American foundations there have been repeated incidents of Congressional investigation into the actions of these organizations.

Congressional Concern

The influence of foundations upon public policy has been the subject of numerous government reviews. Congressional review demands the attention of foundations. The concerns of Congress are important to philanthropists (Dowie, 2001, 17). Due to privilege of tax-exempt status provided by law and ability of Congress to increase regulation by the Internal Revenue Service, foundations are wary of attracting the attention of lawmakers. Throughout the twentieth century there have been frequent efforts by Congress to monitor foundation activity and restrict its influence in the public policy process.

On August 13, 1912, Congress established the Commission on Industrial Relations, known as the Walsh Commission, to review labor unrest in the United States. The Ludlow Massacre, which occurred on April 20, 1914, captured the attention of the Commission. Forty people died during the tragic clash between mineworkers and owners (Brilliant, 2000, 11). Scrutiny of the Rockefeller family's involvement in the event led to an investigation of the use of the family foundation to suppress support for miners. The Walsh Commission recommended that severe restrictions be placed upon foundations including a restriction on

Table 1.1 Overview of the History Congressional Oversight of Foundations

<u>Year</u>	<u>Event</u>
1912	Congress establishes the Walsh Commission on Industrial Relations to oversee labor unrest.
1914	The Ludlow Massacre occurs at a mine owned by the Rockefeller family. Forty people die. The Walsh Commission implicates the Rockefeller Family Foundation as an agent in the suppression of miner activism. Commission recommendations include restrictions on foundation establishment, limitations upon the term of their existence, and the imposition of public reporting requirements.
1951	A Congressional select sub-committee chaired by Congressman E. Eugene Cox investigates allegations of anti American activity of several foundations. The foundations are absolved of communist involvement
1953	Representative Carroll Reece continues the work of the Cox Committee. Reece’s “Special Committee to Investigate Tax-Exempt Foundations and Comparable Organizations” questioned the role of foundations in promoting the spread of communism. Congressional concern with the role of foundations in policy is intensified.
1961	Wright Patman begins a series of Congressional reviews of foundation activities that continues until 1969. This scrutiny is accompanied by a review of foundations by the Treasury Department.
1967	In response to foundation concern regarding the growing scrutiny of Congress and the Treasury Department, John D. Rockefeller III attempts to mobilize foundation interests in order to protect the privileges of private philanthropy.
1969	Congress passes The Tax Reform Act of 1969. For the first time, Congress imposes substantial regulation of foundation activities.
1969	Rockefeller and other leaders of private philanthropy establish the Commission on Foundations and Private Philanthropy, led by Peter Peterson. The Peterson Commission, as it becomes known, seeks to build relations with Congressional leaders. The commission fails to derail the Tax Reform Act of 1969.
1974	Following the dissolution of the Peterson Commission, efforts by Rockefeller lead to the establishment of the Commission on Private Philanthropy. John Filer a nationally respected businessman heads the Commission. The Filer Commission promotes research and advocacy that leads to the formation of interests that represent philanthropy and non-profit organizations today.
1976	The National Committee for Responsive Philanthropy is founded from a group of concerned leaders of the non-profit sector that is critical of the Filer Commission. Today this group is an outspoken critic of conservative foundation involvement in public policy.
1980	The Coalition of Voluntary Organizations and the National Council on Philanthropy merge to form the Independent Sector. Today the Independent Sector promotes research and advocacy for foundations and for the non-profit sector.

the life span of a foundation, requirements for public reporting, and the imposition of continuing Congressional oversight of their activities (Brilliant, 2000, 11).

The recommendations of the Walsh Commission surfaced again in the 1950's. During the McCarthy era, inquiries concerning un-American behavior, the Cox and Reece Commissions carefully reviewed the activities of several large American foundations. In 1951 a Congressional select sub-committee chaired by Congressman E. Eugene Cox investigated the alleged actions of several foundations. The Cox Committee absolved the foundations that they investigated from any wrongdoing (Brilliant, 2000, 14). Later, in 1953, Representative Carroll Reece was given Congressional approval to continue the work initiated by the Cox Committee. Reece's "Special Committee to Investigate Tax-Exempt Foundations and Comparable Organizations" questioned the role of foundations in promoting communism. Reece did not ask any foundations to testify before the Commission (Brilliant, 2000, 15). While the Reece Commission absolved the foundation sector of wrong doing, the intense scrutiny it provided reflected growing Congressional concern with the potential for foundation influence, in the policy process. This concern produced regulatory action during the late 1960's.

In 1961, Congressional scrutiny of foundation activity was renewed. Wright Patman engaged in a critical review of foundation activity that was not expected by the foundation community (Brilliant, 2000, 26). Patman was intensely concerned with the special privileges that were enjoyed by rich philanthropists. He continued his investigation of foundations throughout the 1960's. Patman's review was complimented by a Treasury Department review of foundation activity. After completing its review, the Department issued a series of recommendations that included: (1) limiting foundation self dealing, (2)

restricting the accumulation of income, (3) restricting the involvement of foundations in for profit enterprise, and (4) promoting diversity on foundation boards. These recommendations led to the passage of the Tax Reform Act of 1969 that overhauled federal involvement in the regulation of foundations.

The Tax Reform Act of 1969 was the product of previous Congressional investigations into foundation giving. It represented the first serious effort by government to restrict foundation activity. The restrictions included:

- (1) Requirements that foundations give at least 6% of their endowment each year,
- (2) Requirements that foundations that provide more than 33 percent of another non-profit organization's funding assume additional managerial and reporting requirements for the funding, and
- (3) The imposition of severe penalties for direct activities or the provision of grant funding that was intended to influence legislation or elections.

The Internal Revenue Service complimented the tougher oversight by imposing more restrictive definitions of lobbying on foundations. These actions and the critical review that foundations endured during the 1950's and 1960 have provided a stimulus for efforts to formally organize the foundation sector.

Organizing the Field

During the 1960's, foundations made efforts to respond to increasing scrutiny by Congress and the Treasury Department. John D. Rockefeller III served as a leader for the organization of foundation interests. Rockefeller asserted that "foundations should also associate themselves in fact ... what I have in mind is an association with wider membership and more comprehensive objectives which can gain the active support of foundations

generally” (Brilliant, 2000, 46). He emphasized the necessity for forming an association that would promote the effectiveness of private foundations and represent the interests of foundations before Congress and the public. During the years of the Patman inquiries, Rockefeller actively served as a lobbyist for foundation interests with Congress and the President (Brilliant, 2000, 48).

To encourage foundation interests and promote a greater public awareness of their contributions to public policy, Rockefeller stimulated the formation of a series of private commissions. In 1967, Rockefeller met with Alan Pifer, President of the Carnegie Corporation, Oscar Ruebhausen of the Russell Sage Foundation, and Julius Stratton of the Ford Foundation to discuss the formation of a commission of non-foundation notables for the purpose of review foundation self-policing activities (Brilliant, 2000, 58). The Commission on Foundations and Private Philanthropy, headed by Peter Peterson, was established in 1969. The “Peterson Commission” was established with the formal encouragement by Congressional leaders such as the powerful Senator Russell Long. While the Peterson Commission failed to have an immediate impact on the considerations of Congress, it raised foundations’ awareness of the vulnerability of the sector to Congressional intrusion the need to protect its interests. The Peterson Commission’s final report concluded that “Foundations ... have been an easy and convenient target for politicians who, in order to prove their zeal as guardians of the Republic, need a threat or a conspiracy to expose” (Brilliant, 2000, 87).

In May, 1974, the Commission on Private Philanthropy and Public Needs was established to fill the void remaining from the disbanding of the Peterson Commission. The Commission on Private Philanthropy was informally named “The Filer Commission” in

reference to its chairman, John Filer, the Chief Executive Office of the Aetna Life and Casualty Company. During its formation, John D. Rockefeller III and his staff provided considerable assistance and support to the Filer Commission. Under Filer's leadership, the Commission actively encouraged philanthropic research and worked with Congressional staff to defend foundation interests. Among the interests it promoted were the protection and expansion of charitable tax benefits and the expansion of foundation lobbying privileges (Brilliant, 2000, 130). Despite the wide-ranging influence of the Filer Commission, it also drew criticism from within the foundation community.

In January, 1975, the Grantsmanship Center News published an article by Pablo Eisenberg that sharply criticized the Filer Commission for ignoring the interests of social activist groups. In response to this criticism, the Filer Commission formed a "Donee Group", headed by Eisenberg. The Donee Group addressed foundation involvement with issues such as women's rights and minority affairs. After the dissolution of the Filer Commission, the Donee Group formally incorporated to establish the National Committee on Responsive Philanthropy (NCRP) (Brilliant, 2000, 136). The NCRP continues to serve as a critic of organized philanthropy.

On March 5, 1980, the Coalition of Voluntary Organizations and the National Council on Philanthropy, merged to form the Independent Sector. Upon its formation, the Independent Sector was charged with continuing the mission of the Filer Commission. In addition to promoting the interests of philanthropy, the Independent Sector also represents the interests of non-profit organizations in the United States. This organization, in contrast to the social activist approach of the NCRP, represents the traditional interests of philanthropy and the non-profit sector.

Despite efforts to formally organize philanthropic interests, substantial federal restrictions continue to limit the role of foundations in the process of public policy development. The intent of these restrictions is to limit the imposition of private interest in public affairs.

Overcoming Legal Hurdles

Private philanthropic foundations are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Service Code. Under federal law, private philanthropic foundations are prohibited from engaging in the influence of public policy through most types of lobbying (Harmon, 1995, 13). Foundations may not spend money for lobbying, electioneering or grass roots campaigns (Roelofs, 2003, 15). The Internal Revenue Service Code allows foundations to engage in and fund four types of lobbying related activities.

- (1) Nonpartisan Analysis, Study, or Research: Activities that refer to or reflect specific legislation are not considered to be lobbying if they constitute a non-partisan analysis of an issue or proposed policy.
- (2) Examinations and Discussions of Broad Social, Economic, and Similar Issues: Such examinations must address the general public, members of legislative bodies or government employees on general topics.
- (3) Responses to Requests for Technical Assistance or Advice: Such communication must be in direct response to a written request by a legislative body, committee, or subcommittee, and must be made available to all members of that body.
- (4) Self Defense Communications: Such communication must be directed to a legislative body regarding possible actions of that body which could affect

the existence, powers, duties, or tax-exempt status of the organization (Harmon, 1995, 30).

Additional limitations on foundations include restrictions upon the types of organizations that foundations can give grants to. Foundations may not make grants to social welfare organizations that are classified as 501 c4 organizations under the Internal Revenue Service Act. Donor contributions to such groups are not tax exempt. These groups have greater freedom to engage in lobbying activities than foundations or charitable non-profit organizations that are classified as 501 c3 organizations (Roeloffs, 2003, 16).

Foundations that violate legal and regulatory restrictions upon the exertion of influence in public policy and partisan politics are at risk of severe penalty. The greatest threat to a foundation is the termination of its privileged tax-exempt status. Tax-exempt status allows foundations to receive, manage, and award funding that is exempt from government taxation. In the presence of violation of the restrictions that are placed upon foundations, the Internal Revenue Service can impose overwhelming financial and legal penalties. The loss of assets due to taxation and penalty and the loss of tax-exempt donations can have a financially crippling effect upon a foundation.

In the presence of imposing federal regulation and enduring Congressional scrutiny, American foundations continue to engage themselves in efforts to affect public policy. The interests of the foundation sector are reflected in the work of Jane Mavity and Paul Ylvisaker. Mavity and Ylvisaker served as researchers for the Filer Commission. They view American philanthropy as a form of private government

without the formal controls of the electoral process (Nagai, 1991, 6). In their work, Mavity and Ylvisaker identified four purposes for foundation involvement in the development of public policy (Mavity, 1977, 801): (1) Improving the process and competence of government, (2) Helping define and clarify public issues, (3) Helping ensure rights and participation in government and society for all, and (4) Improving the responsiveness of the private sector to public needs.

Federal law has prohibited private foundations from engaging in most types of lobbying. Despite this limitation, Mary Anna Culleton Colwell maintains that "it is a fiction that foundations do not advance political interests" (1993, 52). In fact, even in the presence of strong legal restrictions, private foundations have developed numerous strategies that help them to influence policy making.

Avenues to Influence

There are several ways in which foundations use grant funding to influence public policy making. These include the direct provision of financial assistance to government, research and public awareness activities, litigation, and support to charitable non-profit organizations that engage in the promotion of policy related activities. Several strategies are described below.

Foundations have awarded demonstration grants to social action groups with the intent to affect public policy. In the 1950's, the Ford Foundation began funding for social action groups with the intent of impacting government practice. Their approach involved identifying a social problem, finding a solution to the problem, identifying or establishing a non-profit organization to complete a demonstration project and then passing the project on to government to maintain and expand (Colwell, 1993, 59). The Ford Foundation used this

approach in the 1960's when it established the "Public Affairs Program." This program led to the establishment of Inner City Community Action Agencies, a new type of government agency. These agencies became the cornerstone of President Lyndon Johnson's "War on Poverty" (Nagai, 1994, 27). The establishment of experimental programs through grants in aid is a strategy that has been heavily employed by foundations that are interested in issues involving social welfare and human rights.

Information is a useful tool for persuading both elected policy makers and administrators to make preferred decisions. The products of sponsored policy research are often useful as a tool in the influence process. Foundation funding is frequently employed to "create" information that is useful in the persuasion process. Funding for non-partisan research related to the interests of supporting foundations provides information that can be fed to governmental representatives and elected officials. During a two-year period studied by researchers for the National Committee for Responsive Philanthropy a group of foundations was found to have provided over \$88 million to universities for the completion of public policy research (Covington, 1997, 7). These same foundations provided another \$80 million to "think tanks" (Covington, 1997, 13). Conservative foundations engage in targeted research more frequently than liberal ones. Foundations often provide large amounts of operational support to "friendly" research agencies (Covington, 1997, 6). Well-researched and "pointed" information can be provided to government representatives who are supportive of the interests of a funder.

Foundations utilize the information that is created through subsidized research to educate policy makers and advocate for particular viewpoints. The use of this information includes presenting expert testimony before Congress and state legislatures. This

information is also useful for public education, and the publication of the “non partisan” analysis of ballot issues. Forms of advocacy, which border on the definition of lobbying, are also supported. Planning, particularly that which occurs in legislative bodies is subject to influence by expert knowledge provided by research groups that receive foundation funding. Expert testimony before Congress and state legislatures provides both government and elected officials with input, which reflects the perspectives, that funders prefer (Zehr, 2000, 5). Other less endowed groups lack the “expert” information needed to combat this input.

The education of the public is intended to shape public opinion and mobilize individual and collective action to influence public policy making decisions. These forms of activity fall short of legally sanctioned lobbying and represent lobbying in an indirect form (Reid, 1997, 297). Foundation funding from the Ford Foundation and the David and Lucille Packard Foundation for the development and dissemination of information concerning the French abortion pill, known as RU-486, was instrumental in influencing the political process that led to its approval by the Food and Drug Administration (Zehr, 2000, 6). The Heritage Foundation, a foundation funded conservative think tank, works with commercial publishers to produce publications from its research for public education (Zehr, 2000, 6).

Grants for litigation produce legal challenges to law and the policies of government agencies. Such litigation is not construed as an attempt to affect the passage of legislation, rather, it represents a test of the constitutionality of already passed legislation. Such challenges occur at both the federal and state levels. In 1996, the Seattle based Center for Environmental Law and Policy with support provided by the Bullitt Foundation, successfully challenged water rights decisions that approved by the Washington State

Department of Natural Resources. The litigation resulted in changes to state policy that immediately affected 140 other pending water rights cases (Zehr, 2000, 4).

Another strategy that is used to influence policy involves the award of grant funding to government. Foundations have made major grant awards to state agencies. These awards are frequently made with minimal coordination with state legislatures. In exchange for grant support, state agencies provide promise of substantial program changes. In one initiative, promises of grants totaling nearly \$25 million were made to Pennsylvania by the Robert Wood Johnson Foundation (McMenamin, 1996, 125). When Pennsylvania's Department of Public Welfare applied for funding from the Annie Casey Foundation in 1992, it was directed by the foundation to enter into a contract with Philadelphia County, a conflict of the states competitive bidding process. In 1996, a select subcommittee of the Pennsylvania House of Representatives charged the executive branch with expanding "existing government programs, all without the informed consent of the General Assembly" (Gurwitt, 1998, 18).

Despite the scrutiny of Congress, foundations have crafted numerous tools that can be used to influence the public policy process. Brent S. Andersen has characterized foundations as "outsiders" who look in on the policy process, select a policy issue of salience to them, and then use their tools of influence to put those issues on the political agenda (2002, 219). Once they immerse in a policy area, foundations are characterized as "trustees" who embrace and support interest groups with conforming policy interests (Andersen, 2002, 142). As trustees, foundations as investment managers engaged in the strategic investment of their grant making resources. Much like business investors, foundations carefully manage the distribution of grant support. Through strategic

investment foundations develop capacity within a policy field to guide the policy making process toward favored policy outcomes.

Chapter 2: Foundations as Investors

In 1969, a sixty year history of Congressional scrutiny of foundation activities culminated with the passage of the Tax Reform Act. The Act was the product of ongoing investigations of foundation affairs by the Patman Commission and the Internal Revenue Service. With the passage of the Tax Reform Act numerous restrictions were placed upon foundations, including limitations concerning self-dealing, a tax on foundation earnings, and a requirement that foundations award at least 6% of their asset value each year in grant awards. Later, strong legislation was enacted which greatly restricted foundation lobbying privileges. Strong action by Congress prompted foundations to turn toward charitable non-profit organizations as agents of influence in public policy. These organizations have much more freedom than foundations to influence the public policy process.

Lobbying by foundations and direct foundation support for lobbying activities by other agencies is prohibited by federal law and regulation (Harmon, 1995, 13). Less stringent rules concerning lobbying are applied to non-profit charitable organizations. Under IRS rules, charitable organizations may select one of two options that define their lobbying limits. These organizations may elect to apply an expenditure test under section 501(h) of the IRS Code. Organizations that elect this option may expend up to 20% of the first \$500,000 of their budgeted funds for lobbying activities (Harmon, 1995, 15). Additional sums may be spent by larger organizations. Charitable non-profit organizations may also choose to apply an “insubstantial part test.” This approach allows charitable non-profits to engage in lobbying as long as such efforts do not constitute a substantial part of the organization’s activities. The IRS has failed to clearly define the criteria for the application

of the insubstantial part test. Because non-profit charitable organizations are subject to less stringent limits on lobbying, they are often funded by foundations to engage in the policy development process.

Charitable non-profit organizations represent a valuable resource for foundations. Lobbying restrictions force foundations to remain as outsiders to systems of public policy making (Andersen, 2002, 95). Despite their outsider role, foundations possess important assets that make them potent players in policy systems. Due to their status as private organizations, foundations possess the autonomy to operate outside of the domain of public affairs. They are free to promote policies and initiate actions that may not be consistent with traditional public sector norms. In addition to autonomy, foundations also possess the financial resources that are needed to initiate efforts to change policy. As outsiders, foundations invest their resources in non-profit organizations that serve as “policy actors” between the policy system and themselves.

In the role of “policy actor” non-profit organizations effectively interact in policy systems to influence the processes of agenda setting, control policy discussions, and promoting policy options that are favored by their sponsors. The concept of middle-men who serve as intermediaries in the policy system between policy makers and sponsors was developed by Terry Moe. Moe characterizes these entities as having the ability to engage in public policy directly or indirectly for others (Moe 1980, 45). Since a foundation’s grant making ability is its greatest resource, it must be carefully employed to obtain the services of qualified policy actors. Policy actors are recruited through the grant award process. Grant awards are provided to obtain services from either established charitable non-profit

organizations or organizations that are cultivated by the foundation to engage in the policy process.

As outsiders to a policy system, foundations adopt the role of investment manager for a selected group of organizations that work to promote grantor goals. The investor role involves careful investment and management that promotes favored policy outcomes. Each foundation is guided by its unique policy goals. In 2002, Brent Andersen interviewed staff from 41 public policy grant making foundations. Over two-thirds of those interviewed indicated that their organizations had clear policy goals (Andersen, 2002, 182). These goals shape foundation actions to build influence in a policy system.

Each foundation represents a small, highly motivated and cohesive group that is driven by a common set of expectations. Andrew S. MacFarland, who has synthesized the work of Mancur Olson and Theodore Lowi and others, provides a conceptual framework that provides insight regarding how such groups effectively exert influence in a policy system (McFarland, 1987, 130). The principles incorporated into McFarland's synthesis are summarized below.

1. Widely shared interests held by large groups will not be organized, because it is not economical to organize them.
2. When an interest group representing large numbers of people produces collective benefits, members lose incentive to contribute to the maintenance of the group (free rider problem). This is especially true of large groups.
3. The interests of a few are less prone to high organizational costs therefore, the few tend to be better organized when they share an interest.

4. Unorganized publics are prone to irrational perceptions of political reality that dissuade organized action, while political groups that consist of a few corporations following rational strategies will defeat the interests of those large unorganized publics.
5. Well organized special interests will manipulate the context of political conflict to prevent public interests from manifesting themselves in the conflict.
6. The fragmented nature of the American political system helps the few defeat the many.
7. Members of Congress have created a complex bureaucracy that requires that members of Congress assist their constituency with its negotiation, therefore insuring the popularity of the member of Congress and assuring their place in the special interest coalition that establishes policy.
8. Vaguely written laws provide opportunities for special interests to redirect their implementation.
9. Existing subsidies for existing interest groups limit the influence of newly emerging interest groups.
10. Some policy areas are characterized by pluralism while others are characterized by elite dominance.
11. Highly autonomous bureau level administrators, institutionalized interest groups, and legislative committees dominate policy development through a system of sub governments.

12. Coalitions representing the loosely organized interests of large groups occasionally win policy battles, only to be overcome as their support wanes and sub government coalitions reestablish themselves.

13. Ideology of interest group liberalism creates the false belief that people can express their interests and effect policy. Political reality reflects the predominant expression of the interests of the organized elites.

This description provides some insight concerning the development of highly organized and well-developed foundation centered interest groups and the limited success of other groups that lack highly structured organization, long-term cohesion, and provident financial resources. McFarland's synthesis reflects the ideas found in Theodore M. Lowi's work, The End of Liberalism.

Lowi argues that the American political system has become dominated by distributive politics (Lowi, 1969, 289). Public policy in this system is the product of interactions between legislative subcommittees, bureaus, and cohesive interest networks. The interest of small cohesive groups centered on elite-driven foundations, can effectively organize and promote their desires within the autonomous system of sub governments. The long term strategic investment of foundations allow for the continuing development and maintenance of widespread and influential relationships with policy makers in legislative and executive bodies.

Interest groups that lack cohesion, structure, and ongoing leadership are characterized by a limited capacity to provide ongoing influence in a policy system. These groups lack a strong unity of membership, frequently due to the absence of commitment of the large numbers of potential members and problems with free

riders. Such groups are often loosely organized and frequently disperse after the culmination of a specific event. Once such groups demobilize through attrition and lack of interest, it is difficult to bring about a new mobilization. Groups lacking cohesive and long lasting influence in a policy system are often resource starved. Access to financial resources and other forms of support is frequently limited. The public policy research of Jack Walker has demonstrated that investment by sponsors, such as foundations, can promote the mobilization of interests that might otherwise be difficult to organize (Walker, 1991, 50).

Through strategic investment foundations develop influence in a policy system. Strategic investment occurs when the foundation invests its resources for the purpose of building the capacity of a diverse array of policy actors within a policy system that can provide ongoing influence in the policy process. Groups that represent the interests of foundations also represent the interests of the leadership of those sponsoring organizations. Foundations, as investors in a policy system, strategically invest in organizations to maximize effective influence. Foundations that practice strategic investment actively interact with their funding recipients to enhance their effectiveness. The foundation investor serves as a hub for communication, financing, and organization among affiliated interests within a policy system.

Beth Mintz and Michael Schwartz suggest that organizations that serve as the financial hubs of multi organizational networks play important roles in the coordination and planning of network activities and are central points for the management of network communication (Mintz, 1981, 855). In addition to the financial assistance provided to other

organizations, coordinating entities are central to a system supported through the allocation of grant funding. Grantors employ staff resources, consultant support, and other forms of assistance to enhance the effect of their strategic investment in a policy system.

Staffing for foundations makes a difference in how a foundation operates. Staff are key actors in the philanthropic process, despite the influential role of the board of trustees (Colwell, 1993, 157). Congress has recognized the important role played by staff. In 1952, the Cox Committee, headed by Representative Eugene Cox of Georgia, recommended that close scrutiny be applied to the role of foundation staff. Following the guidance of Representative Cox, the Reece Commission recommended that foundations cut their staff size and give up using intermediary organizations to perform foundation functions (Magat, 1979, 31).

Building institutional support for a cause is a common practice among large foundations such as the Ford Foundation, the nation's largest public policy grantor (Magat, 1979, 47). Some of the ways that foundation staff promotes the development of external institutional support include: (1) building and improving new organizations, (2) generating and disseminating knowledge and information relative to the institution, (3) developing skills, talent, and abilities among actors in the institution, and (4) stimulating support from other sources (Magat, 1979, 47).

Foundation staff can exert a leading role in the planning, development, and establishment of new organizations in areas that compliment the strategic goals of the foundation (Magat, 1979, 48). Establishing new organizations within the policy system involves consideration of several factors, including the political sensitivity of the issues concerning the action and the ability of the new organization to have a favorable influence

on a policy (Magat, 1979, 49). The relationship between these new organizations and foundation staff is clearly one of interdependence (Magat, 1979, 52). It is decidedly more complex than the interaction of mere partners (Magat, 1979, 54). Relationships with other grantees are also heavily influenced by foundation staff.

Once a foundation establishes goals for a policy system, staff plays a critical role in the allocation of funds in a manner intended to promote those goals. Foundation funding is clearly used to support activities that compliment the interests of the foundation (Colwell, 1993, 61). Foundation staff, at the direction of trustees, play a direct role in influencing what happens in projects that are funded (Colwell, 1993, 61). Some philanthropies, such as the Annie Casey Foundation, will not consider funding requests unless the request originates at the request of staff. In other cases, the terms and conditions of grant awards are carefully negotiated (Colwell, 1993, 61). Negotiation can produce changes in the scope of the grant and how it is managed. In negotiation, the upper hand is held by foundation staff, not by the grantees.

The degree of foundation staff control over grantee activities extends beyond the actual negotiation of a grant award. The ability of foundation staff to intervene in grantee activities is ongoing. Staff involvement has been characterized in the following way: “Quite often we have involved ourselves in the affairs of others both deeply and along a broad spectrum” (Magat, 1979, 56). Grantors can use their influence to control the composition of grantee boards and the hiring and firing of key staff (Colwell, 1993, 61). Foundation staff can also restrict the release of information by a grantor by requiring prior approval for the release of reports and information (Colwell, 1993, 64). As grantee dependence upon foundation grant support grows, the influence of the foundation also grows, creating greater

grantee susceptibility to be guided by the direction of foundation staff (Colwell, 1993, 70). Staff direction is intended to promote the ability of policy actors to effectively intervene in the policy process on behalf of their sponsors.

Grant Maker Effectiveness

Joel J. Orosz refers to investment as “what it takes to do the work of philanthropy” (2003, 20). Constructive philanthropic giving is intended to produce a return on the investment of grant making. In his monograph Agile Philanthropy: Understanding Foundation Effectiveness, Orosz develops a paradigm of “Foundation Effectiveness.” Foundation effectiveness is portrayed as the impact of philanthropic investment upon sustained social change. The investment process involves foundations that are guided by organizational strategies that employ philanthropic resources and leadership to meet their priorities. These resources are employed in a process that is actualized through the selective and strategic investment of philanthropic resources in non-profit organizations. The investment process includes:

- (1) Grant making that promotes the development of grantee organizational capacity,
- (2) The development of long term capacity to influence the policy process, and
- (3) The development of a diverse “constellation” of actors promoting a policy through the use of many different tools.

Grant makers invest their philanthropic resources to effectively achieve their policy goals. Orosz asserts that “increasingly foundations find themselves part of an expanding constellation which includes such resources as grantees, intermediaries, and external consultants, all functioning as key players acting on a shared agenda” (2003, 6). Policy

influence can be viewed as the concerted efforts of highly organized interest groups that effectively apply their resources to achieve a common goal. These efforts are supported by strategic investment within a policy system that promotes a long-term capacity to promote foundation policy goals.

Foundation funding is the single most obvious source of philanthropic influence over other organizations. Control of grant funding allows grantors to influence intended outcomes for the support that they provide (Colwell, 1993, 61). Through the allocation of grant funds, foundations control the development and dispensation of policy knowledge that supports efforts to influence a policy system. Because they control the purse, foundations have a high degree of control over the policy actors that they fund in a system. Foundation entrepreneurs control group activities through the award of grant funds, the negotiation of grant performance standards, and the provision of ongoing grant support (Colwell, 1993, 62). Through their control of grant funding, foundations can engage in a deliberate policy of strategic investment in “sympathetic” grantees. This form of investment is not intended to produce immediate and tangible program outcomes. Its intent is to build the capacity of the recipient organization and reinforce its ability to engage in long-term efforts to influence public policy.

The Urban Institute's Center on Non-profits and Philanthropy has advanced perspectives that are intended to guide philanthropic investment in non-profit organization development. These perspectives encourage consideration of the sustainable growth of policy actors, improvements in their managerial efficiency, and the development of external outreach and interaction (DeVita, 2001,6). Non-profit organizations in a policy system provide service and support in coordination with other policy actors. The long-term role of

the policy actors as part of a combined effort with other policy actors must be considered.

Capacity development must prepare the organization to fulfill its necessary role in the policy system in the context of long term needs. From this vantage point, the global goals of a foundation within a policy system must be considered. The role of capacity development for the non-profit organization must be defined in the context of sustained service to meet long-term goals under changing conditions.

Capacity development must encourage and strengthen the ability of an organization to support the efforts of other organizations (DeVita, 2001, 8). Organizational capacities that build social capital and strengthen social networks increase the vitality of the role played by the organization. Attention to nurturing such capacities through organizational development increases the value of the organization to the foundation.

A final concern to philanthropic investment in non-profit organizational development involves the actions needed to improve the organization's overall efficiency and effectiveness. The organization's internal management practice and culture and its management of relations with the external environment must be considered (DeVita, 2001, 11). While the organization receives support in order to influence policy, it must have the capacity to efficiently apply itself within a policy system. Organizations have limited resources. Organizational development improves the ability of the organization to develop resources and apply them in the most effective way to achieve its mission.

The contingencies specified above define the considerations that are given to the grant making process by grantors who are engaged in strategic investment. These investors look beyond the immediate outcomes of the grant support for non-profit organizations and view the non-profit from the perspective of the needs it meets within the policy system

which are complimentary to the foundation's policy goals. Non-profit organizations receive support to meet foundations' needs. The needs of both foundation interests and the organization must be considered as part of any investment process. Within the context of the requirements of foundations needs, the specific needs of the organization must be defined.

The Dimensions of Strategic Investment

In his discussion of what constitutes foundation effectiveness, Michael A. Bailin, Executive Director of the Edna Clark McConnell Foundation, asserts that foundation success comes "by making substantial long term investments in outstanding organizations" (2003, 638). Foundation effectiveness is the sum of successful grant making that produces strong grantees, enhanced grantee effectiveness, and value to the foundation as a return on the investment. Bailin adds "foundations do not make progress through the force of their own ingenuity, but rather on the strength of their grantees achievements" (2003, 636). The careful selection of grantees and substantial long-term strategic investments in outstanding organizations effectively help foundations to achieve their own goals. Strategic investment is not a random process. It strives to develop the capacity of the recipient organization to affect long-term influence in a policy system.

Strategic investment involves the intentional development of the capacity of a non-profit organization by a foundation. The David and Lucile Packard Foundation has promoted capacity development among its grantees for almost ten years. In October, 1997 the Packard Foundation published a study of grantee organizations that were the focus of its capacity development grant making. The study, conducted by Jim Thomas, collected data

from 81 non-profit organizations (1997, 1). Grantees were asked to rank the challenges facing their organizations.

The Packard Foundation report, entitled “Too Many Alligators” reported four areas of the greatest concern to grantees (Thomas, 1997, 1). Areas of concern included (1) research and communications, (2) resource development, (3) governance and management, and (4) technology. Issues concerning technology were largely issues of technological applications in communication that related to concerns with “research and communication” and with technological applications related to performance management reporting systems. Primarily three substantive areas of concern were raised. These areas of concern represent areas of focus for the application of strategic investment practices by foundations and will be the focus of this study. These areas of interest are (1) research and communication, (2) resource development, and (3) governance and management.

As a method of improving foundation effectiveness, strategic investment addresses organizational needs among selected recipients. Long-term improvements in research and communication capacity increase the ability of non-profit organizations to outreach to important stakeholders. This promotes the ability of the recipient organization to be heard among the myriad interests found in a policy system. Grantees that operate with the providence of strong financial and capital resources possess the ability to have a lasting influence in policy discussions. Well-managed grantees that possess strong board leadership, a clear mission, astute leaders, and committed staff can readily capitalize upon opportunities to influence policy. Ideally, strategic investment promotes grantee strength in each of these areas.

Strategic investment promotes recipient capacity development. Capacity development is defined as the effort required to prepare a non-profit organization to fulfill its mission effectively (McPhee 1). The ability of a non-profit to achieve its established purpose is largely governed by its ability to obtain and manage resources in accord with its mission. A policy statement from the Mary Reynolds Babcock Foundation indicates that through the process of organizational development, a non-profit organization embarks upon "the intentional work ... to build its capacity to be more effective in achieving its mission and to sustain itself over the long term" ("What is Organizational Development," 1). Public Policy grant makers promote their own missions by improving the effectiveness of their non-profit policy actor.

Foundations that choose to invest in organizational development wisely employ their resources. Investment in policy actors, like investment in capital markets, requires careful planning. An investment strategy must accommodate the needs of the non-profit organization, the policy system, and the grantor (Connolly 4).

Determine the needs of the organization and the policy system.

Non-profit organizations exist to achieve the goals defined in their mission statement. The organization's mission involves change within a policy system. Both the organization and the policy system must be considered as part of any investment process. Within the context of the policy system that it works in, organization needs must be defined. Listed below are several types of important needs.

Leadership Development

Revenue Development

Legal Assistance

Facility and Equipment Needs

Marketing Needs

Financial Management Assistance

Management Improvement

Human Resource Development Needs

Strategic Planning

Technology Needs

Consideration must be given to the presence of other non-profit organizations in the policy system prior to the investment of scarce philanthropic resources in the development of a specific organization. Investors must make prudent use of resources to fill critical gaps in influence capacity. It is important that non-profit organizations which are the targets of investment be integrated into the larger network of interests that are at work in a policy system.

Investment strategies must insure that other resources in the policy system are effectively employed. Resources managed by peer organizations, government agencies, and universities are important assets. These assets can be coordinated to provide complimentary efforts to exert influence in a system.

Accommodate the Resources, Values, and Mission of the Grantor.

The core principles of the foundation and its management practices must be recognized in the development of an investment plan. A foundation must make a conscious decision to invest in a non-profit organization. That decision must incorporate the interests of the board and apply the assistance of the foundation in a manner that is consistent with its interests.

Prior to investing in a non-profit organization, the foundation must consider its resources and capacity. Each philanthropy has its own unique strengths, and it must employ them effectively to improve investment outcomes. The investment must also be consistent with the mission of the grantor.

Select appropriate organizational building strategies.

The investment strategy must consider several perspectives (Backer 34). Investors must consider a wide range of possible strategies to build organizational capacity. No single approach will meet the needs of all organizations. A customized approach to investment will insure that unique circumstances are accommodated.

Investors must also insure that capacity development interventions are managed by professionals who are competent and experienced. Inexperienced “experiments” may cause a non-profit organization great difficulty. Competent intervention must be applied in a timely manner. Potential improvement efforts must be introduced to the non-profit organization at an appropriate time. The organization must be ready for change. Timely intervention must be preceded by a careful assessment of the organizations needs. In addition, the organization must be ready for change.

Any effort to develop the capacity of an organization in a policy system must accommodate the context of the role of the organization within that system. The investor must consider the potential role of the grantee and pursue the development of organizational attributes that will facilitate the assumption of that role. In the contextualization of investment, the grantor should utilize resources that already exist in the policy system. Existing peer organizations possess the ability to assist and guide a recipient organization during the capacity development process.

There are many ways to invest in organizational development. Paul Connolly suggests several effective grant making practices (2000, 6).

1. Make funding for organizational development a part of every grant. When an award is made to a non-profit organization for a specific program, grantors can require that part of the award be invested in the development of the organization.
2. Provide support for general operating expenses. Many grantors limit their funding to program related expenses and fail to provide support for the general costs of organizational governance.
3. Provide grant funding solely for organizational development. Grantors can develop giving programs that are specifically designed to support organizational development and which integrate appropriate grantor staff support and oversight.
4. Provide low interest or no interest loans to non-profit organizations. Access to affordable loans provides a much-needed asset to organizations with capital and equipment needs.
5. Support "sector wide" non-profit development activities. Activities that bring together many non-profit organizations for joint education, planning, and development efforts have a community wide benefit.
6. Provide direct management assistance. Grantor staff and contracted consultants can serve as an important resource to community based non-profit organizations.

In order to effectively serve as a policy actor for foundation interests, strategic investment must build the capacity of the non-profit organization. This study will consider three dimensions of capacity development: (1) promoting the research and communication capacity, (2) promoting resource development capacity, and (3) promoting governance and management capacity.

Promoting Research and Communication Capacity.

Research and communication capacity within a public policy system is an extremely important resource for policy actors to possess. In crowded policy systems, there is an increasing competition for visibility before policy makers. Organizations with strong research and communication capacity possess the ability to project their message in a manner that catches policy maker's attention and respect. These organizations can respond quickly to changing conditions within a policy system and engage in the policy discussion effectively (Thomas, 1997, 8). Such organizations have developed many skills that promote their ability to participate in policy discussions.

Thomas observed that organizations that possess research and communication capacity are tightly linked with other organizations in an interest field (1997, 12). These organizations have learned to partner and network with others to extend their ability to achieve their goals. Collaborations are both formal and informal. Partnerships are formed with many different types of organizations and individuals who are actors in a policy system. Partnerships allow organizations to work with others to convey a message to policy makers. They also allow for sharing knowledge and experience.

Organizations with research and communication capacity have the ability to either develop or draw on new sources of information (Thomas, 1997, 12). Information is an important resource for organizations that involve themselves in policy discussions. Investment in research and communication capacity includes the development of research capacity. Foundations that invest in a policy field promote research capacity in order to access useful information that supports the policy objectives and values of the foundation.

Communication with diverse constituencies within a policy field is an important resource for opening more avenues of influence with policy makers. Versatility within a policy system opens up multiple options for conveying policy related information (Thomas, 1997, 13). If an organization has the capacity to promote its policy stance through many outlets, it has the flexibility to select the outlet that is most appropriate for the ever changing conditions in the policy system. One-on-one access with elected officials may be of importance in one situation, and direct capacity to mobilize large numbers of constituents may be of importance in another situation.

The ability of a policy actor to be a potent player in a policy system is highly dependent upon the credibility that is ascribed to the policy actor by policy makers. Policy makers respect the views of policy actors that have: (1) provided information that is useful and reliable, (2) demonstrated support for issues and perspectives that compliment the view of the policy maker, and (3) developed credibility in the policy system. If a policy actor has an ongoing working relationship with a policy maker, trust and habit enhance the ability of a policy actor to influence the actions of the policy maker.

Promoting Resource Acquisition Capacity

Effective non-profit organizations require a ready access to financial and capital resources. Organizations that lack such resources must spend an inordinate amount of time engaged in the process of acquiring them. When organizational manpower and resources are committed to fund raising, they are not available to the organization for policy system intervention (Thomas, 1997, 24). Policy actors that are endowed with sufficient funding, adequate capital, and resources are not distracted by efforts to obtain such support. They

have a greater capacity to intervene in the policy process due to the resources that they have on hand.

In his survey of Packard Foundation grantees, Jim Thomas found that respondents desired to improve their resource development capacity through acquiring skills and expertise in fund raising (1997, 15). Non-profit organizations strive to acquire skills with a variety of fund raising techniques including direct donor solicitation, capital campaigns, and special events fund raising. Resource development is an important area of capacity development. Respondents in the Packard Foundation survey ranked resource development second in importance behind research and communication capacity (Thomas, 1997, 16).

Promoting the Growth of Management and Governance Capacity

Thomas found that improving management and governance capacity was the third greatest concern among Packard grantees. Respondents were concerned with issues related to board development, managerial leadership, and the assessment of organizational performance. Effective boards promote the mission of the organization and stand vigilant as overseers of organizational performance. Diversity of board members insures the presence of varied perspectives on the board and the capacity to provide many forms of skills that may be useful to the organization. Fund raising assistance is an important attribute of a strong board (Thomas, 1997, 17).

Strong management is an attribute that marks an effective organization. Investment in management capacity must promote the development of a clear organizational mission. Proper board relations with the executive leadership of an organization must be promoted. Stability in executive leadership must be promoted (Thomas, 1997, 19). The capacity of organization staff to adequately perform their functions must also be promoted. Staff

development, recruitment, and adequate incentives to motivate performance must be part of the management process of the organization.

Management capacity is also enhanced by the capacity to monitor organizational performance. Reliable performance management information systems, clear organizational outcomes, and sound measurement provide important tools for non-profit organization management. Outside consultation for the purpose of management audits and organizational assessments is a valuable tool for both foundation investors and the non-profit organizations they sponsor (Thomas, 1997, 21).

Foundations can promote the managerial and organizational capacity of policy actors by investing in the conscious development of the organizational culture. Investment requires careful planning and analysis. Each organization has different strengths, capacities, and weaknesses. Through effective intervention in the organization, foundation investors can promote the strengths that the organization possesses and strengthen areas of weakness. Intervention must be practiced in a competent, timely and comprehensive way. This form of investment can involve leadership development, legal assistance, the development of marketing capacity, management improvement, strategic planning, and human resource development needs (Connolly, 2000, 4).

Who Engages in Strategic Investment?

The dimensions of strategic investment that have been discussed represent substantially different ways to build organizational strength. Strong research and communication capacity is a favored policy actor attribute. Foundations that are interested in projecting their interests and goals into a policy system appreciate the advantages of working with a companion non-profit that has well developed external outreach capacity.

Such organizations have a substantial capacity to extend their ideas to policy makers in a credible and well-received manner. Policy actor credibility is supported by the quality of knowledge it produces and supplies. Credibility promotes the image of the non-profit as an established “player” in a policy system. Sound knowledge that supports the policy goals of a foundation can influence the outcome of the policy process. Investment in organizations that generate such knowledge insures that cogent and supportive information is available to the foundation and its agents. The quality of the knowledge used by a non-profit is coupled with its artful application to produce effective policy influence. Useful information that is misused is not an effective tool. The conveyance of useful information to receptive policy makers that promotes a foundation’s goal can support effective policy intervention. Foundations that invest in research and communication capacity want to develop useful knowledge and apply it effectively in the policy process.

Investment in the development of the resource acquisition capacity of a non-profit organization is targeted toward making the organization financially independent. Foundations that invest in this area are interested in insuring the longevity of the organization as an influence agent in a policy system. The development of resource acquisition capacity insures that the policy actor has sufficient financial, staff, and physical resources at its disposal. Financially stable organizations can devote staff time and effort to other endeavors that are intended to further advancement toward achieving mission focused goals. As fund raising capacity increases, the foundation’s ability to recruit, hire, and retain qualified staff increases. A financially secure organization is a credible and long lasting player in a policy system. Foundation investment in this dimension of capacity development promotes the potential for long-term influence in the policy process.

Investment in management and governance capacity involves efforts to insure that a non-profit organization is effectively led and operated. Focus on the executive's strength insures that strong day-to-day guidance is present in the organization. Improvements in staff training, motivation, and sound personnel management insure that the resources of the organization are effectively and efficiently employed. Efforts to develop the role of the board insure that it is fully invested in the role of governance and provides the overall stewardship and oversight needed to guide the organization toward the achievement of its mission. Foundations investing in management and governance capacity development are concerned with the leadership of the organization. .

Each dimension of strategic investment produces a different set of benefits for a potential foundation policy actor. Foundation investors, guided by their own mission, utilize strategic investment to promote the overall ability of sponsored policy actors to influence the policy making process. Each foundation wants to achieve an outcome that favors its own perspective. Strategic investment allows foundations to invest in non-profit policy actors to further their unique interests.

Each index of capacity development will be used to identify foundations that engage in each of the three types of investment. An exploration of the nature of the foundations that engage in each dimension of strategic investment is intended to determine the presence of uniformity or divergence in the attributes of foundations that involve themselves in each type of investment. This exploration will consider the following attributes of public policy/public affairs grant makers.

1. Foundation giving capacity,
2. Foundation management resources,

3. Foundation field of interest. and
4. Foundation ideology.

This study is intended to demonstrate that there are different ways that public policy/public affairs grant makers can invest in non-profit policy actors. Non-profit organizations represent a wide spectrum of variation in capacity and ability. Some organizations may demonstrate strong management and governance capacity but lack the research and communication capacity needed to effectively promote an issue. Others may excel in research and communication but struggle to effectively acquire the resources needed to support active involvement in a policy system. Paul Connolly argues that investors must consider the whole organization and the environment surrounding it before initiating the process of capacity development (Connolly, 2000, 4). Strong organizations have well developed research and communication capacity, resource acquisition capacity, and governance and administration capacity. Connolly suggests that wise investors promote the overall development of grantees. Through a review of foundation investment across dimensions this study will consider if grant maker investment tends to promote capacity in a holistic manner. Effective capacity development, intended to promote the long-term ability of a policy actor to influence the policy development process, should theoretically reflect holistic investment. Prefaced by Connolly's viewpoint the following hypothesis is advanced.

Hypothesis 1: Public Policy/Public Affairs grant makers with higher levels of strategic investment in one dimension will also demonstrate higher levels of strategic investment in other dimensions.

Strategic investment requires the continued cultivation of policy actor capacity among a diverse network of non-profit organizations. This intensity of investment requires the deliberate investment of substantial amounts of grant funding over a long span of time. Deliberate investment requires that foundations possess substantial resources for investment. Logic suggests that larger foundations, with more money, possess the financial resources needed to have a lasting impact in a policy making system. With substantial grant funding, a large foundation can fund a diverse array of organizations. The foundation also has sufficient resources to invest in all dimensions of capacity development. Large foundations have been referred to as “leviathans” which have become a “political battering ram targeted at American Society” (Dowie, 2001, 32). Even small foundations can utilize strategic investment to promote effectiveness in a policy field. Michael Bailin states “our foundation is not big enough to build a field of youth development” (2003, 638). He argues that by careful investment even small foundations can improve their ability to effectively achieve their goals. This study will consider the relationship between the size of a foundation’s grant making capacity and its strategic investment practices.

Hypothesis 2: Foundations which possess greater grant making ability will have higher levels of strategic investment in each dimension.

Colwell, Magat, and others have recognized the important role that staff play in the relationship between foundations and their grantees. Bailin has recognized the importance of careful investment in building grantee effectiveness. To be effective, the investment process must be wisely managed. Investment is an active process that involves the ongoing

commitment of the staff and management resources of the foundation. The study will consider the relationship between foundation staff capacity and strategic investment.

Hypothesis 3: Foundations which possess greater management resources will have higher levels of strategic investment in each dimension.

Brent Andersen’s study of public policy grant makers concluded that foundations “subsidize organizations whose policy goals are consistent with their own substantive goals” (2003, 218). For example, foundation’s interested in higher education policy are a major support for universities and colleges (Dowie, 2001, 24). Other foundations that have an interest in promoting American foreign policy work closely with the United States government to support policies that promote American ideals (Roelofs, 2003,157). The Robert Wood Johnson foundation, a dominant grant maker in the health care field, dedicates its entire organizational mission toward influencing a single field of policy (Andersen, 2003 36). Guided by a focused interest, foundation effectiveness in a policy field is promoted through strategic investment. The holistic development of policy actors in a policy field promotes the capacity of a foundation investor to establish a lasting influence within that field. Foundations that invest in a specific policy field should employ a strategic investment strategy that promotes holistic grantee capacity development.

Hypothesis 4: Foundations with higher levels of commitment in a specific policy field will have higher levels of strategic investment in each dimension.

A small body of literature has focused upon the strategic investment practices of foundations that are alleged to hold ideologically conservative beliefs. Conservative

foundations have been described as model practitioners of strategic investment. Their grant making has been called an investment in people and institutions (Dowie, 2001, 215).

Colwell found that conservative foundations provided long-term support for ideologically compatible organizations (1993, 144). Sally Covington found that twelve conservative foundations provided \$210 million in grants to conservative organizations from 1992 to 1994 (1997, 3). Covington concluded that conservative foundations invested in the development of an infrastructure designed to influence public policy. Given the critical review of conservative public policy/public affairs grant makers, ideologically right wing foundations should demonstrate strong commitment to strategic investment that promotes the development of all dimensions of organizational capacity.

Hypothesis 5: Foundations which are characterized as ideologically conservative will demonstrate higher levels of strategic investment in each dimension than foundations which are not characterized as ideologically conservative.

As strategic investors, public policy/public affairs grant makers are similar to market investors. They are perceived to be motivated toward effectively achieving policy goals. In their quest to achieve these goals, they are perceived to be capably led. Their grant making capacity is viewed as a resource that can be used to mobilize tools of influence in a policy system. Like a capable craftsman, these investors are believed to select and nourish tools that promote an effective means to have a lasting influence over public policy.

Chapter 3: Methodology

Prior to the passing of the Tax Reform Act of 1969, foundations were not required to provide a public disclosure of their financing and grant making activities. With the passage of the Act, Congress indicated its intent to make foundations more visible and therefore more accountable to the general public. Private foundations are now required to provide a list of grants they make as part of their annual tax report to the Internal Revenue Service. This report, called the 990-PF is a document of public record that is available for review by the general public. Records of the grant making activity of public policy/public affairs grant makers will provide the basic source of information from which data for this study will be drawn.

Characteristics of the Population

The population for this study was drawn from 1,015 larger American foundations that awarded grants of \$10,000 or more during the 1999-2000 giving period. Individual grantors are included in the population if they are classified by the Foundation Center as public policy/public affairs grant makers. These organizations have been classified as grantors engaged in public policy and public affairs grant making. In 1999, this form of grant making was defined by the Foundation Center as giving to:

Support for “non-profit organizations in the U.S. and abroad for programs including: government and public administration, public affairs, foreign policy, international peace and arts, business, employment, housing, community affairs, education, health, human services, civil rights and the environment (Grant\$, 1999, i).”

The original search parameters included grants in the areas of public affairs, society benefit, public policy research and analysis services, international peace and security, foreign policy research and analysis and civil rights. Upon the recommendation of the

Foundation Center, these search parameters were expanded to include the areas of public health education, health insurance, health care cost containment, health care financing, HMO financing and health insurance. The Foundation Center's grant classification records were used as the basis for determining specification of a foundation as a public policy or public affairs grant maker.¹

The population for this study is the universe of private philanthropic foundations that made public policy and public affairs grants as reported by the Foundation Center for the 1999-2000 foundation grant year. The population of public policy/public affairs grant makers is adjusted for this study. All foundations that made less than five public policy and public affairs grants are removed from the study population. Foundations making less than five awards during a budget year are interpreted to not be representative of foundations that have a significant involvement with influencing public policy. This adjustment resulted in a reduction in the population size. The new group is referred to as the "study group".

The unit of analysis for this study is the individual grantor organizations that are categorized as private philanthropic foundations and are recorded in the database of the Foundation Center. The awards these organizations made for public policy/public affairs grants categorize public policy grant making.

Two special subsets of the study group are identified in the study. The first subset is derived from the work of the National Commission on Responsive Philanthropy (NCRP). In

¹ Data for this study were provided by the Foundation Center. The data set is based on the Foundation Center's grants sample (circa 2000), which includes grants of \$10,000 or more awarded to organizations by a sample of 1,015 larger foundations. For community foundations, only discretionary and donor-advised grants are included. Grants to individuals are not included in the file. For the purposes of this search, "public policy/public affairs" includes grants that have a primary or secondary subject focus or type of recipient code W** (Public Affairs/Society Benefit), O6 (Public Policy Research and Analysis Services), Q4 (International Peace & Security), Q50 (Foreign Policy Research and Analysis), R** (Civil Rights), E15 (Health Public Education), E81 (Health Insurance), E82 (Health Care-Cost Containment Programs), E83 (Health Care Financing-NEC), and E84 (HMO Financing/Insurance).

March 2004, the NCRP released a study of the grant making activities of 77 foundations that were identified as ideologically conservative. The study defined conservative as “policy that shrinks the federal government’s powers and increases state autonomy; strengthens the hand of businesses and free enterprise, by promoting a deregulatory ethos; or fights for individual private property rights” (Krehely, 2004, 7). Data used to categorize the foundations was taken from grant records for the grant years of 1999 to 2001. The foundations which compose this list and which are included in the Foundation Center’s inventory of public policy/public affairs grant makers that made 5 or more public policy awards for the 1999/2000 grant making year are treated as a subset.

A second subset is drawn from the membership list of the National Network of Grantmakers (NNG) for the year 2000 – 2001. NNG is an association of grant makers that supports the work of grass roots activists and social change. The Network has been associated in the literature with efforts to promote social activism, endeavors which characterize progressive philanthropy (Bothwell, 2001, 68). The foundations listed in NNG membership list represent the supporters of liberal causes intended to promote the interests of under represented groups. Foundations that appear on the membership list for 2000 – 2001 and appear in the Foundation Center’s inventory of public policy and public affairs grant makers that made 5 or more public policy awards are treated as a subset.

Foundation Center Grantor Records

Sources of data compiled from records of public tax documents for private foundations and charitable non-profit organizations are used in this study. Data were obtained from the records of the Foundation Center, a non-profit research organization dedicated to providing information to the public about philanthropic giving.

Information about foundations and foundation giving is readily available to the general public. Organizations like the Foundation Center spend considerable time and energy compiling foundation related data and providing information to grant seekers. The primary source of information about foundations is obtained from IRS tax forms. Each year foundations file a "Return of Private Foundation," Form (990-PF) with the IRS to report on their annual financial condition. A complete 990-PF Form includes information about foundation staffing, expenditures, a list of grantees, and a list of board members. The general public may obtain these documents from the IRS. The data provided by these documents is the basic source of information recorded in the records of Foundation Center.

The Foundation Center database includes information about 119,778 individual grants of \$10,000 or more that were recorded for the 1999-2000 grant year (Foundation Center Statistical Services, 2003). These records represent the giving of the 1,015 largest philanthropic foundations in the United States. Records of grants for foundation administered projects, grants to individuals, and grants to other foundations are not included in this data. In addition to data collected from IRS documents, the Foundation Center obtains data provided directly to it by the foundations themselves.

Records of grant awards are individually coded according to the Foundation Center's Grants Classification System. This system is based on the coding scheme of the National Taxonomy of Exempt Entities (NTEE). The NTEE Classification Task Force developed NTEE coding standards over a six year period in the 1980's ("Grants Classification", 2001, 1). Individual awards are coded based upon subject area, type of recipient, geographic location, type of support, and population served. The database also includes information

concerning the foundation board's membership, financial information, and other pertinent information available from the IRS Form 990-PF.

Defining the Characteristics of the Sample

After the population was identified, the characteristics of the foundations that compose the sample were defined. Foundation Center records and 990 PF forms were used as a source of data for this process. Descriptive information was reviewed concerning the organizational characteristics of the sample. Information that describes the structure and resource capacity of each foundation in the sample for the 1999-2000 grant making year was recorded and summarized. Financial information about the sample foundations was collected including information about the size of the organization's financial asset reserve, total annual grant award amount, and the number of grant awards issued. In addition, information that describes the structure and type of each foundation was collected. This information includes a record of the number of staff employed by the foundation. In addition, efforts were made to determine if the foundation is an independent foundation, a corporate sponsored foundation, a community foundation, or an operational foundation.

Operationalizing the Dimensions of Investment

It is hypothesized that public policy grant makers employ strategic investment to promote the development of non-profit policy actors across three dimensions: research and communication capacity, resource acquisition capacity, and management and governance capacity. The Foundation Center categorizes individual grant awards by foundations according to the type of support provided by the award. Numerous other forms of classification are also employed. This study utilizes the Foundation Center's classification according to the type of support for each of grant award. The classification by type of

support employs a set of categories that characterize the general intent of each award.

Among the categories included in the classification are “annual campaign,” “faculty/staff development,” “management development”, and “public relations services”.

The premise of this study is that public policy/public affairs grant makers practice strategic investment. Strategic investment consists of the award of grant funds to promote the development of management and governance capacity, capital and resource acquisition capacity, and research and communication capacity. The categories of “types of support” that are presented above provide indicators of the nature of grant making by foundations. Foundations that engage in strategic investment should make particular types of awards. The dimensions of strategic investment should be discernible through the analysis of the types of awards made by public policy/public affairs grant makers.

The categorization of individual grant awards by the Foundation Center provides a useful tool for observing the giving practices of foundations. Strategic investment grant making is the primary concern of this study. Grants representing three dimensions of strategic investment are of interest: (1) promoting research and communication capacity, (2) promoting resource acquisition capacity, and (3) promoting management and governance capacity. Among the types of support categorized by the Foundation Center are awards that promote each of these forms of capacity development.

Research by Althea K. Nagai, Robert Lerner, and Stanley Rothman has demonstrated that some public policy grant making foundations specialize in providing support for policy research (1994, 137). Support is provided to think tanks and universities to produce information that can be used to influence the policy process. Grants for public policy research generate information that, in order to be effectively used, must be communicated

throughout a policy system. Research and communication capacity are bound together as the means by which policy systems are influenced. Foundations employ strategic investment to promote the capacity of non-profit organizations to disseminate information within a policy system. Through research conducted for the National Committee for Responsive Philanthropy, Sally Covington found that some foundations invest in non-profit organization capacity to use the media (Covington, 1997, 5). Covington found that foundations provided support for the development of radio and television broadcast production and non-profit media outlets. Type of support characteristics that reflect this dimension of strategic investment are identified below.

Dimension 1: Research and Communication Capacity Development

Research

Conferences and Seminars

Publications

Film, Video and Radio

Exhibitions (collections management, new works, electronic media)

Performance and Production Costs

Non-profit organizations that possess sufficient financial and capital resources are free to focus their attention upon their mission and apply available resources to facilitate goal achievement. A strong resourceful organization which has substantial financial and capital resources and the ability to generate additional financial support will continue to be an active agent in a policy system. The type of support characteristics presented below represents strategic investment that is intended to promote the capital and resource acquisition capacity of a non-profit organization.

Dimension 2: Resource Acquisition Capacity Development

Income Development

Annual Campaign

Capital Campaign

Building/Renovation

Equipment

Computer Systems and Equipment

Land Acquisition

Endowment Funds

Investment in the development of an organization's managerial and governance capacity results in support of activities such as leadership development, program assessment and evaluation, the development of staff ability, and, as needed, the provision external help through technical assistance and consulting services. Type of support characteristics that reflect this dimension of strategic investment are identified below.

Dimension 3: Management and Governance Capacity Development

Management Development

General Operating Support

Technical Assistance

Program Evaluation

Faculty/Staff Development

Testing for the Presence of the Dimensions of Strategic Investment

Each record provided by the Foundation Center represents individual grant awards that were recorded for the 1999-2000 grant year. The record shows the amount of the award, the foundation making the award, the recipient of the award and the classifications provided by the Foundation Center. These classifications include the type of support discussed previously. Classification values for each type of support for each foundation included in the sample are determined using the following procedure.

1. For each foundation that is included in the population, the aggregate amount of funds awarded for each type of support category, across all awards, by that

foundation was determined. For example, for any single foundation, the total amount of funds awarded across all awards for “annual support” was determined.

2. The aggregate amount of funds awarded for each type of support for a single foundation was then divided by the total amount of public policy/public affairs grants made by the foundation. This provides a relative value for investment in each type of support for the foundation.
3. The procedure described above was repeated for each type of support category for each foundation in the sample. This created a set of interval level values for variables identified by the type of support category for each foundation.

The process described below resulted in a set of individual values for each type of support for each foundation. For each foundation, the value represents the ratio of the grant making award for each type of support to the total amount of awards of public policy/public affairs grant making by the foundation. A foundation that made \$20,000 in grant awards for “cause-related marketing” and made a total of \$100,000 in public policy/public affairs awards has an indicator score of .20 ($\$20,000/\$100,000$). Twenty percent of this foundation’s public policy/public affairs grant making was for cause-related marketing. A score of .20 represents the relative importance of this type of support as an investment strategy in comparison with the foundation’s scores for other types of support. The maximum combined set of indicator scores for any foundation cannot exceed 1.0. Combined score values for a foundation may not equal 1.0 since this study will not consider

types of support which are not theorized to represent one of the three dimensions of strategic investment.

Indexes of Capacity Development

In the previous section, sets of items were defined which are expected to represent three dimensions of strategic investment. Values for individual items within a set can be combined with the values of other items in the set to compose an index. Indexes have been defined as “sets of items which are thought to measure a latent variable” (Garson, “Scales ...,” 2001). The individual items that compose an index are linked together theoretically and statistically. Since the set of individual indicators is theorized to represent an underlying latent variable the indicators are bound together through a theoretical commonality.

The indicators that compose strategic investment dimension 1 “research and communication capacity development” are perceived to be attributes of non-profit organization capacity related to the organization’s ability to project information and influence into a policy system. In this case, research and communication capacity development represents a latent variable. Latent variables are “unobserved constructs or factors which are measured by their respective factors” (Garson, “Structural ...,” 2001). Such constructs cannot be measured directly. Because of this, other, indirect measures are used to measure them. Indicators that compose each dimension of strategic investment are theorized to represent indirect measures of the larger underlying dimension. The composite values of each set of indicators represent an index. This index has a value that reflects the combined strength of a collection of attributes that along with other attributes represents a specific dimension.

An index value for each dimension of strategic investment was determined. This value is the product of combining the individual indicator scores described in the “Data Preparation” section. For each foundation that is included in the sample, an index value was calculated by combining the foundation’s scores for the indicators that compose a dimension.

Since each foundation’s indicator score represents the relative value of that type of support in comparison with other types of support, a composite value of the indicator scores for each foundation for a dimension provides an indicator of the importance of that dimension of strategic investment. This index value can be used to ascertain the relative value of investment by the foundation in that dimension. A high index value for research and communication capacity development, in relation to the total public policy/public affairs grant making for the foundation, can be interpreted to reflect an orientation by that foundation toward investment in policy actor capacity intended to promote the extension of information and influence into a policy system. Foundations with high index values for research and communication capacity development place a high value upon investment in this form of policy actor capacity.

Index values for each foundation can also be compared to the index values of other foundations for the same dimension of investment. Assume that Foundation A demonstrates an index value of .20 for research and communication capacity development and Foundation B demonstrates a value of .05 for the same dimension of investment. In this situation Foundation A can be viewed as placing a greater emphasis on investment in this dimension than Foundation B. Index values for dimensions of investment represent a method for comparing the strategic investment practices of specific foundations.

Statistical Confirmation of the Dimensionality of Strategic Investment

In addition to sharing a theoretical relationship, the indicators that compose an index of dimensionality should also display a statistical relationship. The indicators that compose an index should correlate with each other rather than with indicators that represent other dimensions (Garson, “Scales ...,” 2001). The empirical validity of the indexes of strategic investment can be tested through simple correlation. Indicators are assigned to represent specific dimensions of strategic investment based upon a theoretical premise. The presence of statistical evidence of relationship between theoretically interrelated indicators composing an index provides empirical validation reflecting that the indicators represent the underlying dimension measured by the index. Specific categories of “types of support” are expected to be associated with each dimension. The process for developing indicators for each “type of support” for each foundation is described in a previous section.

It can be interpreted from their association that related indicators collectively represent different characteristics of a single dimension that cannot be directly measured. This study advances the idea that strategic investment promotes the development of key organizational capacities for grantee policy actors. Thomas identifies three important dimensions of organizational capacity. Each index represents the manifestation of a type of investment behavior by public policy/public affairs grant makers. Indexes of: (1) research and communication capacity, (2) resource acquisition capacity, and (3) management and governance capacity were developed to represent underlying dimensions which are indirectly observable through sets of tangible indicators. These indicators are “types of support” as categorized by the Foundation Center.

Holistic Investment

A strong non-profit organization will have well-developed capacities for research and communication, resource acquisition, and governance and management. Connolly argues that foundation investors are wise to employ their resources to build strong organizations that can effectively pursue their missions without dependence upon external support. Effective investment by public policy/public affairs grant makers translates into carefully determining the needs of a non-profit policy actor and intently working to develop capacities which are found to be lacking. Good investment strategy will be reflected by evidence of grant making across all three dimensions of strategic investment.

Each index of capacity development provides a tool by which foundation investors can be compared with one another. Foundations that substantially invest in the development of research and communication capacity will have a high rank on the index for this type of capacity development in comparison with foundations that demonstrate lesser amounts of investment. A foundation that engages in the holistic development of its grantees will demonstrate high rank on each dimension of strategic investment, in comparison with other foundations.

Hypothesis 1 states that: *“Public Policy/Public Affairs grant makers with higher levels of strategic investment in one dimension will also demonstrate higher levels of strategic investment in other dimensions.”* It is reasoned that a foundation that has committed its strategic investment practice to consider the holistic development of its grantees will rank high on each of the capacity indexes. Foundations, which lack a commitment to holistic investment, will rank low on one or more indexes. Hypothesis 1 will

be tested by completing a correlation of the individual index scores of foundations on each index.

The test of Hypothesis 1 considers an important question regarding if foundations invest in policy actors to insure that they will continue to be an influential resource in a policy field over time. Holistic investment demonstrates that foundations are interested in the long-term performance of their recipients. An indication of a willingness for a public policy/public affairs grant maker to invest across dimensions of investment reflects that the grant maker is interested in the long term growth and stability of its recipients. Foundations that promote holistic strategic investment are investing in a non-profit policy actor with an eye toward the potential future role of the policy actor in the policy system. Such foundations carefully invest their resources to address the true needs of a non-profit organization, irregardless of whether those needs involve research and communication, resource acquisition, or governance and leadership.

A positive correlation between foundation scores on individual capacity development indexes will reflect that foundations that tend to invest in one dimension are also likely to invest in other dimensions as well. Correlation is used to test the strength of the relationship between the three indexes. A finding of significant and strong positive relationships between all indexes will provide support for the hypothesis.

Foundation Giving Capacity

Strategic investment is different from other types of grant making activity because it involves the ongoing obligation of large amounts of funding to a specific set of non-profit organizations that provide influence within a policy system. The objective of investment is to create the potential to guide and influence the policy development process through (1)

agenda setting, (2) influencing the discussion of policy issues, and (3) promoting preferred policy outcomes. Success in the policy process involves the utilization of multiple tools of influence. These tools include the creation of information that supports a policy viewpoint and the means to project that information into the policy process through direct interaction with policy makers, through the mobilization of grass roots support, or through intervention through the legal system. The utilization of diverse tools requires the development of a diverse array of actors within a policy making system that can employ those tools.

Policy making is often a process that involves capitalizing on opportunity. Any combination of policy influence tools may be required at any time to effectively guide the evolution of the policy process. Circumstance often determines when opportunities arise. Each opportunity calls for a new combination of tools. The foundation investor must constantly invest in the maintenance and perfection of the influence tool set. This tool set must be ready at all times for immediate employment.

Strategic investment is the process of applying grant making resources to develop and refine the influence tool set. It is an expensive process that demands the obligation of ongoing grant support. Hypothesis 2 states “*Foundations which possess greater grant making ability will have higher levels of strategic investment in each dimension*”. Public policy/public affairs grant makers that possess a greater capacity to invest in policy making systems are conjectured to demonstrate a greater commitment to strategic investment.

Two indicators of grant making capacity are used to test Hypothesis 2. A simple indicator of foundation grant making capacity is the value of the total financial resources it controls. Conceptually, rich foundations should have more money to invest. Another indicator of the grant making capacity of a foundation is the total amount of grant funding

awarded during a grant year. The total grant award amount reflects the total commitment of the foundation through the utilization of all resources available to it to provide financial support for the achievement of its mission. These indicators reflect the capacity of a foundation to invest in a policy making system.

It is conjectured that the level of its grant making ability drives foundation engagement in strategic investment. Foundations with greater ability are more likely to engage in strategic investment. The indicators of foundation grant making ability were correlated with each index of strategic investment. A strong positive correlation is expected.

Foundation Management Resources

Investment involves the careful management of the allocation of grant making resources. Management resources, in the form of foundation staff and consultants, provide the oversight that is necessary for effective investment. The management function includes a wide array of activities which begin with the consideration of a request for funding and which may continue for several years. Foundation staff carry out the intent of the foundation's board of trustees. Routine interaction between staff and grant recipients including monitoring grantee performance, and guiding their development, make staff important actors in the funder/grantee relationship. In some cases specialized assistance is sought by the foundation. Consultants provide valuable assistance to the foundation as it manages its grant portfolio and develops new policy initiatives. These external resources also are important agents of influence with grantees. Acting at the direction of the foundation, consultants can apply specialized skills in the development of non-profit capacity. The specialized skills that these agents of foundation influence provide are typically not found among foundation staff.

Hypothesis 3 states “*Foundations which possess greater management resources will have higher levels of strategic investment in each dimension.*” These management resources may exist in the form of foundation staff or as technical assistance resources provided by consultants. Foundation expenditures that are not attributed to grant awards provide a potential indicator of the resources allocated by a foundation for management. These expenditures include support for the cost of foundation staff and consulting services. This study employs non-grant related expenditures during the 2000 grant year as one indicator of foundation management capability. This measure is derived in the following way.

1. The total amount of grant funding awarded by a foundation was subtracted from its total expenditures.
2. To standardize this indicator to accommodate for differences in foundation size, the balance produced from step one is presented as a proportion of total foundation expenditures.

This proportion of non-grant related expenditures is referred to as the “support ratio”. The support ratio was correlated with each strategic investment index. A positive correlation between the support ratio and each index is expected. The presence of a strong positive correlation indicates that as the support ratio increases, strategic investment within a dimension will also increase. Foundations that devote greater amounts of resources to support expenses such as staff support and consultant services are more likely to engage in strategic investment.

A second indicator of management resources was developed based upon the number of staff employed by a foundation. The ratio of the total number of grants made by a foundation to the total number of staff is used to provide an indicator of the amount of staff

time available for the management of a grant portfolio. Again the ratio was correlated with each index of strategic investment. A strong positive correlation is expected. Foundations that have greater capability to assign staff to work with grantees are more likely to engage in strategic investment.

Fields of Foundation Interest

Strategic investment involves the careful allocation of grant funding in a policy making system to develop the capability to influence the policy making process. Andersen has observed that the unique values and interests of the foundation guide foundation investment. Driven by their unique interests, public policy/public affairs grant makers focus their investment in public policy systems that influence policy outcomes of concern to them.

Foundations that dedicate large amounts of grant funding for investment in a specific policy system have a high degree of interest in the outcomes of the policy making process within that system. It is expected that these foundations carefully invest their resources in specific fields of interest to them to maximize the effectiveness of their grant making.

Hypothesis 4 states “*Foundations with higher levels of commitment in a specific policy field will have higher levels of strategic investment in each dimension.*” As the commitment of public policy/public affairs grant makers to provide support in a policy system increases, the level of strategic investment in each dimension of capacity development is expected to increase. The Foundation Center’s grant classification system provides useful information that can be used to test Hypothesis 4.

Each grant award that is classified by the Foundation Center is categorized through the use of the National Taxonomy of Exempt Entities (NTEE). The NTEE provides a

classification system of 26 major “field” areas that are consolidated into ten major divisions. The ten major divisions are listed below.

Arts and Culture	Education
Environment	Health
Human Services	International Affairs
Public/Society Benefit	Science
Social Science	Religion

With the aid of the NTEE classification of each grant award, an indicator of foundation investment in policy fields is available to use in testing hypothesis 4. The following procedure was employed to develop this indicator.

1. The total amount of grant awards for each of the ten NTEE classifications for each foundation was determined.
2. The total award amount for each category was divided by the total amount of public policy/public affairs awards for each foundation. This is referred to as the field preference ratio.

The field preference ratio provides an indicator of the relative importance of investment in each policy field in comparison to the total public policy/public affairs grant making by each foundation. The ratio is standardized to account for variation in foundation giving. Each foundation was assigned an indicator value for each of the ten “fields” characterized by the NTEE classification.

Each field preference ratio was correlated with each index of strategic investment. In accord with hypothesis 4, it is expected that foundations that have higher field preference ratio scores for a specific field will also have higher index scores for each dimension of

strategic investment. For example, a high field preference ratio in the field of education is expected to have a high index score for the dimensions of research and communication, resources acquisition, and governance and management capacity. Foundations that invest substantial amounts of their grant making resources are more likely to engage in strategic investment in order to increase their effectiveness in the policy system.

Foundation Ideology

The works of Mary Anna Culleton Colwell and Sally Covington focus upon the public policy/public affairs grant making practices of foundations that they characterized as ideologically conservative. Colwell studied the grant making activities of seven foundations from 1972 to 1975. She concluded that these foundations deliberately used non-profit organizations to further their public policy interests (Colwell, 1993, 194). Colwell asserted that “the efforts of policy planning and activist organizations ... (were) restricted, channeled or determined by the foundations that fund them: (Colwell, 1993, 195). Covington went further in her study of 12 foundations. She contends that conservative foundations have invested in the development of an infrastructure designed to influence public policy (Covington, 1997, 3).

A study conducted by the National Committee for Responsive Philanthropy in 2004 advances the work of Colwell and Covington by alleging the existence of an “Axis of Ideology” built around conservative grant makers that represent an “incredibly influential and effective sub sector of American philanthropy” (Krehely, 2004, 6). Each of these studies concludes that ideologically conservative foundations carefully invest their grant making resources to build influence within policy systems.

Research that is critical of conservative foundations suggests that ideology is a major determinant of foundation participation in strategic investment. Hypothesis 5 states *“Foundations which are characterized as ideologically conservative will demonstrate higher levels of strategic investment in each dimension than foundations which are not characterized as ideologically conservative.”* Research conducted by Jeff Krehely, Meaghan House and Emily Kernan, that was sponsored by The National Committee for Responsive Philanthropy (NCRP), identified 77 grant making foundations which are characterized as ideologically conservative (Krehely, 2004, 7). The NCRP list of conservative foundations will be used to test Hypothesis 5.

Foundation data for two groups are compared to test Hypothesis 5. Index measures for research and communication capacity, resource acquisition capacity, and governance and management capacity for two groups are employed. The first group of foundations are those included in the NCRP list. The second group of foundations, are those that are listed as NNG members.

A simple “t-test” of the difference of means is employed to test for statistical significance between the two groups. If the literature that is critical of conservative foundation grant making is correct a significant difference should exist between the strategic investment practices of ideologically conservative foundations and foundations which are not identified as ideologically conservative. Testing across indexes allows for the identification of differences in strategic investment practices by the two groups of foundations.

The analysis of the dimensionality of strategic investment practice and the characterization of the public policy/public affairs grant makers that engage in it can provide

clarity to our knowledge of the shadowy and private world of foundation giving.

Traditionally, private foundations have sheltered their grant making practices from the scrutiny of outside observers. Concern with Congressional oversight and control, coupled with the private nature of foundations produces cautious involvement in public policy systems. Through the use of policy actors, foundations have removed themselves from direct involvement in the policy process. Despite their role of outside investors, they exert substantial influence in the American public policy making. This analysis is intended to shed light upon the strategic investment practices of foundations in the public policy process.

Chapter 4: The Characteristics of Public Policy/Public Affairs Grant Makers

History has shown that the same government that provides special tax-exempt status for private foundations is also an anxious overseer. Congressional oversight and Internal Revenue Service regulation have sought to constrain the role of philanthropy in the public policy making process. Despite this constraint, a surprisingly large number of foundations engage in public policy and public affairs grant making. In this chapter, the focus is on grant makers that have been selected from among 1015 of the largest foundations in the United States. A description of the criteria used to identify these grant makers is included in the previous chapter.

Grant records were used to identify a population of 771 public policy and public affairs grant makers. These grant makers awarded 14,741 public policy and public affairs grants worth more than \$2.4 billion. This large sum of philanthropic investment demonstrates the potentially influential role that philanthropy can play in the public policy making process.

Many of the foundations identified in this study made a small number of public policy grants. A total of 364 grant makers each made fewer than five awards. Chapter 3 provides an explanation of the process used to eliminate these foundations from consideration in this analysis. Foundations that make a small number of policy awards each year have, at best, a limited interest in the public policy process. Their participation may be the product of interest in a few specific projects, rather than interest in the development of a wider role in long-term influence in a policy field. In order to focus this study upon foundations that seriously engage in developing influence in policy systems, 364

foundations making less than five awards were not included. The remaining group of 407 foundations that made awards of five or more public policy grants during the grant record period constitutes the study group.

Foundation Attributes, Interests, and Behaviors

Prior to investigating strategic investment, it is necessary to characterize the population of public policy grant makers that are the focus of this study. Grant making foundations, similar to individuals, have their own unique attributes, interests, and behaviors. This chapter introduces these organizations by describing their characteristics, their giving interests, and the way that they allocate their public policy funding to non-profit organizations.

Foundation Grant Making Capacity

Foundations that possess large amounts of grant giving capacity can play an influential role in the public policy process. A review of the financial assets of the 407 foundations included in the study group demonstrates that these foundations have a wide range of financial resources at their disposal. The largest foundations included in the study represent some of the wealthiest private organizations in the United States.

The 407 foundations vary greatly in the amount of financial resources at their disposal. The financial resources of the foundations for the grant record year 2000 include the assets that represent the ongoing and available wealth of the organization and gifts that are received. Foundation assets ranged from the \$15 billion controlled by the Bill and Melinda Gates Foundation to the \$49,900 in assets controlled by the David H. Koch Charitable Foundation. Most public policy foundations (366 or 90%) control less than \$1 billion in assets. Forty-one very large foundations each control over more than one billion

dollars in assets. Six foundations each control over \$5 billion. Table 4.1 provides a summary of the wealth of these foundations.

Table 4.1 Distribution of Foundations by Organization Wealth

Range of Total Resources	Num.	Assets (Mean)	Gifts (Mean)	Total Resources (Mean)	Total Resources (Category Aggregate)
Over \$10 billion	2	\$14,876,824,161	\$5,746,603,097	\$20,623,427,257	\$41,246,854,514
\$5 billion to \$10 billion	5	\$8,302,374,677	\$2,535,593	\$8,304,910,270	\$41,524,551,348
\$2 billion to \$5 billion	11	\$3,182,044,596	\$60,952,039	\$3,242,996,636	\$35,672,962,992
\$1 billion to \$2 billion	23	\$1,439,146,079	\$15,263,258	\$1,454,409,337	\$33,451,414,742
\$500 million to \$1 billion	32	\$661,185,357	\$12,706,261	\$673,891,618	\$21,564,531,773
\$100 million to \$500 million	162	\$229,681,774	\$9,325,675	\$239,007,449	\$38,719,206,722
Less than \$100 million	172	\$41,372,647	\$4,303,743	\$44,644,634	\$7,634,232,380
Total	407	\$503,217,379	\$37,299,045	\$540,082,934	\$219,813,754,471

Public policy foundations vary greatly in the amount of funding that they receive as gifts during a year. Contributions to these organizations are tax-deductible gifts that can be used to further the grant making goals of the philanthropy. Gifts received by public policy foundations included in the study ranged from over \$11.5 billion received by the Bill and Melinda Gates Foundation to \$250 received by the Times Mirror Foundation. Only seven foundations received over \$100 million in gifts. Sixty-six foundations received between \$10 million and \$100 million in gifts. Another sixty-eight foundations received between \$1 million and \$10 million in gifts. Finally, fifty-eight foundations received less than \$1 million in gifts. Over one-half (203) of all public policy foundations received no gifts. This last group of foundations relies solely upon assets for grant funding.

In combination, the assets of a foundation and the gifts it receives provide a substantial resource for grant makers. The foundation with the largest asset base also has the greatest amount of total resources. The Bill and Melinda Gates Foundation controls total resources of \$27,008,523,268. The resources of the David H. Koch Charitable Foundation, totaling \$2,499,900, are the smallest among public policy foundations included in the study group.

In Table 4.1 the distribution of total resources among public policy foundations reflects the cumulative effect of total assets and total gifts. A few very wealthy foundations engage in public policy grant making. Over 90% of public policy foundations control less than \$1 billion dollars in total resources. These foundations still control tremendous financial capacity. A total of 194 foundations have total resources that range from \$100 million to \$1 billion. Collectively, these foundations control over \$60 billion, more than the two wealthiest grant makers. All of these foundations possess the potential to invest enormous amounts of funding in public policy making.

With their substantial resources, public policy foundations are prolific grant makers. Public policy foundations averaged 467 grant awards of all types, during a single grant year. These awards include awards for purposes other than public policy and public affairs. The Robert Wood Johnson Foundation, an independent foundation, distributed 7,172 awards, which is the largest number given by a public policy foundation. In contrast, the J. Roderick MacArthur Foundation distributed only 13 awards. Table 4.2 provides an overview of grant awards made by public policy foundations.

The two largest foundations, the Bill and Melinda Gates Foundation and the Lilly Endowment, averaged far fewer awards than other large foundations. The Lilly Endowment

awarded funds for 938 grants ranging in value from \$31,711,774 to \$485. This well endowed philanthropy was established in 1936 and has a long heritage of supporting leadership development, community development, economic education, and public policy research. In contrast, the Bill and Melinda Gates Foundation, established in 1994,

Table 4.2 Total Grant Awards and Policy Grant Awards

Total Resources	Frequency	<u>All Awards</u>		<u>Policy Awards</u>	
		Average Award (mean)	Number of Awards (mean)	Average Award (mean)	Number of Awards (mean)
Over \$10 billion	2	\$1,640,848	593	\$1,451,069	78
\$5 billion to \$10 billion	5	\$98,069	2455	\$319,705	443
\$2 billion to \$5 billion	11	\$78,860	1326	\$340,630	118
\$1 billion to \$2 billion	23	\$74,063	764	\$195,543	65
\$500 million to \$1 billion	32	\$67,052	419	\$95,157	35
\$100 million to \$500 million	162	\$32,481	362	\$67,111	28
Less than \$100 million	172	\$16,795	424	\$48,691	17
Total	407	\$44,935	467	\$162,729	33

is a relatively new organization. This foundation awarded 248 grants ranging in size from \$33,450,000 to \$2,000. The average grant award of \$1,640,848 for these grant makers is substantially larger than the average award of other categories of foundations.

A substantial portion of the grant funds controlled by the grant makers that are represented in this study are allocated for public policy purposes. Twenty-seven percent of the grant funding totaling seven percent of the number of grants awarded by 407 grant makers was allocated for this purpose. The public policy grant making practices of these

foundations varies greatly. Foundation giants like the Lilly Endowment and the Bill and Melinda Gates Foundations averaged 78 public policy grants with an average grant value of \$1,451,069. The 172 public policy grant makers with assets of less than \$100 million averaged 17 public policy awards with an average grant value of \$48,691.

The Ford Foundation dominates the world of public policy grant makers. For decades, the Ford Foundation has awarded more individual grant awards and funding than any other funder. During the 1999 – 2000 grant record year, the Ford Foundation again led all foundations in the total amount of funding committed for public policy and public affairs awards. This grant maker committed \$338,711,490 in funding in the field. The second largest foundation, in terms of funds awarded, was the Bill and Melinda Gates Foundation that committed \$201,712,039 to grantees. The Lilly Endowment, the second largest foundation in the study group, awarded only \$24,654,725 for public policy grants. When the total foundation allocation for public policy funding is considered, the Lilly Endowment is not ranked among the top ten public policy grant makers. The ten largest grant makers, in terms of total amount of public policy funding awarded, is provided in Table 4.3.

Table 4.3 Ten Largest Public Policy Grant Makers

<u>Foundation Name</u>	<u>Policy Funds Awarded</u>	<u>Number of Policy Awards</u>
The Ford Foundation	\$338,711,490	1,372
Bill and Melinda Gates Foundation	\$201,712,039	126
Robert Wood Johnson Foundation	\$179,113,764	395
David and Lucile Packard Foundation	\$141,591,342	266
Pew Charitable Trusts	\$115,859,000	100
The California Endowment	\$ 85,166,730	167
John D. and Catherine T. MacArthur Foundation	\$ 63,159,433	269
Charles Steward Mott Foundation	\$ 62,109,265	300
Rockefeller Foundation	\$ 50,375,452	279
W. K. Kellogg Foundation	\$ 47,049,444	161

Public policy grant makers varied greatly in the number of grants that they made for public policy and public affairs. Again, the Ford Foundation, with 1,372 grants in the field, clearly made the largest number of awards. When the number of public policy awards made by a foundation is considered, neither the Bill and Melinda Gates Foundation or the Lilly Endowment rank among the top ten. The Gates Foundation, as discussed earlier, expends large amounts of funding for public policy grant making. While the number of grants it makes in this field is smaller than other foundations, the size of its awards is larger. Large policy grant makers, such as the Ford Foundation, tend to have stronger managerial resources to apply to the management of their grants. The next section of this review considers this attribute of foundations.

Variation in Management Capacity Among Public Policy Grant Makers

Foundations vary in the level of commitment to the development and management of their grantee portfolios. In order to provide management, foundations expend funds for their own staffing, for consultant costs and for other forms of support. In Chapter 3, reference is made to two measures of foundation commitment to grantee portfolio management. The first measure is a ratio of non-grant expenditures to total expenditures, referred to as “support ratio.” This ratio represents the proportion of foundation expenditures that are not directed to grantees. The support ratio is standardized across foundations to account for variation in the size of the foundation’s grant making efforts.

Foundations expend funds for a wide variety of costs required for the basic maintenance of the organization. These costs include office space, utilities, and financial management related to the investment of their endowments and gifts. All foundations incur

such expenses. In addition to these general management expenses, some foundations invest additional resources to improve their capacity to manage their grant portfolio. These investments include the procurement of staff and consultants for efforts in such areas as policy research, enhanced grantor/grantee coordination, and increased management of grantee activities. Variation in the support ratio is assumed to serve as an indicator of the degree of a foundation's expenditure for the management and development of its grant portfolio. Table 4.4 provides a summary of the average support ratio for foundations by total resources.

Table 4.4 Average Support Ratio by Total Resources

Total Resources	Number of Foundations	Average No. of Awards	Avg. Support Ratio	Avg. Grant/Staff Ratio
Over \$10 billion	2	78	0.1477	9.77
\$5 billion to \$10 billion	5	443	0.2801	16.69
\$2 billion to \$5 billion	11	118	0.2329	29.84
\$1 billion to \$2 billion	23	65	0.2263	32.32
\$500 million to \$1 billion	32	35	0.2203	46.59
\$100 million to \$500 million	162	28	0.2589	47.58
Less than \$100 million	172	17	0.1868	71.34
Total	407	33	0.2296	55.73

Table 4.4 also provides the grant to staff ratio for each category of public policy foundations. This measure indicates a theoretical “work load” for each staff member of a foundation in each category. The ratio represents the number of grants, for all purposes, divided by the number of staff for each foundation. Staff counts used to determine this ratio do not differentiate between professional and administrative support staff.

The two very largest foundations in the study group demonstrate a support ratio of .1477. This means that approximately 15% of all expenditures by the Lilly Endowment and

the Bill and Melinda Gates Foundation are spent for costs other than direct grant awards. This ratio is low compared to the ratio of other categories. The 15% allocated by the two richest foundations still represents a large amount of funding. For example, the \$550 million awarded by the Gates Foundation is a vast sum when compared to the expenditures of other foundations. Fifteen percent of this amount represents more funding than the awards of many other foundations.

Foundations with less than \$100 million in total resources have a relatively low support ratio of .1868. Low expenditures for non-grant related costs may reflect that these foundations do not purchase the staff resources needed for the extended management of their grant portfolios. The presence of a high grant/staff ratio compliments this observation. In this case, each “staff member” of smaller foundations is “responsible” for the management of an average of over 71 grants. This is a substantially greater workload than that of other categories of foundations. Foundations that control fewer resources may have less funding for the procurement of staffing and other support resources. Instead of allocating their limited funding for such expenses, they allocate their available resources for grant making. Generally, as foundation resources increase, the support ratio increases and the staff work load decreases. The wealthier foundations employ larger staffs and, except for the very largest foundations commit a higher proportion of their resources to the management of their grant portfolios. It should be noted that the very largest foundations also award fewer policy grants. This suggests that while the staff of these foundations manage fewer grants, the grants they oversee are also very large ones.

Public Policy Grant Making by Ideologically Categorized Foundations

Research pertinent to the role of foundation investment in public policy suggests that the ideological orientation of a foundation may be an important factor in determining its degree of involvement in policy grant making. For the purposes of this study, two groups of foundations were identified which have been associated with a specific ideological characterization. The research of the National Committee for Responsive Philanthropy characterized 77 grant making organizations as ideologically conservative (Krehely, 2004, 12). Twenty-one of these “conservative foundations” are listed among the public policy grant makers included in the study group.

Foundations that maintain membership in the National Network of Grantmakers actively engage in providing grant support for social action movements. Social action grant makers have been characterized as liberal in perspective because they support the efforts of disadvantaged and impoverished citizens to advocate for their rights and interests. Twenty-seven of these “liberal” foundations are listed among the public policy grant makers included in the study group. Table 4.5 provides a comparison of information drawn from the study data concerning these two groups of foundations.

It must be noted that each of these groups of foundations cannot be assumed to represent larger populations of ideologically oriented foundations. These foundations do not represent groups that were randomly selected from a larger population. Conservative foundations “happened” to be part of the National Committee for Responsive Philanthropy study and also happened to be included in the data set. Liberal foundations have voluntarily chosen to be members in National Network of Grantmakers. Despite the limited capacity to

draw generalizations about conservative and liberal foundations in general, a comparison of these groups of foundations provides useful insight.

Table 4.5 The Attributes of Ideologically Characterized Foundations

Group Attribute	Conservative (mean values) N=21	Liberal (mean values) N=27
Assets	\$233,234,504	\$1,149,828,644
Gifts	\$6,507,508	\$30,317,016
Total Resources	\$232,492,703	\$1,179,640,602
Grant Award (General Awards)	\$71,250	\$79,300
Number of Awards (General Awards)	176	483
Staff	13	36
Public Policy Award	\$109,144	\$191,200
Number of Policy Awards	35	89

The data that are summarized in Table 4.5 provide an interesting contrast between these two sets of foundations. The “average” liberal foundation controls substantially more wealth than its conservative counterpart. Liberal foundations control four times the assets, receive five times the amount of gifts, and possess five times as much in total resources as conservative foundations.

Despite their small size, conservative foundations are aggressive givers. The average amount of a conservative foundation’s grant award for general purposes is \$71,250. This is only \$8,000 less than the size of the average award made by liberal foundations that are much wealthier. Liberal foundations possess a decided advantage in staff resources. They average 36 staff members each, compared to 13 staff for conservative foundations.

In earlier research, Althea K. Nagai found that 147 liberal grant makers made many small grants for public policy purposes (1991, 22). Nagai also found that 40 conservative foundations made fewer public policy grants, however, these grants were for large sums of money. Among the ideologically characterized foundations considered here, the average

grant awarded by liberal foundations for public policy purposes is \$191,200. The average conservative foundation award is \$109,144. This observation contrasts with Nagai's findings. It is possible that the small number of liberal grantors included in this study represent a richer portion of the liberal grant maker population.

The Giving Interests of Public Policy Grant Makers

Public policy grant makers are involved in many different policy areas. Much like people, each foundation has its own set of preferences. These preferences are the product of the purposes stated in the foundation's charter, the interests of its board and staff, and the interests of the constituencies that influence its decision-making. The unique interests of each foundation guide its investment practice. Based upon these interests, foundations direct their grant making into specific policy fields.

Each of the 14,741 grant records that are incorporated into this study are coded according to the field or purpose that is relevant to that award. The National Taxonomy of Exempt Entities (NTEE) is employed as a coding structure to categorize each grant. NTEE categories include twenty-four fields or purposes that are demarcated by a letter of the alphabet. These categories are consolidated into a series of major divisions.

Table 4.6 illustrates the distribution of funds awarded by public policy grant makers for each NTEE Field and by major division. For the purposes of this study the major divisions are the primary focus and they are used to consolidate the different interests of public policy grant makers.

Public policy grant makers invested most heavily in the areas of education (26%) and public and societal benefit (38%). Awards in these areas represent almost two-thirds of all public policy grant funding. Grants awarded for public and societal benefit include support

for civil rights, community improvement, voluntarism, and multi-purpose programs that cross these fields.

Table 4.6 Fields of Interest to Public Policy Grant Makers (N=407)

NTEE Major Division	Code	NTEE Field	Percent of Total Policy Funds
Art and Culture			
	A	Art, culture, humanities	4.53%
Education			
	B	Education	25.89%
Environment			
	C	Environmental quality	5.74%
	D	Animals	0.49%
Health			
	E	Health (general and rehabilitation services)	8.90%
	F	Mental health	0.38%
	G	Health (disease specific health issues)	0.26%
	H	Medical research	0.09%
Human Services			
	I	Public protection, delinquency prevention, legal services	1.82%
	J	Employment and jobs	0.67%
	K	Food, nutrition, agriculture	0.48%
	L	Housing and shelter	0.25%
	M	Public safety, emergency management	0.05%
	N	Recreation, leisure, sports	0.15%
	O	Youth development	0.33%
	P	Human services – multi purpose	2.89%
International Affairs			
	Q	International relations	5.07%
Public/Society Benefit			
	R	Civil rights, social action, advocacy	9.02%
	S	Community improvement, capacity building	5.25%
	T	Philanthropy, volunteers, grant making	2.33%
	W	Public/society benefit - multi purpose	21.38%
Science			
	U	Science and technical research	1.00%
Social Science			
	V	Social science research	2.71%
Religion			
	X	Religion	0.34%

Grants in the field of education include awards in support of education at all levels, including both secondary and higher education. Awards in this category also included support for professional education, teacher education, funding educational support groups such as PTA's, scholarships and support for libraries. Education is the area of second greatest interest to all grant makers. Consequently a single NTEE field represents it. Public policy grant makers demonstrate a high degree of interest in public and societal benefit, and education. Less interest is exhibited in the fields of health, environment, and human services.

Types of Support: The Ways that Grant Makers Invest in Public Policy

Strategic investment has been described as a process in which grantors deliberately direct their grant resources to non-profit organizations in order to achieve foundation goals. Investment is understood to be a deliberate act. Public policy grant funding is invested to influence the course of policy making. Funds are allocated to non-profits in fields of interest to the grant maker. The assumed purpose of the allocation is to develop the capacity to exert a long-term influence in a policy field. Investing allows the foundation to cultivate "policy actors" who serve as legitimate activists for policy change. Proper grantee cultivation strengthens the tenacity and capacity of the policy actor recipient.

Public policy foundations provide funding for many types of activities. The Foundation Center has categorized these activities into a system of classification that includes over 30 types of support. Table 4.7 provides a listing of the types of activities that are included in the classification system and shows the percent of public policy grant funding awarded for each type of support. In this study, each support indicator represents the proportion of total public policy funding allocated for a certain type of activity. The

proportion of funding provided for activities that could not be categorized is also shown in Table 4.7.

Much of public policy grant funding is provided for program development. Public policy grant makers provided over one-half of their policy grant funding for this activity. Program development funding provides start up and implementation funding to non-profit organizations. After receiving program development funding, the non-profit organization is usually expected to maintain the program with its own resources. Funding for this activity is generally not intended to promote the long-term capacity development of a non-profit organization. It is tended to promote innovation and the testing of new ideas. Grant making for program development is not considered to be a means of strategic investment intended to build the capacity of a grantee organization. The level of support for program development suggests that many public policy funders do not engage in strategic investment. This issue will be addressed in the concluding chapter.

Another important form of grant support provided by public policy grant makers is the award of funding for research. Public policy grant makers awarded over 10% of their policy grant making funds for research support. Critics of conservative foundations have identified grants of this type as a major tool for capacity development among foundation policy actors (Covington, 1997, 7). Grants for policy research are intended to produce information that is relevant to policy related issues. Unlike grants for other forms of research, the allocation of funds for the study of a policy issue is usually intended to produce information that is useful in a policy system and can be useful in efforts to persuade policy makers to take a preferred stance on a policy issue. Once information is disseminated to a policy maker, it can shape his or her perceptions about a policy issue.

Table 4.7 Types of Activities Supported by Public Policy Grant Makers (N=407)

	Dimension of Investment*	Percent of Total Policy Funds
General operating support		8.51%
Income development		0.45%
Management development	M/G	1.36%
Annual campaign	RA	0.01%
Capital campaign	RA	0.47%
Building/renovation	RA	1.52%
Equipment	RA	0.20%
Computer systems and equip	RA	3.87%
Land acquisition	RA	0.07%
Endowment funds	RA	0.65%
Debt reduction		0.00%
Collection acquisition		0.01%
Emergency funds		0.23%
Program development		50.25%
Conferences and seminars	R/C	3.02%
Faculty/staff development	M/G	1.43%
Professorships		0.18%
Film, video, radio	R/C	1.71%
Publications	R/C	2.53%
Seed money		1.68%
Curriculum development		0.76%
Performance and production costs		0.03%
Exhibitions	R/C	2.78%
Collection management		
New works		
Electronic media		
Student aid		0.10%
Fellowships		1.52%
Internship funds		0.08%
Scholarship funds		0.11%
Awards, prizes, competitions		0.54%
Research	R/C	10.37%
Technical assistance	M/G	1.08%
Program evaluation	M/G	0.91%
Program related investments		0.04%
Not Specified		3.54%

*R/C = Research and Communication Dimension
R/A = Resource Acquisition Dimension
M/G = Management and Governance Dimension

The third most frequent type of activity supported by public policy grant makers is general operating support. General operating support is viewed as an important resource for strategic investors (Krehely, 2004, 42). This form of support is important because it provides funding that grantee management can employ with discretion. Funding can be used to meet organizational needs, rather than being applied to meet the requirements of a specific program. Almost 9% of public policy funds were awarded for general operating support.

For the purposes of this study, it must be noted that a small number of public policy grant awards could not be classified by the Foundation Center based upon the type of support that they represent. The proportions provided in Table 4.7 represent 100% of the public policy awards that are considered in this study. About 4% of the public policy grants are reported as “not specified.” Throughout this study, reference will be made to the proportion of public policy funding that has been allocated for different types of activities. This reference represents the proportion of all funding; including funding that could not be classified.

Strategic investment has been advanced as a method for promoting long-term policy actor capacity development. A well-managed, well-funded policy actor that has the ability to communicate with policy makers has the capacity to exert influence in a policy system. Strategic investors seek to strengthen policy actors by providing grants that strengthen their infrastructure. Earlier, we discussed infrastructure development in the domains of research and communication capacity, resource acquisition capacity, and management and governance capacity. The diversity of ways that foundations fund infrastructure development indicates that grant makers strive to develop policy actors in various ways.

Research completed by Covington and Krehely suggests this investment is not random.

Rather, investors strive to holistically develop grantee capacity by strengthening all areas of organizational function and structure. The concept of holistic investment will be considered in Chapter 5.

Chapter 5: Strategic Investment as a Holistic Approach to Capacity Development

If foundations invest strategically, presumably they would work effectively to achieve their goals through a carefully developed grant making process (Prager, 2003, 73). In their efforts to achieve the goals grant makers would carefully select recipient organizations and then deploy resources to support them. Public policy grant maker support for non-profit organizations (NPO's) can be viewed as a partnership. The long-term welfare of the recipient organization in a policy system is crucial in the promotion of its role as a policy actor. Foundation investment in the welfare of the NPO is expected to be a primary objective of strategic grant making. In this approach, grant funding represents an investment that must be administered with deliberation in order to strengthen the NPO (Prager, 2003, 10).

The long-term objective of foundation investment in NPO's should be to promote the effectiveness of the recipient organization as a policy actor. Monica Heuer characterizes effective NPO's as organizations that possess the following attributes (Heuer, 2003, 5):

1. A vital mission and goals intended to carry out the mission,
2. A well organized board that can keep the NPO focused on its mission,
3. Capable and strong leadership that can execute the will of the board,
4. Motivated staff and volunteers who work toward an explicit set of goals, and
5. Solid finances.

An effective NPO has the potential to extend influence into the policy system and to adapt to changes in that system (Heuer, 2003, 6). In the presence of strategic investment grant makers would be expected to promote the effectiveness of the NPO as an actor in a

policy system. Public policy influence has been characterized to be the product of a long-term investment in a policy system (Kingdon, 2003, 122). With this understanding, the strategic investor would address the NPO's organizational needs in a holistic manner, demonstrating concern with strengthening the organization as a whole rather than simply providing support for some immediate need. Key areas of investment include the maximization of effectiveness for NPO research and communication, resource acquisition, and management and governance.

The giving practice of public policy grant makers that engage in strategic investment is expected to demonstrate active efforts to build policy actor capacity across multiple dimensions of development. Three dimensions of concern in this study (1) research and communication capacity, (2) resource acquisition capacity, and (3) management and governance capacity will be evidenced in the behavior of grant makers. Hypothesis 1, which is repeated below, states the expectation concerning holistic investment.

Hypothesis 1: Public Policy/Public Affairs grant makers with higher levels of strategic investment in one dimension will also demonstrate higher levels of strategic investment in other dimensions.

Testing this hypothesis is contingent upon the existence of three dimensions of strategic investment: research and communication, resource acquisition, and management and governance. The next focus of this research is to discern the presence of each of these dimensions as a target of public policy grant making.

The Dimensions of Strategic Investment

The Packard Foundation report entitled "Too Many Alligators" identifies areas of organizational need based on a general study of foundation grant recipients (Thomas, 1997, 1). Jim Thomas, the author of the report, concluded that the areas of greatest need for NPO

development included organizational capacity for communication with other actors in the community, the need to develop financial and capital resources that will support the ongoing operations of the non-profit, and the development of strong management and governance within the organization. Evidence concerning the allocation of public policy grant maker support for the development of these capacities is considered below.

Dimension 1: Research and Communication Capacity Development

Research and communication capacity is the product of policy actor ability to acquire or produce information that is of value to policy makers. The policy actor must also possess the capacity to transmit the information into the policy system. If the information is going to have an impact on the policy making process, its value must be accepted by the policy maker. A policy actor who has ready access to valuable information, capacity to disburse the information freely in a policy system, and credibility with policy makers can be an influential agent in the policy development process.

Several forms of grant maker support can promote research and communication capacity. These forms of support that are anticipated to reflect this dimension of capacity development are listed in Table 5.1 along with the percentage of public policy grant funding provided for them.

Collectively, the types of support listed in Table 5.1 are expected to serve as indicators that represent a broad dimension of research and communication capacity. Research capacity is an important resource for policy influence. Foundation sponsored policy research, by definition, is an activity that produces information that has potential value to policy makers. Through the research process policy actors are provided with

Table 5.1 Types of Support Representing the Research and Communication Capacity Development Dimension (N=407)

Type of Support	Indicator Name	Percent of Total Support
Conferences and Seminars	Conferences	3.02%
Film, video, radio Publications	<i>Media Publications</i>	1.71%
Performance and production costs Exhibitions*	<i>Production Costs Exhibitions</i>	0.03%
Research	<i>Research</i>	10.37%
Total		<u>20.44%</u>

*The Foundation Center utilization of “exhibition” as a category of classification for public policy grants includes grant support for several types of policy related activities. These efforts include the development of web based public policy information sites, electronic systems for membership and constituency communication, and media presentations related to policy issues.

the opportunity to gather information concerning issues of relevance to important items on the public policy agenda. The information that is collected through the research process can justify the salience of a policy issue, address technical aspects of a policy problem, or it can reflect potential outcomes for policy alternatives. Accurate and reliable information that supports a favored policy is a valuable asset both to policy actors and to policy makers. Reflecting the importance of research, public policy grant makers allocated approximately 10% of all public policy funding for this activity. Through communication, policy information is targeted to policy makers.

Almost 20% of all public policy grant funding was provided to support research and communication activities. Each activity is an indicator of a single aspect of a broad dimension composed of many attributes. Within that dimension the ability to generate useful policy information and then transmit it within the policy system are combined to

produce effective policy system intervention. When considered together, several indicators can be used to collectively identify a broader dimension of strategic investment. Indicators of research and communication can be combined to construct a single index of foundation support. The relationship of these indicators within a single dimension can be tested through correlation. Because the distribution of the indicators is not normal, each variable was transformed into a rank order indicator. Spearman’s rho, a method of correlating ordinal variables was applied. Spearman’s rho provides a correlation value that approximates Pearson’s r and is applicable to use with rank ordered data. The result of this analysis is presented in Table 5.2.

Table 5.2 Correlation Matrix for Research and communication Capacity Development Dimension Indicators (N=407)

<i>Spearman's rho</i>	Conferences	Media	Publications	Production Costs	Exhibitions	Research
Conferences	1					
Media	.320**	1				
Publications	.421**	.290**	1			
Production Costs	.064	.127*	.080	1		
Exhibitions	.310**	.255**	.333**	.067	1	
Research	.375**	.371**	.438**	.077	.318**	1

* *significant at the .01 level (2 tailed)*
 ** *significant at the .001 level (2 tailed)*

The analysis demonstrates that numerous significant correlations exist between the indicators. This provides support that the selected indicators share a relationship and represent a common underlying dimension. Only one indicator, “production costs,” fails to demonstrate multiple significant relationships with others, therefore this indicator has been removed from the index of research and communication capacity development.

A total index value, composed of combination of the type of support values for each of the five indicators referenced above, was calculated. An analysis of the index values for the study group indicates that 232 (57%) foundations provided support for research and communication capacity development. About 43% (175) of the foundations did not provide support in this dimension. Funders of research and communication allocated approximately 20% of their public policy grant funds in the promotion of this form of capacity development.

Dimension 2: Resource Acquisition Capacity Development

Effective intervention within a policy system requires the consumption of resources in order to sustain the longevity of organizational involvement. Resources provided by public policy grant makers are usually insufficient to meet the total needs of the non-profit policy actor. Consistent with the old adage that “it is better to teach a man to fish than to provide him with fish to eat,” public policy grant makers are better off to allocate their support with the intent to promote the capacity of recipients to acquire the resources that they need from other sources.

There are many activities that can promote policy actor resource acquisition capacity. Support can promote the expansion of ongoing funding acquisition and the enhancement of permanent resources such as capital development and endowment expansion. Grant maker support can be used to promote resource acquisition indirectly by relieving the recipient organization of ongoing expenses related to land and facility acquisition and equipment procurement. Other types of support promote organizational capacity to obtain funds through fund raising and revenue development. Table 5.3 lists the resource acquisition indicators.

Table 5.3 Types of Support Representing Resource Acquisition Capacity Development (N=407)

Type of Support	Indicator Name	Percent of Total Support
Income development	<i>Income</i>	0.45%
Annual campaign	<i>Annual Campaign</i>	0.01%
Capital campaign	<i>Capital</i>	0.47%
Building/renovation	<i>Building</i>	1.52%
Equipment	<i>Equipment</i>	0.20%
Computer systems and Equipment	<i>Computers</i>	3.87%
Land acquisition	<i>Land</i>	0.07%
Endowment funds	<i>Endowment</i>	0.65%
Total		7.24%

Eight different indicators are identified in Table 5.3. These indicators reflect the degree of grant maker support for activities related to resource acquisition. Approximately 7% of all public policy grant funding was allocated to promote the development of this capacity. Resource acquisition indicators reflect the presence of an underlying grantor interest in the promotion of policy actor self-sufficiency. Table 5.4 provides a correlation matrix that demonstrates the statistical relationship between these indicators.

Table 5.4 Correlation Matrix for Resource Acquisition Capacity Development Dimension Indicators (N = 407)

<i>Spearman's rho</i>	Income	Annual Campaign	Capital	Building	Equipment	Computers	Land	Endow.
Income	1							
Annual Campaign	.097	1						
Capital	.059	.143**	1					
Building	.081	.150**	.140**	1				
Equipment	-.037	-.039	-.037	.306**	1			
Computers	.095	.017	.119*	.226**	.195**	1		
Land	.040	-.014	-.027	.097	.198**	.026	1	
Endowment	.101	.077	.228**	.083	.067	.078	.206**	1

* significant at the .05 level(2 tail)

**significant at the .01 level(2 tail)

Numerous significant relationships exist among the resource acquisition indicators. However, the strength of the relationships tends to be low. Low correlations suggest that resource acquisition indicators may combine to form a weak indicator of this dimension. Both of the indicators of capital and building demonstrate an association with four other indicators. Endowment, computer, and equipment each demonstrate an association with three other indicators. Two indicators, annual campaign and land, demonstrate an association with two other indicators. Only income shows a relationship with a single indicator.

The strength of the correlations shown in Table 5.4 may be suppressed or exaggerated due to the nature of indicators that are used in the resources acquisition index. Expenses such as building/renovation costs, equipment procurement, the procurement of computer systems, and land acquisition are not ongoing expenses. Rather, these expenses occur on a periodic basis. Due to the temporal nature of these forms of capacity development, public policy grant makers may not routinely invest in these costs each year. Since this form of investment is episodic, the occurrence of investment during the grant record year 2000 may over represent or under represent the natural significance of the index.

Seven indicators have been included to form the resource acquisition index. The indicator “income” was removed from the index due to its failure to demonstrate multiple significant correlations among the other indicators. The resource acquisition index represents the proportion of public policy grant funding that was invested by each grantor for resource acquisition capacity. Among 407 public policy grant makers, 142 (35%) allocated funds for resource acquisition capacity. Sixty-five percent (265) grant makers did not make awards in support of activities in this dimension.

Public policy grant makers allocated approximately 7% of all public policy funding for resource acquisition. Among the 142 foundations that allocated funds for this purpose, 57 allocated less than 10% of their policy funding. Eighty-five public policy grant makers allocated more than 10% of their funds in this form of capacity development. Eight of these funders awarded more than 75% of their public policy funding for activities related to resource acquisition.

Dimension 3: Management and Governance Capacity Development

Strong management is a necessary prerequisite for the development of research and communication and resource acquisition capacity. An organization that is administered and governed capably is likely to be effective in achieving its goals. The integration of vision and control by management with other forms of strong organizational capacity promotes success. Successful organizations are attractive to funders. Through strong management and governance capacity, policy actors effectively employ organizational ability to achieve policy system objectives.

Table 5.5 provides a list of the forms of public policy grant maker support that encourage the development of management and governance capacity. These forms of support reflect grantor concern with the quality and capability of organizational staff. They also reflect concern with measurement of organizational performance. In areas where organizational expertise may be lacking, technical assistance may be necessary to strengthen capacity development.

Table 5.5 Types of Support Representing Management and Governance Capacity Development (N=407)

Type of Support	Indicator Name	Percent of Total Support
Faculty/staff development	<i>staff development</i>	1.43%
Technical assistance	<i>technical assistance.</i>	1.08%
Program evaluation	<i>program evaluation</i>	0.91%
Management development	<i>management development</i>	1.36%
General operating support	<i>operating support</i>	8.51%
Total		13.29%

Foundations allocated over 13% of their public policy grant funding in support of management and governance capacity development. This dimension of capacity development received the second largest amount of public policy funding after research and communication. Table 5.6 provides the results of correlation analysis of the indicators of management and governance capacity development.

Table 5.6 Correlation Matrix for Management and Governance Capacity Development Dimension Indicators (N = 407)

<i>Spearman's rho</i>	Operating Support	Management Development	Staff Development	Technical Assistance	Evaluation
Operating Support	1				
Management Development	.072	1			
Staff Development	.051	.250**	1		
Technical Assistance	.004	.245**	.230**	1	
Evaluation	.019	.218**	.154**	.175**	1

** significant at the .01 level (2 tailed)

In Table 5.5 the significant correlations between indicators range from .154 to .250. All are statistically significant at the .01 level. While the relationships among indicators are relatively weak, they provide empirical evidence about the presence of an underlying dimensionality of management and governance capacity. One indicator, general operating support, fails to demonstrate a significant correlation with the other indicators of management and governance capacity development. An index composed of all indicators except general operating support was developed.

A total of 133 foundations awarded funds for management and governance capacity development. A large number of foundations (274) made no awards. With the removal of general operating support from the index, about 5% of all public policy funding was allocated within this dimension. A small number of foundations made this form of funding a priority

Modeling based upon the rank order transformation of the data and the application of Spearman's rho was used to test the relationship between indicators. The strength of these correlations and conceptual integrity of indicators composing dimensions represent the support for the validity of the dimensionality of strategic investment that is referenced in the study.²

2 Due to constraints regarding the quality of data used in this study, efforts to provide empirical support for the presence of the dimensions of strategic investment were impeded. Initial efforts to employ models of analysis from the general linear model were deterred by the high degree of skew and kurtosis within the distribution of the indicators of foundation support. In initial correlation analysis using interval techniques produced very low correlations. A test of validity of the dimensionality of modeling based on interval level data with factor analysis provided some confirmation of the validity of the dimensions described in the study. The degree of variation explained by the primary factors was limited. The number of indicators composing each factor, while consistent with the composition of the anticipated dimensions, were few in number. Attempts to apply statistical transformations that frequently correct skew and kurtosis produced no substantial change in the results of the application of traditional interval level correlation analysis.

Summary of the Indexes of Strategic Investment

Foundation funding can be an influential factor in the formation of public policy. If strategic investment is present, the careful allocation of funding is essential if foundation sponsored policy actors are expected to influence the policy process over a long period of time. Based upon the giving practices of public policy grant makers, three different indexes of support for capacity development have been developed. Strong public policy grant maker support for capacity development, as evidenced by each index, may provide evidence of strategic investment. Table 5.7 provides a summary of these indexes.

The index for research and communication is composed of five indicators. These indicators represent over 20% of the funds allocated by all grant makers for public policy funding. A total of 57% of public policy grant makers awarded funds for form of capacity development. Awards for resource acquisition are represented by an index composed of seven indicators. These indicators represent almost 7% of the funds allocated by all grant makers for public policy. Approximately 35% of the public policy grant makers awarded funds for this form of capacity development. Four indicators represent support for management and governance capacity development. These indicators represent about 5% of all public policy grant making. About 33% of all public policy grant makers awarded funds for this form of capacity development.

Table 5.7 Summary of Indexes (N=407)

Research and Communication		Resource Acquisition		Management and Governance	
Conferences	3.02%	Annual Campaign	0.01%	Staff Development	1.43%
Media	1.71%	Capital	0.47%	Technical Assistance	1.08%
Publications	2.53%	Building	1.52%	Program Evaluation	0.91%
Exhibitions	2.78%	Equipment	0.20%	Management Development	1.36%
Research	10.37%	Computers	3.87%		
		Land	0.07%		
		Endowment	0.65%		
Total	<u>20.41%</u>	Total	<u>6.79%</u>	Total	<u>4.78%</u>

Holistic Investment: Testing Hypothesis 1

Earlier in this chapter the concept of holistic investment was discussed. Hypothesis 1 presents an expectation that foundations that demonstrate a higher commitment to allocate funds for one dimension of strategic investment will also demonstrate a higher commitment in other dimensions. Prefaced by the construction of three indexes of strategic investment, the grant making practices of foundations across those three indexes must be considered and the hypothesis of holistic investment must be tested.

Indexes for each dimension of investment were constructed by compiling the values for individual foundations across all indicators for that dimension. The index value for each foundation represents the degree of foundation commitment to providing support in that dimension. Each foundation score on each index could theoretically range from 0 to 1.0. Since indicator scores represent a proportion of the total public policy grant funding provided by a foundation, the composite score for each foundation across all three dimensions could not exceed 1.0.

Once the indexes of dimensionality were constructed, Hypothesis 1 was tested. The hypothesis states:

Hypothesis 1: Public Policy/Public Affairs grant makers with higher levels of strategic investment in one dimension will also demonstrate higher levels of strategic investment in other dimensions.

The validity of Hypothesis 1 will be supported if the three sets of indexes demonstrate a strong positive correlation.

Table 5.8 Correlation of Three Indexes (N = 407)

<i>Spearman's rho</i>	Research and Communication	Resource Acquisition	Management and Governance
Research and Communication	1		
Resource Acquisition	.141*	1	
Management and Governance	.327*	.162*	1

**significant at the .01 level (2 tailed)*

Table 5.8 indicates that a moderate positive relationship exists between two indexes, research and communication and management and governance. Foundations that allocate funds in research and communication may also have a concern with the management and governance of the recipient organization. These two forms of organizational capacity also functionally contribute to the ability of non-profit policy actors to be effective in a policy system. Capable management and governance is the key to effective intervention in the system. Well managed organizations can wisely apply the research and communication capacity that they possess to achieve maximum effectiveness. Research and communication capacity has little value if it is not wisely applied by the organization. In sum, the brain and the hand must work together.

While public policy grant makers value both forms of capacity, there appears to be limited concern with the joint development of these capacities. Foundations award over 20% of their public policy funding in research and communication development. Almost

60% of public policy grant makers provide support for this type of organizational capacity. In contrast, foundations award less than 5% of all public policy funding in the development of management and governance capacity. Less than one-third of public policy grant makers allocate funds in this area of organizational capacity. The degree of support for research and communication is much stronger than the degree of support for management and governance.

Two sets of relationships, those between (1) research and communication and resource acquisition and between (2) management and governance and resource acquisition, do not demonstrate a strong association. In each case, support for one form of capacity development is a poor indicator of support for the other. While the statistical relationship between indicators in both cases is statistically significant, the weak association is of little consequence for supporting the validity of Hypothesis 1. It must be noted that this conclusion is based upon the observation of one year of grant making. A longitudinal review of grant maker practice may result in a different conclusion.

Earlier consideration was given to the inclusion of general operating support as one indicator of management and governance capacity development. While the indicator was not included in that index, general operating support has been considered as a valuable tool for capacity development (Drabble, 2000, 3). Public policy grant makers also allocated a substantial amount of funding for general operating support (8.51% of public policy grant funding). Consideration was given to possible relationship of this indicator with the three indexes that are described in Table 5.7. A correlation (Spearman's rho) between general operating support and the three indexes failed to indicate a significant relationship with any index. The correlation values ranged from .005 (research and communication) to .057

(management and governance). Despite its potential as a valuable form of support, foundations that demonstrate a commitment to capacity development tend not to provide support for general operating support.

The correlation of indexes fails to clearly demonstrate that foundation preference for providing support for one dimension of capacity development is associated with a preference for providing support in other dimensions. The analysis suggests that there may be some limited association between grantor commitment to fund research and communication and management and governance, but the giving practices concerning each dimension are notably different in scale and in the number of foundations that participate. It is possible that a limited number of public policy grant makers may engage in holistic investment. This suggests that the practice of holistic investment is limited and that grant maker support for organizational capacity may lack the careful consideration and deliberation that is implied by the concept of holistic investment.

The concept of holistic investment presumes that foundations are committed to allocating funds in the field of public policy for the purpose of strengthening the overall effectiveness of their policy actors. Grant makers that are committed to supporting public policy involvement are presumed to have a commitment to the development of policy actor capacity development. In the presence of limited support concerning the assumption that grant makers engage in holistic investment consideration must also be given to the assumption that there is a relationship between grant maker commitment to public policy grant making and the allocation of funds for capacity development.

In order to determine if foundations that are committed to public policy grant making are also committed to providing support for capacity development, an indicator of public

policy commitment must be identified. Foundation grant making is guided by the preferences of the organization. These preferences are evidenced by the types of grants that a foundation makes. Foundations that allocate a large portion of their grant funding for public policy can be viewed as committed to providing support for this type of activity.

The proportion of total grant funding awarded by a foundation that is allocated for public policy purposes will be used as an indicator of foundation commitment to provide support in this field. An analysis of the relationship between commitment to public policy grant making and commitment to providing support for capacity development will involve a statistical test of the relationship between the public policy commitment indicator and the indexes of capacity development. In addition to the utilization of the three dimensional indexes, a consolidated index composed of the values for all of the indicators that compose these three measures will also be employed. This measure, referred to as the “total index” serves as a general indicator of foundation commitment to investment in capacity development, irrespective of dimensional categorization. The results of this analysis are provided in Table 5.9.

Table 5.9 Test of Association Between Commitment to Public Policy Influence and Capacity Development (N = 407)

<i>Spearman's rho</i>	Research & Com. Index	Resource Acq. Index	Management and Gov. Index	Total Index
Policy Commitment	.332**	-.059	.326**	.229**

** significant at the .01 level (2-tailed)

The commitment of grant makers to funding public policy initiatives is found to demonstrate a relationship with foundation commitment to allocating funds for general

capacity development. A significant, but weak positive relationship exists between policy commitment and total index (.229). The strength of this association suggests that there is a limited tendency for grant maker commitment to capacity development to increase as its commitment to public policy grant making increases.

A stronger positive relationship exists between foundation commitment to public policy grant making and the commitment to providing funds for research and communication capacity development and management and governance capacity development. These relationships suggest that public policy grant makers may be more willing to support certain types of capacity development. In general, the relationship between commitment to providing public policy support and providing support for capacity development is limited.

The Next Step

John Kingdon portrays the development of public policy as a gradual evolutionary process that involves multiple sources of influence (2003, 76). It is a long-term process that engages the ongoing involvement of policy actors. According to Kindgon, successful policy actors are willing to invest resources in the policy system and hope for a future return (2003, 122). Staying power is essential to the success of a policy actor. At the heart of a policy actor's staying power is a sound organizational infrastructure that will support policy system involvement throughout the evolution of the process of policy development.

In this chapter, we have considered three dimensions of foundation investment in the organizational infrastructure of non-profit policy actors. Through this consideration, a pattern of holistic investment is not clearly visible. This finding expands upon the observations of Sally Covington who found evidence of systematic and strategic investment

in policy actor infrastructure (1997, 48). Such a pattern of investment does not appear to characterize the population of public policy grant makers as a whole.

The large volume of philanthropic support for public policy activities clearly demonstrates foundation interest in this type of support. It has also been shown that a large amount of public policy grant funding is allocated in support of the development of policy actor infrastructure. Foundations awarded 32% of the public policy funding for capacity development. Foundations that are committed to funding public policy initiatives demonstrate a limited commitment to funding capacity development.

In the next chapter further consideration will be given to public policy grant maker support for capacity development. While they may not be guided by holistic principles, grant makers demonstrate a preference for capacity development. Further consideration needs to be given to the characteristics of public policy grant makers that generally demonstrate a preference to allocate funding for capacity development. Consideration also needs to be given to the possibility that foundations are not equally committed to providing support in each dimension of capacity development.

Chapter 6: Public Policy Grant Makers: A Universe of Diverse Interests

In the previous chapters the concept of holistic investment has been considered as a behavior that characterizes American public policy grant makers. The presence of holistic investment among these philanthropies has been introduced in the literature by Colwell (1993), Covington (1997), and Krehely, House and Kernan (2003). The concept has been supported by a number of observations, including those that follow:

- In his work concerning the formation of interest groups, Jack Walker concluded that private foundations serve as sponsors for the formation of political action groups (Walker, 1991, 53).
- Evidence has been advanced that there are substantial government restrictions placed upon direct foundation involvement in the policy process that may stimulate foundations to fund others to engage in policy development.
- John Kingdon's work describes the policy process as a long-term evolutionary process requiring long term investment in policy systems by policy entrepreneurs (Kingdon, 2003, 76).
- Capacity development advocates promote foundation investment in the development of non-profit organization capacity building (Orosz, 2003, 5).
- It has been demonstrated that foundations expend large sums of money in the field of public policy, and that much of that funding supports infrastructure development..

While these observations hint that the holistic investment may be a grant maker practice, it was demonstrated in the previous chapter that, at best, it is a limited practice. While pockets of holistic investment may exist in some foundation circles, notably among

conservative philanthropies, traditional philanthropy appears to be less deliberate in the allocation of funding for capacity development among policy actors.

Holistic investment characterizes grantors as funders that utilize long-term vision and deliberation in the allocation of funds for capacity development. This suggests that foundations that are committed to public policy grant making will also be committed to promoting policy actor capacity development. It has been demonstrated earlier that foundation commitment to funding public policy grants has a limited relationship to commitment to allocate funds for grantee organizational development. Less deliberate grant making may be the product of the narrow focus and short-term vision of foundation grant makers.

Robert O. Bothwell argues that liberal and progressive public policy grant makers are “locked in policy silos” within which they engage in specialized grant making that promotes incremental changes in public policy (2001, 77). Incremental policy making has been defined as a process that produces small departures from the status quo (Lindblom, 1979, 519). This form of policy making is the product of American political ideology that is alleged to dominate policy change (Lindblom, 1979, 521). Policy change through small incremental steps reduces the risks that policy makers take. Little changes here and there do not challenge the political status quo.

Consistent with the ideology of political incrementalism, it has been argued that mainstream public policy grant makers do not take risks in the public policy arena (Bothwell, 2001, 67). Perhaps due to government restriction, these grant makers promote gradual policy change and provide piecemeal funding for highly focused and short term efforts to promote policy change. Incrementalist foundations fail to support highly

controversial policy initiatives or become visibly engaged as actors in the policy process due to the fear of incurring the wrath of lawmakers and regulators. These public policy grant makers have narrowly focused interests and a desire for immediate results from the expenditure of their grant funds.

Grant maker giving that is driven by narrow focus and short-term vision may be reactive in nature. Foundations may grapple with immediate concerns that non-profit policy actors bring to their attention rather than engage in a systematic review of their grantee's needs. Instead of looking at the long-term needs of recipient organizations, public policy grant makers may be confronted with addressing the immediate and pressing needs of their grantees. Grantees may be challenged with the demands of maintaining their immediate solvency and stability. Grant makers may also be limited by a narrow focus on target policy goals. Long-term policy actor effectiveness in a policy system may not be an overriding objective of many grant makers.

In the presence of limited holistic investment, the grant making practice of public policy funders requires further exploration. If grant makers engage in reactive philanthropy or they are blinded by tunnel vision their practice of grant making may reflect the random allocation of funding for organizational capacity. While the evidence that has been presented suggests that holistic investment is a limited practice, the data imply that some pattern of foundation funding for grantee infrastructure does exist. This is suggested by evidence of dimensionality within public policy grant making activity.

Previously, we have identified three dimensions of capacity development that receive grant maker support. These dimensions represent islands of concentrated funding that is manifest in the giving behavior of a portion of the public policy grant maker universe. The

behavior of these grant makers suggests some possible deliberation in the allocation of grant funding. Within this universe of grant makers are those that fund capacity development in reaction to impetus of would be grantees. Their allocations of funding may be uncoordinated and made without the deliberation and guidance of visionary funders. Finally, there are public policy grant makers that fail to provide support of any type for organizational capacity development.

While it is necessary to chart the islands of strategic investment that have been identified, it is also necessary to explore the large sea of public policy grant makers that surrounds those islands. This consideration will focus on the giving practices of 407 grant makers that have provided an impressive array of funding for activities concerned with public policy. Attention will be given to foundation attributes that may help to identify and explain what types of foundations engage in funding capacity development.

The Characteristics of the Capacity Development Funder

Public policy grant maker funding for capacity development involves the allocation of funds for many types of activities. Fifteen specific types of support have been defined in this study as components of three dimensions of investment. In combination, the indicators for these types of support provide a broad barometer of support for organization capacity building. Each giving activity potentially represents an effort by a foundation to improve the effectiveness of a policy actor. Altogether, grants for these activities constitute almost 32% of all public policy grant funding.

Among the 407 grant makers considered here, there are 277 foundations that have awarded some public policy funding in the capacity development of policy actors. The range of support provided by these funders varies widely. The John Randolph Haynes and

Dora Haynes Foundation and the Laurel Foundation allocate all of their policy funding for policy actor capacity building. In contrast, the Scherman Foundation awarded less than 1% of its public policy grant funding for this purpose. Within this spectrum of commitment is a collection of grant makers that have diverse interests and a varying desires to influence public policy.

Foundations that are committed to promoting the capacity of policy actors demonstrate that commitment through their grant making. Commitment is measured here by the proportion of public policy grant funding that a foundation allocates for capacity development activities. Through the use of a collective index of investment, composed of 15 indicators, it is possible to discern which public policy foundations demonstrate the greatest commitment. The ten foundations that demonstrate the greatest commitment are listed in Table 6.1.

Table 6.1 Ten Public Policy Grant Makers that Demonstrate the Greatest Commitment to Capacity Development

Name	State	Total Resources	Policy Grants	Policy Funding	Res. & Comm. Index	Res. Acq. Index	Man. & Gov. Index	Total Index
1 The John Randolph Haynes and Dora Haynes Foundation	CA	\$53,634,964	5	\$306,464	1.0000	0.0000	0.0000	1.0000
2 Laurel Foundation	CA	\$4,078,801	9	\$185,000	1.0000	0.0000	0.0000	1.0000
3 Timken Foundation of Canton	OH	\$282,885,970	7	\$596,562	0.2514	0.7486	0.0000	1.0000
4 Hoblitzelle Foundation	TX	\$135,376,041	5	\$525,000	0.1905	0.8095	0.0000	1.0000
5 The Spencer Foundation	IL	\$547,388,994	40	\$2,702,175	0.8881	0.0000	0.0934	0.9815
6 United States-Japan Foundation	NY	\$100,215,866	13	\$1,012,976	0.9630	0.0000	0.0099	0.9729
7 Jay and Betty Van Andel Foundation	MI	\$180,843,393	5	\$2,607,256	0.0000	0.9650	0.0000	0.9650
8 Peter Kiewit Foundation	NE	\$493,199,434	26	\$6,312,685	0.0000	0.9490	0.0000	0.9490
9 The Greater Kansas City Community Foundation and Affiliated Trusts	MO	\$458,837,689	9	\$3,134,834	0.0000	0.9340	0.0000	0.9340
10 Hillcrest Foundation	TX	\$157,276,910	6	\$235,000	0.1489	0.7660	0.0000	0.9149

Few of the ten foundations listed in Table 6.1 can be categorized as prolific grant makers. Seven of the public policy grant makers made fewer than ten public policy grant awards. Five foundations allocated less than \$1 million for public policy. However, in all cases the grant makers provided over 90% of their public policy grant funding for some form of capacity development. Four organizations allocated over 80% of their funding for research and communication. Four organizations allocated over 80% of their funding for resource acquisition capacity. Only two investors allocated funding for management and governance capacity development.

Each of the ten grant makers listed above represents a unique organization that is driven by its own mission and the individual interests of its donors and the members of its board of directors. In order to help understand the divergent nature of these grant makers, it is useful to consider a few of these organizations in more detail. A brief description of several of these funders is provided below.

The John Randolph Haynes and Dora Haynes Foundation: This small California based independent foundation was established in 1926. It provides support in the Los Angeles area to encourage study and research regarding the causes of local social problems. The foundation's web site indicates that the aim of grant making is to further "the betterment of mankind" (Haynes, 2004). The foundation makes awards which "show promise of influencing policies and practices" concerning issues identified by the foundation. All of the foundation's public policy grants were used to support research and communication capacity development. Five public policy grant awards by this foundation are recorded in the Foundation Center's data. Four of these awards support research concerning welfare

programs, transit systems, term limits for elected officials, and policies concerning abused and neglected children. One award for media support was awarded to a local broadcasting station in support of a public policy program called “Which Way L.A.?” The public policy grant making of the John Randolph Haynes and Dora Haynes Foundation reflects an interest in promoting policy development that addresses social problems in the community.

United States-Japan Foundation: the Nippon Foundation, an affiliate of the Japan Shipbuilding Industry Foundation, established this independent foundation in New York in 1980 through a donation. The foundation’s web site states that the purpose of the foundation is to “improve understanding between the two countries.” It lists former presidents Jimmy Carter and Gerald Ford as honorary advisees. Funds are provided for research and communication projects that promote an awareness of Japanese/American relations and projects that “deal with concrete issues that affect the bilateral relationship” (United States, 2004). Foundation funds are used to support policy studies and dissemination related to this objective. Approximately 96% of the foundation’s public policy awards were used in this way. Seven awards were provided for research concerning international issues related to trade, environmental protection, and security. Three awards were provided for exhibits including the development of web site links related to Japanese affairs and initiatives to link high schools in both Japan and the United States through Internet communication. Support was also provided for a conference that brought together senior statesmen and academicians from both nations to study current issues of international concern. The public policy grant making of the United States-Japan Foundation reflects an interest in the development of policies that promote favorable trade relations between the United States and Japan.

The Spencer Foundation: The Spencer Foundation is the largest philanthropy among the ten investors described here. The foundation was established in 1962 to promote educational research. Its mission is “to investigate ways in which education can be improved around the world” (Spencer, 2004). Most of the foundation’s public policy grant awards were made to universities. Other awards were provided to professional associations and research agencies affiliated with the field of education. Approximately 89% of its public policy funding was allocated for research and communication grants. The majority of these awards (30) were provided in support of educational policy research at both the national and local level. These awards included support for research related to school choice, discrimination in school systems, evaluations of local school policies, and the effect of state education policies on local school systems. Five awards were provided for conference support, including awards for a conference promoting research on education in “liberal-democratic” societies, and a conference devoted to the role of education in the development of democratic behavior among the young. The public policy grant making of the Spencer Foundation reflects support for efforts to influence national and regional education policy.

Jay and Betty Van Andel Foundation: This independent foundation was established in 1963 in Michigan. The grant maker focuses its giving within Michigan, largely in the Grand Rapids area. Numerous grants are made to Christian organizations including schools, family service organizations, advocacy groups, and missionary organizations. Nearly all of the foundation’s policy funding was allocated to promote the resource acquisition capacity of recipients. Five recipient organizations include the Hudson Institute and the Heritage Foundation, two large national conservative think tanks. The Hudson Institute received a

contribution for its annual campaign. The Acton Institute for the Study of Religion and Liberty received a challenge grant. Annual campaign support was provided to a regional public policy organization. Finally, the Van Andel Institute was the recipient of a large contribution for its building campaign. The foundation does not issue an annual report or sponsor a web site. The public policy grant making of the Jay and Betty Van Andel Foundation reflects an interest in supporting the development of conservative policy at the national, regional and local levels.

Peter Kiewit Foundation: This organization was founded in 1975 in Nebraska. Much of the foundation's funding is provided for activities in communities across Nebraska. The foundation provides funding in the areas of community development, civic affairs, health and social services, and for youth programs. Many awards are made on a matching or challenge basis. Special grant programs have been developed to provide funds to cities and social service agencies for the development of city parks and youth recreation programs. Approximately 95% of the foundation's public policy funding was allocated for resource acquisition capacity development. All but one of the foundation's twenty-six public policy awards were made for municipal capital improvement projects for the development of culture, arts, and recreation facilities. Public policy giving by the Peter Kiewit Foundation reflects its interest in the improvement of civic life.

The Greater Kansas City Community Foundation: The Kansas City Community Foundation is a typical community foundation. It seeks to mobilize community resources for the improvement of civic, social, and cultural life. The foundation allocates funds in the two state Kansas City area. It provides support for a myriad of activities that reflect the more than 1,500 charitable funds that it administers for community donors. The organization

promotes itself as a donor service organization. It exists to facilitate the charitable contributions of community givers. In the Kansas City area, the foundation has served as a leader for the development of urban renewal initiatives, services for children, and improvement of race relations. Over 90% of the foundation's public policy funding was allocated in support of resource acquisition capacity development. Grants were made to local governments and social service organizations for capital development and facility improvement. The public policy grant making of the Greater Kansas City Community Foundation reflects an interest in helping local government to improve public facilities.

These examples represent a broad array of public policy grant making. Some of the foundations described above are not large, but their interests range from narrowly focused to broad. One small grant maker, the Jay and Betty Van Andel Foundation, allocates funds to support national policy making efforts. The Spencer Foundation is a national leader in the development of education policy. The Haynes Foundation supports grass roots efforts to develop social policies that better the community. Municipal capital improvement is a major objective of the Kiewit Foundation. Each of these organizations demonstrates its commitment to support the capacity development of organizations it funds. These organizations include both non-profit policy actors and governments themselves. There is diversity in interest and grant making practice among public policy grant makers.

In Table 6.2 the foundations in the study group have been characterized according to their total index values. This table divides funders into four quartile ranges of variance base on this index value. A category of public policy grant makers that do not support capacity development is also included. This table allows for a comparison of public policy grant makers according to their level of total commitment to capacity development.

Table 6.2 Attributes of Capacity Development Funders (N=407)

Total Index Range	N	Total Resources	Policy Grants	Total Policy Funding	Policy Commitment Index	Res. & Com. Index	Res. Acq. Index	Man. and Gov. Index	Total Index
.75 to 1	26	\$539,096,199	12	\$1,413,571	0.1844	0.4257	0.3759	0.0907	0.8922
.50 to .74	43	\$693,359,460	27	\$6,612,588	0.1673	0.2135	0.3492	0.0585	0.6212
.25 to .49	89	\$1,130,325,849	60	\$13,535,085	0.2590	0.2030	0.1036	0.0517	0.3582
>0 to .24	119	\$457,202,293	43	\$4,875,496	0.2142	0.0755	0.0188	0.0230	0.1173
0	130	\$161,359,408	13	\$743,377	0.1009	0	0	0	0

Many foundations allocated 25% or more of their public policy grant funding in support of grantee capacity development. Interestingly, the foundations that allocated the highest proportion of their grant funding in this manner also, on average, made the smallest number of policy grants and allocated a relatively small amount of funding for policy grant making. Foundations with the highest level of commitment to capacity development did not demonstrate the highest level of commitment to the funding of public policy activities. Among foundations that allocated over one-half of their policy funds for capacity development, the policy commitment index, a ratio of policy grant funding to total grant funding, was lower than for other foundations that made capacity development grants. The largest public policy grant makers (i.e. those with total index scores of .25 to .49) allocated a relatively smaller proportion of their policy funding for capacity development, but demonstrated the highest level of policy commitment among public policy grant makers.

Grant Making Capacity

In Chapter 2 we discussed the relationship between grant maker giving capacity and commitment to capacity development. The expected relationship between grant maker giving capacity and investment commitment is stated in Hypothesis 2.

Hypothesis 2: Foundations that possess greater grant making ability will have higher levels of strategic investment in each dimension.

A simple measure of foundation grant making ability is the amount of total resources that are available to each organization. It is possible, however, that a foundation's total resources may not represent its true capacity to make grants at a given point in time. Foundations may obligate awards in one year that commit assets in future years. Other constraints, such as foundation asset management practices, may also result in differences in the ability of a grant maker to issue awards from one year to another. Due to these considerations a second measure of grant making capacity will be considered. This measure is the actual total grant funding awarded for all grants.

Table 6.3 Index Values by Foundation Total Resources

Total Resources	Policy Number Grants	Total Policy Funding	Res. & Com. Index	Res. Acq. Index	Man. & Gov. Index	Total Index	
Over \$10 billion	2	78	\$113,183,365	.1972	.1682	.0000	.3654
\$5 billion to \$10 billion	5	443	\$141,629,450	.2962	.0488	.0492	.3942
\$2 billion to \$5 billion	11	118	\$40,132,389	.1970	.1556	.0348	.3874
\$1 billion to \$2 billion	23	63	\$12,326,561	.1412	.0813	.0347	.2572
\$500 million to \$1 billion	32	35	\$3,336,444	.1608	.1456	.0405	.3469
\$100 million to \$500 million	162	28	\$1,858,403	.1133	.1219	.0390	.2741
Less than \$100 million	172	16	\$786,227	.0960	.0446	.0185	.1591
ALL	407	33	\$5,411,646	.1162	.0890	.0300	.2353

If Hypothesis 2 is valid, foundations with greater grant making capacity, as measured by the amount of total resources that they control, should also demonstrate higher levels of funding allocation for capacity development. As the wealth of a foundation rises, the funding it allocates for capacity development should also rise. Table 6.3 provides an overview of seven categories of foundations, categorized by their total resource size. The index values for the resource categories demonstrate a limited pattern of relationship between foundation resources and funding commitment. Foundations in the highest three categories demonstrate the highest total index values and foundations with total resources of less than \$100 million show the lowest total index values. An overview of funding commitment across categories of total grant funding is presented in Table 6.4.

Table 6.4 Index Values by Foundation Total Grant Amount

Total Grant Funding	Number	Policy Grants	Total Policy Funding	Res. & Com. Index	Res. Acq. Index	Man. & Gov. Index	Total Index
Over \$100 million	13	259	\$99,205,807	.2247	.0416	.0447	.3110
\$50 million to \$100 million	22	85	\$14,040,093	.1313	.1649	.0252	.3214
\$30 million to \$50 million	22	57	\$6,698,088	.1295	.0746	.0342	.2383
\$10 million to \$20 million	112	30	\$2,382,887	.0992	.1255	.0369	.2616
\$5 million to \$10 million	105	17	\$959,665	.0977	.0801	.0151	.1929
Less than \$5 million	133	15	\$668,993	.1298	.0599	.0346	.2244
ALL	407	33	\$5,411,646	.1162	.0890	.0300	.2353

While Table 6.4 demonstrates a corresponding increase in foundation total grant funding and foundation policy funding, a corresponding trend of increasing total index values is not evident. Index values for funding for research and communication show a consistent and gradual pattern of increase as the amount of total grant funding increases

across foundations. In general, however, the pattern of index values provides limited visible evidence that foundations that distribute more grant funding have a greater commitment to funding for capacity development.

The final test of Hypothesis 2 will be the correlation of index values with the two measures of grant making capacity that have been considered here. In testing this hypothesis index values for each dimension and for the total index will be employed. Table 6.5 summarizes the results of these correlations.

Table 6.5 Correlation Matrix – Measures of Investment Commitment and Grant Making Capacity (N=407)

<i>Spearman's Rho</i>	Res. & Com. Index	Res. Acq. Index	Man. and Gov. Index	Total Index
Total Resources	.277*	.321*	.328*	.354*
Total Grant Funding	.128*	.242*	.232*	.147*

* Correlation is significant at the .01 level (2-tailed)

Both total resources and total grant funding demonstrate significant positive relationships with each index. Because of a strong correlation between the two variables (.717) it is evident total resources and total grant funding are not independent and should not be used as discrete and separate predictors of index value. The set of correlations for total resources demonstrates a substantially stronger set of relationships between that variable and each index. As the amount of funding available to a public policy grant maker increases, the proportion of funds allocated for capacity development also tends to increase. Wealthier foundations tend to demonstrate a higher degree of commitment to funding policy actor capacity than foundations with less wealth.

The results of the correlation analysis demonstrate support for the validity of Hypothesis 2. In all cases, a significant positive relationship exists between total resources and each index. Foundations that possess greater grant making ability tend to allocate a larger portion of their public policy funding for capacity development. The strongest association among indexes occurs with the total index. Foundation grant making capacity is a stronger predictor of foundation commitment to capacity development in general than it is for the three specific dimensions of investment. This suggests that commitment to provide funds for capacity development of all types is greater among foundations that can award more grant funding.

Foundation Management Capacity

A guiding principle of strategic investment is that a grant making organization engages a carefully planned and implemented effort to maximize a return for the allocation of grant funding. The actions of foundations, like other organizations, are guided by their mission and their board. In turn, this guidance provides a basis for the determination of achievable outcomes for organizational action. The management of a portfolio of grant funding initiatives is expected to facilitate outcome achievement. An effective foundation is expected to be well managed. In turn the well-managed foundation is expected to have access to the resources that are needed for the management of a portfolio of grantees.

Earlier, two indicators of foundation management capacity were presented. The first indicator is the level of staffing available to a foundation for portfolio management. A second indicator of foundation management capacity is the proportion of expenditures made by the foundation for costs other than direct grant awards. A foundation's capacity to manage strategic investment would serve as an important resource for the imposition of

influence in a policy system. This is a resource that must be carefully developed and refined. Thus, it is expected that the management resource indicators will demonstrate a strong positive relationship with each index of strategic investment. This is consistent with Hypothesis 3:

Hypothesis 3: Foundations, which possess greater management resources, will have higher levels of strategic investment in each dimension.

Without directly surveying individual foundations, it is not possible to directly measure each foundation's true capacity for portfolio management. However, it is possible to approximate the staff resources of individual foundations. Under the assumption that all staff positions contribute either directly or indirectly to portfolio management, a ratio of grant awards to staff provides a rough indicator of a foundation's capacity to manage its portfolio.

The use of the grant to staff ratio as an indicator of foundation management capacity must be qualified. All foundations are not created equal. The circumstances of operation for one philanthropy may differ from those of another. Community foundations, for example, tend to employ more staff than other types of foundations. These organizations are dependent upon community based fund-raising. Due to their dependence upon the benevolence of individuals in the community, community foundations tend to promote community relations and community involvement with more energy than independent foundations or corporate foundations. Corporate foundations, on the other hand, often rely upon their parent company for supplemental staff support and may not need to hire a large number of staff. Table 6.6 provides a summary of foundation commitment to capacity development as categorized by grant to staff ratio.

Since strategic investment would be the product of the application of staff resources to cultivate a grantor’s portfolio of funding, staff are an important resource. It is expected that as foundation commitment to capacity development increases, organizational staff resources should increase. In Table 6.6 an inverse relationship is expected to exist between index values and the grant staff ratio. A lower grant staff ratio represents a smaller burden of grantors per foundation staff person. Where the grantor burden is low, staff have more time to become involved with grantors and oversee their activities.

Table 6.6 Index Values by Grant/Staff Ratio³ (N=315)

Grant/Staff Ratio	Number	Total Resources	Policy Grants	Total Policy Funding	Res. & Com. Index	Res. Acq. Index	Man. and Gov. Index	Total Index
Over 100	62	\$138,084,579	20	\$961,132	.0438	.0909	.0318	.1665
60 to 99.99	32	\$619,155,680	28	\$2,938,498	.0524	.1277	.0071	.1871
50 to 59.99	25	\$557,120,087	40	\$8,607,656	.0692	.1095	.0310	.2097
40 to 49.99	21	\$276,175,644	28	\$1,933,363	.0862	.1660	.0182	.2704
30 to 39.99	30	\$468,137,520	26	\$5,328,685	.1739	.1089	.0434	.3262
20 to 29.99	46	\$306,107,401	32	\$2,639,852	.1627	.0939	.0381	.2947
10 to 19.999	62	\$817,450,055	43	\$7,831,214	.1914	.0721	.0572	.3206
> 0 to 9.99	37	\$1,276,333,649	82	\$17,725,639	.2440	.0766	.0390	.3596
Avg Ratio	72.59							

Table 6.6 demonstrates such a relationship between grant staff ratio and the total index and index for research and communication. The total index value for grantors that possess a grant staff ratio of over 100 is approximately one-half the index value for foundations with a grant staff ratio that is greater than 0 but less than 10. Foundations with a stronger commitment to capacity development in all categories provide more staff resources for the management of their portfolios. Grantors that are concerned about the capacity of

³ Information concerning foundations with no staff was omitted from Table 6.6. Ninety-two foundations fell into this category. It is probable that information about staffing for these organizations is simply not available. Some foundations fail to report information about their staff resources. Others, particularly corporate foundations, may rely upon staffing from sponsoring agencies to perform administrative tasks. To report these foundations with a grant to staff ratio of “0” is not an accurate representation of the likely resource availability of these organizations.

grantees are willing to obligate the resources needed to insure that their grant funding is effectively used to promote the welfare of policy actors.

The indicator grant/staff ratio is intended only to capture the level of staffing available to foundations for the management of their grant portfolios. Foundations expend their funding to procure support from other sources as well. These sources include external consultants, technical specialists, technical assistance, and financial management companies. As noted earlier, funds are also expended for basic operating costs that include rent, utilities, and other support expenditures. The support ratio represents the proportion of foundation expenditures for all of these costs, including staff. Table 6.7 provides a summary of commitment to capacity development by support ratio.

Table 6.7 Index Values by Support Ratio (N=407)

Support Ratio	Number	Total Resources	Policy Grants	Total Policy Funding	Res. & Com. Index	Res. Acq. Index	Man. & Gov. Index	Total Index
> .50	20	\$779,560,409	36	\$2,763,647	.2379	.0848	.0224	.3452
.40 to .50	24	\$518,444,760	56	\$7,422,268	.0682	.0671	.0219	.1572
.30 to .40	33	\$255,509,143	33	\$3,283,582	.1643	.1163	.0475	.3281
.20 to .30	93	\$832,508,472	47	\$10,665,898	.1287	.0541	.0422	.2250
.10 to .20	111	\$470,136,753	30	\$4,789,999	.1305	.1047	.0414	.2766
0 to .10	126	\$426,504,784	21	\$2,675,840	.0716	.0987	.0092	.1795
Total	407	\$540,082,935	33	\$5,411,646	.1162	.0890	.0300	.2353

Avg Ratio 0.20

The foundation support ratio reflects an increase in foundation costs related to the value of the grant funding allocated by the foundation. A foundation with a higher ratio is spending a greater proportion of its funds for costs other than grants than a foundation with a lower ratio. The pattern of expenditure for support costs is expected to increase as index values increase. A pattern of index value increase is not evident as foundation support ratio

increases. Foundation commitment to capacity development appears to have no clear relation to the level of expenditure for non-grant related costs.

Based upon Hypothesis 3, a strong statistical relationship is expected between measures of foundation management capacity and the indexes of investment commitment. The information we have considered suggests that the expected inverse relationship between grant/staff ratio and investment is present. A relationship between the support ratio and commitment to investment is not clearly evident. The results of the statistical analysis of the relationship between management capacity and the indexes are presented in Table 6.8.

The results of the correlation analysis support the hypothesized relationship between foundation management capacity and commitment to investment. An expected significant negative relationship exists between grant staff ratio and the total index. As commitment to all forms of strategic investment increases, foundations tend to employ more staff for the management of grantee portfolios. A similar relationship exists between grant staff ratio and the research and communication index and, to a lesser degree, with management and governance index. Foundations that are committed to capacity development appear to be willing to employ the staff needed to promote the long-term welfare of their grantees.

The support ratio is not as effective a predictor of public policy grant maker commitment to funding for capacity development. Consistent with Hypothesis 3, significant positive relationships exist between the support ratio and the total index. A significant positive relationship also exists with the research and communication index. The strength of these relationships, however, is not as great as it is for grant/staff ratio.

Table 6.8 Correlation of Management Capacity with Indexes (N=407)

<i>Spearman's Rho</i>	Res. & Com. Index	Res. Acq. Index	Man. and Gov. Index	Total Index
Grant/Staff Ratio⁴	-.363*	-.011	-.234*	-.322*
Support Ratio	.226*	.007	.198*	.218*

* Correlation is significant at the .01 level (2-tailed)

Use of the indicators of grant/staff ratio and support ratio contribute to understanding the factors that influence foundation support for capacity development. Increases in staff resources and increases in expenditures for contractor support and technical assistance generally occur as increases in the proportion of support for capacity development increases. The fact that both grant/staff ratio and support ratio are highly correlated (-.489) reflects the fact that they are not mutually exclusive indicators. Due to the strength of the relationship between grant/staff ratio and external communication, the degree of staff resources possessed by a public policy grant maker appears to be a better indicator of commitment to capacity development than the level of non-grant expenditures made by a grant maker.

⁴ Note that the correlation of the grant/staff ratio indicator with each index is reported based upon an analysis of 407 cases. This presentation is made to simplify the comparison presented in Table 6.8. Consideration was given to the effect that 92 foundations with a grant/staff ratio of “0” would have upon the analysis. A separate analysis of the restricted group of 315 foundations for which a grant/staff ratio could be determined produced a set of correlations which was marginally different from the correlation results involving the entire study group. For example, the “study group” correlation between grant/staff ratio and research and communication is -.363. The correlation for the restricted group is -.368. Similar, small differences exist between the remaining sets of correlations. A comparison of the correlations for both sets of data is presented below.

<i>Spearman's Rho</i>	Res. & Com. Index	Res. Acq. Index	Man. and Gov. Index	Total Index
Grant/Staff Ratio (n=407)	-.363*	-.011	-.234*	-.322*
Grant/Staff Ratio (n=315)	-.368*	-.002	-.222*	-.313*

This analysis shows that foundations that control larger amounts of financial resources and maintain a low grants to staff ratio tend to allocate a higher proportion of their public policy grant funds for capacity development. Richer, well-staffed foundations place a higher emphasis upon promoting infrastructure development. The foundations that are included in the study group have very diverse interests. The next step in this analysis is to examine the giving interests of those organizations.

Foundation Interests and Investment

Table 4.6 in Chapter 4 provides an overview of the fields of interest that are represented in public policy grant making. The National Taxonomy of Exempt Entities (NTEE) categorizes the fields of interest that will be considered here. The NTEE is a classification scheme that was devised in cooperation with the Internal Revenue Service to categorize tax-exempt organizations. As shown below the taxonomy includes twenty-four categories that are consolidated into ten major divisions. Each major division represents an array of fields that represent a broad area of interest to philanthropies. Fields are provided in italics.

Art and Culture (*art, culture, humanities*)

Education

Environment (*environmental quality, animals*)

Health (*general health and rehabilitation services, mental health, disease specific health, medical research*)

Human Services (*public protection, delinquency prevention, legal services, employment and jobs, food, nutrition, agriculture, housing and shelter, public safety, emergency management, recreation, leisure, sports, youth development, multi purpose human services*)

International Affairs

Public/Society Benefit (*civil rights, social action, advocacy, community improvement, capacity building, philanthropy, volunteers, grant making, multi-purpose public/society benefit*)

Science (*science and technical research*)

Social Science (*social science research*)

Religion

The ten broad fields of interest listed above will be considered in testing Hypothesis 4. Hypothesis 4 is restated below.

Hypothesis 4: “Foundations with higher levels of giving in a specific policy field will have higher levels of strategic investment in each dimension”.

The proportion of public policy grant funding that has been awarded in that field by each foundation will measure foundation interest in each field. In Chapter 3 this measure is referred to as the “preference ratio.” This proportional measure of each foundation’s public policy grant making provides an indicator of how important a field is to a foundation in comparison to other fields. This measure is standardized in comparison to the funding provided in that field by other foundations.

In order to test Hypothesis 4, the foundation preference ratio for foundations within each field of interest is correlated with foundation investment index values. Spearman’s rho was again used as the method of correlation. It is hypothesized that foundations that have a higher degree of interest in a specific field, as measured by the preference ratio, will also allocate a higher proportion of public policy grant funding for capacity development. The results of the correlation analysis are provided in Table 6.9.

Table 6.9 Correlation Between Preference Ratios and Index Values (N=407)

<i>Spearman's rho</i> Field	Res. & Com. Index	Res. Acq. Index	Man. and Gov. Index	Total Index
Art and Culture	.311**	.074	.154**	.187**
Education	.368**	.256**	.306**	.412**
Environment	.175**	-.015	.309**	.052
Health	.263**	.027	.196**	.176**
Human Services	.149**	.012	.200**	.096
International Affairs	-.097	-.171**	.002	-.241**
Public/Society Benefit	-.371**	-.146**	-.221**	-.351**
Science	.153**	-.013	.089	.062
Social Science	.227**	-.103*	.193**	.092
Religion	-.109*	.096	.151**	.095

* significant at .05 level (2-tailed)

** significant at .01 level (2 tailed)

Some fields of interest can be characterized by their concern with broad groups of people. Brent Andersen notes that the fields of health care and education involve problems that affect large numbers of people, both rich and poor alike (2002, 26). Non-profit organizations that are active in policy making in these fields tend to be well established and recognized actors in the policy community. The allocation of funding for infrastructure development has been recognized as an activity that is driven by status quo oriented funders that provide support based on “class affinity” (Bothwell, 2001, 78). Givers with an interest in these fields often want to preserve the status quo. Givers with this orientation tend to have an interest in health care, education, the arts and recreation rather than social change (Bothwell, 2001, 78). In contrast to status quo investment, foundations that provide grants in more progressive and potentially volatile areas of interest have been categorized as “project driven” and oriented toward the achievement of short-term objectives (Bothwell,

2001, 75). These grantors provide for social action grants that tend to promote the rights and interests of disadvantaged groups. Existing research suggests that giving in progressive interest areas is less prone to encourage the allocation of funding for policy actor capacity development.

The findings presented in Table 6.9 appear to compliment previous observations regarding the giving interests of foundations that demonstrate interests in status quo fields and progressive fields. Correlation values for the total index suggest that in the fields of education, arts and culture, and health as interest in funding within the field increases, commitment to funding capacity development also increases. This tendency is the most evident among grant makers in the field of education. Among education funders, as interest in the field increases, funding for all three dimensions of capacity development also increases. Awards for research and communication and management and governance capacity tend to increase as grant maker interest in art and culture and health increase.

Public policy grant makers in the fields of public/society benefit shows a significant tendency toward decreasing their commitment to capacity development as their interest in that field increases. This tendency toward a decrease in investment occurs in all three dimensions of strategic investment. Typical areas of progressive giving, such as civil rights, social action giving, and advocacy compose category of grant making that is labeled “public/society benefit.” A trend toward less involvement in infrastructure investment by foundations that are interested in support for issues in these fields suggests that previous observations that have been made concerning progressive grant makers are valid.

The findings presented above suggest that Hypothesis 4 can be applied only to certain areas of giving. Commitment to capacity development appears to increase when the

interest of grant makers in the fields of arts and culture, health, and education increases. Hypothesis 4 appears to be invalid when applied to foundations with interests in other fields, including public/society benefit and international affairs. This test of Hypothesis 4 appears to support existing literature in the field of public policy grant makers.

Ideology

In Chapter 3 the method for identifying two groups of ideologically polarized foundations was discussed. Two groups of foundations were identified within the study group based on the “membership” of the foundations in one of two sets of independently categorized organizations. A group of “conservative” foundations was identified by matching the names of public policy grant makers included in the study group with a list of seventy-nine conservative philanthropies identified through the research of the National Committee for Responsive Philanthropy (NCRP). A total of twenty-one foundations that have been classified as “conservative” by the NCRP were identified in this manner.

A second group of twenty-seven liberal foundations was identified by comparing the list of organizations included in the study group with a list of members of the National Network of Grantmakers (NNG). NNG is an association of philanthropies that provides support for progressive groups through social action grants. These grants benefit underserved and disadvantaged people. Foundations that engage in grant making to support these groups will, for the purposes of this study, be characterized as ideologically liberal in orientation (Bothwell, 2001, 68).

Recent research by the National Commission for Responsive Philanthropy has focused criticism upon the giving practices of conservative foundations. These foundations provide support for “socially conservative policies that seek to advance so called traditional

values” (Krehely, 2004, 7). The production and promotion of information that supports conservative policies is an important part of the development of research and communication capacity. National and state level think tanks are among the major recipients of conservative funding (Krehely, 2004, 17). These organizations are responsible for research and publicity activities that encourage the adoption of policy consistent with preferred values.

Critics of conservative philanthropy contrast the giving practices of these organizations with the practices of other foundations. The notable difference concerns the allegation of deliberate and targeted “investment” of conservative funding in the capacity development of their policy actor affiliates. Hypothesis 5 reflects this ideologically oriented allegation.

Hypothesis 5: Foundations that are characterized as ideologically conservative will demonstrate higher levels of strategic investment in each dimension than foundations that are not characterized as ideologically conservative.

Assuming the validity of this hypothesis, conservative foundations should demonstrate higher levels of commitment to capacity development than their liberal peers. Prior to testing this hypothesis, it is important to review the grant making practices of the conservative and liberal groups that will be compared. Table 6.10 provides a comparison of the conservative and liberal foundations included in the study group.

Table 6.10 Investment by Ideologically Categorized Public Policy Grant Makers

	Conservative Foundations	Liberal Foundations
Number	21	27
Total Resources (mean)	\$232,492,703	\$1,179,640,602
Grant/Staff Ratio	13.36	13.55
Policy Awards (mean)	35	89
Policy Funding (mean)	\$3,814,834	\$17,059,333
Total Index	.2049	.1482
Res. & Com. Index	.1474	.0806
Res. Acq. Index	.0445	.0134
Man. & Gov. Index	.0129	.0542

The number of ideologically categorized foundations represents only about 12% of the foundations in the study group. Due to this, caution must be exercised in making comparisons between the information provided for ideologically categorized groups and the broad group of public policy grant makers. However, some comparisons can be made. For example, a noticeable difference exists between the total resources controlled by ideologically characterized foundations and the total group. Conservative foundations tend to be much smaller than their liberal peers. The average total funding provided by each group for public policy grants follows the same pattern.

Liberal foundations have been referred to as “leviathans,” or grant making giants (Dowie, 2001, 32). The total resources controlled by the foundations of this ideological group support this characterization. Earlier in this chapter, the validity of Hypothesis 2 was tested. It was concluded that as foundation grant making capacity (measured by total resources) increases, foundations tend to increase their commitment to policy actor capacity development. A comparison of the total index values for conservative and liberal foundations appears to contradict this finding. Despite the substantially larger amount of

grant making capacity of liberal foundations, their commitment to investment appears to be less than the commitment of their conservative peers. Conservative foundation commitment is also greater for the research and communication and resource acquisition indexes.

Ideologically categorized foundations also have different policy interests. Table 6.11 presents the preference ratios for each foundation category.

Table 6.11 Preference Ratios of Ideologically Categorized Foundations

	Conservative Foundations (N=21)	Liberal Foundations (N=27)
Art and Culture	.0526	.0276
Education	.1473	.0665
Environment	.0094	.1242
Health	.0151	.0934
Human Services	.0787	.1374
International Affairs	.0302	.0566
Public/Society Benefit	.6076	.4725
Science	.0000	.0027
Social Science	.0311	.0122
Religion	.0273	.0071

Earlier it was observed that foundations that have a greater commitment to capacity development also tend to have a greater interest in policy in the fields of the arts and culture, health, and education. It was also observed that as foundation interest in public/society benefit increased, commitment to capacity development tended to decrease. Table 6.11 provides a contrast to this finding. While conservative foundations demonstrate a greater commitment to capacity development (as measured by the total index), they also demonstrate a greater interest in policy issues related to public/society benefit. While conservative foundations do demonstrate a stronger interest in education and arts and culture than their liberal peers, the proportion of policy funding allocated in these areas is small when compared to the funding allocation for public/society benefit.

The relatively strong interest in public/society benefit that is demonstrated by foundations that are ideologically classified as conservative also appears to contrast with traditional perceptions of this type of foundation. Conservative foundation grant making has been viewed as an elite reaction to the support provided by liberal foundations to socially progressive causes. If public/society benefit truly represents progressive grant making, conservative foundations appear to be more dedicated in their support of social change than their liberal counterparts.

The test of Hypothesis 5 involves a simple test of the difference between the mean index values for the conservative and liberal groups. A “Student’s t test” is used to test for the significance of the difference between the index values for these groups. The results of this comparison are provided in Table 6.12.

Table 6.12 “t-test” for Equality of Means for Indexes of Ideologically Categorized Foundations

<u>Index</u>	<u>t*</u>	<u>df</u>	<u>Significance (2 tailed)</u>	<u>95% Confidence Interval</u>	
Research and Communication	.415	36.088	.680	-6.738	to 10.209
Resource Acquisition	.782	44.821	.438	-8.023	to 3.536
Management and Governance	2.482	45.298	.017	-15.87	to -1.652
Total	.283	38.003	.779	-7.300	to 9.670

Information concerning the “t-test for equality of means” provided in Table 6.13 indicates that the difference of means for the total index is not statistically significant. This indicates that any perceived difference in total index values between conservative and liberal foundations cannot be statistically validated. There is a substantial probability that the difference in the mean values for the total investment index for conservative and liberal

foundations that appear to be present in Table 6.10 is caused by chance. The differences between index values for research and communication and resource acquisition also fail to demonstrate a statistically significant difference.

In summary, the information provided in Table 6.10 suggests that conservative foundations have a higher commitment to capacity development than their liberal peers. With the exception of the findings for management and governance, a statistical test of this difference fails to validate this observation at a high level of confidence, although the small number of organizations should be taken into account. Contrary to Hypothesis 5, generally there is no significant evidence that conservative foundations possess a higher degree commitment to capacity development than liberal foundations. While this finding may contradict the findings of earlier research by the National Committee for Responsive Philanthropy by suggesting that there is no difference in investment by conservative and liberal public policy grant makers, the application of this finding must be limited. Within the parameters of this study, the conclusion of a difference in commitment to capacity development could not be empirically supported. The study findings are not presumed to represent the grant making practices of all conservative and liberal foundations. In addition, the finding is based upon one year of grant making records and does not assume to represent historical grant making practice. It is important to note that these findings are predicated upon the giving practices of a small number of foundations.

General Operating Support

In Chapter 5 the potential importance of general operating support as a resource for the promotion of capacity development was considered. Public policy grant makers that provide general operating support tend to not demonstrate a strong commitment to capacity

development. Consideration was also given to the relationship of general operating support with indicators that have been demonstrated in this chapter to serve as predictors of capacity development. The foundation attributes of wealth and staff support were found to not have a statistically significant relationship with general operating support. Public policy grant makers that demonstrate an interest in the fields of environmental protection, international affairs, and social science demonstrate a significant association with general operating support. The statistical relationship between these variables is very weak, ranging from .123 (environment) to .217 (international affairs). Due to the weak association of the indicator of general operating support with the indexes and explanatory variables, no further consideration was given to this type of support as an indicator of commitment to capacity development.

Profile of a Capacity Development Grantor

In Chapter 4 the concept of holistic investment was considered. Hypothesis 1 predicted that strategic investors were concerned with the long-term stability of non-profit policy actors and allocated their grant funding to address the collective needs of a recipient organization. It was conjectured that foundations that demonstrated commitment for one dimension of capacity development would also demonstrate commitment in other dimensions and as a foundation's commitment to one dimension increased, it would also increase in other dimensions. Empirical support for holistic investment was not found within the data. Rather, it appears that public policy grant makers differentially allocate support for policy actor capacity. In this chapter we have considered funding for capacity development as a broad activity that is driven less by a comprehensive strategy of grantee

development and more by the unique circumstances that affect each grantor and its relations with its grantees.

Several factors have been considered which aid in understanding the types of foundations that engage in strategic investment. If these factors are considered together, a model of understanding can be developed. The following indicators have been shown to be related to commitment to capacity development as evidenced by the total index and the three dimensional indexes:

Total Resources: An indicator of investor grant making capacity.

Grant/Staff Ratio: An indicator of the resources available to a foundation to manage its portfolio of grantees.

Fields of preference: Art and culture, education, education, environment, health, human services, international affairs, public/society benefit, science, social science research, and religion.

Multiple regression allows for the construction of statistical models that test the relative influence of a series of independent measures upon variation in a single dependent variable. This statistical procedure was applied to a model that utilized the indicators listed previously to account for variation in indexes. The regression model is composed of ordinal (rank ordered) indicators. Ordinal level data tend to attenuate the results of a general linear statistic such as multiple regression. In the absence of higher order indicators, however, this technique is often applied in social science data analysis to ordinal level data. A summary of the results of this analysis is provided in Table 6.13.

The “total index” represents a consolidation of values for all of the indicators that compose the three dimensions of strategic investment that were discussed in Chapter 5.

This index represents a global measure of public policy grant maker commitment to capacity development. Irrespective of a foundation's demonstrated commitment in a singular dimension, the total index provides a measure of a general commitment to policy actor capacity development.

The full regression model for the total index, containing all indicators that have demonstrated a significant correlation with the index, provides a moderate degree of explanation of grant maker commitment to the general practice of capacity development. This "full" model explains approximately 28% of the variation in the total index value. A reduced model, composed of only the indicators that are identified to be statistically significant, also provides good explanation for variation in the total index (i.e. 26% of variation).

Changes in key variables in the model relate to change in commitment of public policy grant makers to fund policy actor infrastructure. As grant maker resources increase, capacity for total capacity development increases. As grantor staffing increases and the grant/staff ratio decreases, commitment also increases. Interest in education also promotes increased commitment while increases in interest in international affairs and public/society benefit tend to relate to a reduced commitment.

Since the regression model provides an indication of the contribution that each independent variable makes to any variation that exists in an index value, the model can be used to explain changes in an index as values for the independent variables change. The model of explanation for the level of grantor commitment to research and communication development is stronger than the total model of capacity development. This model explains approximately 31% of the variation in the research and communication index. A partial

model, composed only of variables in the regression model that make a statistically significant contribution to variation in the index value, explains almost 29% of index variation. Foundation staffing, measured by the grant/staff ratio, represents the strongest explanatory indicator of commitment to research and communication capacity development. As the ratio of grants per staff person decreases, the commitment to fund research and communication capacity tends to increase. Four other indicators also contribute to the explanatory model.

Table 6.13 Models of Public Policy Grant Maker Behavior (N=407)

	<i>Standardized Regression Coefficients</i>			
	Research & Com. Index	Resource Acquis. Index	Manage. & Gov. Index	Total Index
Total Resources	-.026	.324**	.098	.111*
Grant/Staff Ratio	-.283**	.115*	-.136*	-.208**
Art and Culture	.211**		.040	.086
Education	.161**	.214**	.257**	.204**
Environment	.024		.247**	
Health	.110*		.099	.043
Human Services	.091		.123*	
International Affairs		-.093		-.223**
Public/Society Benefit	-.127*	.005	.071	-.129*
Science	.057			
Social Science	.073	-.212**	.000	
Religion	-.015		.032	
Full Model R square	.305	.191	.222	.283
Corrected Model R square	.286	.180	.188	.263

*significant at the .05 level (2- tailed)
 ** significant at the .01 level (2 tailed)

The regression models used to explain variation in the resource acquisition and management and governance indexes provide less effective explanations for variation in

these indexes. Total resources serve as the best explanatory variable for increases in commitment to resource acquisition. Apparently, as foundations grow wealthier, they also tend to grow more concerned with the capacity of a policy actor to become financially self-sufficient. Foundations with a greater interest in education and the environment tend to demonstrate a greater commitment to management and governance capacity development.

Across all indexes, as foundations increase their procurement of staff resources, they also tend to increase their commitment to capacity development. Commitment to capacity development is a labor-intensive activity which requires careful management if it is to be completed successfully. This suggests that public policy grant makers are perhaps less reactive to policy actor needs and more deliberate and calculating in their allocation of funds. While investment may not be a holistic process that engages grantors in a comprehensive assessment of policy actor needs, public policy grant makers commit substantial staff resources to capacity development. Foundation oversight may involve the careful consideration of the infrastructure needs of policy actor grantees.

Foundation interest in education is also a significant predictor of commitment across all indexes. As foundation interest in education increases, commitment to capacity development also tends to increase. Public policy grantors have a strong interest in education since they allocate almost 26% of all capacity development funding in this field.

In summary, public policy grant makers allocate a substantial proportion of their funding in policy actor capacity development. Over 32% of the funds awarded for public policy are provided to promote the development of policy actor infrastructure. General commitment to capacity development is best predicated by foundation staffing levels and the degree of foundation interest in education. Grant makers also allocate large sums of funding

for other types of public policy activities. We will consider public policy grant making as a whole in the concluding chapter.

Chapter 7: Conclusions

Foundations in American society allocate huge sums of funding for public policy grants. During the 2000 grant year, the Foundation Center's records demonstrate that among the 1015 largest American foundations, almost 15,000 grants worth over \$2.4 billion were awarded for public policy initiatives. Through deliberate and careful application, these grants would represent a tremendous potential to leverage change in American public policy. The preceding chapters have explored the utilization of public policy grant making for the purpose of building an ongoing capacity to influence the public policy making process. Investment in the capacity of policy actors is a tool for effective intervention in the policy process. The question explored in this research is the nature of public policy funding and the extent to which funding decisions are strategically intended to build policy agency capacity.

The involvement of foundations in public policy has slowly evolved over the past century. Andrew Carnegie, one of the founders of American foundation philanthropy, believed that his wealth should be used to prevent social problems (Hall, 1987, 11). Prior to the New Deal, public welfare was largely viewed as the domain of private interests. Government's role in public welfare has evolved with the development of the modern welfare state. This development has paralleled the development of formal institutions of philanthropy in the form of private foundations. The tax structures developed by government to meet the needs of the welfare state have resulted in conditions that foster development of foundations. As the systems of formalized private philanthropy and the welfare state have developed, a growing interaction of these two sets of social systems has

occurred. Through the process of interaction with government, foundation practices of direct and indirect involvement in our system of government have evolved.

Prior to the New Deal, foundations and other non-profit sector interest groups were America's primary agents of charitable activity (Nagai, 1994, 21). The federal government abstained from formal intervention in non-profit affairs. In return, non-profit interest groups tended not to intervene in the public policy making process. New Deal efforts to combat the impact of the Great Depression altered the role of government in charitable affairs. The social problems created by the Depression were beyond the scope of private charity to solve (Nagai 23). The rapid expansion of the Federal government during the New Deal was fueled by increased government involvement in public welfare initiatives. Government suddenly replaced non-profit charitable interests as the agent of primary responsibility for the welfare of the poor and needy. Foundations simply could not afford to solve America's problems, but government could.

The new role of government, as the guarantor of public welfare, redefined the role of private foundations in American society. Foundations, in partnership with other "independent sector" interests, including non-profit 501c3 organizations, have learned to use their resources to leverage change by influencing the public policy process (Collwell 53). In return, government concern with foundation affairs has grown. Government is not immune to the influence of philanthropy.

Classical bureaucratic government is characterized as a rigid and impermeable organizational structure that dominates the social system within which it exists. Such a characterization is not typical of democratic governments. These forms of government allow citizen and interest group participation. Openness results in the potential for

substantial external influence in the development of public policy. Private foundations represent potential intervention agents in the process of public policy formulation. Open government creates opportunities for the exercise of private influence. Foundations are exceptionally qualified to exert such influence, although government policy puts some limits on the extent to which foundations should be subsidized, i.e., permitted to use tax exempt funds, in public policy advocacy.

American foundations are private entities that receive protection in law, and regulation. As a representation of private interests, foundations stand outside of the public policy system. From their outside vantage point, these agents of private interest possess a unique potential to serve as sponsors for policy change. Since foundations are private entities that are outside of the policy system, they are generally free of the constraints of public accountability (Holcombe, 2000, 244). They also represent an ongoing influence in the public policy system (Andersen, 2002, 5). The independence of these organizations is the product of their financial independence. Because of the financial security that is provided by their assets, foundations are unlikely to go out of business due to a lack of funding. Independent financial capacity also provides these organizations with resources for influencing public policy.

The foundation sector is hardly oblivious to its potential role in the development of public policy. Organizations that represent foundations encourage involvement among their membership in the public policy making process. The Council on Foundations professes to its membership that “it’s almost as if public policy...is the province of government policy makers alone...Think of “public policy making” as “public participation” (Ridings 1). They argue that “foundations have a public obligation to serve the public good. And having that

as their goal places foundations squarely in the public participation arena” (Ridings 1). Organizations outside of the foundation sector have also advocated for such involvement. The Alliance for Justice has distributed guidance to over 3,500 foundations designed to “increase foundation support to organizations that seek to influence (public) policy and public opinion” (Hoechstetter 1). The immense amount of funding provided for public policy reflects the importance of this form of expenditure to foundations.

The response of government to potential foundation influence in public policy has blunted direct foundation intervention in the policy process. Federal regulation tightly restricts the role of foundations as direct agents of influence. The penalties for the violation of these regulations include the loss of tax-exempt status and the possible elimination of the foundation. The United States Congress also watches vigilantly over the actions of these organizations. Foundations, however, are free to engage in certain forms of policy influence. They also can provide funding to other non-profit organizations, which, acting as policy actors, have substantially greater freedom to engage actively in policy influence.

Research suggests that some portions of the foundation sector have learned the value of investment in policy actors. Some foundations, notably those with conservative ideological leaning, are alleged to engage in the long-term partnerships with affinity organizations. These organizations share common goals and concerns with their foundations sponsors. In return for their efforts to promote preferred policies, foundation sponsors are alleged to provide funds that strengthen the capacity of their policy actors.

Investment in non-profit capacity is also promoted by organizations that hope to influence foundation giving. Grant makers for Effective Organizations, a national organization that is dedicated to promoting non-profit organization capacity development,

encourages this form of grant making by the philanthropic community. They advocate that it is better to provide support that builds the capacity of the non-profit organization to persist in working toward its mission for the long haul. Foundations that are interested in capacity development are advised to carefully and deliberately invest their money in practices that will comprehensively develop the grantee organization's self-sufficiency and effectiveness. This form of investment is advised in lieu of providing funding for the achievement of short-term objectives. In this study we have referred to this form of grant making as "strategic investment."

Do Public Policy Grant Makers Engage in Strategic Investment?

This study has considered "strategic investment" as a public policy grant maker funding practice. The study has considered a wide spectrum of public policy grant making and attempted to discern the presence of strategic investment. A crucial limitation of the study is that it only considers one year of grant making by grant makers. Strategic investment involves the investment of grant maker resources in the development of capacity development over a long period of time. The study has only considered the practice of providing funds for capacity development. A more effective study would involve this form of analysis over a longer period of time.

Within the context of one year of grant making, the study has considered the award of funding for capacity development by public policy grant makers. While funding for capacity development in other fields is a widespread practice among American foundations, its application in the field of public policy implies the potential for the intentional development of policy actor effectiveness. Consideration has been given to general forms of grant maker support for capacity development. The study has also considered foundation

grant making across three specific types, or dimensions, of capacity development. These are: (1) research and communication capacity, (2) resource acquisition capacity, and (3) management and governance capacity. During the period of the study, approximately one-third (32%) of all public policy funding was provided for capacity development.

If public policy grant makers are driven by commitment to influence public policy, it is presumed that they intentionally invest in capacity development. In this study this commitment is measured by the ratio of a foundation's grant funding that is allocated for public policy grant awards. Consideration has been given to the relationship between a foundation's commitment to public policy grant making and its commitment to capacity development. In theory, foundations that are committed to influencing public policy decisions should also be committed to strengthening the capacity of their grantees to serve as effective policy actors in a policy system.

While policy commitment was found to have a significant positive relationship with the foundation's commitment to fund policy actor capacity development, this relationship is not strong. Foundations that are committed to funding public policy demonstrate preference to fund grantee capacity in the areas of research and communication and management and governance. This finding suggests that grant makers that are committed to influencing public policy prefer to provide support for certain types of capacity development. They appear to be more concerned with the policy actor's capacity for strong management and its capacity to develop and convey policy information into a policy system.

Advocates for "capacity development" grant making encourage grantors to consider all of the needs of the recipient organization. The long-term welfare of a recipient is dependent upon improving effectiveness in all areas of organizational operation. If public

policy grant makers are concerned with the development of policy actors that can exert an ongoing influence in a policy system, grant making should be a “holistic” practice, i.e. it should reflect concern with the welfare of the whole organization. If grant making is holistic, grants for capacity development should be provided across a spectrum of dimensions of organizational need. In this study, three dimensions of need are considered. These dimensions are: (1) research and communication capacity, (2) resource acquisition capacity, and (3) management and governance capacity.

The grant making practices of public policy grant makers demonstrates limited support for the concept of holistic investment. Foundations that have a higher level of commitment to providing support for research and communication capacity development also tend to have a higher commitment to providing support for the development of management and governance capacity. Based upon the funding provided for these two forms of capacity development, grant makers appear to have a much greater concern with the development of research and communication capacity. Over 20% of public policy grant funding is allocated for this form of capacity development. About 5% of public policy grant funding is allocated for the development of management and governance capacity.

Foundations that are committed to influencing public policy appear to demonstrate a high level of commitment to the development of policy actor capacity to develop and transmit policy related information within a policy system. In order to be effective agents of influence, policy actors must have access to accurate and persuasive information. The public policy information that is developed through grantor sponsored research is of no value unless it can be conveyed to public policy decision makers. Public policy grant makers that desire to exert influence in policy systems appear to understand the need to

develop the capacity of policy actors to develop information and transmit it to decision makers. The capacity to develop and convey information appears to be the primary concern of foundations that fund capacity development among policy actors.

Research concerning the grant making practice of conservative foundations suggests that foundations that have a commitment to influencing public policy practice strategic investment. If holistic concern with the effectiveness of policy actor grantees is a guiding philosophy of strategic investors, the findings of this study suggest that the practice is limited. However, public policy grant makers do demonstrate a commitment to funding capacity development. In this study, consideration has been given to identifying the attributes of grant makers that funding for provide capacity development.

The Attributes of Capacity Development Funders

As funding levels show, capacity development represents a significant focus of grant making among public policy grant makers. Foundations that support capacity development are expected to possess substantial financial resources needed to engage in the ongoing development of recipients. These grant making organizations are also expected to possess the management resources needed to wisely allocate funds for recipient development. Each of these attributes of public policy grant makers has been considered.

The wealth of foundations appears to play a role in promoting foundation funding for capacity development. As the wealth of public policy grant makers increases, the commitment of foundations to provide funding for capacity development also increases. This general tendency is the strongest when all forms of capacity development are considered. The study also shows that as the wealth of foundations increases, there is a greater tendency for grantor commitment to support management and governance capacity

development. Wealthier foundations appear to have a greater concern with the quality of management of policy actors. The tendency to promote resource acquisition capacity is comparable to the management and governance commitment.

The ability of a foundation to carefully manage its relations with its grantees is also a significant predictor of grant maker commitment to capacity development. Foundations that maintain a high level of staffing in relation to the number of public policy grant recipients they support are more likely to provide support for all forms of capacity development. This relationship between grantor management resources and commitment to capacity development is strongest among foundations that provide support for research and communication. Foundations that have greater management resources have a greater ability to oversee their activities of their grantees and to insure that capacity development is effectively practiced.

As the wealth of public policy grant makers and staffing resources increase, foundations tend to demonstrate an increased commitment to promote capacity development among policy actors. The carefully managed application of grant resources can play a substantial role in enhancing the ability of a policy actor to establish a long-term presence in a policy development process.

Grant Making that Avoids Controversy

Robert O. Bothwell suggests that public policy grant making is influenced by a desire to support traditional, hence less controversial, public policy issues. He argues that many public policy grant makers provide support for policy initiatives that do not challenge the status quo (Bothwell, 2001, 78). Much of this support is ongoing. Grant making in support of less controversial areas involves providing funding in policy fields that are

socially acceptable to the general public. Policy issues in these fields usually involve policy issues that are of concern to most, if not all, citizens.

Public policy development in the fields of art and culture, education, and health tend to draw the attention and support of traditional grant makers (Bothwell, 2001, 78). Issues that influence policy in these fields have an impact on Americans at all levels of social status. This study has shown that grant makers that provide funding in these fields also tend to provide more support for capacity development. This is consistent with Bothwell's observations about foundation engagement in the provision of ongoing support in these fields. As public policy grant maker interest in one of these fields grows, the commitment of the foundation to capacity development also tends to grow. This trend is especially strong in the field of education, and this trend is also more pronounced for research and communication capacity development within each of these fields.

In a criticism of traditional grant making, Robert Bothwell argues that foundations tend to avoid grant making in support of socially controversial issues (2001, 78). Grant maker support tends to be episodic, with an emphasis on promoting the achievement of short term and narrowly focused policy objectives. This study has shown that public policy grant makers that demonstrate a strong interest in the field of public/society benefit (i.e., grants for social action, the rights and needs of disadvantaged groups, civil rights, advocacy and community improvement) demonstrate a tendency to be less committed to providing support for capacity development. As interest in these fields increases, the commitment of public policy grant makers to capacity development tends to decline. One interpretation of these findings is that policy activities in these fields tends to be more controversial. Frequently the benefits of policy in these fields accrue to a small or underrepresented part of the larger

population. Grants in these fields can be risky because of involvement in potentially socially objectionable or controversial policy issues. In addition, the findings suggest that foundations that have an interest in more controversial projects prefer to focus on the immediate impact of their funding. These findings suggest that Bothwell's observation regarding the grant making practices of American foundations is correct.

Contrasts with Earlier Research

Previously, the observations of research concerning the public policy grant making practices of conservative foundations has been referenced. This body of literature suggests that conservative foundations engage in strategic investment. The focus of their investment has been described as an effort to build a network of policy influence (Covington, 1997, 48). Hypothesis 5 conjectured that the public grant making practices of conservative foundations would demonstrate a greater commitment to capacity development than the grant making practices of their liberal peers. This study failed to demonstrate a difference between two groups of ideologically categorized foundations. While "conservative foundation" index scores were generally higher than "liberal foundation" index scores, the difference is not statistically significant.

The finding of no significant difference concerning the grant making behavior of conservative and liberal foundations raises questions concerning the validity of earlier research. This finding must be considered with some caution. Only one year of data was considered in this analysis. Conceivably, grant maker behavior viewed over a longer period of time may produce a different finding. In addition, a limited number of foundations were included in this study. Future study based upon a larger group of foundations also might produce a different finding. Despite these shortcomings, this study provides a broader

analysis than earlier efforts. An attempt has been made to provide an empirical comparison between conservative and liberal foundations. Previous studies have been limited to a qualitative review of the practices of a few conservative public policy grant makers.

Literature concerning the use of foundation funding to promote capacity development recognizes that grants for general operating support are a valuable resource to a non-profit organization (Prager, 2003, 9). Grants for general operating support provide less restricted funding that can be used by an organization to meet self identified needs. Such funding allows management to have the flexibility to use resources to strengthen the organization. This study has shown that grant maker commitment to provide general operating support does not appear to be related to foundation commitment to providing support for capacity development. While general operating support is, in theory, an important resource for promoting non-profit organization effectiveness, the findings suggest that public policy grant makers do not perceive its value as a part of their commitment to capacity development.

Future Research

The findings of this study suggest that strategic investment, as a holistic practice, is not a prevalent grant making behavior among public policy grant makers. While foundations do engage in promoting the capacity development of their grantees, a substantial portion of funding promotes the development of research and communication capacity. As expected, wealthier and better staffed foundations are more likely to promote capacity development. The grant making of foundations that are committed to capacity development is more likely to involve support for activities related to “socially acceptable” policy issues. In the light of these findings, much still needs to be learned about the funding behavior of

public policy grant makers. Two issues relevant to future study are considered in the following sections.

Longitudinal Study of Capacity Development Grant Making

While the study findings support previous observations, they are based upon records of grant making activity that encompass only one year of grant making. Capacity development is a long-term activity. Foundations that truly have an interest in the capacity development of policy actors are expected to engage in this form of grant making over an extended period of time. This study suggests that public policy grant makers engage in long-term support for policy actor capacity development. Presumably this interest would be reflected in ongoing support for the same organization. Overtime, there may be evidence that such funding is holistic.

It is possible that the capacity development grant making that is manifest within the study data represents episodic or random engagement in support for policy actor effectiveness. Future research needs to expand upon these findings by observing public policy grant making behavior over a longer period of time. Longitudinal analysis could either provide support or detract from existing conjecture that foundation investment in capacity development is the product of foundation interest in promoting the effectiveness of policy actors as a means of exerting on-going influence in a policy system. Future findings, based upon longitudinal study, would aid in understanding foundation motivation and intent regarding the behavior of funding public policy activities.

Public Policy Grant Maker Support for Program Funding

Robert O. Bothwell observed that public policy grant making is “almost always project driven” (2001, 75). This study has considered public policy grant maker support for

capacity development. Grant maker support for this form of activity represents the allocation of about 32% of all public policy grant funding. In comparison, over 50% of the public policy funding issued by foundations considered in this study was provided for “program development” activities. The Foundation Center defines program development as “grants to support specific projects or programs.”⁵ Grants of this type typically support activities that are intended to support the achievement of time-limited and highly focused objectives (Drabble, 2000, 1). The data considered during this study support Bothwell’s observation concerning the degree of support for project-driven funding.

The prevalence of project-driven support suggests that many public policy grant makers do not desire to commit the resources necessary to promote long-term policy actor involvement in systems of public policy or have given this objective a lower priority. The lack of grant maker engagement in the process of developing long-term influence may be based upon deliberate avoidance due to a desire to avoid conflict with government regulation or simply due to a failure to look beyond the horizon of the current needs of their grantees. The degree of public policy grantor support for program development stands in contrast to grant making for capacity development. Future research should consider the foundations that prefer to engage in this form of public policy grant making and seek to discern what motivates this behavior.

Future analysis should also take into account that actual amount spend on activities rather than the relative amount captured by the indices used in this study. It is possible that larger foundations have impact on capacity building with allocations that are large in absolute amounts even though they are small as a proportion of funding.

⁵ This definition was taken from a Foundation Center coding document that was provided with the data used in the study.

Some Closing Thoughts

Foundations have been described as “a large body of money completely surrounded by people who want some” (MacDonald, 1989, 3). This implies that foundations are passive entities that react to the desires of applicants. However, the private foundation is a very unique private entity. As a private organization, it stands outside of the scrutiny of public accountability. Yet, despite this private status, it benefits from the very special public benefit of tax-exempt status. This public benefit is predicated upon an expectation that the foundation will work to achieve some public good.

As a private organization, the behavior of private foundations is guided by the preferences and values of the private individuals who established the foundation, serve on its board, or serve as staff. Driven by a composite of private preferences, the actions of foundations represent a rainbow of interests. Under the principal of political pluralism, this myriad of interests should ideally promote democratic participation. Less idealistic critics of private foundation involvement in public policy view these organizations as vehicles for the promotion of the values and preferences of the elite.

Cognizant of the potential for foundation influence in public policy the United States Congress has established legal and regulatory barriers that are intended to fence in the private influence of these organizations in public policy. Research spanning the past three decades of foundation grant making has clearly demonstrated that foundations can circumvent this fencing by using policy actors to exert influence in the public policy process. Critics of conservative foundations argue that through strategic investment in the long-term capacity of non-profit organizations a highly effective network of surrogate policy actors has been created which is sympathetic to the interests of its foundation sponsors. This

study has viewed strategic investment from a wider perspective that encompasses grant making by many types of foundations.

Evidence has been presented here that demonstrates that public policy grant makers do support the capacity development of non-profit organizations that are involved in the public policy process. When a very wide view of the public policy funding spectrum is considered, strategic investment that embodies the deliberate intent of grantors to promote the holistic development of policy actors is not a wide spread practice. On the whole, the foundation sector is certainly not composed of passive organizations that react solely to grantee demand or that are simply interested in promoting public benefits. Still, it is also not composed of a dedicated and focused group of private interests that are bent solely on promoting particular perspective in public policy. Foundations, like people, represent a myriad of interests and values in the public policy process.

Due to tax-exempt status, policy makers often view foundations with some concern. The passage of the Tax Reform Act of 1969 and the Congressional scrutiny of foundations occurring over the past several decades attests to this. As Jack Walker has argued, foundations do play a role in promoting pluralism in American democracy. The achievements of mainstream foundations like the Ford Foundation and Carnegie Corporation have exerted a dramatic influence upon our culture. The Carnegie Corporation has sponsored social innovation and research such as Sesame Street and public television that have opened upon new avenues for education. The Ford Foundation's "Gray Areas Initiative" in the 1960's proved to be a catalyst for the "Great Society" innovations promoted by the administrations of John F. Kennedy and Lyndon B. Johnson. Smaller grant

makers also play an important role in policy development through their support of innovation and community needs.

This study hopefully contributes to defining the role that private foundations play in shaping public policy. Many questions still remain to be addressed regarding this role.

Despite the important role that foundations play in the policy process, research concerning their behavior has been limited. It is clear, however, that the role that foundations play far outweighs the public recognition that is given to their contributions.

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