Beyond the Money:

Grantors Supporting their Grantees

ABSTRACT

This paper analyses the relationship between grant-making foundations (grantors) and operative nonprofit organizations (grantees) to determine whether there is a positive association between foundations' intervention beyond the money and the development of the grantees' operating capacity. Data are collected using a survey of grantees that received funding from a Foundation of Banking Origin (FOB) in the context of Italy. The analyses portray three "capacity-building" factors that FOBs can deploy in addition to the financial grant: operative support, goal alignment and performance oversight. The results endorse our hypotheses that both the amount of operative support provided by the foundation and higher perception of goal congruence between grantor and grantees are positively correlated with the operative capacity of the grantee. Also, our results suggest that the benefits of increased oversight prevail on the drawbacks.

Keywords: Grant-making, Capacity-building, Strategic Philanthropy

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1. INTRODUCTION

Grant-making foundations (grantors) operate within what is called the third sector. The third sector is populated by nonprofit entities (grantees) that conduct projects targeted to a group of beneficiaries, such as the poor, the uneducated, or children. The money typically flows from grantors to grantees who actually conduct the interventions. By definition, grantors' support is based on funding. Yet it turns out that oftentimes grantees lack managerial and financial skills just as much as they need money (Ebarb, 2019). Hence, a grantor-grantee relation that goes beyond mere financing and includes knowledge transfer may be desirable whenever the grantor has the required skills.

Academics and policymakers have been worried about how to increase the sustainability and reduce the risk of dissolution of nonprofit grantees (Lu et al., 2020). However, "*there is little knowledge about what works and what doesn't that is based on, or even informed by, the perspectives of grantees [...] receiving assistance beyond the grant"* (CEP 2008, p. 3). First, there are few studies that specifically evaluate the relation between grantors' non-financial support and grantees' performance (Fairfield & Wing, 2008; MacIndoe & Sullivan, 2014). This lack of evidence is undesirable: If effective, grantors' support could be a valuable and organizationally convenient source of managerial training for grantees, especially small ones (Ostrower, 2004). Second, the available evidence is mostly qualitative (Laurett & Ferreira, 2018). This clashes with the need for grantors called to invest in their relation with the grantee to have an informed expectation on how much more productive and sustainable their grantees will become thanks to their help. Moreover, quantitative studies are better equipped for dealing with the self-selection that likely drives the spontaneous formation of successful grantor-grantee relations, typical subjects of qualitative studies. Third, the grantors' perspective dominates the existing literature, while there is little evidence on the grantees' perception of grantors' non-financial support (Delfin & Tang, 2008). Focusing on the grantors' standpoint exclusively is potentially misleading, as grantor and grantee may have conflicting views (Vangen & Huxham, 2003; Fairfield & Wing, 2008), but it is the grantee who eventually manages the financial resources and determines the outcome of the financed project. Therefore, understanding grantees' needs should be a first-order concern.

In this paper, we take a step toward filling all these three gaps. We conduct an empirical analysis of the grantor-grantee relation on a novel dataset obtained from a sample of grantees of Italian Foundations of Banking Origin (FOBs). Specifically, we ask how operative support (CEP, 2008; Boesso & Cerbioni, 2019), goal alignment (CEP, 2017; Leardini et al., 2019), and performance oversight (Despard, 2017; McMulling & Raggo, 2020) within the grantor-grantee relationship affect grantee "organizational capacity", i.e. the "*capability of an organization to improve its effectiveness and sustainability*" (Cornforth & Mordaunt, 2011, p. 431). The results of our multivariate analysis endorse the hypotheses that both operative support and goal congruence between grantor and grantee are positively correlated with the operative capacity of the grantee. Also, our results suggest that the benefits of increased oversight prevail over the drawbacks.

Our contribution to the literature is threefold. First, we add to the research on comprehensive philanthropy (Rogers, 2015; Ma & Konrath, 2018). A growing literature on the nonprofit sector emphasizes the benefits of adopting a model of broadened participation (Clerkin & Quinn, 2019) that goes beyond mere funding and enhances efficiency (Coupet & Berret, 2018; Boesso & Cerbioni, 2019), accountability (Ebrahim, 2010; Brendan & Quinn, 2019), social impact (Ebrahim & Rangan, 2014; Maya-Jariego et al., 2020), and legitimacy (Leardini et al., 2019).We contribute by rigorously studying the grantor-grantee relation, specifically the role that operative support, goal alignment, and oversight can play in improving the grantee's resource and management capacity, as well as program development.

Second, we speak to the literature that emphasizes the importance of empathy, goal alignment, and trust in the third sector (Vangen & Huxham, 2003). We do so by showing that goal alignment not only correlates positively and significantly with the grantee's capacity development, but also mutes the significance of oversight. In the perspective of practitioners, an unpleasant relation, rich in oversight and control, may lead to very different long-term outcomes compared to a fruitful, dialogue-based relation, even if the short-term achievement is the same. In spite of the specificities of the nonprofit sector, collecting data directly from grantees may also prove useful in other settings where the grantor-grantee scheme is relevant and the grantee's effectiveness is key (Maier et al., 2016).

Third, we enrich the literature on the managerialization of the nonprofit sector (Ostrower, 2004; Anheier, 2005; Hume & Leonard, 2014; Laurett & Ferreira, 2018). Since FOB boards consider themselves relatively familiar with the managerial dimension (Boesso et al., 2017), our quantitative results are useful to grantors to analyze the costs and benefits of enhancing their relation with grantees.

The paper is structured as follows: Section 2 reviews the literature; Section 3 posits the testable hypotheses; Section 4 describes the research method and data; Section 5 illustrates the empirical results; Section 6 concludes.

2. LITERATURE REVIEW

2.1 Institutional background

In Italy, Foundations of Banking Origin (FOBs) play a major role as grantors in helping grantees (e.g., associations, cooperatives, and operating foundations) achieve their strategic goals. As of 2017, FOBs were managing financial portfolios of €39.6 billion and recording social expenditures of more than €1 billion (ACRI 2018) on assisting underprivileged people, education, volunteer organizations, healthcare and scientific research, and art and culture

(Hinna & Monteduro, 2017). Italian FOBs constitute a fairly homogeneous industry within a single country, boasting the fifth largest amount of foundational assets worldwide (87 billion according to GPR, 2018) and below the US (890), the Netherlands (108), Germany (93), and Switzerland (88), but above the UK (84), France (30), and Spain (29). Also, Italian FOBs have been able to respond to economically and socially disadvantaged circumstances by adopting formalized strategies and more transparent governance mechanisms (Boesso et al., 2017).

In 2015, the FOBs and the Italian Ministry of Economy and Finance (the oversight authority) signed a memorandum of understanding by means of which FOBs declared to be ready to better perform their governance, transparency, and investment diversification. After signing the memorandum of understanding, all the foundations amended their bylaws by the 2017 deadline, redefining their governance, mechanisms for election of board members, rules for accountability, and other aspects of their activity. More specifically, FOBs committed to: A risk adverse investment policy; zero indebtedness; maximum four-year term for trustees; gender balance; reasonable trustees' compensation; trustees' independence and professional status; formalized strategic plans and formalized grant giving procedures, etc., to provide greater transparency and better civil service. Next, in late 2017 the government introduced a more widespread reform for the whole Italian third sector (including all grantees), emphasizing the role of nonprofit institutions in the delivery of private welfare services and calling for higher professionalism.

Summing up, the 2017 reform of the Italian third sector emphasized the growing role of nonprofit organizations in modern societies and the need for a stable financial and managerial structure, while the 2015 memorandum of understanding qualified FOBs as pivotal players for the transparent financial support of social projects carried out by other nonprofit organizations. As such, grantors and grantees are expected to increase their relationships for supporting and complementing the national budget allocated to welfare services. In this context, our research is timely as we put a dimension of utmost importance, namely grantee's capacity development, at the center of our investigation.

2.2 The relationship between grantors and grantees

Sustainability seems to be a first-order concern, as recent data from the National Center on Charitable Statistics suggests that around 30 percent of nonprofits fail after 10 years (Ebarb, 2019). Just a few years ago, Forbes (Altman, 2016) projected that half of nonprofits would be at risk of failing due to lack of adequate leadership, strategic plans, and accountability standards. In the academic literature, Despard (2017) identifies the lack of non-financial support as one of the most critical barriers to the development of social innovation. More recently, Qu and Daniel (2020) and Peng et al. (2019) have tackled how grantees can optimize their fundraising by focusing on financial efficiency, media visibility, and accreditation status, and explained how closer relationships with donors improve these three skills.

Third sector actors have hence been increasingly pushed toward the adoption of managerial approaches to guide their social mission toward more effective fulfillment (Suykens et al., 2020; Maier et al., 2016; Minà et al., 2020; Rey-García et al., 2019). In the Italian context, FOB boards seem to be skilled enough to provide their grantees with support that goes beyond money (Boesso et al., 2017). In principle, foundations can help their grantees address the most pressing social needs in a sustainable way (Leardini et al., 2017) by both activating fruitful synergies among grantees and signaling other public or private funders (including market exchanges, sponsorships, donations, and grants), and also advancing the state of knowledge and practice so as to improve grantees' performance (Porter & Kramer, 1999). Foundations may provide several forms of support, ranging from legal and administrative to operational, and in multiple areas, including goal assessment, network creation, SWOT analysis, and impact evaluation (Cornforth & Mordaunt, 2011). Importantly, foundations may share best practices in terms of processes and performance measurement (McMulling & Raggo, 2020). The nonprofit literature has largely emphasized the need for a complex grantor-grantee relation that goes beyond the mere funding dimension (CEP, 2007), as well as how such interactions may benefit the beneficiaries' social impact in both intended and unintended ways (Benjamin, 2020). Dhanani and Connolly (2015) show that non-governmental organizations (NGOs) are more accountable and achieve higher goals whenever they are more involved with their donors. Sen (2013) adds that a larger influence of donors on beneficiaries can shift the focus toward long-term sustainable change.

Foundations have discretion as to the type of relation they create with their grantees, whether one-shot or enduring. The natural question is whether the latter may lay the grounds for knowledge transfer from foundations to grantees. Partnering has already proven successful as a way to transfer knowledge in a different yet still informative setting, namely private equity and venture capitalism (Porter & Kramer, 1999). Typically, private equity funds develop target firms by analyzing their business plans, monitoring results, strengthening managerial skills, and facilitating cooperation with other stakeholders (De Clercq & Sapienza, 2006). Several studies explore the possibility of extending managerial approaches to the nonprofit sector (Alexius & Grossi, 2018; Bish & Becker, 2015). Letts et al. (1997) first suggested that foundations should adopt a venture capitalist approach to support the capacity development of the nonprofit organizations they fund. In their view, this goal can be achieved by means of: i) closer relationships between foundations and grantees, ii) higher grant amounts over sustained periods, iii) performance measurement, and iv) adoption of exit strategies. This approach opens the way to concepts like "strategic philanthropy" (Porter & Kramer, 1999), "venture philanthropy" (Moody, 2008) and "high engagement philanthropy" (Herrold, 2006).

3. HYPOTHESES

3.1 Grant-making foundations and grantees: Room for skill transferring?

Whether the model of knowledge transfer actually works (CEP, 2008, 2017) in the world of philanthropy is ultimately an empirical question. On the one hand, the idea of close cooperation is indeed well-rooted in the world of philanthropy, where "*partnering brings significant impact on the effectiveness of funders and on the strengthened capacity of grantees by creating a mutual culture of trust*" (Ricciuti & Swierczynska, 2018, p. 11). In this regard, Cornforth and Mordaunt (2011, p. 431) define "organizational capacity building" of a nonprofit organization as "*developing the capability of an organisation to improve its effectiveness and sustainability*" by effectively reviewing and updating its goals, resources and structures, strategies, and processes. The paper suggests grantors should activate empowerment processes among their grantees.

A close grantor-grantee relation that goes beyond mere financing may be beneficial to the grantees even once managerial skills have been acquired. For instance, nonprofit organizations with a strong managerial orientation may struggle to gain donors' confidence whenever hiring a highly paid executive is perceived as a deviation from the organization's mission rather than an investment in its effectiveness. De Azevedo and de Aguiar (2020) show experimentally that "*the negative effects of paying higher executive compensation levels only occur in the absence of information about a third-party endorsement but not in its presence*" (p. 9), and a fascinating empirical question—beyond the scope of our paper—is whether the quality (intensity) of such an endorsement also matters.

On the other hand, grantees may refuse foundation support because of lack of trust (Vangen & Huxham, 2003), perceived misalignment in the degree of specialization and goals, or internal consolidated and hard-to-change policies and practices. While these mechanisms may well be at work, and goal alignment is the object of the next hypothesis, we expect foundation support to be on average well-received, given the salience of the financial and future funding dimensions for the survival of nonprofit organizations.

The lack of managerial and financial skills among third sector organizations, coupled with the suggestive analogy between partnering in private equity and non-money support in the third sector, converge in the following hypothesis.

Hypothesis 1: *Grantor's non-financial support is positively associated with the organizational capacity of the grantee.*

3.2 The role of goal alignment between grantor and grantees

The difference in managerial and financial skills between foundations and grantees may be the basis of a misalignment in their objective functions, specifically in the weight attributed to sustainability and efficiency. Goal conflict is an essential component of agency theory which is shaped around the delegation problem typical of the owner-manager relationship in the for-profit sector (Haugen & Senbet, 1981). Delegation is also at the heart of both agency theory and the foundation-grantee relationship: In reporting experience as chair of the Edna McConnell Clark Foundation, Bailin (2003, p. 636) emphasizes that "*foundations succeed when their grantees grow stronger, achieve more, and gain stature for leadership*." Caers et al. (2006) discuss to what extent nonprofit organizations can tap into agency theory and the principal-agent model—notwithstanding the conceptual difficulty of clearly identifying principals and agents in this case—as well as take a stand on each stakeholder's utility function.

For the nonprofit sector, Van Puyvelde et al. (2012) suggest the principal-agent model should be enriched with elements from stewardship theory, which implies—at least according to one of its two branches—that "*even when the interests of the agent and the principal are not aligned, the agent can attain a higher utility level by acting in the principal's interest because doing so might lead to opportunities for desired personal outcomes such as achievement, affiliation, and self-actualization*" (p. 435). Along these lines, Maier et al. (2016) show that third-sector players perceive their funders more as stewards than as principals.

We can therefore think of the grantee's objective function as a combination of its own goals with the foundation's, where the foundation attaches relatively more importance to the managerial and financial dimensions because of its stronger managerial background. How do we expect the weight attached to the foundation's priorities to vary across matches of foundations and grantees? We conjecture that this weight increases with the grantee's perceived goal alignment with the foundation. In other words, we expect that a grantee whose mission is relatively more aligned with its funder's is more prone to invest in the relationship and exploit it so as to benefit from the personal outcomes underlying stewardship theory, thus achieving better outcomes (Chapman & Varda, 2017). Accordingly, we posit our second hypothesis:

Hypothesis 2: *Goal alignment between grantor and grantee is positively associated with the grantee's organizational capacity development.*

3.3 The effect of oversight mechanisms

Since foundations' own success closely depends on the outcomes of their grantees' projects (Bailin, 2013), foundations are likely to be at least as concerned about delegating as owners are in the for-profit sector, and therefore incentivized to oversee their grantee's actions.

Oversight is a potentially broader concept than support, as it implies that foundations do not just offer advice but rather directly enter the grantee's decision-making. There may be opposing forces in the relation between foundation oversight and grantee capacity development. On the one hand, oversight may simply benefit the grantees as support does while eliminating the inefficiencies of learning (time, initial mistakes, and misunderstandings). On the other hand, the inter-organizational control literature suggests that oversight is a complex concept that involves multiple mechanisms, both formal (outcome and behavior control) and informal (social control; see Dekker 2004), which do not necessarily have same-sign consequences on the relation among the organizations involved. Dekker (2004) explains how, for instance, formal control (goal setting, planning, programs, rules, reporting, cost and quality control, performance and behavior monitoring and rewarding, etc.) may either harm or benefit trust, which is usually considered at the heart of social control in inter-organizational relationships (Adler, 2001) and likely affects the grantee's (perceived) improvement brought about by the foundation. "*Extensive use of formal control suggests a lack of belief in one's goodwill or competence and therefore results in a damaging effect on relational trust (...)",* but at the same time "*the use of formal control mechanisms may actually enhance a trusting relationship, by narrowing the domain and severity of risk (...) and by their objectivity and provision of a track record about the other's performance, behaviours and skills*" (Dekker 2004, p. 34).

Specifically, in the nonprofit sector, top-down oversight may distort the perception of NGO priorities and the effectiveness of aid (Agyemang et al., 2017) as well as the notions of accountability and development (Awio et al., 2011). According to this view, oversight "*invites an opposing ideology and set of practices that threaten the nonprofit sector's ability to remain distinct from other sectors and uniquely address social problems*" (Sanders & McClellan 2014, p. 64).

Therefore, the sign of the relation between foundation oversight and the grantee's reliance on the foundation is in principle ambiguous.

Hypothesis 3: *Grant oversight mechanisms are associated with the grantee's organizational capacity development.*

Figure 1 presents the conceptual model tested in this paper, along with the three hypotheses defined.

[INSERT FIGURE 1 ABOUT HERE]

4. RESEARCH METHOD

4.1 Data and sample

The data was collected in 2018 through a questionnaire submitted to a sample of grantees financed by Italian FOBs. We started by collecting the list of grantees' names and related information from Italian FOBs' 2016 annual reports. Among these grantees, we identified as potential respondents those receiving grants of €2,000 or more so as to minimize the risk of observing relations with no-more-than-minimal interactions. We then administered the questionnaire to each of our 1,211 potential respondents, whether nonprofit associations, operating foundations, or social cooperatives. A preliminary version of the questionnaire was presented to the national professional association, and its validity was tested with a focus group of four foundations.

The questionnaire was sent to the respondents in October 2018. It remained available online for a month, and four reminders were sent. We received 242 complete questionnaires from nonprofit organizations associated to 26 Italian FOBs (30% of the FOB population), yielding a response rate of 20 percent. Therefore, the final sample includes 242 organizations, 154 of which are nonprofit associations, 45 are social cooperatives, and 43 are operating foundations. The organizations in our sample operate primarily in the fields of arts and culture (38 percent), education (15 percent), health (19 percent), and volunteering (12 percent). In terms of size, 32 percent declare revenues below €50,000, 14 percent between €51,000 and €100,000, 26 percent between €101,000 and €500,000, and 27 percent above €500,000. Sixty-nine percent employ fewer than ten workers. Forty percent of the questionnaires were filled in by people who held the position of chair or deputy chair, while 18 percent were general directors, with the rest serving in other roles, including project manager. Among the 26 FOBs represented in our sample, eight are classified as large foundations, six as medium-large, three as medium-sized, seven as medium-small, and two as small.

4.2 Measures

The dependent variable is based on the scale developed by Despard (2017) to measure nonprofits' organizational capacity. Respondents rated a series of items describing to what extent their organizations' organizational capacity developed through the help of the granting foundation. The items were rated on a 7-point Likert scale, from 1 ("*not at all*") to 7 ("*extremely*"). The survey questions that were used in the empirical analysis are provided in Appendix 1.

Confirmatory factor analysis with VARIMAX rotation was undertaken to identify the dimensions of organizational capacity that capture most of the variation, with a loading of 0.60 as the cut-off point for the factors. The analyses retained the two factors—*Resources & management capacity* and *Program development*—with eigenvalues greater than one, accounting for 62 percent of the variance (Table 1). Retaining these two factors is consistent with the theoretical constructs described in Despard (2017).

Cronbach's alpha coefficients were calculated to assess the items' internal consistency. For *Resources & management capacity* and *Program development*, the Cronbach's alphas were 0.90 and 0.84, respectively, indicating satisfactory internal consistency.

These two constructs provide the two measures of organizational capacity that are used as dependent variables in the regression analyses. The items that loaded for *Resources & management capacity* are related with the organization's increased ability to manage its resources. Among these items, the ones with the highest average scores were the development of capacities to use a budgeting process, the use of financial management systems, and the provision of professional development to staff. The items that loaded on *Program development* were instead related to increases in the services offered and in the number of beneficiaries served.

[INSERT TABLE 1 ABOUT HERE]

To help explain how the foundation's assistance is deployed and to test the first hypothesis, respondents were asked to evaluate the extent to which the foundation provided them with various types of support on a 7-point scale. We proposed the same forms of assistance that the CEP (2008) proposes as frequently provided to grantees.

To test our second hypothesis, we used the scale developed by De Clercq and Sapienza (2006), which measures goal congruence in the relational capital between venture capital and VC-backed companies. In this case, respondents used a 7-point Likert scale to rate the commonalities between their vision, objectives, and attitude and those of the foundation.

To test the third hypothesis, we used the framework developed by Delfin and Tang (2008) which assesses the oversight mechanisms that foundations activate to supervise their grantees. Respondents were asked to use a 7-point Likert scale to rate the frequency with which the foundation adopted particular oversight mechanisms to monitor the grants offered.

The results of the factor analysis on the explanatory variables are reported in Table 2 and confirm that three factors account for 55 percent of the variance. Six items load on the first factor, *Support*, with the highest average scores obtained by the items "assistance in the development of performance measures" and "assistance in strategic and financial planning". Three items, all with high average scores, load on the second factor, *Goal alignment*, and five items load on the third factor, *Oversight.* Among the items that load on *Oversight*, the highest average score is reported by the item "ex-post evaluation of the results". Cronbach's alpha coefficients were also calculated to assess the internal consistency of the items. The Cronbach's alphas for *Support*, *Goal alignment*, and *Oversight* were 0.86, 0.87, and 0.78, respectively, indicating satisfactory internal consistency.

[INSERT TABLE 2 ABOUT HERE]

Finally, several control variables taken from the literature were added to account for grant characteristics and recipient organization profiles (Delfin & Tang, 2008). More specifically, we controlled for: The size of the grant calculated as the natural logarithm of the grant amount (*Grant amount*), the length of the project financed using an indicator variable that is equal to one if the length of the financed project is more than one year, and zero otherwise (*Multi-year project*), and the type of selection process—i.e., whether competitive or not—using an indicator variable equal to one if the selection occurred through a competitive bid, and zero otherwise (*Competitive selection*). We also controlled for the type of grantee organization using two indicator variables (*Association* and *Social cooperative*) and the stage of maturity of the organization (i.e., whether established for more than 10 years). We finally controlled for the size of the organization (i.e., using the amount of revenues realized), this being an intrinsic determinant of organizational capacity.

All the scores are normalized between 0 and 1. The full list of variables is presented in Appendix 2. All the regression models include "area of intervention" fixed-effects, thus controlling for systematic differences across sector types. To this end, we categorized eight operational areas/sectors: Arts and culture, education, local development, environmental protection, health, volunteering, research and development, and other.

5. RESULTS

Table 3 reports descriptive statistics of the variables included in the model. The mean of *Resources & management capacity* (0.36; SD = 0.21) is lower than that of *Program development* (0.51; SD = 0.27). Among the other research variables, the mean of *Support* is 0.25 (SD = 0.21), way below the mean of *Goal alignment*, 0.68 (SD = 0.25) and lower than the mean of *Oversight,* 0.37 (SD = 0.26). The means of *Competitive selection* and *Multi-year* *projects* are 0.72 and 0.78, respectively, so a competitive selection occurred in 72 percent of the cases, and 78 percent of the grants financed multi-year projects. The mean of *Grant amount* is 9.78 (SD = 1.37), while the means of *Association* and *Social cooperatives* are 0.64 and 0.19, respectively, so 64 percent of the organizations in the sample are associations and 19 percent are social cooperatives. Finally, the mean of *Size* is 1.48 (SD = 1.20).

[INSERT TABLE 3 ABOUT HERE]

Table 4 reports correlations among the variables included in the model. As expected, *Support* and *Goal alignment* are positively and significantly correlated with *Resources & management capacity* and *Program development.* In addition, *Oversight* attracts a positive and precise coefficient, suggesting that its benefits prevail over the drawbacks. *Competitive selection*, *Multi-year projects* and *Grant amount* also have positive and significant correlations with the dependent variables. Other relevant and significant correlations emerge between *Social cooperative, Program development*, and *Support.*

[INSERT TABLE 4 ABOUT HERE]

To test our three hypotheses, we first examined the effect of *Support*, *Goal alignment*, and *Oversight* on *Resource & management capacity.* Our hypotheses predict that the coefficients on *Support* (Hypothesis 1) and *Goal alignment* (Hypothesis 2) are positive, while we are agnostic regarding the sign of the coefficient attracted by *Oversight* (Hypothesis 3).

We find that: i) conditional on the size of the financial support, the amount of non-financial support provided by the foundation is positively correlated with the organizational capacity of the grantee; ii) higher perception of goal congruence between grantor and grantee is positively associated with the grantee's organizational capacity development; iii) stronger grant oversight mechanisms are positively associated with the grantee's organizational capacity development.

When considered one by one, all the coefficients of the three main variables are positive and significant at the 1% level (Table 5). When the three variables are considered together (Table 5), *Support* is still positive and significant at the 1% level, *Goal alignment* is positive and significant the 5% level, while the significance of *Oversight* fades. *Multi-year project* is positive and significant at the 5% level, so the length of the financed project is, as expected, associated with the grantee's development of resource and management capacity. *Grant amount*, *Social cooperative*, *Competitive selection*, and *Mature Organization* are not significant, while *Association* is positive and significant at the 10% level.

[INSERT TABLE 5 ABOUT HERE]

The same regression analyses are replicated using *Program development* as the dependent variable. As expected, the coefficients of *Support* (Hypothesis 1) and *Goal alignment* (Hypothesis 2) are all positive and significant at the 1% level (Table 6). Likewise, *Oversight* (Hypothesis 3) attracts a precise coefficient, and the positive sign supports the contention that the benefits of oversight prevail over the drawbacks. In the augmented model, the three variables remain significant at the 1%, 10%, and 5% levels, respectively. *Multi-year project* continues to be positively and significantly associated to *Program development*, while *Grant amount, Competitive selection*, and *Mature Organization* are not significant. *Association* and *Social cooperative* are positive and significant at the 1% and 5% levels, respectively.

[INSERT TABLE 6 ABOUT HERE]

Summing up, our results support our hypotheses that the amount of operative support provided by the foundation (Hypothesis 1) and higher perception of goal congruence between grantor and grantees (Hypothesis 2) are both positively correlated with both the resource & management capacity and the program development of the grantee. Also, our results suggest that the benefits of increased oversight prevail over the drawbacks (Hypothesis 3).

5.1 Additional analyses and robustness checks

To address the potential bias towards positive feedback in surveys, the questionnaire also asked about the difficulties experienced by the surveyed organizations. Specifically, respondents used a 7-point scale to rate the extent to which they faced various types of difficulties over the duration of the grant. Table 7 shows the mean scores of the difficulties reported depending on the type of organization represented (association, social cooperative, and operating foundation).

[INSERT TABLE 7 ABOUT HERE]

The data show that associations report the highest difficulties with operating activities such as attracting new human resources, managing volunteers, and finding new funders. This result together with our prior findings can be interpreted as organizations benefitting the most from capacity-building processes. Social cooperatives report they struggle to evaluate their own performance. The identification of funders turns out to be the most challenging task for all organizations, thus confirming the substantial lack of financial management skills in the third sector.

Additionally, the questionnaire investigates the use of support tools in the assessment of social impact, as suggested by the literature (Despar, 2017). Respondents used a 7-point scale to evaluate the extent to which they increased the use of the proposed tools after the foundation's intervention. Table 8 reports the mean scores for the three types of organizations and shows a major increase for first-level qualitative analyses such as interviews and focus groups with beneficiaries, cost-benefit analyses, and social value-added systems. Less evident is the effect on the use of more innovative instruments, such as social return on investment (SROI), randomized controlled trials, counterfactual analysis, and Theory of Change. The use of the proposed instruments, except for Theory of Change, is significantly higher in social cooperatives as this group is also the one that, probably because of its business-like nature and more deterministic approach, reports the greatest difficulty in evaluating its effectiveness.

[INSERT TABLE 8 ABOUT HERE]

Beyond the positive bias concern, we were worried about respondents in apical positions self-advertising and being overly optimistic in evaluating the relationship. Therefore, we conducted a sensitivity analysis dropping the 97 chairs/deputy chairs' responses from the sample. As an additional robustness check, we repeated the analyses using the number of employees working for the organization as a different proxy for size. The results obtained (untabulated for brevity and available upon request) from both analyses are qualitatively unaltered.

Finally, the fact that several of our variables display a positive correlation between each other (Table 4) does not imply low reliability of the items included in the questionnaire, and nor does it affect the goodness of our model estimates. Indeed, the scores have been normalized so that they range between 0 and 1. Further, the Cronbach's alpha test performed on all our variables indicates satisfactory internal consistency among questionnaire items. Lastly, to exclude any concerns about multicollinearity, we performed the variance inflation factor (VIF) diagnostic test on all regression coefficients. The mean VIF obtained is equal to 1.32, which is well below the recommended threshold of 10 (Hair et al., 1995), thus minimizing the risk of potential multicollinearity issues.

6. DISCUSSION AND CONCLUSIONS

Considering the importance of the grantor-grantee relationship in the nonprofit sector (Benjamin, 2020), the literature underlines where collaboration can germinate and produce more effective philanthropy (Fairfield & Wing, 2008). The voice of grant recipients is, therefore, crucial in determining whether and how the mechanisms proposed by the literature and practitioners to improve foundations' strategic actions are perceived as useful and help foundations make good social use of their resources.

This paper studies to what extent an "enriched" grantor-grantee relation (enriched beyond mere funding) contributes to the development of the grantee's organizational capacity, according to the grantee's perception. Hypotheses on the role of non-financial support (Hypothesis 1), goal alignment (Hypothesis 2), and oversight (Hypothesis 3) are tested against a novel dataset obtained from a sample of grantees of Italian Foundations of Banking Origin (FOBs). The results of multivariate regression analyses show that, first, grantees who also receive non-financial support from their grantors see their organizational capacity improve. This is not guaranteed *a priori* (Vangen & Huxham, 2003): Lack of trust, goal misalignment, and internal inertia may deter grantees from welcoming their grantors' advice and guidance. Our result suggests that, at least in the Italian FOB context, these potential obstacles are—if anything—second-order compared to the grantees' need to preserve their funding capacity and financial sustainability. Second, we confirm that goal alignment between the grantor and the grantee is beneficial for the grantee's growth (Chapman & Varda, 2017). Third, we find that, once controlled for non-financial support and goal alignment, increased oversight does (not) correlate significantly with the grantee's perceived program development capacity (resource & management capacity). This result is interesting, as it reflects the tensions identified by the theory (Sanders & McClellan, 2014): While on the one hand increased oversight may reduce learning inefficiencies in any organization, on the other a top-down approach may be detrimental in a for-profit, trust-based context.

Our results speak directly to practitioners and policymakers working to improve the financial attractiveness and sustainability of nonprofit organizations worldwide. In the first place, a model of knowledge transfer between grantor and grantee may become a best practice to support the grantee's growth in an effective, cheap, and easy-to-accept way. Second, favoring grantor-grantee matches based on common goals and missions may be more efficient. Third, and to a certain extent, increasing spending on oversight may be ineffective.

We contribute to the academic literature in three ways. First, we add to the research on comprehensive philanthropy by shedding light on the anatomy of the grantor-grantee relation. Our findings align with the literature on the nonprofit sector that highlights the gains from adopting a model of broadened participation (Clerkin & Quinn, 2019) that goes beyond mere funding and enhances efficiency (Coupet & Berret, 2018; Boesso & Cerbioni, 2019), accountability (Ebrahim, 2010; Brendan & Quinn, 2019), social impact (Ebrahim & Rangan, 2014; Maya-Jariego et al., 2020), and legitimacy (Leardini et al., 2019). Second, we speak to the existing works that identify the role of empathy, goal alignment, and trust in the third sector (Vangen & Huxham, 2003). In this respect, we show that goal alignment not only correlates positively and significantly with the grantee's capacity development but also mutes the role of oversight. Third, we enrich the literature on the managerialization of the nonprofit sector (Ostrower, 2004; Anheier, 2005; Hume & Leonard, 2014; Laurett & Ferreira, 2018). For the Italian context, since FOB boards have a managerial heritage in terms of sharable skills (Boesso et al., 2017), our results are useful to grantors who hope to quantify costs and benefits from enhancing their relation with grantees. In an international perspective, our findings may be extended to grantors with a comparable internal organization.

The research has several limitations that call for discussion. First, we cannot compare perceptual measures of improvement with objective ones. Had we both, we could conduct a rigorous efficiency and effectiveness analysis, shedding light on whether perceptual data can enrich the evaluation of the long-term effects of the grantor-grantee relation beyond what short-term objective measures might report. In our analysis, perceptual data are of interest *per se*, and our methodological choice is motivated. Yet we acknowledge that there may be a discrepancy with objectively-measured effectiveness. We tackle this possibility by gaining perspectives not solely from respondents covering an apical role but rather a set of different trustees. We also enrich our empirical study with Cronbach's alpha of the variables of interest, multiple item scales, and factor analysis to reduce measurement error and increase construct validity. The second limitation is that excluding the recipients of small grants (i.e. those below €2,000) from the sample may generate selection bias and distort the qualitative conclusions. Third, caution should be exercised in extending our findings to the entire population of grantees given the limited response rate achieved by the survey (20%), which makes our sample representative of only 30% of the total FOB population. Finally, we do not intend to claim a direct causal link between business-like practices and organizational capacity, but rather acknowledge that reverse causality may represent a source of endogeneity in our study. For instance, it might be that a FOB decides to provide more non-financial support to a grantee once the latter has achieved a certain level of organizational capacity. Additional research should move in this direction. Notwithstanding its limitations, this article is one of the first attempts to map the relational dynamics between grantor and grantee and provides empirical support to what has been theorized by the literature over the past decade.

This paper provides useful insights that may constitute the basis for future research on the desirable role foundations might play from the grantee's perspective. Future work could gather the perceptions of other players involved in the grant-making process and whose opinion is often neglected. For instance, the perceptions of foundation employees, who work hand-in-hand with the grantees, could be analyzed to determine whether they are optimistic about their foundation's capacity-building processes. Moreover, comparing development and performance data across accepted and rejected grant applicants may provide further intriguing insights. Finally, extending the analysis to the grantees of other foundations (e.g., foundations of corporate origin) as well as beyond Italy could allow for a comparison across different organizational settings and contexts and a critical evaluation of different relational models.

APPENDIX 1. Survey questions used as variables

Resource & management capacity
Did the relationship with the granting foundations contribute to improving: (1 not at all - 7 extremely)
The ability to find non-governmental sources of funding?
The ability to find governmental sources of funding?
The ability to develop a client data system?
The ability to develop a fundraising plan?
The ability to use a budget for effective allocation of resources?
The ability to develop systems for financial management?
The ability to manage volunteers effectively?
The ability to develop the staff leadership?
The ability to provide professional development to the staff?
Program development
Did the relationship with the granting foundations contribute to improving: (1 not at all - 7 extremely)
The ability to increase the number of clients served?
The ability to extend services to new clients or communities?
The ability to increase the scope of services provided?
Support
To what extent did your relationship with the foundation involve the following aspects? (1 not at all - 7 extremely)
The foundation provides insights and advice about our field.
The foundation provides advice on strategic and financial planning.
The foundation provides support in the development of performance measures.
The foundation introduces us to leaders in our field.
The foundation provides advice on marketing and communication.
The foundation provides advice on fundraising.
Goal alignment
To what extent did your relationship with the foundation involve the following aspects? (1 not at all - 7 extremely)

The objectives of our organization are aligned with those of the foundation.
Our organization and the foundation are enthusiastic about pursuing the same objectives.
Our organization and the foundation share the same vision on most of the issues to tackle.
Oversight
To what extent did your relationship with the foundation involve the following aspects? (1 not at all - 7 extremely)
The foundation emphasizes results and ideas for public dissemination.
The foundation identifies the issues to tackle.
The foundation specifies activities to undertake.
The foundation identifies other organization to work with.
The foundation evaluates the results of the project financed.
Competitive selection
Did your organization participate in a competitive bid to obtain the grant? (1 yes; 0 no)
Multiyear project
What is the time horizon of the project financed with the grant? (1 more than one year; 0 up to one year)

APPENDIX 2. Variables' definition

Variable	Definition
Resource & management capacity	Mean score of 9 items as reported in appendix 1, rated on a 7-points Likert scale.
Program development	Mean score of 3 items as reported in appendix 1, rated on a 7-points Likert scale.
Support	Mean score of 6 items as reported in appendix 1, rated on a 7-points Likert scale.
Goal alignment	Mean score of 3 items as reported in appendix 1, rated on a 7-points Likert scale.
Oversight	Mean score of 5 items as reported in appendix 1, rated on a 7-points Likert scale.
Competitive selection	Indicator variable equal to "1" if the grantee has been selected through a competitive bid, "0" otherwise.
Multi-year project	Indicator variable equal to "1" if the project financed with the grant has a length of more than one year, "0" otherwise.
Grant amount	Natural logarithm of the grant amount received
Association	Indicator variable equal to "1" if the chair of the organization surveyed is a nonprofit association, "0" otherwise.
Social cooperative	Indicator variable equal to "1" if the chair of the organization surveyed is a social cooperative, "0" otherwise.
Mature Organization	Indicator variable equal to "1" if the organization existed for more than ten years, "0" otherwise.
Size	Categorical variable equal to "0" if revenues realized by the organization are equal or below 50,000 Euro; "1" if revenues are between 51,000 and 100,000 Euro; "2" if revenues are between 101,000 and 500,000 Euro; "3" if revenues are above 500,000 Euro.

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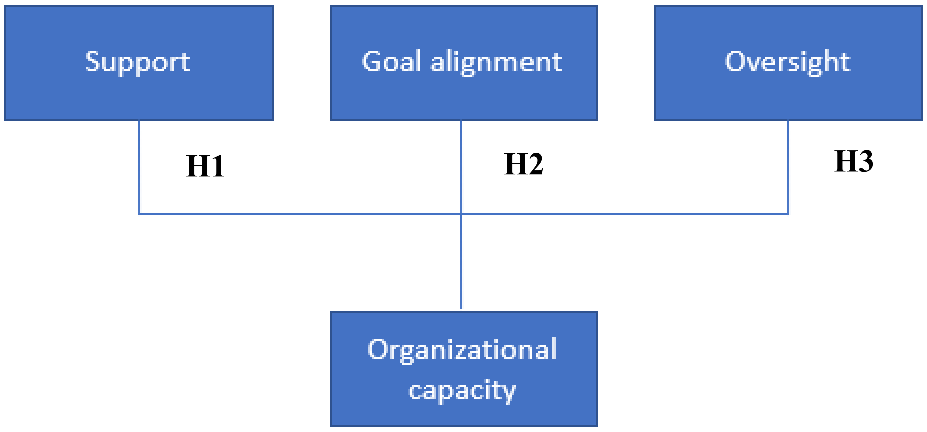
FIGURE 1. Tested model



This figure represents the theoretical model being tested.

TABLE 1. Factor analysis (dependent variables)

Variable	Mean	Factor 1	Factor 2
Resources and management capacity (alpha 0.90)			
New sources nongovernment funding	3.07	0.77	
New sources government funding	2.95	0.75	
Client data system	2.82	0.72	
Financial management system	3.18	0.71	
Fundraising plan	3.05	0.65	
Staff professional development	3.14	0.64	
Staff leadership development	2.48	0.62	
Volunteer management	3.08	0.61	
Budgeting process	3.76	0.61	
Program development (alpha 0.84)			
Increase scope of services	3.65		0.85
Services new clients or communities	4.01		0.81
Increase number of clients	4.02		0.80

This table reports latent factors and loading items used as dependent variables. Values less than 0.300 are not specified. A factor loading of 0.600 is used as cutoff point for the factors.

TABLE 2. Factor analysis (research variables)

Variable	Mean	Factor 1	Factor 2	Factor 3
Support (alpha 0.86)				
Insight and advices on the field	2.70	0.83		
Strategic and financial planning advices	2.80	0.78		
Development of performance measures	2.84	0.76		
Introduction to leaders in the field	2.15	0.74		
Communication/marketing assistance	2.73	0.71		
Fundraising assistance	1.86	0.66		
Goal alignment (alpha 0.86)				
Congruence of objectives	5.15		0.92	
Enthusiasm in pursuing the same objectives	4.93		0.85	
Alignment of vision on the issues to tackle	5.20		0.83	
Oversight (alpha 0.78)				
Emphasizing results and ideas for public dissemination	3.26			0.78
Identification of issues to tackle	3.22			0.77
Specification of activities to undertake	3.39			0.76
Identification of organizations to work with	1.89			0.64
Ex-post evaluation of results	4.04			0.63

This table reports latent factors and loading items used as research variables. Values less than 0.300 are not specified. A factor loading of 0.600 is used as cutoff point for the factors.

TABLE 3. Descriptive statistics

Variable	N	Mean	SD	P.25	Median	P.75
Resources & management capacity	242	0.36	0.21	0.17	0.37	0.50
Program development	242	0.51	0.27	0.33	0.50	0.67
Support	242	0.25	0.21	0.08	0.21	0.39
Goal alignment	242	0.68	0.25	0.56	0.70	0.83
Oversight	242	0.37	0.26	0.17	0.30	0.57
Competitive selection	242	0.72	0.45	0.00	1.00	1.00
Multi-year projects	242	0.78	0.42	1.00	1.00	1.00
Grant amount (log)	242	9.78	1.37	8.70	9.78	10.58
Association	242	0.64	0.48	0.00	1.00	1.00
Social cooperative	242	0.19	0.39	0.00	0.00	0.00
Mature Organization	242	0.74	0.44	0.00	1.00	1.00
Size	242	1.48	1.20	0.00	2.00	3.00

This table reports descriptive statistics of all variables used in the analysis. All variables are defined in Appendix 1 and 2.

TABLE 4. Pearson correlations

Variable	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*
Resources & management capacity	1.00											
Program development	0.61*	1.00										
Support	0.52*	0.39*	1.00									
Goal alignment	0.32*	0.29*	0.33*	1.00								
Oversight	0.38*	0.39*	0.44*	0.40*	1.00							
Competitive selection	0.19*	0.17*	0.16*	0.16*	0.14*	1.00						
Multi-year projects	0.22*	0.26*	0.06	0.12	0.21*	0.07	1.00					
Grant amount	0.14*	0.14*	0.17*	0.03	0.13*	0.04	0.24*	1.00				
Association	0.02	0.10	-0.12	0.01	-0.05	0.13*	-0.09	-0.26*	1.00			
Social cooperative	0.11	0.13*	0.19*	-0.01	0.12	-0.01	0.16*	0.12	-0.62*	1.00		
Mature Organization	-0.02	-0.01	-0.01	0.03	0.01	0.01	-0.06	0.07	0.01	-0.01	1.00	
Size	0.10	0.01	0.17*	-0.02	0.13	-0.10	0.11	0.42*	-0.47*	0.31*	0.33*	1.00

This table reports Pearson correlations between all variables used in the analysis. * denotes significance level at less than 5%. All variables are defined in Appendix 1 and 2.

TABLE 5. OLS regression (*Resource & management capacity*)

	Dependent Variable: Resource & Management capacity							
	H1		**H2**		**H3**		**Augmented Model**	
	Coeff.	*t-stat*	*Coeff.*	*t-stat*	*Coeff.*	*t-stat*	*Coeff.*	*t-stat*
Support	0.493	8.058***					0.415	6.040***
Goal Alignment			0.247	4.773***			0.107	1.975**
Oversight					0.237	4.589***	0.072	1.303
Competitive Selection	0.029	1.030	0.056	1.903*	0.053	1.816*	0.021	0.789
Multi-year projects	0.087	2.839***	0.060	1.705*	0.058	1.633	0.071	2.276**
Grant Amount	-0.000	-0.027	0.008	0.741	0.007	0.625	0.000	0.034
Association	0.067	1.910*	0.091	2.410**	0.078	2.049**	0.066	1.839*
Social Cooperative	0.024	0.621	0.080	2.074**	0.060	1.468	0.028	0.749
Mature Organization	-0.013	-0.467	-0.033	-1.113	-0.024	-0.834	-0.016	-0.599
Size	0.011	0.778	0.026	1.830*	0.018	1.238	0.013	0.915
Constant	0.110	0.991	-0.058	-0.481	0.064	0.553	0.043	0.382
p	0.000		0.000		0.000		0.000	
R-squared	0.339		0.209		0.207		0.363	
Observations	242		242		242		242	

This table reports the main results of OLS regressions to test H1, H2 and H3. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively, using a two-tailed test. Please see Appendix 2 for variable definitions.

TABLE 6. OLS regression (*Program development*)

	Dependent Variable: Program development							
	H1		**H2**		**H3**		**Augmented Model**	
	Coeff.	*t-stat*	*Coeff.*	*t-stat*	*Coeff.*	*t-stat*	*Coeff.*	*t-stat*
Support	0.453	5.926***					0.323	3.459***
Goal Alignment			0.282	4.020***			0.132	1.752*
Oversight					0.307	5.200***	0.161	2.245**
Competitive Selection	0.028	0.754	0.049	1.280	0.042	1.098	0.015	0.423
Multi-year projects	0.129	3.208***	0.100	2.375**	0.094	2.240**	0.103	2.577**
Grant Amount	0.015	1.150	0.023	1.705*	0.020	1.532	0.016	1.229
Association	0.152	3.557***	0.173	3.924***	0.156	3.559***	0.148	3.453***
Social Cooperative	0.125	2.536**	0.177	3.384***	0.153	2.870***	0.130	2.583**
Mature Organization	-0.001	-0.014	-0.020	-0.503	-0.010	-0.251	-0.005	-0.123
Size	-0.006	-0.319	0.009	0.538	-0.001	-0.070	-0.004	-0.211
Constance	0.007	0.053	-0.178	-1.230	-0.039	-0.282	-0.081	-0.580
p	0.000		0.000		0.000		0.000	
R-squared	0.284		0.239		0.255		0.325	
Observations	242		242		242		242	

This table reports the main results of OLS regressions to test H1, H2 and H3. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively, using a two-tailed test. Please see Appendix 2 for variable definitions

TABLE 7. ANOVA difficulties

Variable	Associations (N=155)	Social cooperatives (N=45)	Operating foundations (N=45)	F
Attract new human resources	0.58	0.46	0.44	4.78^{***}
Retain employees	0.25	0.21	0.21	0.50
Manage volunteers' work	0.38	0.26	0.23	6.97^{***}
Identifying funders	0.76	0.69	0.65	3.90^{**}
Operating planning	0.36	0.41	0.31	1.25
Financial planning	0.48	0.49	0.41	1.37
Performance evaluation	0.39	0.54	0.44	4.85^{***}

This table reports the results of ANOVA tests for the difficulties reported by the surveyed organizations. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

TABLE 8. ANOVA social impact measurement

Variable	Associations (N=155)	Social cooperatives (N=45)	Operating foundations (N=45)	F
First level qualitative analysis	0.36	0.42	0.28	2.64^{*}
Costs-benefit analysis	0.37	0.49	0.31	4.38^{**}
Social value added	0.20	0.36	0.11	9.83^{***}
Social return on investments	0.12	0.26	0.09	7.83^{***}
Counterfactual analysis	0.13	0.19	0.07	3.33^{**}
Randomized controlled trials	0.11	0.14	0.06	2.61^{*}
Theory of change	0.17	0.22	0.11	2.10

This table reports the results of ANOVA tests for social impact assessment tools. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.