

Beyond Grantmaking: An Investigation of Program-Related Investments by U.S. Foundations

Heng Qu¹ and Una Osili¹

Keywords: Program-related investments, PRI, mission-related investments, impact investing, philanthropy, foundations, organizational strategy

¹ Indiana University Lilly Family School of Philanthropy.

Corresponding Author: Heng Qu, Indiana University Lilly Family School of Philanthropy, University Hall, Suite 3000, 301 University Blvd. Indianapolis, IN 46202. Email: hqu@uemail.iu.edu.

Heng Qu is a PhD candidate in Philanthropic Studies at the Indiana University Lilly Family School of Philanthropy and will be an Assistant Professor in the Bush School of Government and Public Services at Texas A&M University starting in September 2016.

Una Okonkwo Osili is Professor of Economics and Philanthropic Studies at Indiana University-Purdue University Indianapolis, and Director of Research at the Indiana University Lilly Family School of Philanthropy. Email: uosili@iupui.edu. Phone: 317-278-8908.

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Abstract

This study investigates program-related investments (PRIs), which are mechanisms that foundations can use to achieve charitable purposes while generating moderate financial returns. There is a growing interest in PRIs and other similar market-based approaches among practitioners of philanthropy recently. We examine the internal and external factors that influence program-related investments (PRIs) by U.S. foundations through both quantitative and qualitative analysis. By analyzing the IRS and Foundation Center data, we find that foundations with more financial and human resources are more likely to adopt PRIs initially and also more intensively engage in PRIs. Foundations of 25 years or older invest less money in PRIs than younger foundations. Findings from the interviews with eight foundations reveal additional factors influencing foundations' PRI activities, including staffing and expertise, the board and executive leadership, changes in the legal and economic environment, sectoral trends and peer networks, and the interests and needs of PRI recipients.

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Introduction

In a world facing complex social problems, there is a growing interest in adopting innovative approaches that leverage market forces to create social changes on a large scale. This trend has been reflected by a number of new terms in the philanthropic sector, such as “blended value” (Emerson, 2003a), “mission investing” (Kramer & Cooch, 2007), “impact investing” (Monitor Institute, 2009), “collective impact” (Kania & Kramer, 2011), and “strategic philanthropy” (Kania, Kramer, & Russell, 2014).

For foundations in the U.S., program-related investments (PRIs) and mission-related investments (MRIs) are examples of unconventional approaches to addressing social challenges. Beyond grantmaking, PRIs and MRIs are investments that support foundations in achieving both charitable purposes and some financial returns. Specifically, PRIs are legally defined charitable activities to primarily support foundations’ charitable missions. PRIs, made from either a private foundation’s program funds or investment assets, allow the foundation to gain moderate financial benefits through the repayment of principal and returns on below-market-rate loans or equity. MRIs, on the other hand, are essentially financial investments with social purposes. Made from foundations’ investment assets, MRIs are usually market-rate investments and subject to prudent investor standards as conventional investments (Levitt, 2011).

PRIs and MRIs are appealing mainly for two reasons. First, given tremendous challenges facing the society, foundations have been urged to deploy more financial resources and scale up social changes that could not be obtained through grantmaking alone. By making low-cost PRI loans, for example, foundations can provide capital to large-scale projects that require more

funding than a foundation's typical grant size. Second, traditionally, private non-operating foundations (over 90 percent of the U.S. foundations) distribute annually about five percent of their net investment assets for charitable purposes while managing the vast majority of their assets for pure financial returns (Foundation Center, 2012). Some leaders therefore have advocated for bridging the gap between foundations' charitable programs and asset management by using investing strategies that are socially responsible (Emerson, 2003b). Some foundations, for instance, have employed PRIs and MRIs to provide start-up capital to businesses with social missions and invested in vehicles supporting community development, global health, environmental conservation, and a range of other social causes.

In this paper, we focus on PRIs. Despite a growing interest in the practice field, there have been limited empirical studies focusing on PRIs. The existing literature is mainly practice-oriented reports based on case studies or implementation guides (e.g., Benabentos, Storms, Teuscher, & Loo, 2012; Godeke & Bauer, 2008; Cooch & Kramer, 2007), with a few reports providing descriptive analysis of the status and trends of PRIs in the U.S. (Indiana University Lilly Family School of Philanthropy (LFSOP), 2013; Foundation Center, 2010a).

To our knowledge, this paper is one of the first academic studies to analyze PRIs. This paper contributes to the scarce literature on PRIs by examining the internal and external factors that may influence foundations' PRI activities. By investigating both foundations that have used PRIs as well as non-PRI makers, we seek to better understand why there are so few foundations using PRIs given the many advantages PRIs can offer. What motivates U.S. foundations to adopt PRIs? What are the barriers to the use of PRIs by U.S. foundations? Understanding these factors can provide insights for both practitioners and policy makers to improve PRI practices.

We also contribute to the existing literature through drawing insights on multiple data sources and using mixed methods. We first analyze PRIs using both the IRS Statistics of Income and the Foundation Center's PRI data between 2000 and 2009, which allow us to estimate the likelihood and intensity of foundations' PRI activities over time. We then complement the empirical analysis with in-depth qualitative interviews conducted among foundations with different levels of PRI activities. Through both the quantitative and qualitative analysis, we are able to identify the heterogeneous factors that influence PRIs.

Our main results suggest that foundations' asset size, staffing, age, and the characteristics of the board and executive leadership are key organizational factors that impact their use of PRIs. Environmental factors, including changes in the legal and economic environment, sectoral trends and peer networks, and the interests and needs of PRI recipients, also play important roles in influencing foundations' PRI activities. Understanding these factors can help foundations to decide whether they should start PRIs and/or how to improve their current PRI practices. It also offers implications for policymakers and regulators who seek to expand the use of PRIs.

The rest of the paper is organized as follows. We first present a background to PRIs followed by the conceptual framework. We then provide an overview of the quantitative and qualitative data sources used in the paper. Next, we present the empirical results from our quantitative analysis, as well as insights from in-depth qualitative interviews with leaders from foundations with different levels of PRI activities. Finally, we present conclusions and implications.

Background

Although the concept itself is over a century old (Ford Foundation, 1991), PRIs remain a niche tool. According to the IRS data, the share of PRI dollars in qualifying distributions by all

foundations remained around 1 percent each year over the past two decades (LFSOP, 2013). The legal term of “program-related investments” was formally established in the Tax Reform Act of 1969 (Stetson & Kramer, 2008). For private non-operating foundations, an investment can be qualified as a PRI as long as it meets the following three requirements by the Internal Revenue Service: first, its primary purpose is to achieve the foundation’s charitable purposes; second, its significant purpose cannot be the “production of income or the appreciation of property” and; third, it cannot be used to influence legislation or political campaigns (Treas. Reg. § 53-4944-3(a)(1)). In 2012, the IRS and the Department of the Treasury (2012) proposed new guidance of PRIs to expand the categories of investments that may qualify as PRIs. For instance, other than supporting low-income communities, PRIs may also be used to promote arts, science, or environmental protection.

Compared with conventional grantmaking strategies, PRI offers a range of advantages. First, PRIs, which encompass a range of financial instruments, allow foundations to better support charitable activities in ways that grants *alone* cannot offer (Foundation Source, 2012; Benabentos, Storms, Teuscher, & Loo, 2012). By making low-cost PRI loans, foundations can provide capital to large projects that require more funding than a foundation’s typical grant size. Through PRI loan guarantees, foundations can help recipients build credit history and gain access to capital from commercial creditors. Foundations can also make PRI equity investments in risky social ventures that produce high social returns but are less financially attractive to traditional investors. Second, PRIs enable foundations to stretch their financial resources while increasing social impact. PRI funds are to be returned, usually with moderate financial returns, which can then be reused for other charitable projects. Moreover, when expecting PRIs to be returned, foundations can make larger awards, thus bringing solutions to a larger scale. Third, for

private foundations, there are specific tax advantages for making PRIs (Levitt, 2011). Because PRIs are to further a foundation's exempt activities, they are exempt from the taxes on excess business holdings and jeopardizing investments. PRI funds can count toward the foundation's annual five-percent payout during the year when they are distributed. When the PRI principal or capital is repaid, the foundation's annual payout is then increased by the amount of the repayment received in that year while interest, dividends, and capital gains are treated as regular income. When a default happens and the repayment cannot be made, the PRI funds can be treated as if they had been distributed as a grant.

For over four decades, foundations in the U.S. have provided PRIs to support charitable activities in a variety of areas. PRIs have been used to build affordable housing, create jobs in economically disadvantaged communities, and provide financial support to needy students. In fact, housing, economic and community development, and education were the three main program areas that received the most PRI funding, accounting for over two thirds of the PRIs invested in the U.S. in the 2000s (Indiana University Lilly Family School of Philanthropy (LFSOP), 2013; Foundation Center, 2010a). More recently, PRIs have also been used in other program areas, such as public health and environmental conservation. For instance, in 2011, the Bill & Melinda Gates Foundation used a PRI to acquire a \$10 million stock in a for-profit biotechnology company to improve the delivery of vaccines (The New York Times, 2011). The David and Lucile Packard Foundation provided \$5 million in bridge financing through a PRI loan in 2012 to help preserve Royal Gorge, the country's largest cross-country ski area (The David and Lucile Packard Foundation, 2013).

In general, the use of PRIs by U.S. foundations has increased from the early 1990s to the late 2000s (LFSOP, 2013; Foundation Center, 2010a; Cooch & Kramer, 2007). Between 2000

and 2009, the total dollar amount invested in PRI programs grew fourfold, rising from \$139 million in 1990 to \$701 million in 2009 (LFSOP, 2013). Yet, foundations have been relatively slow to adopt PRI strategies. There are over 80,000 foundations in America (Foundation Center, 2014), but the total number of PRI providers did not exceed 140 annually in the past decade (LFSOP, 2013), suggesting that only a handful of foundations made PRIs every year. The limited use of PRIs by foundations may be due to PRI-associated legal costs, as well as limited management resources and capabilities on both the funder and recipient side (LFSOP, 2013; Benabentos et al., 2012; Foundation Center, 2010a).

Conceptual Framework

There has been limited scholarly research focused solely on foundations' PRI activities. We draw on two strands of academic literature that can help to shed light on our exploration of the factors determining foundations' PRI activities.

The first strand of literature, which is from organizational theory, offers insights into the determinants of strategic decisionmaking by foundations and nonprofit organizations. Organizational theorists provide two distinctive views on the nature of organizations and their strategic decisionmaking. One perspective of organizational theory posits that organizations are adaptive and their strategic choices are immediate responses to external environmental changes (Chaffee, 1985). Managers play an important role in monitoring external conditions and adapting organizational strategies to these changes (Schendel & Hofer, 1979). An alternative view of organizational theory asserts that organizations are inertial and slow in adopting new strategies, and emphasizes the role of internal factors and organizational constraints (Stack & Gartland, 2003; Miller and Friesen, 1984). An organization's ability to invest in new human resources,

capital, and other resources for a certain strategy can all be factors that prevent the organization from making strategic changes (Freeman & Boeker, 1984). Moreover, an organization's history (Boeker, 1989), past strategies (Romanelli & Tushman, 1986), and managerial values and organizational philosophies that have formed over time (Miles & Snow, 1978) may also limit its strategic choices. Although the early research on organizational theory largely focused on for-profit organizations, the literature provides useful theoretical perspectives on why foundations may or may not adopt PRI strategies.

The growing literature on nonprofit strategic management is also relevant (Stone, Bigelow, & Crittenden, 1999). Some studies in this literature suggest that internal factors, such as organizational size, age, board and management characteristics, and staffing, are likely to influence nonprofit strategic planning (e.g. Graddy & Morgan, 2006; Wolch, 1990; Young & Sleeper, 1988). Other studies cite the external resource environment, partners, and competitors as determinants of nonprofit strategies (e.g. Graddy & Morgan, 2006; Bielefeld, 1992; Gronbjerg, 1991). In one model of choices by nonprofit organizations, a nonprofit's managers (including both the CEO and the board), workers, donors, and customers are all hypothesized to compete to exert influences on the organization's decision-making processes (Glaeser, 2003). According to this model, both the organization's assets and age may influence its decision-making.

Another relevant strand of literature that we draw on concerns the adoption of new approaches by organizations. According to this research, decision-making about adopting a new technology is a human capital-intensive activity (Wozniak, 1987). Empirical research has found that certain factors increase the likelihood of an organization's early adoption of a new technology: an increase in the education and information of producers, and an increase in firm size, because they both reduce the costs and uncertainty (Wozniak, 1987). This line of research

may offer insights as to why foundations and other nonprofit organizations initially adopt new practices like PRIs and MRIs.

Drawing on existing literature, we posit that a foundation's PRI activities are determined by both its internal and environmental factors. Internal factors include a foundation's asset size, human resources, age, type, and the board and executive leadership. Environmental factors include a foundation's peers, recipients, and more broadly, its legal and economic environment.

Methods and Data

We investigate the factors that determine foundations' PRI activities using both quantitative and qualitative methods. The quantitative analysis is based on two data sources, the IRS Statistics of Income (SOI) files and the Foundation Center (FC) PRI dataset. The qualitative analysis relies on the narrative data collected from the in-depth interviews with senior leadership from eight U.S. foundations.

The IRS Statistics of Income Data. The SOI microdata files include a random sample of Forms 990-PF filed by private foundations and nonexempt charitable trusts for each year. Based on both type and asset size of organizations, the SOI files include 100 percent of private foundations and nonexempt charitable trusts with \$10 million or more in assets and some smaller-sized organizations selected at decreasing rates (IRS, 2014). An important advantage of the SOI data is that it provides comprehensive financial and charitable giving information on both PRI makers and non-PRI makers, allowing us to examine which foundations are more likely to make PRIs.

The Foundation Center PRI Data. The FC PRI dataset is modeled on its grants database and the records were gathered primarily from IRS Forms 990-PF and other information provided

directly by foundations, foundation publications, and Foundation Center surveys (Foundation Center, 2010a). While the SOI data only include private foundations, the FC data also include other types of foundations, such as community foundations and public charities. The FC data provide more detailed PRI-related information that is not available in the SOI data, including the characteristics of PRI makers, recipients, as well as individual PRI transactions.

Qualitative Interviews. In addition to the quantitative data analysis, we conducted a series of in-depth phone interviews with the senior leadership from eight foundations that have different levels of PRI activities and assets. Using the FC data on PRI makers, we first obtained 12 categories of foundations based on their level of aggregate PRI amount over the entire period (3 quintiles: high, medium, or low) and the level of assets in 2000 (4 quintiles: very large, large, medium, or small). We then selected 29 foundations across the 12 categories (2 to 4 by each category), with additional consideration to their location and type. Out of the 29 potential cases, seven foundations participated in our interviews. In addition to the seven PRI makers, we also interviewed a foundation that expressed interest but had no experience in PRIs. Two central questions were discussed in the interviews: first, what motivated a foundation to make or not make PRIs? Second, what were the challenges and/or opportunities for PRI activities? Besides the interviews, we also reviewed the websites of these foundations to gather additional information on their PRI programs.

In the following sections, we will first present the results from quantitative data analysis, and then discuss the narrative data from the qualitative interviews.

Quantitative Analysis

Descriptive Statistics

The summary statistics for the SOI sample are shown in Panel A of Table 1. We initially selected the top 1500 private foundations and nonexempt charitable trusts based on the end-of-year fair market value of total assets in 2000. However, the SOI files contain observations with identical Employer Identification Numbers (EIN). That is, organizations with different names and organizational characteristics (e.g. assets) may share the same EIN. We therefore dropped the observations with duplicate EINs for each year. After merging the SOI files from 2000 to 2009 based on EIN, our final sample includes 1214 organizations. Between 2000 and 2009, 175 foundations (14%) made PRIs totaling nearly \$3 billion (adjusted for inflation to 2013 dollars), while the majority of foundations (86%) in the sample did not make any PRIs. The average value of aggregate PRI amount from 2000 to 2009 per each foundation was about \$2.5 million. When only considering foundations that made PRIs, the average value of aggregate PRI dollars were as high as 17 million (median = \$2.97 million).

In our SOI sample, PRI makers were larger foundations than non-PRI makers in terms of asset size or employee salaries. Both the mean and median values of assets for PRI makers (mean = 992 million, median = \$192 million) were much higher than those for non-PRI makers (mean = \$237 million, median = \$92.6 million). Similarly, in 2000, PRI makers on average provided much higher employee salaries and wages (mean = \$1.48 million, median = \$0.18 million) than non-PRI makers (mean = \$0.47 million, median = \$0.024 million).

The summary statistics for the FC data are displayed in Panel B of Table 1. Between 2000 and 2009, the Foundation Center tracked 417 foundations that provided 3,616 PRIs totaling nearly \$3.4 billion (adjusted for inflation to 2013 dollars). The aggregate number of PRIs issued

by each foundation for the entire period was an average of nine (median = 2). However, about half of the foundations only made one or two PRIs over the 10 years. The aggregate amount of PRIs for each foundation over the period was about \$8.15 million on average (median = \$1.29 million), which is much lower than that for the PRI makers in the SOI sample (mean = \$17 million, median = \$2.97 million).

We note some important differences between the two data sources. First, we observe a lower level of mean and median values for aggregate PRI dollars within the FC database as compared to the SOI data. This can be explained by noting that the SOI data includes mainly the largest foundations based on the asset size, whereas the FC data include smaller foundations that made their PRI-related information available to the Foundation Center. As such, the average asset size in 2000 for all foundations in the FC data was 445 million dollars (median = \$50.1 million), a much lower level than that for the PRI makers in the SOI sample (mean = \$992 million, median = \$192 million).

Second, we note that the FC dataset does not include information on employee salaries and wages, but provides comparable information on the staffing levels in 2010 instead.¹ The average number of staff was 26 for the 254 foundations with available staff information in the sample (median = 7).

Third, while the SOI data only include private foundations, the FC data also cover other types of foundations, such as community foundations and public charities. Among all the five types of foundations in our sample, most are independent (49%) or family foundations (30%). The average age of the foundations was 33 in 2009, ranging from two to 96.

[Table 1 Here]

Empirical Models

In the baseline model, we use Logistic regressions to analyze the likelihood of making PRIs by foundations. As a robustness checks, we examine the level of foundations' PRI activities in terms of aggregate dollar amount and number of PRIs. Ordinary Least Squares (OLS) and Ordered Logistic regressions are used to examine the aggregate dollar amount of PRIs. Both OLS and Poisson regressions are conducted to analyze the aggregate number of PRIs. The Poisson specification is used to reflect the highly skewed distribution of number of PRIs in the FC data. In addition, we conducted fixed effects regressions on annual PRI dollar amount.

$$PRI\ Indicator_i = \alpha + \beta foundation\ characteristics_i + \varepsilon_i \quad (1)$$

$$PRI\ Activities_i = \alpha + \beta foundation\ characteristics_i + \varepsilon_i \quad (2)$$

$$PRI\ Activities_{it} = \alpha_i + T_t + \beta foundation\ characteristics_{it} + \varepsilon_{it} \quad (3)$$

Dependent variables. In our baseline model, we analyze the impact of organizational characteristics on the likelihood of making PRIs by foundation i during the period of 2000 and 2009. When using the SOI data, the dependent variable in this model is an indicator variable, which takes on the value 1 if a foundation issued a PRI between 2000 and 2009 and 0 otherwise. When using the FC data, the dependent variable is a binary variable that takes on the value 1 if a foundation made more than two PRIs between 2000 and 2009 and 0 if only one or two PRIs.

We also examine additional specifications to determine the robustness of the findings. First, we investigate how certain organizational factors influence the aggregate dollar amount of PRIs by foundation i between 2000 and 2009. We examine several dependent variables within the empirical models including the natural log of aggregate PRI dollar amount made by

foundation i between 2000 and 2009 in the OLS regressions, and categories (quintiles) of aggregate PRI dollar amount per each foundation over the period in the Ordered Logistic regressions. We also examine the level of PRI activities when the dependent variable is the total number of PRIs made by foundation i between 2000 and 2009.

This analysis is used only for the exploration of the FC data because the information on the number of PRIs is not available from the SOI data. The fixed effects regressions are only applicable to the SOI data² and the dependent variable is the annual PRI dollar amount made by foundations i in year t .

Independent variables. To analyze the impact of key foundation characteristics, we include the following independent variables available in the two datasets: first, end-of-year fair market value of total assets, used as an indicator for size of foundations; second, employee salaries and wages (SOI data) or number of staff (FC data), which can serve as a proxy of both foundation size and human resources; third, geographic regions where foundation is located, which is a time-invariant variable and a proxy for regional influences and external characteristics. We also include two additional variables that are only available in the FC dataset—type of foundations, and age of foundations in 2009. Note that all monetary variables in Model (1) and (2) are all in 2000 level (adjusted for inflation to 2013 dollars). Table 2 displays the definitions for all the dependent and independent variables used in our quantitative analysis.

[Table 2 Here]

Results

Probability of making PRIs. Table 3 presents the results from the Logistic regressions on the probability of making PRIs by all foundations (Column (1)), as well as the likelihood of

making more than just one or two PRIs among PRI makers (Column (2)) between 2000 and 2009. The odds ratio is defined as the probability of making PRIs divided by that of not making any PRIs, while the coefficient is the log transformation of odds.

Specifically, the results using the SOI data are reported in Column (1) of Table 3. Three independent variables are found significant. First, both the coefficient and odds ratio of total assets (logs) are positive and statistically significant ($p < 0.01$), suggesting foundations with larger assets are more likely to make PRIs, and for a one percent increase in asset holdings, the odds of making PRIs are 1.74 times higher, holding all the other variables constant. Second, employee salaries and wages are also positively and significantly associated with the probability of making PRIs ($p < 0.01$). Foundations with a higher level of spending on employee salaries may have larger staff size, and/or invest more in building human capital for PRI activities. This result indicates that a foundation with more staff members and/or human resources are more likely to make PRIs, and the odds of making PRIs are significantly larger for each percent of increase in employee salaries and wages, holding all the other variables constant. We also find that foundations in the West are more likely than those in the Northeast to make PRIs ($p < 0.10$), holding all the other variables constant.

The FC data includes only information on PRI makers and allows us to focus on the foundations that varied in their experience in making PRIs from 2000 to 2009 (Column (2), Table 3). Similar to what we find in the SOI data, both the coefficient and odds ratio of assets are positive and significant ($p < 0.10$), meaning that foundations with larger asset holdings in 2000, comparing with those with smaller asset holdings in 2000, are more likely to make more than just one or two PRIs. We use number of staff to measure a foundation's staffing levels in the FC data, which is also significantly and positively related to the probability of making more than two

PRIs ($p < 0.05$). Interestingly, when we examine geographic regions, we note that the South and West are significantly and negatively associated with the likelihood of making more PRIs ($p < 0.05$) compared with Northwest. Comparing with those PRI makers in the Northeast, the odds of making more than two PRIs are about 55 percent lower for the PRI makers in the West or South. Moreover, we find that community foundations are less likely than independent foundations to make more PRIs ($p < 0.10$). Finally, the coefficient of foundation age is negative, but not statistically significant.

[Table 3 Here]

Aggregate dollar amount of PRIs. In our analysis, we also examine aggregate PRI dollar amount. These results represent an important robustness check and also allow us to explore the extent of PRI activities by foundations. Table 4 displays the results from the OLS (Table 4, Column (1)) and Ordered Logistic regressions (Table 4, Column (2)) on the aggregate PRI dollar amount from 2000 to 2009 using the SOI data. Specifically, a foundation's asset holdings are positively related to the aggregate PRI amount ($p < 0.01$), suggesting foundations with larger asset holdings are estimated to invest more dollars in PRIs. Moreover, employee salaries and wages are also positively associated with the aggregate amount of PRIs ($p < 0.01$), indicating that foundations with higher level of spending on employee salaries are predicted to invest more dollars in PRI projects. The geographic region of foundations is not statistically significant in this model using the SOI data.

We find similar results when using the FC data, as shown in Column (3) and (4) in Table 4. First, assets are positively and significantly correlated with the aggregate PRI dollar amount ($p < 0.01$). The staff size, indicated by number of staff in the FC data, is also positively and

significantly related to the PRI amount ($p < 0.01$). The FC data provide additional results on the type of foundations. Although the odds ratio of community foundations in the Ordered Logistic specification is not significant, the other results show that both family foundation ($p < 0.05$) and community foundations ($p < 0.01$) are predicted to invest lower PRI amounts compared to independent foundations ($p < 0.10$), holding all the other variables constant. An interesting finding is that foundation age is significantly but negatively related to the aggregate PRI dollar amount, which suggests that older foundations are predicted to invest slightly lower PRI amount compared to their younger counterparts, holding other variables constant.³ Consistent with the SOI data, the geographic region of foundations is not statistically significant.

[Table 4 Here]

Aggregate number of PRIs. We also examine the overall number of PRIs made over the past decade. This is another important robustness check and also allows us to further examine the intensity of PRI activity. The results on the aggregate number of PRIs reveal some consistent findings. Results from the OLS (Column (1)) and Poisson (Column (2)) regressions on the aggregate number of PRIs from 2000 to 2009 are shown in Table 5. Because information on the incidence of PRIs is not available from the SOI data, we mainly rely on the FC data for this analysis.

Although asset size is not statistically significant in the OLS specification, the results from the Poisson regression show a significantly positive association between asset holdings and the aggregate number of PRIs ($p < 0.10$). Specifically, for one percent increase in asset holdings, the number of PRIs is estimated to increase by about one percent, while holding all other variables constant. The number of staff is positively and significantly related to the PRI

incidence in all the specifications for this model ($p < 0.05$). As for the type of foundations, community foundations are found statistically significant and negatively related to the number of PRIs in both regressions (OLS, $p < 0.05$; Poisson, $p < 0.01$), suggesting that community foundations are estimated to make smaller number of PRIs than independent foundations. The sign of the coefficients of foundation age are negative in both models, but not significant. Geographic location of the foundations is not significant in this model.

[Table 5 Here]

Annual dollar amount of PRIs. To analyze PRI activities over time, we use the fixed effects model to examine the impact of foundation characteristics (i.e. asset and staff size) on PRI activities (i.e. annual PRI dollar amount) while controlling for the unobserved organizational characteristics that do not vary over a certain time period (e.g. mission, culture, values). Table 6 shows the results from the fixed effects regressions on the annual PRI dollar amount from 2000 to 2009 using the SOI data. A foundation's asset growth is positively associated with an increase in PRI activities, which holds for both the full sample ($p < 0.05$) and the subsample with only PRI makers ($p < 0.10$). Year dummies and employee salaries and wages are not statistically significant in this model.

[Table 6 Here]

Discussion

The estimations support the previous literature on organizational strategic decisionmaking. First of all, our analysis shows that foundations' total assets and staff size are important internal determinants of foundations' PRI activities. Larger foundations, with greater

level of asset and/or staff size, are more likely than smaller foundations to make PRIs. Moreover, among foundations that have already participated in PRI activities, which we refer to as “PRI makers,” the larger ones are more likely to make more than two PRIs. Consistent with the theoretical framework, PRI makers with larger assets and/or staff size also are also estimated to more intensely engage in PRIs, that is, to invest more money in PRI activities or initiate more PRI projects. The finding is related with previous literature, which suggests that larger foundations may have more capabilities, including both financial and human resources, to adapt to environmental changes and adopt new strategies.

Another internal factor included in our analysis is age of foundations. The results show that older foundations, particularly those 25 years old or above, invest less money in PRIs than younger ones. Several existing studies have noted that older organizations may have a greater opportunity to change their initial strategy (Boeker, 1989). Instead, our finding provides empirical evidence to the theory of inertia organizations: it could be more difficult for older foundations to make strategic changes and adopt new practices, constrained by the long-established organizational culture, managerial values, or the intent of founders and donors.

The quantitative analysis also provides mixed findings on geographic location of foundations. When examining at all foundations, we find that foundations in the West are more likely than those in the Northeast to make PRIs. This may indicate a regional influence in the West that drives PRI initiatives, considering other types of entrepreneurial philanthropic practices (e.g. social entrepreneurship, social investing) may be more prevalent in the western states of the U.S.. When only considering PRI makers, however, the results regarding the regional influence on PRI activities are not robust.

The type of foundations could be seen as proxy variable for both internal and external determinant on PRIs. Different types of foundations are associated with different establishing conditions, revenue sources, and primary activities required by the IRS rulings. For example, community foundations receive numerous sources of funding from the public while private foundations have a single major source of funding. With regard to primary activities, non-operating foundations typically make grants to other charitable organizations or individuals, whereas operating foundations run their own charitable programs and do not provide as many grants. These organizational-level differences also reflect a foundation's relations with its environment. Different funding sources decide different donor influences, and primary activities may lead to different relationship with grantees or receivers. As foundation type is based on the legal categorization prescribed by the IRS, it generally reflects the foundations' legal and institutional environment.

Hence, it is not surprising that we find that community foundations, when compared to independent foundations, are less active in making PRIs. PRI is a legal term specifically for private foundations. The relevant law permits PRIs to be counted as part of the annual minimum payout and an exception of the jeopardizing investments laws, thus providing comfort for private foundations to make PRIs. However, this incentive is not applicable for community foundations, although they "may use the term 'PRI' to refer to a concessionary investment for a charitable purpose" (PRI Makers Network, n.d.). Moreover, because community foundations mainly support the needs of the community or region where they are located, their projects may not have as large scale as those by independent foundations. Likewise, the finding that family foundations invest less money than independent foundations in PRI projects may be due to different donor influences. For a typical family foundation, the initial donor (the family) usually continues to

show measurable donor involvement in the foundation's operations, which could prevent the foundation from deviating from its founding strategy.

Insights from Qualitative Interviews

We also rely on results from qualitative analysis to better understand the factors that influence PRI activity by U.S. foundations. The qualitative interviews with foundations' senior leadership not only support our findings from the quantitative analysis, but also provide additional insights that reveal both internal and external factors influencing foundations' PRI activities, including: human capital and expertise, the board and executive leadership, changes in legal and economic contexts, industrial trends and peer influence, and the interests of recipients.

Internal Factors Influencing PRIs

Human capital and expertise. Human capital, especially the expertise required by PRI activities is an influencer highlighted by the foundations in the interviews. Most foundations cited the lack of expertise as a challenge for PRI activities, and mentioned their willingness or efforts to attract the talent with knowledge and experience in executing PRIs. A PRI by nature is both a charitable activity and a financial investment, which requires special skills on structuring and monitoring PRI transactions. When a foundation lacks PRI expertise, the management of PRI projects requires the collaboration between both a foundation's grant making and fund management teams. The collaboration is often difficult as each team possesses their own professional but traditional perspectives on PRI transactions. Thus, in the long run, the successful operation of PRI programs requires a foundation to develop managerial expertise and processes that are different from those used in both traditional grantmaking and fund management. In our interviews, although it is common that foundations' PRI projects are managed by either their

grantmaking or investment team, several more experienced PRI makers have already established a PRI or MRI team.

The board and executive leadership. Our interviews provide support for previous literature on the role of the board and executive leadership in organizational strategic decisionmaking. Most of the interviewed foundations mentioned the role of the board and executive leadership in their early adoption of PRI practices, either as a driving or impeding force. For Foundation E, the initial use of PRIs was a response to a proactive board that suggested the foundation should not be like a private investment company and should allocate more of its assets for charitable purposes. Likewise, Foundation G's mission-driven investing was initiated when there was an organizational transition. A re-clarified organizational mission, as well as new leaders and staff members, prepared the foundation to deploy its endowment for mission-driven investing. On the other hand, we find that a conservative board has the potential to slow down a foundation's pace of using PRIs. For example, Foundation H's previous board did not approve the use of PRIs. It was not until recently when the new board revisited the PRI strategies, the foundation has started reconsidering PRIs.

External Factors Influencing PRIs

Changes in legal and economic contexts. Many PRI makers adjust their PRI strategies in response to the environmental changes. PRIs were at first a product of the Tax Reform Act of 1969. Foundation D initiated and expanded their PRI activities in the late 1960s and 1970s. The PRI programs regained popularity in the organization in the 1990s and recent years after losing momentum in the 1980s, mainly due to the changes in the Community Reinvestment Act (CRA). The Community Reinvestment Act was enacted in 1977 but did not receive much federal attention until the early 1990s when the Clinton administration increased the enforcement of

CRA. Another related federal initiative was the establishment of the Community Development Financial Institutions (CDFI) Fund in 1994. CDFI has focused on increasing the access to affordable capital and support the development of financial institutions (e.g. loan funds, banks, credit unions, venture capital funds) that aim to improve the economic opportunities in low-income communities (Benjamin, Rubin, & Zielenbach, 2004). These initiatives regenerated Foundation D's interest in using PRI tools in community development in the 1990s. Besides the legal and regulative context, changes in the economic environment could also motivate foundations to consider PRIs. PRIs are appealing tools because the principal funds are to be returned and the investments may bring moderate financial returns. The PRI funds, once returned, could be recycled for other charitable projects. Over time, PRIs have the potential to increase a foundation's financial resources and social impact. As such, several foundations, particularly smaller foundations, mentioned that they started looking for alternative financing options to grantmaking during the 2008 economic recession.

Industrial trend and peer influence. In the philanthropic field, there is a trend in employing entrepreneurial approaches and business practices to tackle social issues (e.g. Kania, et al., 2014; Brest & Born, 2013). PRIs, MRIs, and other types of mission investments are advocated as solutions for foundations to maximize the social impact of their financial resources, and to deepen social changes in ways that grants alone cannot achieve (e.g., Arabella Advisors, 2013; Blueprint & GPS, 2009). Foundation E, which holds a large portfolio of MRIs and plans to deploy 100 percent of its assets for mission purpose in the future, is a representation of this trend. Accompanied by the industrial trend, peer influence is an important influencer inspiring many foundations to participate in PRIs and other mission-related investments. From the early 2000s, several leading PRI makers, such as the Ford Foundation and the F. B. Heron Foundation, have

put efforts into building national PRI and MRI networks (e.g., PRI Makers Network and the More for Mission Campaign). In May 2012, the PRI Makers Network and the More for Mission Campaign joined forces and has become the Mission Investors Exchange (MIE). These peer networks have served as advocates for the use of PRIs and MRIs in the philanthropic field. On the other hand, the networks provide members with learning and networking opportunities to gain information and knowledge, develop skills and tools, and build connections for successful PRI and MRI programs. Most of the interviewed foundations hold membership in at least one PRI and MRI network.

Interests and needs of recipients. Another external factor that motivates foundations to use PRIs is the interests and needs of recipients. Comparing with grants, PRIs can support recipients in unique ways. A PRI can finance a worthy project that is considered too risky by traditional investors, and further help attract more investors and raise more funds for the recipient. A PRI loan can also help a recipient organization establish credit history that is critical for securing funds from commercial banks and other traditional creditors. In addition, the application and management process of PRI projects can help recipient organizations strengthen their financial management capacities (Foundation Source, 2012). As such, foundations' PRI initiatives are often triggered by the needs of their recipient organizations. For instance, Foundation D's PRI practice started with providing community development corporations (CDCs) risk-tolerant and low-cost capital in the affordable housing area when the foundation realized CDCs needed access to funds and low-cost financial solutions that grants could not offer.

Conclusion

Aside from practitioners' enthusiasm for pushing the use of PRIs and other mission investing tools in the philanthropic field, our study tries to understand why there is only a small portion of the U.S. foundations using PRIs. We find there are many factors that motivate or constrain foundations' PRI practice. With respect to internal factors, larger foundations, either in terms of asset or staff size, are more likely to adopt PRI strategies and more intensively use PRIs. We find age of foundations is negatively correlated with the dollar amount of PRIs. This finding supports the previous literature on organizational inertia that mature foundations tend to maintain the status quo and appear reluctant in adopting new strategies. We also find that the board and executive leadership as well as staffing and expertise are crucial factors influencing foundations' PRI activities. In addition, environmental factors, such as legal and economic environment, peer influence, and the needs of recipients, are often driving forces of foundations' PRI activities.

For foundations considering launching PRI programs, these findings suggest them to assess both organizational and environmental conditions and gathering resources from both the inside and outside. It would be beneficial to ask: Does the foundation have enough support from (or conduct sufficient education on) the board, executive leadership, and staff members? What are the existing networking opportunities with peer PRI makers? What is the market demand, that is, the needs of recipients? PRIs and MRIs are emerging philanthropic tools, yet there are more anecdotal stories, implementation guides, or trend reports than studies that provide more comprehensive analysis. There is plenty of room for future research to advance the understanding of these tools. It would be valuable to analyze the role and define the effectiveness of PRIs and other impact investing tools in addressing various social issues. With the existing

literature largely focusing on the funder side, it would also be interesting to explore these tools from the recipient side.

Notes

1. The FC dataset only contains foundations' number of staff in 2010, other years not available.
2. We did not conduct fixed effects regressions using the FC sample because the time-variant variables, such as assets and staff size, are only available for one year in the FC dataset.
3. We also conduct an analysis using a categorical variable of foundation age that captures if a foundation is 25 years old or above in our sample. We find the same result, and the odds ratio is 0.626 for the foundation age of 25 years old or above ($P < 0.05$).

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Table 1 Summary Statistics of Foundations*Panel A. The SOI Dataset*

Variable		All Foundations (N=1214)		PRI Makers (N=175)		Non-PRI Makers (N=1039)	
		Median	Average	Median	Average	Median	Average
Aggregate Dollar Amount of PRIs, 2000-2009		2,445,972	0	2,976,089	17,000,000	0	0
Assets in 2000		100,000,000	335,000,000	192,000,000	922,000,000	92,600,000	237,000,000
Employee Salaries and Wages in 2000		40,736	614,322	178,750	1,476,072	23,668	469,176
		Number	Percentage	Number	Percentage	Number	Percentage
Geography	Northeast	394	32	48	27	346	33
	Midwest	278	23	39	22	239	23
	South	307	25	42	24	265	26
	West	235	19	46	26	189	18

Panel B. The FC PRI Dataset

Variable		Median	Average	Sample Size
Aggregate Dollar Amount of PRIs, 2000-2009		1,188,163	8,146,799	417
Aggregate Number of PRIs, 2000-2009		2	9	417
Assets in 2000		50,100,000	455,000,000	417
Number of Staff in 2010		7	26	254
Foundation Age in 2009		24	33	405
Variable		Number	Percentage	Sample Size
PRI Activities	Foundations Made 1 or 2 PRIs	212	51	417
	Foundations Made More than 2 PRIs	205	49	417
Geography	Northeast	118	28	417
	Midwest	92	22	417
	South	105	25	417
	West	102	24	417
Type of Foundations	Independent	205	49	417
	Family	124	30	417
	Corporate	16	4	417
	Operating	32	8	417
	Community and Public Charities	40	10	417

Note: Observations are foundations.

Table 2: Definition of Variables*Dependent Variables*

Variable Name	Definition	Data Source
Made PRIs	Made PRIs or not by each foundation during 2000 and 2009	SOI
Made More Than 2 PRIs	Binary variable for total number of PRIs by each foundation during 2000 and 2009: 1 or 2 PRIs, or larger than 2 PRIs	FC
Aggregate Dollar Amount of PRIs	Total dollar amount of PRIs by each foundation during 2000 and 2009, inflation adjusted to 2013 dollars, logs	FC, SOI
Aggregate Dollar Amount of PRIs, 4 Categories*	0, low, medium, and high dollar amount by each foundation during 2000 and 2009, inflation adjusted to 2013 dollars	SOI
Aggregate Dollar Amount of PRIs, 3 Categories**	Low, medium, and high dollar amount by each foundation during 2000 and 2009, inflation adjusted to 2013 dollars	FC
Aggregate Number of PRIs	Total number of PRIs by each foundation during 2000 and 2009	FC

*The low, medium, and high categories are based on the three quintiles of non-zero aggregate dollar amount of PRIs by each foundation in the SOI sample. Specifically, the minimum and maximum of each category are: low (\$21,308 - 952,173), medium (\$971,548 - 6,614,596), and high (\$6,649,451 - 418 million).

** The low, medium, and high categories are based on the three quintiles aggregate dollar amount of PRIs by each foundation in the FC sample. Specifically, the minimum and maximum of each category are: low (\$5,897 - 485,000), medium (\$495,282 - 3,095,077), and high (\$3,097,086 - 302 million).

Independent Variables

Variable Name	Definition	Data Source
Asset Size: Assets in 2000	Fair market value of assets at the end of 2000, adjusted for inflation to 2013 dollars	SOI, FC
Staff Size: Employee Salaries and Wages in 2000	Employee Salaries and Wages in 2000, inflation adjusted to 2013 dollars	SOI
Staff Size: Number of Staff, 3 Categories	Staff counted from reported totals of full- and part-time staff, as well as unspecified and shared staff available in the circa 2010 research set. Three categories: less or equal to 7 staff members, 7 or more staff members, and unknown.	FC
Geography, 4 Categories	Location of foundations. Four categories: Northwest, Midwest, South, and West	SOI, FC
Type of Foundations, 5 Categories	Type of Foundations. Five categories: Independent, Family, Corporate, Operating, Community Foundations and Public Charities	FC
Foundation Age	Foundation's age in 2009	FC

Table 3. Organizational Factors that Influence the Likelihood of PRI Activities 2000-2009, Logit Specifications, using SOI and FC Data

	(1) SOI Data Made PRIs		(2) FC Data Made More Than 2 PRIs	
	Coefficient	Odds Ratio	Coefficient	Odds Ratio
<i>Asset Size</i>				
Assets in 2000 (natural logs)	0.553*** (0.082)	1.738*** (0.143)	0.107* (0.057)	1.113* (0.064)
<i>Staff Size</i>				
Employee Salaries and Wages in 2000 (natural logs)	0.050*** (0.016)	1.052*** (0.017)		
Number of Staff ¹			0.718** (0.308)	2.050** (0.631)
<i>Geography 2</i>				
Midwest	0.191 (0.243)	1.211 (0.294)	-0.198 (0.291)	0.820 (0.239)
South	0.100 (0.237)	1.106 (0.262)	-0.600** (0.284)	0.549** (0.156)
West	0.455* (0.238)	1.576* (0.375)	-0.590** (0.290)	0.554** (0.161)
<i>Type of Foundations³</i>				
Family Foundations			0.100 (0.246)	1.105 (0.271)
Corporate Foundations			-0.301 (0.538)	0.740 (0.398)
Operating Foundations			-0.185 (0.435)	0.831 (0.362)
Community and Public Charities			-0.690* (0.398)	0.502* (0.199)
Foundation Age			-0.001 (0.005)	0.999 (0.005)
Constant	-12.814*** (1.529)	0.000*** (0.000)	-1.795** (1.021)	0.166* (0.170)
<i>N</i>	1214	1214	405	405
Pseudo <i>R</i> ²	0.096	0.096	0.040	0.040

Notes. 1. Reference category: less or equal to 7 staff members, unknown category not displayed. 2. Northwest is the reference category. 3. Independent Foundations is the reference category. Standard errors in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 4. Organizational Factors that Influence Aggregate Dollar Amount of PRIs 2000-2009, OLS and Ordered Logistic Specifications, using SOI and FC Data

	SOI Data		FC Data	
	(1) OLS PRI Dollar Amount (logs)	(2) Ordered Logistic PRI Dollar Amount (0, low, medium, high)	(3) OLS PRI Dollar Amount (logs)	(4) Ordered Logistic PRI Dollar Amount (low, medium, high)
	Coefficient	Odds Ratio	Coefficient	Odds Ratio
<i>Asset Size</i>				
Assets in 2000 (logs)	1.477*** (0.162)	1.790*** (0.141)	0.320*** (0.048)	1.419*** (0.085)
<i>Staff Size</i>				
Employee Salaries and Wages in 2000 (logs)	0.068*** (0.025)	1.052*** (0.017)		
Number of Staff			0.830*** (0.268)	1.750** (0.498)
<i>Geography</i>				
Midwest	0.184 (0.392)	1.165 (0.279)	-0.090 (0.258)	0.829 (0.223)
South	0.048 (0.381)	1.024 (0.240)	-0.233 (0.250)	0.810 (0.212)
West	0.665 (0.413)	1.426 (0.335)	-0.072 (0.255)	0.919 (0.249)
<i>Type of Foundations</i>				
Family Foundations			-0.432** (0.217)	0.616** (0.319)
Corporate Foundations			0.081 (0.476)	0.851 (0.395)
Operating Foundations			-0.266 (0.385)	0.841 (0.354)
Community and Public Charities			-1.165*** (0.346)	0.668 (0.253)
Foundation Age			-0.011** (0.005)	0.990** (0.005)
Constant	-26.140*** (2.965)		8.849*** (0.855)	
cut1 _cons		606569.951*** (886162.026)		132.530*** (137.820)
cut2 _cons		1016363.700*** (1491558.159)		674.975*** (718.352)
cut3 _cons		2295935.038*** (3398932.697)		
<i>N</i>	1214	1214	405	405
(Pseudo) <i>R</i> ²	0.100	0.075	0.202	0.086

Table 5. Organizational Factors that Influence the Aggregate Number of PRIs 2000-2009, OLS, Poisson and Logistic Specifications, using FC Data

	(1) OLS Number of PRIs Coefficient	(2) Poisson Number of PRIs Coefficient	(3) Logistic Made more than 2 PRIs Incidence Rate Ratio	Odds Ratio
<i>Asset Size</i>				
Assets in 2000 (natural logs)	0.707 (0.481)	0.093* (0.050)	1.098* (0.055)	1.113* (0.064)
<i>Staff Size</i>				
Number of Staff	6.410** (2.693)	0.578** (0.279)	1.783** (0.497)	2.050** (0.631)
<i>Geography</i>				
Midwest	-1.635 (2.592)	-0.145 (0.271)	0.865 (0.235)	0.820 (0.239)
South	-0.791 (2.517)	-0.063 (0.294)	0.939 (0.276)	0.549** (0.156)
West	-3.066 (2.566)	-0.380 (0.299)	0.684 (0.205)	0.554** (0.161)
<i>Type of Foundations</i>				
Family Foundations	-2.148 (2.185)	-0.242 (0.222)	0.785 (0.174)	1.105 (0.271)
Corporate Foundations	4.756 (4.786)	0.444 (0.518)	1.559 (0.808)	0.740 (0.398)
Operating Foundations	-1.351 (3.872)	-0.093 (0.386)	0.911 (0.351)	0.831 (0.362)
Community and Public Charities	-8.096** (3.481)	-0.824*** (0.275)	0.439*** (0.121)	0.502* (0.199)
Foundation Age	-0.014 (0.046)	-0.002 (0.005)	0.998 (0.005)	0.999 (0.005)
Constant	-2.599 (8.603)	0.600 (0.902)	1.822 (1.644)	0.166* (0.170)
<i>N</i>	405	405	405	405
(Pseudo) <i>R</i> ²	0.050	0.087	0.087	0.040

Notes. 1. Reference category: less or equal to 7 staff members, unknown category not displayed. 2. Northwest is the reference category. 3. Independent Foundations is the reference category.

Standard errors (OLS, Logit) or robust standard errors (Poisson) in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 6 Organizational Factors that Influence Aggregate Dollar Amount of PRIs 2000-2009, Fixed Effects, using SOI Data

	Full Sample		PRI Makers Only	
Assets (natural logs)		0.182** (0.079)		0.979* (0.508)
Employee Salaries and Wages (natural logs)		0.008 (0.008)		0.043 (0.056)
Constant	0.809*** (0.055)	-2.654* (1.467)	5.609*** (0.385)	-13.788 (9.785)
Year Dummy Constant	Yes 12140	Yes 12140	Yes 1750	Yes 1750

Standard errors in parentheses * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 7 Interviewed Foundations

Name	Founding Year	Asset Size	Location	First PRI/MRI	PRI/MRI Profile
A	1948	\$3.0 billion	Baltimore, MD	1998	\$100 million social investments by 2013
B	1976	\$285 million	Jacksonville, FL	2011	\$3 million PRIs by 2013
C	1963	\$245 million	Hobbs, NM	Mid-1990s	\$11.5 million PRIs by 2012
D	1936	\$11 billion	New York, NY	1968	\$560 million to date
E	1992	\$260 million	New York, NY	1997	100% of assets for mission investing
F	1992	\$16 million	Milwaukee, WI	2001	\$15 million PRIs to date
G	1930	\$428 million	Battle Creek, MI	2007	\$100 million mission-driven investments to date
H	1997	\$384 million	Indianapolis, IN	N/A	0

Sources: Foundations' websites, GuideStar, and information obtained from interviews.