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2021

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Wiepking, P. (2021). *The Societal Significance of Charity Lotteries*.

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THE SOCIETAL SIGNIFICANCE OF CHARITY LOTTERIES



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Rede uitgesproken bij de aanvaarding van het ambt van hoogleraar op de door de Nationale PostcodeLoterij gesponsorde leerstoel De maatschappelijke betekenis van goeddoelenloterijen, bij de Faculteit der Sociale Wetenschappen van de Vrije Universiteit Amsterdam op 19 maart 2021.

The Societal Significance of Charity Lotteries

prof.dr. Pamala Wiepking

Madam Rector, colleagues, family and friends. Welcome to this inaugural lecture “The Societal Significance of Charity Lotteries”. A special warm welcome to all our global guests, who, thanks to the wonders of IT, are also able to be here. Who could have imagined that COVID-19 might also bring benefits? And, of course, I welcome everyone active in the philanthropic sector, in one role or another. I hope this inaugural lecture will bring you new ideas, or show the relevance of ideas you may already have had, and encourage you to implement them. As is the custom in the Netherlands, in giving this lecture I formally accept my full professorship at the Center for Philanthropic Studies at the Vrije Universiteit Amsterdam. But as many of you know, I have been holding this professorship since January 2019, for one day a week, in addition to my continuing position as Visiting Stead Family Chair in International Philanthropy at the Lilly Family School of Philanthropy in Indianapolis in the United States.

My professorship is funded through philanthropy – which is entirely fitting for a professor in philanthropic studies. In 2019, the Postcode Lottery [Postcode Loterij], a Dutch charity lottery, donated a significant sum to the Vrije Universiteit Amsterdam to establish this professorship. Uniquely, the money was donated through an unrestricted grant. While academic research should always be conducted independent of a funder, it typically comes in the form of restricted project funding: for specific projects – for example the Giving in the Netherlands Study conducted by the Center for Philanthropic Studies. In the case of my professorship however, the research funding was provided in unrestricted form, the only condition being to focus on “The Societal Significance of Charity Lotteries”, the title of the professorship which I now hold. I will therefore start this lecture with an explanation of the place and role of charity lotteries in the philanthropy landscape, and thereby demonstrate the societal significance of charity lotteries.

Let me take you back to the start of the COVID-19 outbreak in the Netherlands. In March 2020, the Dutch food banks saw a sharp increase in the number of people applying for support. At the same time, the usual sources of the food they provided were giving less, and many of their elderly volunteers stopped, because they were afraid to catch the coronavirus. Within a month, the Postcode Lottery announced an unrestricted grant of one million euros to the Dutch food banks. This grant enabled the food banks to respond flexibly to the crisis, and to address more effectively the increased demand for their services. This is one example of how a charity lottery can make a difference in society, to support the most vulnerable who are experiencing food insecurity in times of an extreme health crisis.

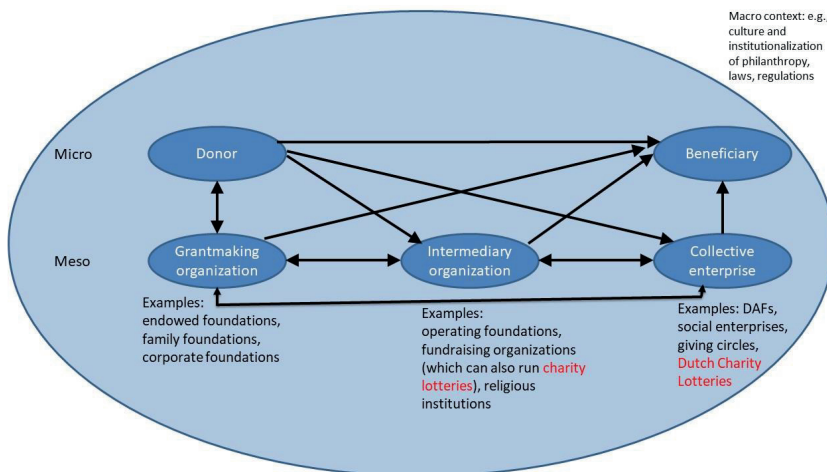
This example also shows how philanthropy in general – and not just charity lotteries – contributes to society.

The academic literature suggests many roles for philanthropy. These are often defined for the US context and in relationship to the state (Frumkin 2002; Kramer 1987). I prefer the roles defined by Anheier and Toepler (2019), who define the role of philanthropy in society itself. They state that there are three primary roles for philanthropy in society:

- The first role is *service provision*. Across many countries, philanthropic organizations are often key service providers, for example in health care and social services, either acting by themselves or in co-production with other stakeholders. Philanthropic organizations are considered to be more trustworthy than for-profit organizations, and more efficient than state providers.
- A second key role of philanthropy is to increase *social cohesion* in society and, through association and volunteering, build “bridging social capital”: To connect diverse social groups, and advocate their social needs in ways that other stakeholders (including the government) cannot. This function helps philanthropy contribute to the well-being of society as a whole, and not just of select groups, addressing the recent critiques by Rob Reich (2018) and Anand Giridharadas (2018) and others. Unfortunately, all too often, philanthropy contributes to “bonding social capital”, supporting the needs of similar groups in society, and so actually increasing inequalities rather than addressing them.
- The third role of philanthropy in society that Anheier and Toepler (2019) define is *social innovation*. Philanthropy is ideally suited to addressing societal needs in innovative and creative ways. Philanthropic organizations can act as Vanguards (I'm using terminology from Kramer 1987) and develop innovative small-scale solutions, scaling these up if they prove successful (see, for example, Anheier 2018). Philanthropic organizations can also adapt quickly to changing social circumstances, for example in times of crisis, as the example of the Postcode Lottery grant to the food banks during the COVID-19 crisis illustrates.

Now that we have defined the roles of philanthropy in Western European and North American societies, let's look at the different actors that comprise the philanthropic landscape. Figure 1 illustrates the philanthropic landscape, with all stakeholders. This image was developed as part of the Revolutionizing Philanthropy Research Project, with colleagues René Bekkers, Arjen de Wit, Ji Ma, and Sasha Zarins (Bekkers 2018; Wiepking et al. 2019). At the micro level, there are two actors: the individual donor and the beneficiary. The last should be a key stakeholder in philanthropy, as through all its three roles – service provision, cohesion building, and social innovation – philanthropy aims to address a social need experienced by the end-beneficiary. Too often however, in both research and practice, this beneficiary is not involved and not included in any consideration.

Figure 1 Landscape of philanthropic actors



Based on Bekkers (2018) and Wiepking (2019)

At the meso level, the organizational level, we see three types of actor. First, there are “Grantmaking organizations”, such as endowed foundations, family foundations and corporate foundations. The second group of actors can be categorized as “Intermediary organizations”. These include operating foundations, fundraising organizations, and religious institutions. Charity lotteries run by fundraising organizations such as the KWF Dutch Cancer Society and Jantje Beton, a child welfare charity, can be placed in this category. And finally, the third type of actor at the meso level are “Collective enterprises”. These include Donor Advised Funds (DAFs), giving circles and social enterprises. As a social enterprise, this is also the category that best describes the Dutch Charity Lotteries in the philanthropic landscape.

At the macro level, culture and institutional context determine the philanthropic landscape. Legal systems, regulations, and institutional patterns all influence the role philanthropy can play in society (Anheier 2018; Wiepking and Handy 2015; Wiepking et al. 2021). Until now, I have mostly studied questions relating to the micro and macro levels. With several colleagues, including René Bekkers and Arjen de Wit, I have published widely on donor motivation and behavior. And in my role as Visiting Stead Family Chair in International Philanthropy at the Lilly Family School of Philanthropy, I study the macro level context of philanthropy. How can we create more generous societies, in which people care for each other and want to contribute to the well-being of all, not just of a select few, or – worse – just themselves? I am excited to now be studying questions situated at the meso level. In my role as Professor of Societal Significance of Charity Lotteries I will study organizational-

level questions, and specifically questions about grantmaking. My research will help expand the research agenda of the Center for Philanthropic Studies, and contribute to the research agendas of the Department of Sociology and the Faculty of Social Sciences, which focus on PARTICipation in Society (PARIS) and Societal Resilience (the Institute for Societal Resilience) respectively.

In this lecture I will often talk about “grantees”. Grantees are the organizations that receive income from other sources to develop programs to support the end-beneficiary. In this image, they are typically intermediary organizations, but they can also be grantmaking organizations or collective enterprises.

Where do these grantee organizations typically get their funding?

The nonprofit finance literature defines three key sources of income for these organizations (Froelich 1999):

- Private income (including income from charity lotteries, private donors, corporate donors, and foundations)
- Earned income (commercial activities)
- Government funding

It is interesting to note that, although less relevant for today’s lecture, across countries, and also across philanthropic sectors, the distribution of income differs greatly. Total private income makes up 57% of the income of the members of Goede Doelen Nederland, the Dutch umbrella organization for charitable causes, including a substantial 8% from charity lotteries. Forty-one per cent of their income comes from government funding, and only 3% is earned income derived from commercial activities (Goede Doelen Nederland 2020). In the US, this is markedly different. For the 100 largest charitable organizations, only 12% of nonprofit income comes from government, 25% is from earned income, and 55% comes from private sources, with a further 8% being other income, including investment income (Hrywna 2019).

Today, I will be talking mostly about private income, and in particular about funding models to support grantee organizations. As I will show, through these funding models, grantmaking organizations influence how well grantee organizations can achieve their mission to support their end-beneficiaries.

Broadly speaking, there are two types of funding model through which private philanthropic income is provided to grantee organizations. The first type, the most common, is restricted project funding. Project funding imposes tough restrictions on how, when, and what the funding should be spent on. In addition, these project grants typically provide limited funding for core operational costs, such as rent, utilities, and personnel. They are often

focused on short-term outcomes. Research has shown that organizations primarily receiving project funding can get trapped in a “starvation cycle”, in which they are increasingly pressured to cut core operational costs (Gregory and Howard 2009; Lecy, Schmitz, and Swedlund 2012; Schubert and Boenigk 2019; Kooij 2016a).

The second broad category of funding is unrestricted or flexible funding. Recent developments in Europe and the US show a trend in which large foundations are moving towards models of more “trust-based”, unrestricted, or flexible funding practices (Trust Based Philanthropy Project 2020). Unrestricted funding is funding provided to nonprofit organizations without explicit and formal conditions being attached to how the funding should be spent. “Core funding”, “general operating support”, “organizational support”, or “flexible” are related funding types, but they differ because their explicit purpose is to invest in “core” organizational or operating expenses, such as administration, personnel, and facilities. Unrestricted funding is funding that organizations can freely decide how to spend. Often, unrestricted funding is part of “trust-based” and participatory grantmaking. Trust-based funding entails more than just relaxing restrictions however, because it makes a substantial claim about the relationship between funder and grantee (Trust Based Philanthropy Project 2020).

It is difficult to find recent information on the proportion of funding that qualifies as restricted project funding or unrestricted flexible funding, especially for Europe. Based on data from the Foundation Center, it is estimated that in 2005 26% of the grants provided in the US were in the form of unrestricted general operating support (Grantmakers for Effective Organizations 2007). Another study of a sample of US organizations surveyed by the Center for Effective Philanthropy between 2010 and 2020 estimates that on average 21% of foundations provided funding in the form of general operating support, and only 12% provided multi-year general operating support (Buteau et al. 2020, 5). As far as I know, there are no comparable data for Europe, but some foundation experts estimate that 70 to 90% of grants are in the form of restricted project funding (personal communication). More research is needed to fully understand the current ratio of project funding to unrestricted funding. But it is not unreasonable to assume that restricted, project-based funding is the dominant funding model in the US, Western Europe, and the Netherlands.

There is evidence that the discussion about the provision of project funding versus unrestricted funding is at least a century old. In their 1991 article “General Support vs. Project Support: A 77-Year-Old Debate Revisited”, philanthropy consultant Seltzer and Carnegie Corporations’ Cunningham mention that Greene, secretary of the US Rockefeller Foundation, wrote as early as 1913 about the Foundation’s responsibility to support institutions with continued and unrestricted support.

Seltzer and Cunningham added that:

Over the past 77 years, debate has continued between those who believe that a funder's role should center on particular projects, and those who maintain that the most effective nonprofit work is done when the money is offered over a longer period with no strings attached. The needs of nonprofit institutions are often practical, requiring unrestricted dollars to cover such pedestrian expenses as rent and utilities. Funders, however – be they foundations or corporations – may well prefer to earmark their limited funds for accomplishing a specific set of social objectives. (Seltzer and Cunningham 1991, 16)

Recently, we have seen what appears to be a trend towards more unrestricted funding practices. For example, in 2019, five large US foundation leaders pledged to implement more unrestricted grantmaking “to address chronic underfunding of nonprofits’ indirect costs” (Eckhart-Queenan, Etzel, and Silverman 2019). The current COVID-19 crisis has led over 600 US foundations to sign a pledge promising to ease or eliminate restrictions on existing grants, and make new grants as unrestricted as possible (Council on Foundations 2020). A similar statement was released and signed by foundations and umbrella organizations across Europe, calling for more flexible grantmaking (European Foundation Centre 2020).

You might well be thinking that this is all very interesting; maybe these are all things you already knew. And why am I discussing this in an inaugural lecture about the societal significance of charity lotteries? Well.... In come the charity lotteries.

In 1989, the Dutch Charity Lotteries (Nationale Goede Doelen Loterijen) was established by a visionary plan by Boudewijn Poelmann. Until then, he had had a career as a marketeer and fundraiser for an international development charity. The core of his ideas can be summarized as “An ideal cause deserves a commercial strategy” (Holtwijk 2015, 39). Together with three friends, he developed the idea of a charity lottery. As history shows, it turned out to be a brilliant plan, and very successful. In 1989, the Dutch government granted the Dutch Charity Lotteries a license. One condition of the license was that 60% of the revenue be granted to societal causes (in 2004 the percentage was reduced to 50% and in 2020 to 40%). Since its start in 1989, the Dutch Charity Lotteries has funded hundreds of grantees – in the Netherlands and abroad – to the tune of 881.6 million US dollars (City A.M. 2020). This places Dutch Charity Lotteries among the largest private donors in the world (City A.M. 2020). Currently, it comprises three lotteries: the oldest, with which it all started in 1989, is the Nationale Postcode Loterij (Dutch Postcode Lottery), the other two being the VriendenLoterij (Friends Lottery) and the BankGiro Loterij (BankGiro Lottery).

For our international friends, let me briefly explain the formula behind the Postcode Lottery, as this will illustrate why it became such a huge success.

The Postcode Lottery takes advantage of the fact that all addresses in the Netherlands (like in many other countries) have a fixed postcode. In the Netherlands, the postcode consists of four numbers and two letters. The interesting concept behind the Postcode Lottery is that all postcodes in the Netherlands are included in the lottery. And if your postcode wins 54.9 million euros, which was the “Kanjerprijs” in 2020, you and all your neighbors become instant millionaires, dividing that amount. But only if you bought a ticket.

Uniquely, since 1989 the Dutch Charity Lotteries has provided multi-year unrestricted funding to their grantees. In 2018 alone, the Dutch Charity Lotteries donated EUR 590 million (approximately USD 698 million) to nonprofit organizations, mostly through the sale of lottery tickets. The Dutch Charity Lotteries describes itself as a social enterprise and its grants as “unrestricted, long-term, and based on trust” (Nationale Goede Doelen Loterijen 2019, 2). A core aspect of the mission of the Dutch Charity Lotteries is to support grantee organizations with substantial, multi-year, unrestricted funding. Interestingly, the funding model for other charity lotteries, such as The Hong Kong Jockey Club Charities Trust – which is also one of the world’s largest private donors (City A.M. 2020) – is quite similar. It also provides long-term and unrestricted funding to its beneficiaries. In the Netherlands, the State Lottery [Nederlandse Loterij] also provides funding in this way. Through conversations with multiple stakeholders, we realized that by studying how unrestricted grantmaking influences the effectiveness of grantee organizations, we are investigating an important aspect of the societal significance of charity lotteries in the Netherlands, but potentially also globally. Especially because, as we soon discovered, academic researchers have paid very limited attention to this phenomenon.

It turned out that the effects of unrestricted funding on the work of grantee organizations have largely been overlooked in the academic literature until now. I think this is very problematic, and an example – to some extent – of the problems with academic research. I will return to this in a moment.

What do we know about unrestricted funding?

My team, including dr. Arjen de Wit, and I found that most of what we know about unrestricted funding models comes from the gray literature, reports from consultants and foundations, and evaluation studies. Unfortunately, these reports rarely address the effects of unrestricted funding on grantees and their beneficiaries. And it is hard to locate these reports. There may be a lot that we are unaware of, laying around in drawers.

What can we learn from the gray literature about supporting social initiatives with unrestricted funding? The gray literature unequivocally suggests that unrestricted funding

has substantial benefits for grantees (Buteau et al. 2020; Niras 2019; K. Reich 2018). Practitioner reports argue that “unrestricted funding gives grantees flexibility and freedom, especially to invest in ‘less glamorous’ work” (Wallace and Saxton 2018, 11). In the US, research by the Center for Effective Philanthropy shows that foundation CEOs and nonprofit leaders agree that general operating support is the most effective form of support for grantee organizations (Buteau et al. 2020; Huang, Buchanan, and Buteau 2006).

However, some of this gray literature also hints at the fact that there may be “moderating factors”: unrestricted funding may work better for some grantee organizations than for others. From the 2006 report by the Center for Effective Philanthropy, we learn for example that the effects of general operating support on overall grantee outcomes seem to depend on factors such as the size and duration of the grant (Huang, Buchanan, and Buteau 2006). There is also some evidence that especially smaller and newer grantee organizations benefit more from unrestricted funding (Saxton and Lindström 2012, 12; Cairns, Mills, and Ridley 2013, 35).

Even though for the Netherlands, unlike for the US, we do not have evidence – or at least I could not find it – that the debate concerning unrestricted versus project funding is over a century old, it would not surprise me if it were the case here too. In the past decade alone, the topic has been addressed multiple times, including during a 2010 symposium organized by the umbrella organization of foundations, Foundations in the Netherlands [FIN, Fondsen in Nederland], themed “Long-term financing of societal initiatives” [Langdurige financiering van maatschappelijke initiatieven] (de Jong and Kooij 2017).

In 2017, philanthropy consultants Kooij and de Jong published a report commissioned by a Dutch endowed foundation to document the need and scope for capacity-building funding among funders and grantees. This led to a detailed study in which they documented what they termed the “project carousel” for Dutch grantee organizations. The “project carousel” illustrates the reality for many grantees, that they need to continuously apply for project funding in order to keep operating, and that different terms and conditions are associated with that funding, leading to enormous administrative and fundraising costs and suboptimal outcomes for the end-beneficiaries they are trying to support. Kooij and de Jong strongly advocate supporting “social ecosystems”, strengthening the network of all organizations and stakeholders involved to solve social issues (de Jong and Kooij 2017; Raynor 2014). Providing unrestricted funding to support capacity building of organizations and their networks is crucial in the development of these social ecosystems.

The report by de Jong and Kooij also sheds some light on why Dutch foundations do not provide more unrestricted support. One of the Dutch foundation directors interviewed by de Jong and Kooij told them they “were afraid to fully commit their grantmaking budget: there needs to be space for new policies”. Another foundation director interviewed stated:

“As endowed foundations, we want to challenge and motivate. We are not here to offer comfort” (Kooij 2016b). In addition, Dutch foundations appear to fear that grantee organizations will become too dependent on their support, or worse in the eyes of Calvinists become lazy and lose all incentive to innovate (Kooij 2016b). This perception of unrestricted funding leading to less innovation is especially interesting. As I will show later, based on our research, unrestricted funding can be an important contributor to innovation, and innovation is a key role for philanthropy, as we saw at the start of this lecture.

There seems to be little empirical academic literature on the consequences of unrestricted funding for the work of grantee organizations.¹ There are many studies that focus on relevant related aspects of the funding process. For example, in accounting studies unrestricted assets have been associated with financial inefficiency, leading to the conclusion that “donor-imposed restrictions may serve a vital economic purpose” (Mensah and Werner 2003, 320). Some restrictions may benefit the operations of nonprofits, but this advantage might disappear when too large a share of total assets is restricted (Surysekar, Turner, and Wheatley 2015). In line with the findings of the gray literature (e.g., Saxton and Lindström 2012; Cairns, Mills, and Ridley 2013), the effects of restrictions seem to depend on the size and structure of nonprofit organizations. Donor-imposed limitations often require extensive planning, implementation, and reporting, which can create a large burden especially for smaller organizations (e.g., Gin et al. 2019; Kender-Jeziorska 2019).

In nonprofit and public administration studies, scholars have examined the effects of different revenue sources on financial performance and operational expenditures. Government grants, which often come with restrictions on how the money is spent, were found to be negatively related to operating reserves (Cortis and Lee 2019) and administrative spending (Shon, Hamidullah, and McDougale 2018). Many case studies describe the operational costs necessary to obtain government subsidies and report to the funder (Gronbjerg 1991; Kender-Jeziorska 2019; Zihnioglu 2019). Fundraised income was also associated with lower administrative and personnel costs, which may be due to public scrutiny or explicit restrictions, or indeed to both (Shon, Hamidullah, and McDougale 2018). To my knowledge, no studies explicitly examine the effects on grantees of restricted or unrestricted grants from private foundations.

Why is there so little academic research on the effects of restrictions on funding models for grantees, their work, and their beneficiaries? Especially when the experience of both funders and grantees as documented in the gray literature unequivocally suggests that there are substantial benefits of unrestricted funding models to all stakeholders. I think part of the explanation lies with academia, and the processes involved, especially in relation to building an academic career.

¹ This paragraph and the next are based on Wiepking and de Wit (2020).

Academia and academic careers are often described as “hyper competitive” (Waaier et al. 2018). As noted by Merton in 1968 with reference to the “Matthew effect” in science (Merton 1968), those researchers who are initially the most successful in publishing in so-called “high-ranking” journals and in acquiring grants are likely to be more successful in the longer run. Success breeds success. So, scholars are under enormous pressure to publish in those “high-ranking” journals and acquire grants to support their positions.

In an ideal world, though, academia should be about understanding how the world works, in all its many elements and dimensions, and about sharing this knowledge as widely as possible with students and society. It should be about openly collaborating and co-constructing research, contributing knowledge on what matters for society.

In terms of philanthropy research, I believe it is the role of academics to study those topics that are relevant for improving the role of philanthropy in society. Studying the issues that help advance the work of people within and outside our field, to support improved societal outcomes for everyone, and not just a select few. As I argued at the start of this lecture, philanthropy is uniquely positioned to address societal needs, but in order to do this we urgently need knowledge development. I realize that philanthropy as a discipline is just in its infancy. Over the past two decades we have made progress, developing from an emerging field of study to become a discipline, and I am extremely proud to be part of Indiana University’s Lilly Family School of Philanthropy, the first of its kind, and to have been part of the Center for Philanthropic Studies at the Vrije Universiteit in Amsterdam on and off since 2002.

Philanthropy researchers have an important role to play in the development of knowledge. But for us to play this role efficiently and effectively, I believe we need to step away from the continued pressure and competition that are an intrinsic part of academic careers. Instead, we need to incorporate the guiding principles of responsible research in our work (for an interesting example in business and management research, see RRBM 2021). We need to involve all relevant stakeholders throughout the research process, in order to study what matters, in a way that matters, with the involvement of everyone who matters. This also includes what we study. The “publication pressure machine” leads scholars to study what can be easily studied, and easily published. These are often topics already studied by other scholars. That is why we have an abundance of articles on the income and price effect of giving, and a plethora of articles covering the socio-demographic characteristics of donors, some actually authored by me, I should add. And almost no published work on the effects of unrestricted funding for grantee organizations and their beneficiaries.

This leads me –finally- to explain the research project and agenda of our team for the coming years.

Research agenda and first results

Through the research agenda related to this professorship “The Societal Significance of Charity Lotteries”, my team and I aim to contribute to a strong and nuanced evidence base for the effects of grantmaking, and especially unrestricted and flexible grantmaking, since there is so little academic knowledge available on this type of funding model. We are definitely not just aiming to show the positive effects of unrestricted grantmaking. We intend to demonstrate all its effects, including the unintended consequences that might actually limit grantees in their work. I’ll be saying more about this later.

Currently, many funders appear to be operating in a paradigm where the default is to provide restricted project funding. We look forward to working with funders to challenge existing assumptions and rethink these dominant funding paradigms. Through collaborative research, we aim to investigate under what conditions and through what mechanisms fewer restrictions on funding might lead to improved grantee effectiveness. It is my hope that our research can support foundations in their grantmaking decisions, and lead to improved outcomes for all stakeholders.

I now want to discuss our overarching research question, our related research agenda, and the first results of our work over the past two years.

Our overarching research question for the project can be defined as follows: What are the effects of restrictions on funding on the effectiveness of grantee organizations? We initially started this project with the idea of studying the effects of funding practices on the social ecosystem, including the impact of funding restrictions for all relevant stakeholders. We soon discovered that while this is the ideal research question, at this stage, and given our restrictions – this is a professorship for one day a week – it would not be feasible to study ecosystem impact in a way consistent with rigorous academic research. We therefore decided to focus on grantee effectiveness, which we define in line with Benjamin and Campbell (2020, 199) as “The extent to which an organization has achieved its goals”. We fully realize that, even with this elegant and simple definition, it will be difficult to operationalize the effectiveness of grantee organizations. This is a topic that has been studied extensively, both in the gray and the academic literature (see for example Lee and Nowell 2015; Lecy, Schmitz, and Swedlund 2012; Liket and Maas 2015). It is also a topic of heated debate. When operationalizing the extent to which an organization has achieved its goals, we take into account that effectiveness is contingent upon the context in which it is studied and that it is socially constructed (Lecy, Schmitz, and Swedlund 2012; Herman and Renz 2004; Edwards 1999). You need to take into account multiple constituents in order to assess organizational effectiveness, including the perspectives of the funder and grantee organizations as well as that of the end-beneficiary. Participatory grantmaking and trust-based philanthropy are making significant progress in including those perspectives in the assessment of organizational effectiveness (see for example Trust Based Philanthropy

Project 2020; Paterson 2020). However, our research is to some extent constrained by the data available.

Figure 2 shows the conceptual model we developed during the first two years of our project in order to answer our research question. It is the result of an extensive literature review of both the gray literature and the limited academic literature, document analyses, as well as interviews conducted as part of our first qualitative study. I will now focus on some specific aspects of this model, and explain why these are relevant for answering our research question.

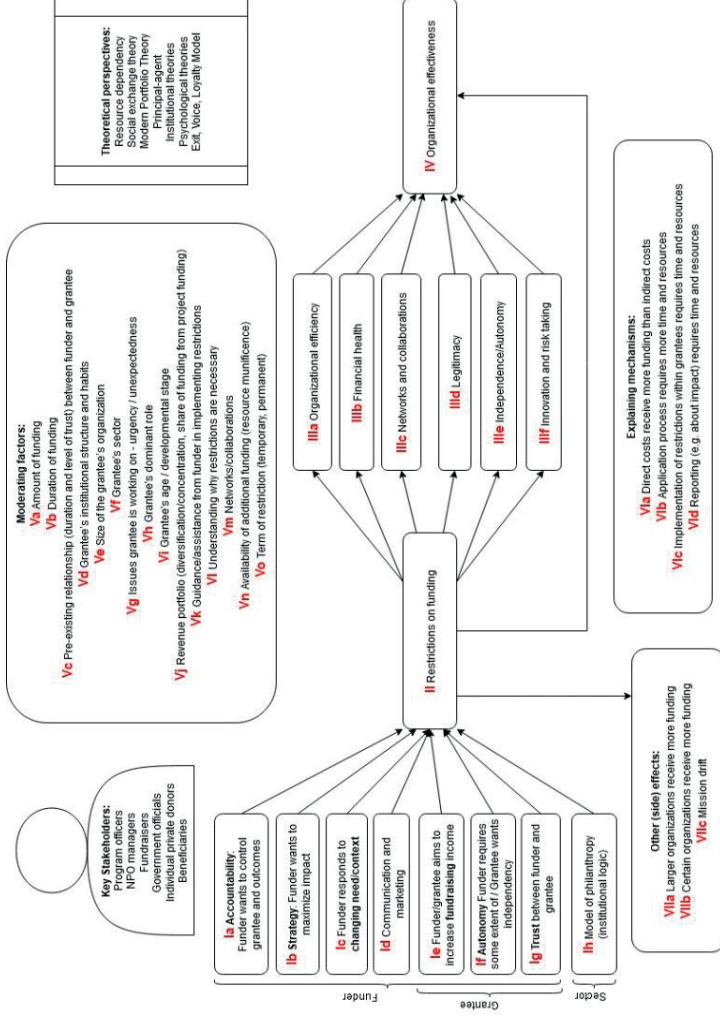
First, the key stakeholders we identified to study the effects of restrictions on funding on grantee effectiveness: program officers, nonprofit managers, fundraisers, government officials, individual private donors and (end-)beneficiaries.

Second, from the academic literature we identified several theoretical perspectives that can help build explanations for the effects of restrictions on funding. For example, resource dependency theory helps us to better understand the influence of grantees being dependent on financial resources provided by funders. In order to ensure future support, grantees may focus on projects that do not necessarily contribute to their mission, so-called “mission drift”, or implement ways of working that do not necessarily produce the most effective outcomes.

Finally, in Figure 2 you will see the different factors we identified to influence the level of restrictions that funders place on their grants: the extent to which the grants are restricted or unrestricted. Because of course, this is not a dichotomy: funders rarely provide grants in a completely unrestricted manner. I would even argue that there is no such thing as a completely unrestricted grant. There will always be funder expectations, even if these are not made explicit.

Sometimes parts of a grant are unrestricted, or intended to provide general operating support, and other parts of a grant are restricted, intended for specific projects. Among the factors that influence restrictions on funding, we identified accountability, strategy, independence, institutional logic, and – highly relevant – the level of trust between funders and grantees.

Figure 2 Conceptual model



Next, I will discuss the factors that mediate the effect of restrictions on funding for the organizational effectiveness of grantees. These mediating factors include efficiency, financial health, and innovation and risk taking. Our working hypothesis is that the less restricted the funding model, the stronger the mediating factors, and the higher the grantee effectiveness. For example, when there are fewer restrictions on funding, this allows the grantee organization to invest in a professional organizational infrastructure, with human resource policies, and professional accounting, which will contribute to their organizational efficiency and financial health. In turn, greater organizational efficiency and stronger financial health are expected to create greater organizational effectiveness: the organization being more successful in achieving its goals.

I wish I could now show you exactly which factors are of crucial importance for decision making relating to restrictions on funding. But, this is my inaugural lecture. And even though we have been working on this project for a little over two years, we still have a lot to do. I am though able to share some of our first findings based on a large qualitative study (Wiepking and de Wit 2020).

Because – as I explained – there was limited knowledge about the effects of different funding models on grantee effectiveness, we started this project qualitatively, exploring the perspective of the grantees. How do they experience receiving unrestricted funding? In order to study this, we conducted twenty-two semi-structured interviews with a diverse set of representatives of grantee organizations of the Dutch Charity Lotteries.

The interviewees identified five key perceived effects of unrestricted grantmaking:

1. Enhancing organizational and financial sustainability, including for:
 - Funding core costs
 - Attracting other funding
 - Developing the organization
 - Bridging financial gaps
2. Allowing flexibility to respond to a crisis or a changing context
3. Allowing the organization to operate independently and be critical
4. Enhancing innovation and risk-taking
5. Enhancing the organization’s ability to support “unfundable” or “unpopular” causes

I won’t be able to go into much detail about these in this inaugural lecture, but I can share a few illustrative quotes. The full results are available in Wiepking and de Wit (2020).

Concerning organizational and financial sustainability, the CEO of an international environmental organization stated the following, and this was echoed across the interviews:

Sometimes, you can use that money as a reserve for your organization. So it's also very important to build up a serious organization; that is to say, you can pay your people. [And] that you have built up a reserve for difficult times. [...] That's possible with this money. With government money, for example, that's much more difficult. So you have to have a number of these funders who understand what it's like to run and build an organization, and who can build some buffer into it. You want to deal with [our issues] as a mature organization. Then these kinds of money flows are simply necessary.

We also heard multiple times that unrestricted grants are necessary to compensate for the low percentage the organizations are allowed to spend on core funding in public grants from for example the Dutch government and the EU.

As I mentioned earlier, our study also provides support for the idea that unrestricted funding can be an important contributor to innovation, one of the three roles of philanthropy as defined by Anheier and Toepler (2019). The CEO of a human rights organization stated:

We sit around the table with tech companies and there are certain innovations that we believe in enormously, and for which we also get money for the proof of concept, so the first step. But for the implementation phase, and ultimately for the lobby, it's difficult to get structural funding. Then you'll have to come up with good results first. We can partly finance that first step with the Dutch Charity Lotteries money. That also ensures we can bridge the gaps between concept and implementation [...].

In relation to flexibility, and this was also illustrated with the example of the Dutch food banks given at the start of this lecture, an institutional relationship manager from an environmental organization put this quite candidly:

I would very much like to link an amount to that, but unrestricted money gives you so much freedom and flexibility, and we are a very fast and adaptive organization that is actually continuously responding to sentiment and changes in society, and politics, and corona, and opportunities, the momentum that presents itself. If we always had to apply for this and then had to deliver everything exactly in the way we applied for, we would not be able to do our job.

And the final quote I want to share with you relates to independence. Unrestricted funding is also perceived to be of great importance to organizations that need to work independently from governments or corporations for example. The head of finance of an international organization stated:

And that's the ambiguous thing, so on the one hand we get money [from the government] for activities we do, and on the other we're also an independent organization and therefore try to influence certain legislation by the same central government [...]. That's why we also need the money and can continue to fight for that independent position, I would almost say. The money from the Postcode Lottery is partly intended for that purpose.

Although our sample was not the best for identifying potential perceived downsides or limitations on unrestricted funding, our respondents identified two risks associated with unrestricted funding:

- First, organizations may become less critical of their own work. Sometimes project funding or restricted funding helps organizations to become more effective and efficient with their projects and develop more systematic ways of reporting, although several agree that “the reporting requirements of [...] foundations sometimes drive you crazy” [institutional relationship manager – social issue organization].
- Second, they may become too dependent on the long-term flow of unrestricted funding. As the institutional relationship manager of an environmental organization states: “We count on this money” and “we don't expect them to do so, but if the lottery says they're going to stop it, then we'll have to change our organization very drastically. That would be a tragedy for us” [institutional relationship manager – environmental organization].

This was also one of the downsides mentioned in Seltzer and Cunningham (1991, 19), which I referred to the start of this lecture. In that same 1991 article, Charles E. Curran, past president of the Kansas City Association of Trusts and Foundations, is quoted as saying that even though “Foundations are the best source of support for new, daring, experimental efforts”, “Continuous general-support grants foster tremendous dependency on the part of the grantee” and “They're locked in, and the funders are locked in. Giving unrestricted support to longstanding, established agencies does them a disservice. What you, as a funder, often do is get trapped into supporting an agency that has become obsolete or irrelevant, and may exist only as a result of your support”. From my collaboration with the Dutch Charity Lotteries, I know that this is also a fear they have.

Through this first, explorative qualitative project, we have expanded the evidence base from the gray literature (including Buteau et al. 2020; Cairns, Mills, and Ridley 2013; de Jong and Kooij 2017; Grantmakers for Effective Organizations 2007; Huang, Buchanan, and Buteau 2006) relating to the perceived effects of unrestricted grantmaking for grantees and their effectiveness. In the next phase of our project, we intend to move beyond studying the perception of grantees. We want to show the longitudinal effects of restrictions on funding for grantee effectiveness, from the perspective of different stakeholders.

To do this, during the next steps of our research we aim to specifically study the different effects funding restrictions have in different contexts and for different types of organization.

Here, I want to return to an aspect of our conceptual model in Figure 2 that I haven't discussed yet. The so-called "moderating factors". Moderating factors are factors that can strengthen or weaken the effects of restrictions on funding. For example, as we have already seen from the gray literature, there is anecdotal evidence that the size and duration of the grant and the age and size of the grantee organization are factors that influence the effect of unrestricted funding on grantee effectiveness. It is especially important to study these moderating factors, as we will then learn more about under which conditions, for which funder and grantee organizations (and combination of funder and grantee organizations), fewer restrictions on funding lead to higher grantee effectiveness in achieving its goals. And also: under what conditions do *more restrictions* on funding actually benefit grantee effectiveness? Perhaps a combination of restricted and unrestricted funding practices would optimize grantee effectiveness. The composition of this combination will depend on many factors, and we hope to uncover these through our research. As my colleague Arjen de Wit puts it: "The diversity of philanthropy should also be visible in the diversity of funding models".

We intend to study the effects of these variables in longitudinal quantitative analyses using data from both the Central Bureau of Fundraising and the Dutch Charity Lotteries dating back at least twenty years. This will enable us to show which characteristics of a grantee receiving unrestricted funding are associated with a higher likelihood of increased organizational effectiveness. It will help us answer questions such as whether unrestricted funding is more effective for newer grantee organizations or for the more established.

Other questions we aim to study include if and how fewer restrictions on grants can help young organizations build a professional and sustainable organization, how unrestricted grants especially can benefit grantees that need to make substantial investments, in IT infrastructure for instance, to achieve their mission, and if and how unrestricted funds are especially relevant for those grantees needing to be completely independent of governments and corporations, such as human rights organizations. We will pay particular attention to the effects of restrictions on funding for the effectiveness of smaller versus larger grantee organizations, for organizations in different stages of organizational development, organizations with different roles in the philanthropic sector (including service provision, advocacy, and innovation), and for organizations working in different sectors and in different geographical regions. We invite you to share your thoughts on what you believe would be the most relevant moderating factors to study.

When studying the effects of restrictions for funding, we will pay specific attention to the (unintended) negative consequences of funding models. There is quite a lot of anecdotal

evidence suggesting that the effects of unrestricted funding are not universally positive, and that there is a certain risk of negative side effects.

After the initial pledge by five large foundations in the US in September 2019 to provide more core support, a group of fundraisers on Facebook started a discussion in which they expressed their fear that the multi-year general operating support would be directed only at organizations with which those foundations already have a relationship, and mainly include the larger, established grantee organizations.

After a presentation I gave at the Center for Philanthropic Studies, one of my VU colleagues, Maarten de Groot, scientific director of the VU Center for Enterprise Family Research and CEO of a large organization advising family philanthropy offices, shared his experience working with Ultra High Net Worth (UHNW) families and enterprise family foundations. In his experience, they do provide unrestricted grants, but only to a very select group of grantees. He noted that there is a “dark side to unrestricted funding”, due to a bias in the selection of grantees that the foundations fund. The selection of those grantees receiving unrestricted funding is driven by social capital, the ability and connections available to build social relationships. And these are highly skewed towards those grantees in the same networks as the UHNW families (seminar, Center for Philanthropic Studies, VU, December 2020).

This is echoed by Marcus Walton, the President and CEO of Grantmakers for Effective Organizations:

GEO [Grantmakers for Effective Organizations] has observed the trend that restricted dollars are disproportionately given to Black and other constituency-led nonprofits. This suppresses those grantees’ ability to adequately plan, invest in staff, and deepen the impact of their work. Funders must correct this by giving multiyear GOS [general operating support] in ways that are equitable and responsive to community needs so that nonprofits are able to respond to and navigate challenges like COVID-19 or other long-lasting societal problems caused by structural, systemic racism. (Walton 2021).

As mentioned earlier, in our qualitative study we also identified some of the downsides perceived by grantees. Our future research will definitely include studying these unintended negative side effects of unrestricted grantmaking.

Over the next few years, the core focus of our research will be on the effects of restrictions on grantmaking for grantee effectiveness, but we will also be carrying out additional projects, co-constructed with stakeholders in society and academia, and often in collaboration with MA students from the Sociology Department at the Vrije Universiteit. We are always looking for new partners to co-create research in relation to the topic of the

effects of grantmaking. We are proud to have launched the Center for Grantmaking Research earlier today in the symposium leading up to this inaugural lecture, and aspire to work with a large range of academic and philanthropic sector partners.

Let me give you some examples of projects we are currently also involved in. This academic year we are working with Gosha Hooghiemstra and Michiel Klaver, who will study different dimensions of the effects of unrestricted funding on grantee financial resilience and sustainability. This will include the causal effect of unrestricted funding on other income, from other donors, foundations, corporations, and governments. Does receiving more unrestricted funding lead other funders to increase or decrease their funding? The literature suggests it can go either way.

Last year, we worked with Floor van de Woude, who studied the effects of unrestricted funding on grantees' overheads. She found that there was no evidence of a starvation cycle in the Netherlands, at least not for the sample of organizations she studied. One of her interesting findings was that in selecting beneficiaries the Dutch Charity Lotteries unintentionally selected those organizations that had relatively low overhead costs. And we worked with Olivier van Hunnik, who studied the importance of trust and implicit and explicit expectations, especially when funding is provided in unrestricted ways, using the Dutch Charity Lotteries and its grantees as a case study. His findings show that even unrestricted funding may be linked to explicit or implicit expectations by the funder, and many grantees feel they have to "prove they're worth it". As I noted earlier, there is no such thing as a completely unrestricted grant. Relaxing formal restrictions for grantees creates a gray area in which there is uncertainty about what grantee organizations actually have "to prove". To ensure more equal collaboration, it is advisable for foundations to try to detect and consider expectations that are explicit and implicit, conscious and unconscious, and address these (based on van Hunnik, de Wit, and Wiepking 2020, 3).

All our materials can be found on the new center's website: www.grantmakingresearch.nl. We invite you to connect with us to share your ideas and thoughts for future research contributing to an understanding of the effects of grantmaking for grantee effectiveness.

Conclusion

I would like to end this lecture with two recommendations, and a key takeaway.

The first recommendation is for funders. To funders I would like to say: Serve on grantee boards – but not those of the ones you fund, to avoid conflict of interest. Serving on a board will help you to gain a perspective on the needs and lived experiences of those working in grantee organizations. As Elizabeth McCormack, former director of the Rockefeller Family Philanthropic Office, said in 1988:

Foundations, funds, and charitable trusts have a daunting task. It is their role to take the initiative, but at the same time to make sure that they do not substitute their judgment for that of the institutions which are on the battlefield, and which are far more apt to understand problems than those who work in the funding arena, which, by its very nature, is an ivory tower. [...] It will help the funder to realize that an institution needs general operating funds more than anything else. Too often project grants cost an institution rather than support it. The grant seldom covers all the costs involved. The institution must spend its own money to complete the foundation-funded program. Its own money is better spent, I submit, to pay the rent and the telephone bill. Service on a board will teach the funder this hard lesson (Seltzer and Cunningham 1991, 17).

As a funder, consider how the grantee organization can best be supported. You have a wealth of experience in exactly that. But rather than defaulting to the standard of soliciting project applications and providing project funding, consider the funding model that is best equipped to support the effectiveness of the grantee organization you are working with. This may be project funding, but it might very well also involve providing a mix of funding types, including unrestricted or flexible funding.

My recommendation for grantees is to initiate conversations with funders about your needs for more flexible or even unrestricted funding. They may not be aware of the pressure that the “project carousel” (in the words of de Jong and Kooij) places on you and your organization. In our qualitative study, we came across grantee organizations that manage over a hundred grants from dozens of funders. That is not sustainable, and will definitely limit the effectiveness of these organizations. By addressing these issues with funders in a constructive way, showing how more flexible funding can contribute to both your and the funder’s mission and effectiveness, funders may be inspired to change their funding paradigm.

In conclusion: Our results are a first step towards a better understanding of how funding restrictions affect grantee effectiveness. But I realize this is just a first step on a long journey, and that much more co-created and collaborative research is needed if we are to

truly understand how funding models can be most beneficial for grantees, their beneficiaries, and the organizations making the grants themselves.

This lecture is titled “The Societal Significance of Charity Lotteries”. Today, I have shared with you one unique aspect of the societal significance of charity lotteries, namely the commitment to create change in society by financing strong social organizations, using multi-year unrestricted funding, based on trust. If there is one point I would like you to take away from this lecture, it is that funding models, and restrictions in funding models, matter. I encourage you to examine your own ideas and experience in this area, and consider how what I’ve discussed today might influence your work in a positive way. Together we can make a difference, improving philanthropy to improve the world.

A word of thanks

It is customary in an inaugural lecture such as this to acknowledge the support provided by others. And I am delighted to be able to do so. First of all, I would like to thank the funder of this professorship from the bottom of my heart. The support of the Postcode Lottery has been instrumental in creating this professorship. In line with the funding philosophy of the Dutch Charity Lotteries, the funding for this professorship is unrestricted, and we are completely free to use the funding as we see fit, with the full support and collaboration of the funder. We truly could not wish for a better partner. I would like to thank everyone we have been working with closely these past two years. They include Laura Santacreu, Margriet Schreuders, Odiel Evenhuis, Kelly de Vries, Gerard Epskamp, Jonne Arnoldussen, Dorine Manson, and Sigrid van Aken. It has been such a pleasure to get to know you and your organization, and I look forward to our continued collaboration.

I would also like to thank the Executive Board of the Vrije Universiteit Amsterdam and the Dean of the Faculty of Social Sciences for their support and their efforts to realize this professorship. Thank you for your trust in me, in inviting me to take up this important position. I would especially like to thank all my colleagues at the Sociology Department and at the Center for Philanthropic Studies. Theo and René, you have played an instrumental role in creating this professorship, thank you for your support as always. Eva, Barbara, Barry, Claire, Stephanie, Ting, Joris, Caroline, Joey, Olena, Diederik, Petra, and the MA students we worked with – Olivier, Floor, Gosha, and Michiel: you have all helped create a wonderful and inspirational environment to work in. Thank you! Arjen de Wit deserves a very special mention. Arjen, you have been an instrumental collaborator the past two years in the research for the professorship, and it such a pleasure to work with you. And, of course, I thank my colleagues and students at the Lilly Family School of Philanthropy, and the funder of my chair there, Jerre and Mary Joy Stead. I have learned so much from working with you all.

I thank also everyone who provided feedback on this inaugural lecture, including Arjen de Wit, René Bekkers, Barbara Gouwenberg, Peter Schubert, Sasha Zarins, and Jon Bergdoll, and everyone who helped co-create this research, who participated in our study, and provided comments, feedback, and suggestions.

And finally, I am immensely grateful for the support of my family and friends, and especially Eskild, Yse, and Olli. Eskild, you made it possible for me to dedicate a substantial part of my time to helping create more generous societies, even – or maybe especially – during a global health crisis. Yse and Olli, you make me happy every day. Thank you for everything you are.

Ik heb gezegd.

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