

Field Note

Unrestricted impact: Field note on a mixed-method project studying the effects of unrestricted funding on grantees' organisational and project impact

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Published: 01 September 2020

This field note is an invitation for interested researchers to join an innovative global study dedicated to describing, analysing, and understanding the ways in which the provision of unrestricted grant funding unfolds in terms of organisational behaviour and project outcomes.

Recent developments show a trend where large foundations move towards models of more 'trust-based', unrestricted funding practices. Providing more unrestricted funding is considered a best practice, countering a 'starvation cycle' in which non-profit organisations are increasingly pressured to cut on overhead expenses. For example, last year, five large United States foundation leaders pledged to implement more unrestricted grant-making practices "to address chronic underfunding of non-profits' indirect costs" (Ekhart-Queenan, Etzel, and Silverman, 2019). The current COVID-19 crisis has led over 600 United States foundations to sign a pledge promising to loosen or eliminate restrictions on existing grants, and make new grants as unrestricted as possible. A similar statement was released and signed by foundations and umbrella organisations across Europe, calling for more flexible funding.

These efforts assume that more flexible grants positively affect non-profits' organisational and project impact; but, is this true? Some practitioner reports make the case that "unrestricted funding gives grantees flexibility and freedom, especially to invest in 'less glamorous' work" (Wallace, and Saxton, 2018); although the effects on overall outcomes seem to depend on other factors like the size and duration of the grant. Besides this grey literature, there appears to be little empirical research studying the consequences of unrestricted funding practices.

In accounting studies, unrestricted assets have been associated with financial inefficiency, leading to conclude that "donor-imposed restrictions may serve a vital economic

purpose" (Mensah and Werner, 2003). Some restrictions might benefit non-profits' operations; however, this advantage could disappear when too large a share of total assets are restricted. Again, the effects of restrictions seem to depend on the size and structure of non-profit organisations. Donor-imposed limitations often require extensive planning, implementation, and reporting, which can be a large burden especially for smaller organisations.

In non-profit 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, are found to be negatively related with operating reserves and administrative spending. Donative income is also associated with lower administrative and personnel expenses, which might be due to public scrutiny and/or explicit restrictions (Shon, Hamidullah and McDougale, 2019). To our knowledge, no studies in the literature explicitly examined the effects of unrestricted grants from private foundations. This study contributes to filling this gap in the academic literature by examining how unrestricted grants affect grantees' organisational and project impact, including their financial performance.

Because academic literature on the consequences of unrestricted funding is limited, the study involves mixed-methods methodology. Beginning with a case study approach, a sample of 34 heterogeneous cases was selected in the Netherlands, highlighting variation in the non-profit sector, mission, and geographical focus. The case studies were subject to archival research, (financial) document analyses, and semi-structured interviews with grantees and funders. The interview topic lists were based on relevant themes that emerged from existing non-profit literature, including grantees' perceived effect of unrestricted funding

on (long-term) financial efficiency, fundraising strategies, and development of revenue streams from different sources (state, foundations, corporations, philanthropy, earned income).

The outcomes of these case studies will inform the hypotheses. In the second part of this study, through a unique collaboration with the funder of this work, the Dutch Charity Lotteries (<https://www.novamedia.nl/charity-lotteries>), these hypotheses will be tested using longitudinal data. The Dutch Charity Lotteries are one of the largest grant making foundations in the Netherlands, and they have been making large (>500 000 euro per year for at least five years at a time), unrestricted grants since 1989. Access to additional data from the Dutch Central Bureau on Fundraising (CBF) was obtained on revenues and expenditures for a sample of grantees from 1994 to 2018, including the years that they did not receive funding from the Dutch Charity Lotteries. These data allow an examination of the association of receiving unrestricted funding with changes in other revenues and expenses, and its influences on grantees' organisational behaviour and project results.

Initial findings from the case studies indicated that effects of unrestricted grants were indeed contributing to grantees' organisational and project impact, but there are certainly differences between grantees. For example, unrestricted funding appears to be particularly important for those grantees that work in crises, including the current COVID-19 crisis, because it enables them to redirect funding towards immediate needs. Unrestricted funding is also more important for advocacy organisations addressing controversial needs, to enable them to work independently from governments and corporations.

As more foundations are committing to unrestricted (and 'trust-based') funding practices, academic research showing the consequences of these funding practices is paramount. Both foundations and grantees can use the insights of this study to make decisions that are more informed on whether and how unrestricted grant making can help contribute to grantees' organisational and project impact. This is a call for global researchers interested in studying this important topic of the effects of unrestricted funding, as well as the role of charity lotteries within and across local contexts. The OSF page for the project can be found at <https://osf.io/mkzns/>.

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