

# The Center on Philanthropy & Public Policy

## COMMUNITY FOUNDATION DEVELOPMENT AND SOCIAL CAPITAL

Elizabeth Graddy and Lili Wang  
Research Paper - 27  
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## **ABSTRACT**

The recent worldwide growth of community foundations presents new opportunities for community-based social change. Realizing that promise requires that community foundations sustain the charitable support of their communities with increasing competition for these resources; and this requires an understanding of the connection between community characteristics and charitable giving. We focus here on the potential role of community social capital. This study develops and empirically explores a model that connects social capital and gifts to community foundations, while controlling for community demographics and the community's exposure to charitable organizations. We find that per capita gifts to community foundations increase with the level of social trust in the community. In addition, gifts are affected by the number of years that community foundations have existed in the region, population density, homeownership, and the poverty rate. We develop the implications for community foundations and for our understanding of the different dimensions of social capital.

### **Key Words**

Community Foundations, Social Capital, Community Philanthropy, Charitable Giving

The United States has a long tradition of community philanthropy—the act of giving back to one's community by volunteering time and talent or by donating money or goods. The importance of this philanthropic tradition has increased as many local governments face increased demands for their limited resources, and as changes in local governance have encouraged an increased reliance on the private sector to help solve the complex problems faced by communities. Community leaders have thus begun to turn to local philanthropic organizations to provide institutional support for identifying and coordinating effective solutions to community needs (Garonzik, 1999). One such community philanthropic organization is the community foundation.

Community foundations, grantmaking public charities, are well positioned for a community leadership role as they serve a defined geographic area and must demonstrate broad public support from diverse funding sources to maintain their public charity status.<sup>1</sup> They are one of the fastest growing forms of organized philanthropy in the last decade. According to Foundation Center statistics, the number of community foundations in the United States has more than doubled from three hundred and twenty eight in 1990 to about seven hundred in 2003, their assets have grown from \$4.6 billion to \$16.9 billion, and their grants have increased from \$0.3 billion to \$1.3 billion.<sup>2</sup> Internationally, growth has been similarly robust. Worldwide, the number of community foundations has increased from less than 440 in 1990 to 1,064 in 2003 (Sacks, 2004).

This tremendous growth of community foundations nationally and internationally has provided new opportunities for community-based social changes. Sustaining that promise, however, has proved challenging for many community foundations. Community foundations rely on charitable donations to achieve their mission, and they face considerable competition for those resources. Consequently, attracting charitable donations has been the primary focus for many community foundations (Graddy and Morgan, 2006). Much of these donations come from the communities within which the foundations focus their activities (Hero, 1999). This suggests that

specific community characteristics may be critical for the growth and development of community foundations. The nature of the connection between community characteristics and community philanthropy is not well understood. To what extent does the demographic composition of the community matter? To what extent will the social trust and civic engagement of the residents affect the gifts received by community foundations? Recent developments in the social capital research shed some light on this relationship.

Studies on social capital started to flourish after Robert Putnam sounded the alarm of declining social capital in the United States in his “Bowling Alone” article (1995). Putnam argued that communities with high levels of social capital were more prosperous and successful in implementing government reforms (Putnam, et al., 1993). Empirical studies in the past decade have demonstrated that social capital contributes to a wide range of positive social, economic, and political outcomes, such as economic development and poverty alleviation (Woolcock, 1998; Narayan, 1999), improved school performance (Helliwell and Putnam, 1999), decreased crime (Galea, et. al, 2002), and better health (Kawachi, et. al, 1999). In addition, scholars have recently linked social capital to the field of nonprofit studies. Brooks (2004) argued that social capital could make people generous. Brown and Ferris (2006) found that social capital affects both giving and volunteering. Saxton and Benson (2004) found that political engagement and “bridging” social ties, but not the level of interpersonal trust, have significant impacts on the growth of the nonprofit sector.

In this paper, we extend the literature by examining the relationship between social capital and the development of community foundations. More specifically, we consider whether community foundations receive more gifts if they are located in communities with higher levels of social capital, i.e., where residents have higher levels of social trust, higher degrees of community involvement, and more social activities.

The paper is organized in four parts. First, we briefly review the concept of social capital and then develop a model of its connection to community foundation development. In the next section, we introduce the research design, the data sources for our study, and how we measure our variables. We then estimate our model and explore the impact of five dimensions of social capital on the amount of charitable gifts community foundations receive in 132 counties nationwide. Finally, we discuss the implications of this study for the literature on social capital, civic participation, and community foundation development.

## **MODEL DEVELOPMENT**

### ***Social Capital***

Social capital, like many other popular concepts, has a wide range of definitions. The most influential come from Bourdieu and Wacquant, Coleman, Fukuyama, and Putnam. Bourdieu and Wacquant (1992) differentiated social capital from economic and cultural capital, while arguing that acknowledging the different forms of capital is necessary to explain societal structures. They defined social capital as “the sum of the resources, actual or virtual, that accrue to an individual or a group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition.” (1992: 119). Similarly, Coleman (1988) emphasized the network characteristics of social capital, defining social capital as aspects of social structure that facilitate the actions of individuals within that structure. Although he did

discuss various forms of social capital, such as obligations, expectations, social relations, and norms, Coleman used the strength of the relations between parents and child and the family's integration into a community as measures of social capital when he examined social capital's role in aiding the formation of human capital. He found that both social capital in the family and social capital outside the family reduced the probability of dropping out of high school (Coleman, 1988).

In contrast to this network view of social capital, Fukuyama (1995, 1999) focused on the social norm and trust aspects of social capital. He differentiated his definition of social capital from Coleman's by emphasizing social capital as a "set of informal values or norms shared among members of a group that permits them to cooperate with one another" (1999: 16). Fukuyama suggested that social capital, especially trust, plays a crucial role in fostering economic prosperity. He argued that the existence of networks in a society, such as kinship groups, tribes, which are forms of social capital, could be obstacles to development and concluded that many countries, such as those in Latin America, failed to achieve fast economic growth because of low trust or a small radius of trust.

Putnam's definition represents a synthesis of the network and trust views of social capital. He defined social capital as "features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit" (1995: 67). Among the three building blocks of social capital, networks are the base upon which the other two build. For Putnam, civic communities can be viewed as horizontal networks where participation, trust, and solidarity take place. Also, good government and economic progress are enhanced by collaboration and norms of reciprocity, which are based on trust (Putnam et. al, 1993).

In the past several years, numerous studies have documented the positive impact of social capital on a plethora of social, economic, and political phenomena in communities. Boix and Posner (1998) and Knack (2002) demonstrated that civic engagement in political and community affairs would enhance citizens' willingness to cooperate for mutual benefit, to monitor government activities, and to keep governments accountable. Woolcock (1998) and Narayan (1999) found that social capital could bring more economic opportunities and thus alleviate poverty and promote economic development. Kawachi and his coauthors (1998, 1999) found that social cohesion, social ties, and social trust are positively associated with self-rated health status, and negatively associated with mortality and crime rates in a community. Helliwell and Putnam (1999) found that a community's level of social capital is positively associated with school performance. Overall, social capital has been viewed as a resource for community development and a solution to the collective action problem.

Recently, scholars have tied social capital to the field of nonprofit studies. After controlling for demographic factors, Brooks (2005) found that group involvement, social trust, and political engagement each had positive impacts on people's secular and religious giving. Brown and Ferris (2006) found that individuals' associational network and their trust in others and in their community were important determinants of giving and volunteering. Saxton and Benson (2004) found that political engagement and "bridging" social ties, but not the level of interpersonal trust, significantly increase the number of nonprofit organizations in a community. Backman and Smith (2000) argued that the characteristics of social networks—the day-to-day patterns of

interaction connecting individual actors with one another—were crucial to the development of community capacity.

Building on this literature, we hypothesize that social capital will make a positive contribution to the development of community foundations. The community foundation is a unique form of public charity. Its focus is geographically bound, thus it serves a defined community. The foundation receives charitable gifts, which it then uses to support nonprofits that meet community needs and reflect donors' wishes. Given this unique bond between a community foundation and the area it serves, we expect the level of social capital in a community to directly affect the amount of gifts received by community foundations. We adopt Putnam's view of social capital and explore the impact of both social trust and social networks on the development of community foundations. We expect higher levels of social capital to allow community foundations to bridge across social networks and gain access to funding streams inside the community. Social capital also allows community foundations to build on the social trust in the region to develop donor trust. Thus, in a region with high social capital—where residents participate in local voluntary organizations and community activities, and trust others in their community—we expect those residents to be more likely to donate to local charities to collectively address community-based problems. In contrast, in a region with low social capital—where residents do not trust others and do not participate in community-based social activities—we expect that residents will be less likely to donate to local charities. In this sense, the social capital of a community is a major resource for the development of community foundations

*Hypothesis 1: Community foundations serving communities with high levels of social capital are expected to receive more gifts per capita.*

The impact of social capital on community foundation development must be placed in a broader model of the determinants of such development. To develop this model we draw from the organization theory and charitable giving literatures to posit that the amount of gifts received by community foundations is associated with how long community foundations have been present in the community, the number of community foundations in the region, the local competition for donors, and the socioeconomic and demographic characteristics of the community that are known to affect philanthropic giving.

### ***Charitable Organizations in the Community***

Communities vary in the development of their charitable institutions. Some have a long tradition of community philanthropy with strong community recognition and identification, while others have only recently seen the development of these institutions. Moreover, community foundations are only one form of local charitable institutions. Communities may have other charities that attract local donors. The presence of multiple charities operating within a community could affect the gifts received by community foundations. We consider here the impact of the history and extent of community foundation presence in the region, and the presence of local competitors for giving to community foundations.

Organizational ecology views organizational development in terms of a life cycle (Hannan and Freeman, 1989). Age, is thus a key factor in explaining the survival and development of organizations. A young organization usually lacks social networks and institutional contacts, and

thus has limited ability to secure resources and build capacity (Baum and Oliver, 1991). In addition, the organizational legitimacy literature argues that organizational age is positively related to its legitimacy and reputation (Deephhouse and Carter, 2005). The legitimacy of individual organizations and industries presumably affects their ability to attract financial resources for organizational development (Lounsbury and Glynn, 2001). We apply these theories to the development of community foundations. If community foundations, a form of community philanthropy, have been in a region for a long time, the legitimacy and reputation of this type of public charity will be well developed. Residents will be more likely to trust community foundations as a community builder and to use them as their charitable vehicle. Even young community foundations in the region will benefit from the presence of other community foundations in the area. Therefore,

*H2: The longer community foundations have existed in a community, the greater the expected gifts per capita to community foundations in the region.*

On the other hand, the development of community foundations is constrained by competition for charitable contributions from other local philanthropic organizations. A typical competitor of community foundations is the United Ways. Ramey and her co-authors (2005) found that the United Ways often directly compete with community foundations for major donors and community leadership. Therefore, we expect:

*H3: The more contributions other local charitable organizations receive, the less the expected gifts per capita to community foundations in the region.*

Finally, communities with multiple community foundations have more exposure to these institutions and, as we argued above, may be more likely to support all such organizations. On the other hand, community foundations may compete with each other for the same donors (Ferris and Graddy, 2007), in which case total gifts might not increase. On balance, we expect regions served by multiple community foundations to receive more gifts per capita, but the effect is likely to be small.

*H4: The more community foundations that serve a region, the greater the expected gifts per capita to all community foundations in the region.*

### ***Community Socioeconomic and Demographic Characteristics***

Community foundations are created as a response to unmet community needs. Thus, the characteristics of the community shape the nature and focus of their philanthropic organizations. More fundamentally for our purposes, the characteristics of community residents affect their propensity to give to locally-focused organizations. These characteristics reflect the connection the individual feels to the community and his/her propensity to support the public good. Our review of the charitable giving literature identified nine socioeconomic variables that we expect to predict this connection to and support of one's community.

Education: The empirical giving literature has demonstrated that educational level is positively associated with the amount of charitable contributions (Reece and Zieschang, 1985; Brooks, 2005). This relationship likely reflects both the ability and the inclination to give. Individuals with high levels of education often work in jobs requiring high levels of knowledge and skills, which consequently have higher salaries. Education also moves people upwards in a social hierarchy and makes them more willing to undertake actions for the public good (Brown and



Ferris, 2006), which is usually expected from persons with privileged social status. Therefore, we expect:

*H5: Communities with more educated residents are expected to have higher per capita gifts to community foundations.*

Ethnic Homogeneity: Knack and Keefer (1997) found that in ethnically diverse localities, networks are poorly developed and civic participation is low. In addition, laboratory experiments and survey research have confirmed that trust and perceived trustworthiness tend to be high when individuals are socially similar, while both trust and trustworthiness decline when experimental partners are of different race (Glaeser et. al, 2002). Therefore, in an ethnically diverse community, the level of social cohesion is expected to be low. Residents are less likely to share a sense of a community. Therefore, we posit that,

*H6: Ethnically homogeneous communities are expected to have higher per capita gifts to community foundations.*

Homeownership: The expected impacts of homeownership on community foundation development derive from community ties. Compared to renters, we expect homeowners to be more committed to their community and to care more about community problems. Their status as homeowners suggests a greater stake in the community. Rossi and Weber (1996) found that homeowners were more likely to take part in and provide leadership for local community organizations. Therefore,

*H7: Communities with higher percentages of its residents living in owner-occupied units are expected to have higher per capita gifts to community foundations.*

Population: Community size, measured as the total number of people in the community, affects social cohesion, interpersonal interaction, and the sense of community. In a small community, the chance of residents sharing social networks, being familiar with each other, working collectively to solve issues in the community, and thus developing a shared sense of community are higher than in large communities. As the sense of community, caring, and community involvement are important factors for people deciding to give to community foundations (Magat, 1989), we posit that:

*H8: Smaller communities are expected to have higher per capita gifts to community foundations.*

Population Density: In the nonprofit literature, it is often posited that the urban and rural status of a region significantly affects the growth of nonprofit organizations (Grønbjerg and Paarlberg, 2001; Saxton and Benson, 2005). However, the nature and direction of the effect is unresolved. Lincoln (1977) argued that high levels of urbanization would negatively affect community integration and thus decrease support for nonprofits. Saxton and Benson (2005), in contrast, argued, “urban environments should find it easier to develop a concentrated nonprofit community” and therefore population density should positively affects the growth of nonprofit sector. These arguments can be extended to the development of community foundations. Since community foundations rely heavily on community integration and on residents’ sense of community, we adopt Lincoln’s argument and posit that in densely populated or urban areas, the

fund-raising efforts for community foundations will be difficult, compared to sparsely populated area or rural areas. Thus,

*H9: Regions with higher population density are expected to have lower per capita gifts to community foundations.*

Elderly Population: Grønbjerg and Paarlberg (2001) found that the proportion of older residents in a community serve to increase the supply of human and financial resources that can be mobilized by nonprofit organizations. This finding also applies to the growth of community foundations, since the estates and donations of retirees are important sources of funding for community foundations (Leonard, 1989; Council on Foundations, 1999). Therefore,

*H10: Communities with higher percentages of elderly population are expected to have higher per capita gifts to community foundations.*

Poverty: A large proportion of the community's population living in poverty indicates lack of wealth and increased demand for services – i.e., greater need and less capacity to meet that need. Grønbjerg and Paarlberg (2001) found that the percentage of children living in poverty in a community is negatively associated with the density of nonprofit organizations in the region. Cobin (1999) also found that the percentage of people in a metropolitan area living at or below poverty-level income is negatively associated with the growth of nonprofit social service organizations. We posit less support for community foundations as well.

*H11: Communities with higher percentages of their residents living in poverty are expected to have lower per capita gifts to community foundations.*

Religion: American society has long been recognized for the breadth and depth of its religious tradition. About forty percent of American people report attending religious services weekly (Swanbrow, 2003). Religious belief is identified as a major contributor to individuals' charitable behavior and the strength of the nonprofit sector (Independent Sector, 2004; Brooks, 2005). In addition, people who donate to religious organizations are also more likely to donate for secular purposes (Independent Sector, 1999). "Faith gives meaning to community service and good will, forging a spiritual connection between individual impulses and great public issues. That is, religion helps people to internalize an orientation to the public good."<sup>3</sup> As the community foundation is an institution that serves the public good, its development should benefit from its residents' religious beliefs. Therefore,

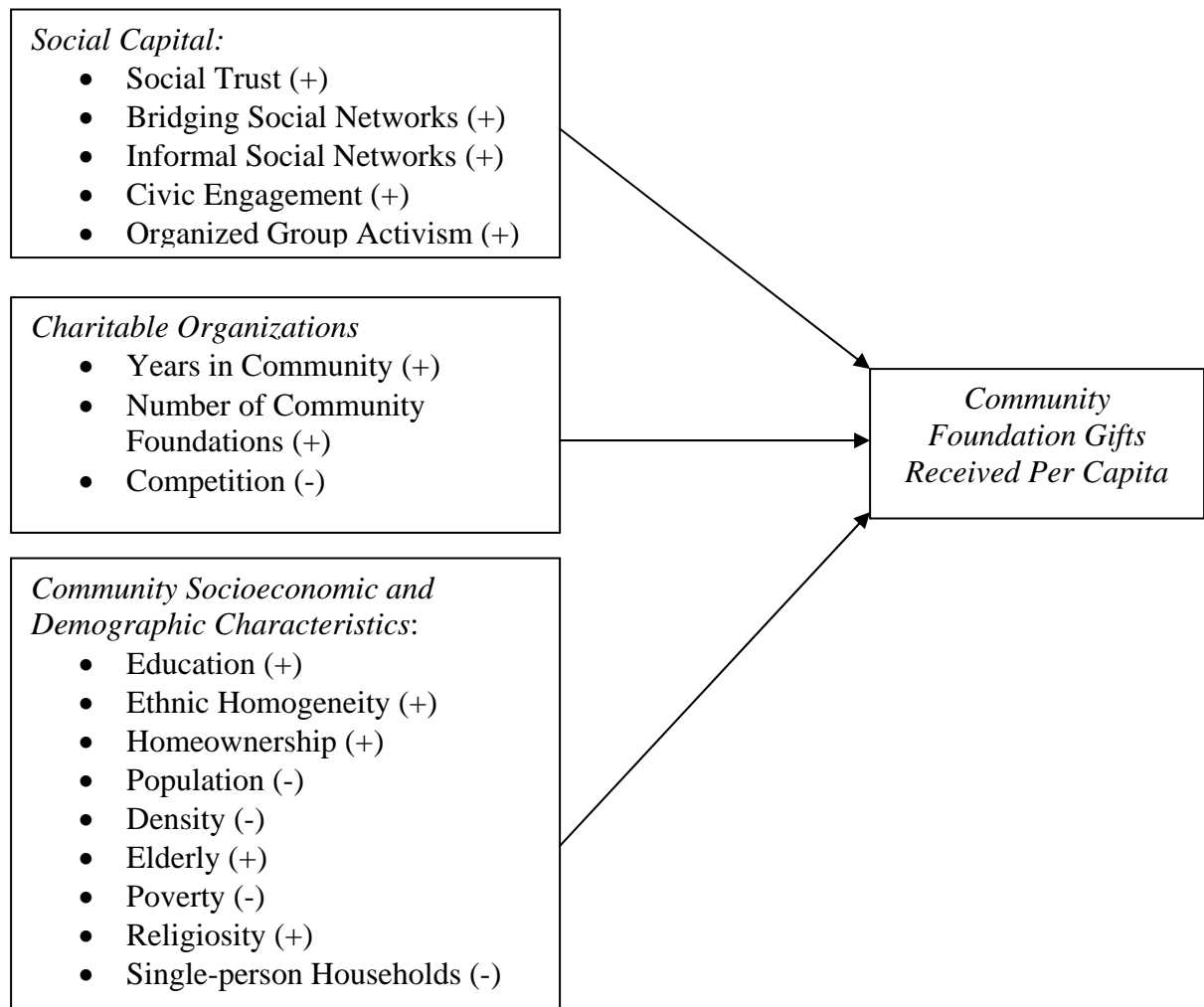
*H12: Communities with higher percentages of their population expressing religious beliefs are expected to have higher per capita gifts to community foundation.*

Single-person Households: In general, charitable contributions of single-person households are expected to be lower than that of family households. This could be attributed to an income effect and a network effect. Compared to dual-salary family households, single-person households have less financial resources on average and thus have less capacity for charitable giving. In addition, scholars at the Australian Institute of Family Studies argue that a stable family life is a key underpinning of civic engagement (Winter, 2000). In contrast, single-person households are less likely to participate in community activities. Therefore,

*H13: Communities with higher percentages of single households are expected to have lower per capita gifts to community foundations.*

In summary, we expect gifts to community foundations to be determined by the level of social capital in the community, the experience of the community with charitable organizations, and a broad range of socioeconomic and demographic characteristics of the community being served. Our model is summarized in Figure 1.

**Figure 1: Model of the Determinants of Community Foundation Development**



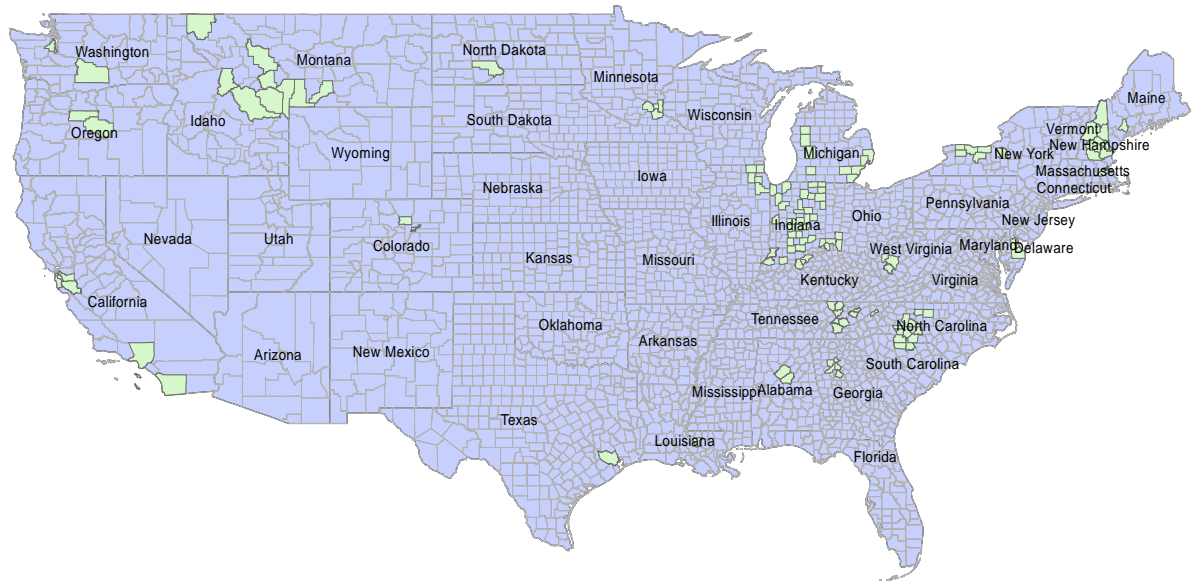
## DATA AND RESEARCH DESIGN

To empirically test the model developed in the previous section, we need data on social capital, community foundations and their competitors, and community socioeconomic and demographic characteristics. Since most community foundations in the United States define their service areas as a county, we use the county as the unit of analysis for the community.

The social capital data come from the 2000 Social Capital Community Benchmark (SCCB) Survey. This survey was designed by the Saguaro Seminar Project, led by Robert Putnam of the John F. Kennedy School of Government at Harvard University. It was the first effort in the

United States to measure the various aspects of social capital in a community. The survey was conducted both nationally and in forty-one local communities in the country. This study uses the social capital measurement collected from the local sample of the SCCB, which includes 26,230 respondents from 284 counties. After excluding observations with missing variables and counties with less than 5 respondents, 132 counties are included in the analysis. Figure 2 shows the geographic distribution of the counties in the sample.<sup>4</sup>

**Figure 2: Geographic Distribution of Counties Included in Analysis**



The information on community foundations, including identifying those that served each county in the study, the geographic focus of each foundation, their total gifts received, the year they were created, and the total number of community foundations serving the county, were collected from several sources, including the Council on Foundations, the Grantsmanship Center, Guidestar.org, and each community foundation's website. The information on competing community philanthropic organizations was collected from the National Center for Charitable Statistics.

Community characteristics, including total population, population density, the percentage of homeownership, population in poverty, population over 65, single-person households, those with higher levels of education, and the race/ethnicity distribution, were collected from the 2000 U.S. Census. The percentage of the community's population holding religious beliefs was estimated based on the SCCB survey.

***Dependent Variable—Community Foundation Gifts Received Per Capita***

To measure community foundation development in a county, we use “community foundation gifts received per capita”—the total gifts received by all community foundations serving a county in 2000 divided by the county's population. If a community foundation serves more than one county, we divided its total gifts received by the counties served, adjusted by county

population, to determine gifts received by each county. A total of 121 community foundations serving 132 counties are included in the analysis.

### ***Independent Variables***

Social Capital. As developed earlier, social capital refers to the features of social organization such as networks, norms and social trust that facilitate coordination and cooperation for mutual benefit (Putnam, 1995). It is normally measured in terms of several core dimensions (Putnam, 2000; Grootaert & Bastelaer, 2001; Narayan and Cassidy, 2001; Adler and Kwon, 2002). In this study, we examine the impacts of five dimensions of social capital—social trust, bridging social networks, informal social networks, civic engagement, and organized group activism—on the charitable gifts received by community foundations. These dimensions capture both the network and trust aspects of social capital. Appendix I presents the definitions and measurements of these five dimensions of social capital. Community-level social capital is defined as the average of these measures for the sampled individual residents of the county. We assume that the social capital of those sampled residents is representative of the whole county. For all five dimensions, we expect a positive relationship between social capital and charitable gifts.

Charitable Organizations. We measure the presence of community foundations in a region, denoted *Years in Community*, as the number of years that community foundations have been in the county. This is calculated as the difference between the year 2000 and the year the first community foundation was established in each county. The number of community foundations serving a region, denoted *Number of Community Foundations*, is a count of the total number of community foundations that serve the same county. For both measures, we expect a positive impact on gifts received. Community competition for philanthropic dollars, denoted *Competition*, is measured as the per capita contributions, gifts, and grants received by federated giving programs in each county in 2000. These competitors include the United Ways and other community charitable programs as defined by the National Taxonomy of Exempt Entities (NTEE).

Socioeconomic and Demographic Characteristics. Measurement of most of the community socioeconomic and demographic characteristics is straightforward. The education level of county residents, denoted *Education*, is measured as the percentage of the population with a Bachelor degree or higher among population of 25 years and over. The proportion of the elderly, denoted *Elderly*, is measured as the percentage of the population aged over 65. The extent of homeownership, denoted *Homeownership*, is measured as the percentage of the county's population living in owner-occupied housing. Each of these variables is expected to have a positive impact on charitable giving to community foundations.

Population is measured as the population in 2000 for each county. Population density, denoted *Density*, is measured as the county's population per square mile in 2000. *Poverty* is the proportion of the county's population with incomes below the federal poverty level defined in 1999. Finally, *Single-person Households* is the proportion of the county's population living in single-person households. Each of these variables is expected to have a negative impact on giving to community foundations.

Measures of our remaining two community characteristics – ethnic homogeneity and religion require more explanation. First, to measure the ethnic homogeneity of the community, denoted

*Ethnic Homogeneity*, we adapt the Herfindahl-Hirschman Index (HHI)<sup>5</sup> to capture the ethnic composition of a county (see Graddy and Chen, 2006). Using five categories of ethnicity -- African American, Asian, Latino, White, and Other -- we calculate the share of each category among residents of the county, square the numbers, and then sum them ( $HHI = \sum_{i=1}^5 s_i^2$ ). Low values of the index indicate ethnically diverse communities, while high values indicate more ethnically homogeneous communities. We expect a positive relationship with giving to community foundations.

Finally, we measure the extent of religiosity among the residents of a county, denoted *Religiosity*, as the percentage of respondents in the SCCG survey who stated that they held religious beliefs (either Protestant, Catholic, another type of Christian, Jewish, or other religion). We expect a positive relationship with giving to community foundations.

To summarize, the empirical model to be estimated is presented below, with the expected direction of the effect noted in parentheses.

*Community Foundation Gifts Received Per Capita* =  $f\{Social\ Trust(+), Bridging\ Social\ Networks(+), Informal\ Social\ Networks(+), Civic\ Engagement(+), Organized\ Group\ Activism(+), Years\ in\ Community(+), Number\ of\ Community\ Foundations(+), Competition(-), Education(+), Ethnic\ Homogeneity(+), Homeownership(+), Population(-), Density(-), Elderly(+), Poverty(-), Religiosity(+), and Single-person\ Households(-)\}$

### ***Sample Characteristics***

Table 1 presents the descriptive statistics associated with each variable for our sample. Residents in the sample communities are on average involved in 3 formal organizations and have 6 different kinds of personal friends. The average of the social trust index in the communities is slightly higher than the national norm, while the average of the informal social network and the organized group activism index is close to the norms for the national SCCG sample.

**Table 1: Descriptive Statistics (N=132)**

<b>Variables</b>	<b>Mean</b>	<b>Median</b>	<b>Std. Dev.</b>	<b>Min</b>	<b>Max</b>
<b>Dependent Variables</b>					
Community Foundation Gifts Received Per Capita (in dollars)	25.12	16.40	24.92	0	136.02
<b>Independent Variables</b>					
<i>Social Capital</i>					
Social Trust	0.12	0.13	0.19	-0.47	0.68
Bridging Social Networks	6.20	6.26	0.72	2.74	8.25
Informal Social Networks	0.03	0.01	0.16	-0.27	0.61
Civic Engagement	3.02	3.00	0.57	1.27	4.88
Organized Group Activism	0.04	0.06	0.23	-0.54	1.18
<i>Charitable Organizations</i>					
Years in Community	28.71	23.50	22.28	0	85
Number of Community Foundations	1.54	1	1.00	0	6
Competition (in dollars per capita)	73.15	12.28	159.24	0	1253.29
<i>Demographic Characteristics</i>					
Education (%)	22.60	20.76	10.47	7.03	52.38
Ethnic Homogeneity Index	0.76	0.84	0.20	0.27	0.96
Homeownership (%)	74.51	76.14	8.82	36.79	89.13
Population	369,960	107,965	947,020	6,851	9,519,338
Density	728.20	214.15	1858.29	1.70	16634.40
Elderly (%)	12.16	12.19	2.63	6.92	19.71
Poverty (%)	10.03	9.33	4.24	2.92	22.83
Religiosity (%)	87.10	87.60	7.87	62.50	100
Single-person Households (%)	9.57	9.37	2.09	5.33	16.96

For the counties in our sample, the percentage of the population 25 years and older with a bachelor's degree or higher averages 23%, about the same as the national average of 24%. The sample communities vary in their ethnic homogeneity—the ethnicity index ranges from 0.27 to 0.96, with an average value of 0.76; this is significantly higher than the .51 value of this index for the nation. The percentage of the population living in owner-occupied housing averages about 75%, higher than the national average of 69%. The population over 65 represents 12% of a county's residents on average, the same as the national average. The percentage of the population living in poverty averages about 10%; the national average is 12%. The proportion of the population living in single-person households averages 10%, the same as the national average. Finally, the sample reflects the general characteristic of the American society with respect to religious beliefs. On average, the percentage of the population with religious beliefs in the communities is about 90%. The General Social Surveys of America reveals that about 90.6% of

the respondents have religious beliefs (Davis, et. al, 2005). Thus the primary differences between the socio-economic characteristics of our sample counties and that of the nation as a whole are that they are more ethnically homogeneous and have higher homeownership rates.

The communities in our sample vary substantially in their familiarity with community foundations. Some communities have just established community foundations in the region, while others have had community foundations for more than eight decades. The average is 29 years. An average of 1.5 community foundations serve each county included in the sample. The per capita contributions received by other competing charitable organizations average \$73. Community foundations in the sample receive an average of \$25 per capita, but with considerable variation, ranging from \$0 to \$136 per capita.

## **ANALYSIS**

The specification of our model is linear, and we estimated it using Ordinary Least Squares. In Table 2, we present the results as three models to demonstrate the added explanatory power of social capital on gifts to community foundations, compared to the presence of charitable organizations in the community, and the community's socioeconomic and demographic characteristics. Model 1 reveals that, for our sample, socioeconomic and demographic characteristics alone explain 19% of the variation in per capita gifts to community foundations. Adding the charitable organizations variables (Model 2) adds 8% in explanatory power. Finally, adding the social capital measures (Model 3) adds an additional 3% in explanatory power. Our full model, which includes all three sets of influences, explains 30% of the variation in per capita gifts to community foundations. We report the results as standardized coefficients because our primary interest is in social capital for which the scale of measurement is not meaningful.

The results reveal that all 3 sets of variables have statistically significant impacts on gifts to community foundations. Tests for multicollinearity reveal no serious multicollinearity among our independent variables. We now discuss the results for the three sets of variables in some detail.



**Table 2: Standardized OLS Regression Coefficients for per capita Gifts Received by Community Foundations**

	Model 1	Model 2	Model3
<b>Independent Variables</b>			
<i>Demographic Characteristics</i>			
Education	-0.13	-0.17	-0.29
Elderly	0.10	0.14	0.08
Ethnic Homogeneity	0.08	0.15	0.02
Homeownership	-0.42*	-0.45*	-0.47**
Population	-0.06	-0.18	-0.18
Population Density	0.28*	0.26*	0.27**
Poverty	-0.33**	-0.28**	-0.26*
Religiosity	0.02	0.02	0.02
Single-person Households	-0.06	-0.16	-0.13
<i>Charitable Organizations</i>			
Years in Community		0.23*	0.23*
Number of Community Foundations		0.17	0.18
Competition		0.05	0.04
<i>Social Capital</i>			
Social Trust			0.22*
Bridging Social Networks			0.01
Informal Social Networks			0.03
Civic Engagement			0.02
Organized Group Activism			-0.01
$R^2$	19%	27%	30%
<i>Change in <math>R^2</math></i>	--	8%	3%
$N=132$			
*p<.05, **p<.01, ***p<.001			

**Socioeconomic and Demographic Characteristics.** Three of the nine socioeconomic and demographic characteristics have statistically significant impacts on the gifts received by community foundations. Community foundations located in counties with low poverty rates tend to receive significantly higher amounts of gifts per capita. This is as we expected and is consistent with others in the literature, who find that poverty negatively affects the development of the nonprofit sector (Cobin, 1999; Grønbjerg and Paarlberg, 2001).

The effect of population density and homeownership, however, are not as expected. Increasing population density significantly increases per capita gifts received by community foundations. This finding, however, is consistent with Saxton and Benson's argument (2005) that urban environments should find it easier to support the growth of the nonprofit sector. We also find that homeownership rates are negatively associated with per capita gifts received by community foundations. This could be explained by a large percentage of new homeowners or low-income homeowners who have limited capacity to donate to community foundations. Recall that our sample has higher rates of homeownership than the nation as a whole. The other socioeconomic and demographic variables are not significant determinants of charitable gifts to community foundations.

Charitable Organizations. We find, as expected, that the longer community foundations have existed in communities, the greater are the per capita gifts to community foundations in that region. However, neither the number of community foundations serving a region nor the amount of competition from other federated giving programs significantly impact per capita gifts to community foundations in our sample. Together, these three variables explain about eight percent of the variance in per capita gifts. This is a relatively large effect and supports the importance of familiarity with specific charitable institutions and presumably the associated increased legitimacy to potential donors.

Social Capital. The primary focus of this paper is the role of community social capital levels on community foundation development. Our results indicate that the level of social capital in a region has a positive and statistically significant impact on gifts to community foundations serving that region. Social capital alone explains 3% of the variance in per capita gifts to community foundations.

Interestingly, this role for social capital reflects the impact of only one of our 5 dimensions of social capital—only social trust has a significant impact. As expected, community foundations serving counties with high levels of social trust receive more gifts per capita. The charitable giving literature recognizes and emphasizes the key role that trust plays for collective action and engagement in philanthropy (Olsen, 1971; Bekkers, 2003). Our findings confirm the importance of trust, but a different type of trust. Our results suggest that when residents of a community generally trust others, they are more willing to support the public good, and thus increase their charitable contribution to community foundations.

We did not find that the social network aspects of social capital—bridging social networks, informal social networks, civic engagement, and organized group activism—impacted charitable giving to community foundations. Thus, our findings suggest that the different dimensions of social capital—social trust versus social networks—may affect charitable giving differently.

## CONCLUSION AND IMPLICATIONS

The rapid growth of community foundations in the past decade has attracted substantial interest in this form of community philanthropy. These organizations, with their geographically-based missions seem especially well suited to address community needs, and several studies have explored this role (Carman, 2001, Garonzik, 1999). However the role that community characteristics play in the development of these institutions is not well understood. This is the first empirical study to explore the possible connection between social capital and community foundation development.

Based on the social capital, charitable giving, and organizational theory literatures, we developed a model of the determinants of charitable gifts to community foundations that predicts a positive impact for community social capital, while controlling for the socioeconomic and demographic characteristics and the presence of charitable organizations in the community.

We find that the level of social trust in the community impacts gifts to community foundation. When residents of a community generally trust others, charitable contributions to community foundations increase. This result extends our understanding of the relationship between trust and community foundation growth. Studies on fund raising and community foundation-donor relationship have emphasized the importance of building donors' trust on community foundations. This study shows that community level trust, a general interpersonal trust rather than specific donor-to-organization trust, is also critical to community foundation growth.

We also find that per capita gifts to community foundations increase in communities where community foundations have existed for a long time. This finding is consistent with both life cycle and legitimacy factors in the development of nonprofit organizations. As community foundations grow from infancy to maturity, they extend their networks and contacts within the community and are increasingly recognized as key players in addressing community needs. These close connections and this reputation increase the legitimacy of these organizations and helps increase the flow of charitable resources. Moreover, the presence of any community foundations in a region increases the legitimacy of this vehicle for charitable giving for all community foundations.

We do not find evidence that contributions to other charitable organizations reduce contributions to community foundations. This suggests the opportunity for collaborative fund-raising among such organizations with the possibility that all could benefit.

Finally, this study provides support for the role of community demographic characteristics in charitable giving. Communities with high poverty rates have limited charitable capacity and thus give less to community foundations. Those with high rates of homeownership also contribute less. Densely populated communities, however, contribute more to community foundations.

These results have important implications for community foundations as they seek to sustain donor support in a time of increasing competition for charitable dollars. Trust will be a key factor. Community foundations not only need to build connections with donors, and gain their trust, but they also need to act as a catalyst for trust building in the whole community. One way

to do so may be to establish “donor circles” that facilitate the interaction among donors, and to broaden these circles to include a higher proportion of community residents. More generally, to the extent that community foundation can help develop a strong sense of community among residents by providing opportunities for residents to work together, they may be able to help increase the sense of social trust among residents.

This demonstrated connection between a community’s level of social trust and the development of its community foundations is interesting, and offers a promising direction for future research. Additional work is needed to devise more and better measures of community social capital. Also, this relationship needs to be explored in other contexts, as there may be unique unobserved characteristics in our sample that drive our results. Nevertheless, the diversity of our sample counties provides some assurance that our results can be generalized. It will take much more exploration of this topic, however, to fully understand the nature of the relationship between social capital and community foundation development.

## Appendix 1: Definitions and Measures of Social Capital Dimensions

Variable	Definition	Measurement
Social Trust	Respondents general interpersonal trust, trust of neighbors, co-workers, fellow congregants, store employees where they shop, and local police	Community social trust is the average of individuals' social trust, which is calculated as the mean of the standardized responses to the 6 questions. At least 3 answers had to be provided for a score to be calculated.
Bridging Social Networks	Bridging social networks are defined as one's diversity of friendships. Respondents were asked whether they had a personal friend who was a business owner, on welfare, owned a vacation home, gay, a manual worker, a community leader, of a different faith, White, Black, Hispanic, and Asian,	Bridging social networks in a community are measured as the average of the individuals' diversity of friendship indicators, calculated as the count of different kinds of personal friends the respondents had from the 11 possible types.
Informal Social Networks	Respondents having friends visiting their home, visiting with relatives, socializing with co-workers outside of work, hanging out with friends in public places, playing cards and board games.	Informal social networks in a community is the mean of individuals' informal social network score, calculated as the mean of the standardized responses to the 5 questions, based on national survey norms.
Civic Engagement	Respondents involved in any of the following 18 types of groups or organizations: religious, youth, neighborhood, fraternal, civil rights, sports, the PTA, veterans, neighborhood, senior citizens, charity, labor union, professional association, political action, arts and hobbies, self-help program for specific illnesses, group meet over the Internet, other kinds of clubs.	Community level group engagement is the mean of individuals' group engagement, calculated as the count of the number of different groups in which the respondent is involved (ranging from 0 to 18).
Organized Group Activism	Respondents attending public meetings, or club meetings, or local community events.	Organized group activism in a community is the mean of the individuals' group activism score, which is calculated as the average of the standardized scores of the three questions, based on national norms.

Notes:

1. These nonprofit organizations are tax-exempt under 501(c)(3) of the Internal Revenue Code.
2. The Foundation Center, 2005. The amounts are in constant 1981 dollars based on the annual average Consumer Price Index, all urban consumers, as reported by the U.S. Department of Labor, Bureau of Labor Statistics, February 2005.
3. From Saguaro Seminar on Civic Engagement in America, “Better together: Religion and Social Capital”, John F. Kennedy School of Government, Harvard University; accessed in August 2005 at <http://www.bettertogether.org/pdfs/Religion.pdf>.
4. Additional information on the survey, including a list of communities surveyed, are available at [www.cfsv.org/communitysurvey](http://www.cfsv.org/communitysurvey).
5. As a measure of firm concentration, the HHI is calculated by squaring the market share of each firm in the industry and then summing the resulting numbers. The index approaches zero as the number of firms in the industry increases and each firm has an equal small share of the market. The index approaches 1 if one firm has 100% market share.

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**Table 1: Descriptive Statistics (N=132)**

<b>Variables</b>	<b>Mean</b>	<b>Median</b>	<b>Std. Dev.</b>	<b>Min</b>	<b>Max</b>
<b>Dependent Variables</b>					
Community Foundation Gifts Received Per Capita (in dollars)	25.12	16.40	24.92	0	136.02
<b>Independent Variables</b>					
<i>Social Capital</i>					
Social Trust	0.12	0.13	0.19	-0.47	0.68
Bridging Social Networks	6.20	6.26	0.72	2.74	8.25
Informal Social Networks	0.03	0.01	0.16	-0.27	0.61
Civic Engagement	3.02	3.00	0.57	1.27	4.88
Organized Group Activism	0.04	0.06	0.23	-0.54	1.18
<i>Charitable Organizations</i>					
Years in Community	28.71	23.50	22.28	0	85
Number of Community Foundations	1.54	1	1.00	0	6
Competition (in dollars per capita)	73.15	12.28	159.24	0	1253.29
<i>Demographic Characteristics</i>					
Education (%)	22.60	20.76	10.47	7.03	52.38
Ethnic Homogeneity Index	0.76	0.84	0.20	0.27	0.96
Homeownership (%)	74.51	76.14	8.82	36.79	89.13
Population	369,960	107,965	947,020	6,851	9,519,338
Density	728.20	214.15	1858.29	1.70	16634.40
Elderly (%)	12.16	12.19	2.63	6.92	19.71
Poverty (%)	10.03	9.33	4.24	2.92	22.83
Religiosity (%)	87.10	87.60	7.87	62.50	100
Single-person Households (%)	9.57	9.37	2.09	5.33	16.96

**Table 2: Standardized OLS Regression Coefficients for per capita Gifts Received by Community Foundations**

	Model 1	Model 2	Model3
<b>Independent Variables</b>			
<i>Demographic Characteristics</i>			
Education	-0.13	-0.17	-0.29
Elderly	0.10	0.14	0.08
Ethnic Homogeneity	0.08	0.15	0.02
Homeownership	-0.42*	-0.45*	-0.47**
Population	-0.06	-0.18	-0.18
Population Density	0.28*	0.26*	0.27**
Poverty	-0.33**	-0.28**	-0.26*
Religiosity	0.02	0.02	0.02
Single-person Households	-0.06	-0.16	-0.13
<i>Charitable Organizations</i>			
Years in Community		0.23*	0.23*
Number of Community Foundations		0.17	0.18
Competition		0.05	0.04
<i>Social Capital</i>			
Social Trust			0.22*
Bridging Social Networks			0.01
Informal Social Networks			0.03
Civic Engagement			0.02
Organized Group Activism			-0.01
$R^2$	19%	27%	30%
<i>Change in <math>R^2</math></i>	--	8%	3%
$N=132$			
*p<.05, **p<.01, ***p<.001			