Philanthropic Foundations, Public Good & Public Policy

Diana Leat

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Focus on Foundations

1.1 Introduction

1.1.1 Philanthropy Is Good: And More Is Better?

Across the globe from North to South and East to West interest in philanthropy—private giving for public good—is growing, and in many countries the financial scale of philanthropy is increasing rapidly. Governments of very different persuasions are searching for ways in which they can encourage the wealthy and the not-so-wealthy to give more.

People such as Bill and Melinda Gates, Warren Buffet, and Ted Turner in the USA; Azim Premji in India;, Dang Yanbao in China; Li Ka-shing in Hong Kong; and Aliko Dangote in Nigeria, among many others, are honoured for their generosity. The Carnegie Corporation of New York gives medals to celebrate exemplary philanthropists and various publications list the biggest givers (see e.g., www.forbes.com). In 2008 there was even a book suggesting that 'philanthrocapitalism' can 'save the world' (Bishop and Green 2008; see also Clinton 2007). And in 2015 it was said that philanthropic 'Foundations are the new Birkin bags. Everyone who is anyone has one' (Giridharadas 2015, p. 2).

The general assumption seems to be that philanthropy is a good thing, and more philanthropy is even better. But in the quest for ways of increasing the scale of giving are societies losing sight of some fundamental questions about the potential costs, as well as the benefits, of greater private

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giving? Is more philanthropy always a good thing? Would it be possible to have too much philanthropy?

The benefits of private giving for public benefit are generally taken for granted, and appear fairly obvious on the surface. Giving provides additional private resources for public benefit, fills gaps in public provision, and caters for unpopular or minority interests. Philanthropic giving claims to be less bureaucratic and more capable of generating a speedier response than government. Philanthropists and philanthropic institutions claim that they are more innovative than government, more willing to take risks (Abramson and Spann 1998; Anheier and Leat 2002, 2006; Ylvisaker 1987; Fleischman 2007).

There are those, however, who believe that the relationship between philanthropy and public benefit is more complicated. For example, there are concerns that philanthropic giving in many countries costs government (and each and every taxpayer) revenue in tax foregone on deductible gifts. Philanthropists are said to be idiosyncratic in their choice of causes and in the type and length of support given. Encouragement of philanthropy, it is suggested, allows the rich to choose priorities in public benefit, and these priorities can skew wider public provision directly and indirectly, and may work, intentionally or unintentionally, to undermine public provision.

Writing about philanthropic foundations, Prewitt sums up some of the objections as follows: 'The foundation sector is, by definition, largely undemocratic, for how else to characterize a wealthy elite who apply tax protected dollars to enact their vision of the public good' (Prewitt 2006, p. 374; see also Frumkin 2006a; Roelofs 2004; Ravitch 2013; Dowie 2001; Barkan 2013; Kunz 2012).

1.1.2 Focus of the Book

This book considers some of the potential costs and benefits of institutionalised giving in modern society. This is not a book about fundraising or about giving in general. It focuses primarily, but not exclusively, on giving by philanthropic or charitable foundations. At this stage a philanthropic foundation may be defined as an independent organisation established for public benefit/charitable purposes with its own (usually, but not always) relatively permanent income derived from investment of an initial substantial private gift (this definition will be discussed further below). For the moment, the terms 'philanthropic' and 'charitable' are used interchangeably but, as discussed below, some draw a distinction between the two.

This book focuses on philanthropic foundations rather than giving in general for various reasons, including the independence of foundations, the scale of their resources, their organisation, and their relative longevity. Having said that, it is not always possible or useful to distinguish clearly between very rich and generous individual donors with and without a foundation.

1.1.3 Why Focus on Foundations?

1.1.3.1 Global Growth

One reason for focusing on foundations is their little recognised and not fully documented scale and phenomenal growth throughout the world. The charitable or philanthropic foundation as an organisation with its own 'private' income devoted to public benefit goals has a long history dating back to the monasteries and before. It is worth noting here that while the term 'philanthropy' today is associated primarily with the giving of (larger) financial gifts, that has not always been true. Socrates considered the pouring out of his thoughts without charge as his 'philanthropia'.

Today the philanthropic foundation is sometimes seen as a peculiarly North American invention (see e.g., Anheier and Hammack 2010). This perception is in part a matter of terminology. When Andrew Carnegie (by birth a Scot but a US citizen) and John D. Rockefeller created their foundations they very deliberately described them as 'philanthropic' rather than charitable organisations. They saw 'charitable foundations' as being concerned with amelioration of suffering and disadvantage; 'philanthropic foundations' by contrast were to be concerned with identifying the causes of suffering.

The notion that philanthropic foundations are a North American invention may also be related to the scale of US philanthropic foundations in the early years of the twentieth century. The mega foundations of the early-twentieth century in the USA, and elsewhere, differed from their predecessors not only in how they saw their roles but also in how they worked. While the distinction may be overstated, a significant part of, for example, Carnegie's and Rockefeller's money was spent not on doing things themselves but on giving grants to others to do things (on the rise of grant-making and the distinction between grant-making and operating foundations, see e.g., Jonas 1989; Toepler 1999; on the history of American philanthropy, see e.g., Kunz 2012).

The focus on a search for causes and a tendency to work via grant-making became the dominant model for much of the English-speaking world. Today the distinction between philanthropic and charitable foundations (never recognised in law) has been eroded, and foundations tend to describe themselves as 'philanthropic' even if some, or most, of their spending is on amelioration rather than a search for causes. (These issues are discussed further below.)

Foundations in other parts of the world grew throughout the twentieth century. In the UK, various foundations were created by the chocolate maker Joseph Rowntree in the early years of the twentieth century. The Cadbury family began creating their foundations at around the same time (on the link between chocolate and philanthropy see Wagner 1987). Similarly, foundations were being created in Australia and in India, where in 1919 the Sir Ratan Tata Trust was established.

The Great Depression and the Second World War appear to have slowed the global growth of foundations. However, foundations began growing again in the immediate post-war years encouraged in the USA by various tax changes (on the history of US foundations, see e.g., Karl 1997; Dowie 2001; Anheier and Hammack 2010; Arnove and Pinede 2007).

From the 1960s onwards foundation formation expanded and accelerated. For example, in 1967 The Aga Khan Foundation was created by the leader of the Shia Imami Ismail Muslims. In 1969 the Mitsubishi Foundation in Japan was established, in part as a response to growing social problems and in part to address health and environmental problems associated with rising industrial emissions. In 1979 The Open Society Foundation was created by Hungarian financier George Soros. The foundation, originally established to fund scholarships for black students at University of Cape Town and dissidents in Eastern Europe, later focused on encouraging democratic institutions in ex-Soviet bloc countries in Europe (www.sorosfoundation.org). The fall of the Berlin Wall in 1989 led to intervention by other US and European foundations in Central and Eastern Europe.

In the 1980–1990s new social organisations emerged in China, including the China Youth Development Foundation and the Heren Charitable Foundation, a corporate foundation named after the father of Chinese businessman Cao Dewang (Fuyao Glass Industry Group). The 1990s saw a wider growth in philanthropy in the Asia Pacific region as well as the growing role of the media in mobilising giving especially in the aftermath of disaster.

The rise and rise of philanthropic foundations continued in the early years of the twenty-first century. The Gates' foundation began in 1997 as the William H. Gates Foundation and was re-launched as the Bill and Melinda Gates Foundation in 2000. In June 2006 Warren Buffet gave to the Gates Foundation ten million Berkshire Hathaway Class B shares spread over several years, with a first annual gift worth approximately $1.5 billion. As of 2015 the Bill and Melinda Gates Foundation has an endowment of around $42 billion.

Foundations continued to mushroom elsewhere. For example, in 2005 The Emirates Foundation was set up by the emirate of Abu Dhabi 'to facilitate new public-private funded initiatives to improve welfare of all people across UAE' (www.emirates-foundation.ae/en). In 2007 the first World Congress of Muslim Philanthropy was held, bringing donors together and building a knowledge base on Muslim philanthropy. In the same year Charities Aid Foundation (a UK-based organisation) established the Center for Asian Philanthropy. By 2009 the Philanthropy in the Gulf Co-operation Council stated that philanthropic gifts of $15-20 billion were being given annually. In 2010 the first Pan African Grant Makers Assembly was held in Nairobi, organised by TrustAfrica, the Kenya Community Development Foundation, Akiba Uhaki, and the African Women's Development Fund (on philanthropy in Africa see Moyo 2010; Aina and Moyo 2014).

2010 saw the launch of the Giving Pledge, spearheaded by Warren Buffet and Bill Gates. The Giving Pledge encouraged the wealthiest individuals and families to commit to giving the majority of their wealth to philanthropy. The following year Vincent Tan, founder of the Berjaya Group, one of the signatories, promised to give away half his wealth, estimated at $1.25 billion. By January 2015, 128 billionaires had signed the Giving Pledge.

The Giving Pledge was not popular with everyone. In France Lilian Bettancourt refused to sign, and in the USA Ellen Remmer, CEO of the Philanthropic Initiative, cautioned: 'the reason we have this golden age of philanthropy is because we have had this incredible concentration of wealth, and the pledge is a reminder of that'.

As discussed further below, today philanthropy and foundations are growing in some unlikely places, including Russia, China, Brazil, and Africa (on individual High Net Worth giving see also BNP Paribas Individual Giving Index).

1.1.3.2 Scale of Resources

Obtaining data on foundation resources both between and within countries is complicated by differences in definition and reporting requirements. Another complication is the period to which the data apply; for example, the global economic crisis has probably temporarily reduced the size of foundation resources in many countries.

In general there is more data on the biggest foundations in a country. While the very large foundations are a very small proportion of the total foundation population in any country, they own a large proportion of total foundation sector assets and account for a large proportion of total spending. In some countries the top 20 %—or less—of foundations command 80 % or more of total resources (see e.g., Fulton and Blau 2005; Pharoah et al. 2014).

A further illustration of the concentration of power, and the difficulty of gaining a true picture of the size of foundation wealth, is the fact that in several countries removing the first few foundations on the top 50 list makes a very big difference to the total sector size and to average assets and incomes. For example, statistics on foundation resources in the UK look very different if the wealthy Wellcome Foundation is removed from the list (the same would be true in the USA if the Bill and Melinda Gates Foundation was removed from calculations).

The growth, scale, and very uneven distribution of resources between foundations is nicely illustrated in the following figures from the USA. In 2002 there were around 65,000 foundations in the USA; in 2012 there were around 86,000; just 1,000 of these foundations gave away $22.4 billion of the total $52 billion given by all foundations (data.foundationcenter.org/about; Fulton and Blau 2005).

The list of the top 10 wealthiest foundations in the world by endowment gives some sense of the resources owned by foundations, and highlights the fact that very wealthy foundations are not confined to the USA.

1. Bill and Melinda Gates Foundation (registered in the USA)	$38.3 billion + ($42. billion)
2. Ingvar Kamprad (registered in the Netherlands)	$36 billion
3. Howard Hughes Medical Institute (registered in the USA)	$16.1 billion
4. Sir Henry Wellcome Foundation (registered in the UK)	$14.5 billion
5. Ford Foundation (registered in the USA)	$10.9 billion

6. Mohammed bin Rahid Al Maktoum (registered in Dubai)	$10.0 billion
7. Robert Wood Johnson Foundation (registered in the USA)	$9.0 billion
8. Li Ka Shing (registered in Hong Kong)	$8.3 billion
9. Church Commissioners for England and Wales (registered in the UK)	$8.1 billion
10. J. Paul Getty Trust (registered in the USA)	$4.2 billion

There are several problems with this list. First, the figures change regularly. Second, membership of the top ten changes as new foundations are created or the assets of older ones decline. Third, the list includes only those foundations that are known about, and some foundations go to great lengths to remain invisible (this is easier in some countries than others). Fourth, as discussed below, assets are not a reliable indication of spending. For example, Ingvar Kamprad, which is registered in the Netherlands with assets of US $36 billion, is actually the owner of IKEA, and appears to spend relatively little each year (see below) (for a discussion of the geography of 'super philanthropy' see Hay and Muller 2014).

These are just ten of the richest foundations in the world. There are hundreds, if not thousands, of foundations throughout the world with assets of more than $1 billion, and hundreds of thousands of smaller foundations. Much less is known about smaller foundations, but it is probable that they behave somewhat differently from larger ones.

1.1.3.3 The Reach of Foundations

Whether or not you can name a philanthropic foundation the chances are that almost wherever you live, however rich or poor you are, a foundation has touched your life.. Have you ever been ill or homeless? Have you ever visited an art gallery or a library or a park? Have you been vaccinated or dialled 911? Have you attended a university, a ballet, or an opera? Did you ever watch Sesame Street? If the answer to any of these questions is 'yes', then a philanthropic foundation has probably touched your life.

The list of the ways in which philanthropic foundations shape our lives could be expanded to more subtle and fundamental areas. For example, if you live in Europe, then the Rockefeller Foundation, and others, helped to prevent the complete destruction of European cultural heritage as well as contributing to the re-establishment of independent media in Germany in the immediate aftermath of the Second World War (Leat 2012).

More recently, in ex-Soviet bloc countries the foundations created by George Soros, along with others, have worked to promote freedom of expression and informed and independent policy debate. In many other parts of the world where journalists and open communication are under threat philanthropic foundations continue to protest and promote freedom of expression (see e.g., www.frittord.no, www.knightfoundation.org).

Philanthropic foundations not only touch individual lives but also contribute to shaping the world in which we live by influencing national and global policy and practice in the arts, welfare, health, the environment, human rights, justice, and so on. In a global society what a foundation does in India or Africa has potential implications for people wherever they live (e.g., eradicating disease, raising awareness of climate change). These implications may be for good or ill, depending on the 'success' and 'failure' of the work and on your own values and perspective. But the important point here is that our lives are touched by the choices individual philanthropic donors and foundations make; and these are not people or organisations we have elected or over whom we have any real control.

The most visible effects of foundations are seen in how they spend their money. But the places and issues they ignore are also important. In addition, where and how foundations earn their money is important. Foundations typically earn their income from investments in property and the financial markets. The total invested assets of foundations worldwide is unknown, but it would certainly be in the trillions of dollars. Foundations typically spend only around 5 % of the total value of their endowment/corpus each year, so how they invest the other 95 % is of some consequence. It is not difficult to find foundations with substantial investments in those industries that are part of the problems some of them seek to eradicate, or at least ameliorate.

1.1.3.4 Foundations and Democracy

How much does the average person know about these organisations? How and where is it possible to find out what they do, and what effect they really have? If citizens disagree with what elected politicians do then (in theory at least) they can register their disapproval through the ballot box. If you do not like what Bill Gates, or, say, the Sir Ratan Tata Foundation or the Bertelsmann Foundation does, then you have no means of altering that. Does that matter? After all, what they do is legal and, to many people, generally benign. Does it matter that in a number of countries in the world you, as an individual taxpayer, are subsidising the individual choices, preferences, and well-intentioned 'bets' of philanthropic foundations through your tax subsidy of their tax deductions?

There is a paradox at the heart of the philanthropic foundation. Philanthropic foundations are both an expression of democracy—rich people have the right to do whatever they choose with their money within the law—and at the same time undemocratic insofar as they allow the rich (and generous) to choose which services, issues, and approaches deserve support and, crucially, which do not. In addition, some argue that philanthropic foundations are capable of shaping policy debates, drawing attention to some issues and not others, as well as creating expectations and services that governments then feel obliged to sustain.

Mark Zuckerberg and Priscilla Chan's 2015 pledge to give away $45 billion from their Facebook fortune illustrates both the popularity of philanthropy and the questions commentators are beginning to ask about the power the super-rich are able to exercise through giving (the Zuckerberg-Chan case is complicated by the legal vehicle they have chosen, which will give them considerable freedom to fund as they choose with minimum transparency; see e.g., http://www.cbc.ca/news/business/facebook-mark-zuckerberg-charity-share-donation-1.3346966).

If the tax advantages of giving were to disappear, and/or foundations were required to be more accountable, what effect would that have? Would lesser tax advantages and greater accountability and scrutiny actually merely kill both large-scale individual giving and societies' best chance of creativity, experimentation, and innovation? As a broad generalisation, in democracies governments can only do what the 'average voter' approves of, and only those things pretty much guaranteed to 'succeed' in the short term. But genuine innovation requires a willingness to take risks and the freedom to fail. Arguably, maverick foundations—without constituents, shareholders, customers, and so on to please—are the best hope for real innovation.

1.2 Philanthropic Foundations in the Dock

This book explores some of the key charges against philanthropic foundations (and to a degree other large donors), examines the roots of those charges, and considers the case for the defence.

1.2.1 Charges and Responses

Charge Foundations are playthings of the rich, allowing them to impose their own particular preferences and priorities on society. In many societies giving is encouraged by tax incentives, and thus the average taxpayer subsidises the whims of the wealthy.

Defence Rich people have the right to spend their money as they choose, and charitable giving is for public benefit so society is the winner. Foundations provide maximum public benefit with the least damage to personal freedom. Foundations act as stop gaps against government and market failure.

Charge Decision making in philanthropic foundations is concentrated in a very few unelected hands.

Defence Foundations are largely responsive to requests from civil society organisations. The fact that foundation decision makers are unelected is a strength that enables support for unpopular causes and genuinely risky innovation.

Charge Foundations are warehouses of wealth, stockpiling assets rather than applying them for public benefit.

Defence Foundations conserve wealth in the interests of intergenerational equity, paying out each year the amounts required by law.

Charge Foundations are the only organisations that can exist in perpetuity without having to please anyone. Perpetual life encourages complaisance and an attitude of 'tomorrow will do'.

Defence Perpetuity is a strength because it enables foundations to benefit future generations, allows a long-term view in a wider culture of short-termism, and encourages new donors and donor trust.

Charge Foundations live on capital that is a product of inequality.

Defence All capitalism is unequal, and the only problem with tainted money is that there 'taint enough of it'.

Charge Foundations spend a mere 5 % on good causes and invest 95 % in the sources of problems.

Defence Some foundations invest ethically and some also use the power of their investments to make statements about corporate practices.

Charge Foundations have undue direct and indirect influence on social change and policy.

Defence Foundations are one among many influences and it is debatable how much influence they really have.

Charge Foundations act as unelected critics of government.

Defence It is debatable how many foundations criticise government. More often they tend to relieve government of service provision and/or 'cool out' discontent. In any case, democracy requires a plurality of voices.

Charge Foundations are unaccountable and unregulated.

Defence In many countries foundations are required to provide annual reports and accounts and are governed by a range of regulations. Any more regulation might reduce the number of foundation creators/donors and encourage safe, non-innovative work, thus preventing foundations from doing what they are potentially best at.

Charge Foundations extend their activities well beyond merely responding to grant requests from the community.

Defence Foundations' money is usually tiny relative to the problems they seek to address. If they wish to be effective they need to use all of their assets.

Charge Foundations are tax-subsidised organisations whose contributions are of no demonstrable effectiveness.

Defence Many foundations these days seek to demonstrate effectiveness. But there is also an argument that this is impossible and/or undesirable.

These charges and responses are expanded and explored in later chapters.

In 2020 there will be 100,000 foundations in the USA alone, if growth in the next generation (2001–2020) mirrors that of the last (1981–2001). It is estimated that in the coming decades as baby boomers inherit $6 trillion will be given to charity (Reis and Clohesy 2001; Havens and Shervish 1999). And it is likely that wealth and foundation formation will grow spectacularly in the global South in the next decades.

Before considering the charges above, the next three chapters explore in more detail what philanthropic foundations are, how they work, and what they do.

CHAPTER 2

Definitions and Distinctions

2.1 Varieties of Giving

At root, the term ‘philanthropy’ refers to love and caring for fellow human beings. In modern usage the term has rather narrower connotations. People who give time voluntarily in the service of others are caring, but they are rarely referred to as ‘philanthropists’. Today philanthropy is generally seen to involve giving money, and the label ‘philanthropist’ usually reserved for those at the higher end of giving. If I referred to myself as a philanthropist on the basis of my £10 gift to the local hospice it would sound pretentious.

As noted above, the distinction between charity and philanthropy used by people such as John D. Rockefeller and Andrew Carnegie in the USA in the early years of the twentieth century has largely fallen into disuse; charity and philanthropy are now used almost interchangeably in most Anglophone countries.

Legally, what counts as charity varies between countries and over time. Regulation is covered in a later chapter, but it is worth noting here that in most countries ‘charity’ has a specific legal meaning covering what is defined as ‘charitable’, as well as how a charity must be structured and made accountable.

Philanthropic or charitable giving takes a variety of forms. Some giving is individual, direct, and ad hoc: giving to particular charities as and when asked or when you feel like it; such giving may be random or carefully considered. Planned giving—giving a set amount per month or per year,

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or a percentage of profit or income—is another form of giving and is required in some religions.

Newer forms of giving include payroll giving (giving a set amount directly from your pay packet) and 'giving circles'. Giving circles are groups of people who each give, say, £1000 per annum and jointly decide how the money will be allocated. Giving circles are growing in some countries and are seen as a way of 'democratising philanthropy', allowing people of relatively modest means to behave in a similar way to the wealthier foundation creators (on giving circles, see e.g., Eikenberry 2006a).

A continuum of giving in terms of formality would look something like this:

Informal Formal

Ad hoc individual planned giving circles DAF's foundation

Moving from the individual and informal to the institutional and formal, giving circles are probably at the midpoint. Rather more formal and institutional than giving circles are the various forms of 'donor advised funds' (DAFs) within community foundations or other bodies. DAFs are created by individuals or families; the donor exercises considerable influence over the way in which the money is spent, but legally cannot control the use of the funds (on DAFs, see e.g., Ostrander 2007).

At the right hand end of the 'informal–institutional' continuum lies the trust or foundation. Again, the terminology here is partly a matter of fashion. In the past the term 'charitable trust' was widely used; today the term 'foundation' is more common.

Some donors never establish a formal organisation for their work, preferring to give one-off gifts as and when they choose to whomever or whatever they choose, with no particular plan or structure. Others decide to create a foundation through which they channel and structure their giving. Once a donor has created a foundation the money cannot be taken back or stopped. Unlike individual giving, foundations have built-in continuity. A foundation as a formal legal structure is also, in most countries, subject to some form of scrutiny and accountability.

2.2 What Is a Philanthropic Foundation?

2.2.1 Initial Definitions

A very basic description of a foundation is a pot of money (or other asset) invested to produce income which is used to pursue the foundation's mission, often by making grants to other organisations. The foundation is created through a donation and a legal deed, and is then governed by a board of trustees or directors. The foundation may or may not employ paid staff. Foundations differ from other non-profit organisations in that they do not generally raise funds from the public and in many, but not all, countries typically do not operate their own programmes, but rather work through other organisations whom they fund or support in other ways.

This description could be challenged on several grounds because exactly what counts as a philanthropic foundation is a matter of some debate. As noted above the term 'philanthropic foundation' was originally used in the USA by those such as Rockefeller and Carnegie to distinguish their activities from the more common charitable giving. Use of the term 'philanthropic' signified a concern with the causes of problems rather than merely the alleviation of symptoms (Hall 1992, 1994; Bulmer 1995). As discussed further below, the description above might be challenged on the grounds that some 'foundations' do raise money and some do not give grants.

Foundations differ from a one-off gift, or even a succession of gifts, to a particular charity, or a gift to endow a charity. 'Philanthropy expressed through the private foundation, a legally immortal institution, extends the bequest and its purposes into the distant future. That is, rather than endow an institution, the philanthropic act, in establishing the foundation, endowed the endowment itself' (Prewitt 1999, p. 980; see also Sulek 2010).

Foundations are not always established in perpetuity but they do have a lifespan and a purpose that extends beyond an individual gift and beneficiary organisation (on the distinction between charity and philanthropy see also e.g., Ylvisaker 1987; Friedman and McGarvie 2003). This general and unspecified power has made foundations frightening to some politicians, most notably in the USA (see Chap. 10 for further discussion).

Legal definitions of foundations vary between countries. In some countries (such as the UK) there is no legal distinction between charities and foundations; in other countries (such as the USA) foundations are legally distinct from other non-profit organisations. In Europe there is a mass of complex legal and terminological differences and distinctions between states, and sometimes even within one country. And just to complicate matters further, some organisations that call themselves 'foundations' are actually no different from the general run of fundraising charities.

So what are 'foundations', and why is it useful to distinguish them from other types of charity? Anheier and Toepler (1999) suggests that a foundation is 'an asset, financial or otherwise', with the following characteristics:

1. Non-membership-based organisation. 'The foundation must rest on an original deed, typically signified in a charter of incorporation or establishment that gives the entity both intent of purpose and relative permanence. Other aspects include some degree of internal organisational structure, relative persistence of goals, structure and activities, and meaningful organisational boundaries. Thus 'a foundation is not only a financial or other type of asset, but also an identifiable organisation' (41).
2. Private entity. Foundations are non-governmental in the sense of being structurally separate from public agencies. They may be created and set up by government, may receive significant government support and have government officials sit on their boards. But they cannot be instruments of government; they do not exercise governmental authority and are not controlled by voters.
3. Self-governing entity. Foundations control their own activities. Self-governance implies that foundations have their own internal governance procedures, enjoy a meaningful degree of autonomy, and have a separate set of accounts in the sense that assets, expenditures, and other disbursements must not be part of either governmental or corporate balance sheets.
4. Non-profit distributing entity. Foundations do not return profits from whatever source to their owners, members, trustees, or directors. A foundation may accumulate a surplus in a given year, but the surplus must be applied to its basic mission (depending on the payout requirements stipulated in the relevant tax laws), and not be distributed to owners or their equivalents. Foundations do not exist principally to generate profits for owners, either directly or indirectly, and are not primarily guided by commercial goals and considerations.

5. Serving a public purpose. Foundations must do more than benefit a particular closed social group or category, such as members of a family. 'Foundations are private assets that serve a public purpose. The public purpose may or may not be charitable or tax-exempt in the relevant laws of the country, what is important is that the purpose be part of the public domain' (42).

Prewitt (2006) takes a slightly different, and by his own admission American-centric, approach: 'A key feature of a foundation is a permanent endowment, not committed to a particular institution or activity, that provides a grant-making capacity reaching across multiple purposes and into the indefinite future. A permanent endowment attached to a broad, permissive mission is a defining characteristic of present-day foundations'.

According to Prewitt this gives foundations considerable latitude to respond to changing conditions and distinguishes them from other types of gifts. It is the endowment, according to Prewitt, that distinguishes the foundation from the bulk of non-profit organisations 'that survive through membership dues, fees for services, government contracts, or product marketing' (355).

Prewitt's definition highlights what makes foundations different—a permanent endowment, broad mission, and focus on grant-making—but there are various problems with his definition, and, as he admits, the definition requires discussion of the exceptions. One way of looking at the 'exceptions' is to distinguish between different types of foundations in terms of source/types of income.

2.2.2 Types of Foundation

2.2.2.1 Distinguishing by Source/Type of Income

- Endowed Foundations
  Endowed foundations—those which own a body of assets/corpus invested to produce a regular income to pursue the foundation's mission—are, in a sense, the 'purest' form of foundation in Prewitt's terms. In relation to Anheier's definition these are the foundations with the most autonomy, they are the most self-governing, the most independent. Fully endowed foundations do not have to please anyone (except regulators) in order to survive. Endowed foundations

vary radically in size and level of activity. Some foundations are run solely by the donor and his/her family members, others include non-family members on their boards. These issues are discussed further below.

- Corporate Foundations
  Corporate foundations may or may not be endowed. More commonly, a corporate foundation has no permanent endowment, but rather receives regular transfers from the associated company. These non-endowed foundations have a degree of autonomy and do not have to fundraise in the conventional sense in that they are likely to receive, say, a set percentage of the company's profits each year. Nevertheless, these non-endowed corporate foundations may have to keep one eye on maintaining the support of the board, shareholders, staff, and customers (on corporate foundations and giving, see e.g., Smith 1994; Porter and Kramer 2002; Bruch and Walter 2005).
- Community Foundations
  Community foundations are in a sense 'endowed foundations in the making' or 'wannabe endowed foundations'. Community foundations, by definition, focus on a geographical community (or less frequently a community of colour or other characteristic) and attempt to raise funds to both benefit that community in the short term and build an endowment for future use. As fundraising organizations, community foundations are constrained to a degree by the interests and concerns of their donors. Community foundations are increasing in number in many parts of the world. In some countries community foundations offer philanthropists a 'shortcut' to creating their own foundation with the service of DAFs, whereby a donor creates, in effect, a foundation within the community foundation (on the nature and growth of community foundations, see e.g., Hall 1989; Seeley 1998; Hammack 1989).
- Fundraising Grant-Makers
  Community foundations are one part of a larger category of fundraising foundations. Some people would argue that these organizations are not usefully put in the same box as endowed foundations but are really more akin to any other fundraising charity. However, although they are obviously constrained by the need to appeal to large numbers of donors, they arguably have a greater degree of autonomy in how they distribute the funds raised as compared with a charity for a specific purpose. Fundraising foundations have also increased

in recent years in many countries, often in the form of media appeals such as telethons, but they are not new; many of the established foundations today, including many of the royal foundations, were funded by public subscription.

- Government Inspired Grant-Making 'Foundations'
  This category is also a growth area in many countries. For example, in the UK the government-created National Lottery Boards, distributing a percentage of the proceeds of the sale of lottery tickets, have become some of the largest funders of charities and non-profit organisations.

In various countries governments have created independent or semi-independent 'foundation-like' forms for various purposes in which government does not want to be, or does not want to be seen to be, directly involved.

Closely related to this category is another, which contains foundations created as a result of privatisation of previously community- or state-owned assets. In New Zealand, for example, when the community savings banks and the energy companies were privatised their assets were transferred to what are known there as 'community foundations' (McIlnay 1998) (Community foundations in New Zealand are somewhat different from community foundations elsewhere—see e.g., www.foundationnorth.org.nz). In Germany when the Volkswagen company was privatised after the Second World War a foundation was created with the proceeds from the sale. Other examples of this phenomenon include the California Endowment in the USA (for further examples see Salamon 2014). These foundations are, arguably, tricky to categorise because their relationship to government and to the privatised company vary significantly; some may come close to being endowed 'private' foundations, others may work under government supervision, and others may come closer to corporate foundations.

2.2.2.2 Distinguishing by Style: Operating and Grant-Making

Prewitt's (2006) definition of a foundation includes grant-making as a defining characteristic. In many countries the term 'foundation' is popularly applied to asset-holding, *grant-making* organisations (fundraising grant-makers are included as exceptions). Foundations tend to be seen, almost by definition, as fund distributing, rather than operating, entities. But this is not true everywhere.

If, however, we focus on the asset-holding part of the definition then it is clear that, in theory, a foundation has the option of operating its own programmes to achieve the foundation's goals, or giving grants to other organisations to carry out work which will achieve the foundation's goals. Many foundations do indeed operate their own programmes rather than giving grants to others (one important example is the Bertelsmann Foundation in Germany, as well as a variety of other foundations in mainland Europe), but are often overlooked in discussions of foundations that tend to focus on grant-making.

One consequence of identifying foundations with grant-making is that we do not stop to ask why the grant-making model developed and whether it is always the most efficient and effective approach for foundations. Another effect is that because operating foundations tend to be excluded from statistics on grant-making foundations and 'lost' in general data on charities in general, we know very little about them (see e.g., Toepler 1999).

In many respects the development of grant-making foundations on any scale was an accident of history, or a solution to a set of pragmatic considerations peculiar to both a particular period and to the needs of the large foundations involved. For the major early-twentieth century US foundations, such as Carnegie and Rockefeller, grant-making was not the chosen or ideal option. Both Carnegie and Rockefeller began as operating foundations running organisations such as the Rockfeller Institute, the Carnegie Institution, the Rockefeller Sanitary Commission, and the Carnegie Endowment for International Peace.

The story of Rockefeller's move from operating to grant-making is particularly interesting. The creation of the Rockefeller Institute as a fully independent institution is said to have appealed to John D. Rockefeller Sr not least 'because the new entity would have no history of opposition to the homeopathic remedies that he and his personal physicians believed in' (Jonas 1989, p. 13). Control and the ability to support the unorthodox, irrespective of grant applications received, are two potential advantages of being an operating foundation.

The first task of the Rockefeller Institute was to build a laboratory but this would take time and the foundation's board of directors was anxious to be seen to be doing something immediately. The solution was to give small grants to promising young scientists as an interim measure. Both Frederick Gates and Abraham Flexner, key advisors to the Rockefeller board, were against the plan. Gates described the grant-making program as an 'utterly futile…system of scattered subventions', while Flexner saw it as demeaning and keeping 'the recipients on their knees, holding out their hats from year to year' (quoted in Jonas 1989, p. 37). Once the laboratory was built the grants programme was severely curtailed and then stopped. The Carnegie Institution conducted a similar experiment with grant-making as a stopgap and again dropped it in favour of strong effective direction from a central office. Jonas argues that in both cases the problems with grant-making were seen as:

- Lack of precedent and process—there were no precedents for grants to independent researchers.
- Choice/moral hazard—it was not clear how rational choices could be made among competing applications, and the attendant dangers of patronage, or perceptions of patronage.
- Control and accountability—it was not clear how to ensure that funds were spent on the purposes intended.

In the case of the Rockefeller Foundation grant-making also faced additional problems of supply: at the turn of the century there were only perhaps 200 practising physicists in the USA and thus only so much money could be absorbed by the universities. So why was grant-making eventually adopted by Rockefeller and Carnegie?

In part grant-making developed because of increasing pressure to support others, exacerbated by the demands of the First World War in Europe, and in part because the creation of more operating centres, or the expansion of existing ones, could only be achieved by stripping universities of their best researchers. But there were other factors. One was that the war led to the creation of a National Research Council providing a respected, 'neutral', intermediary through which grants could be channelled. Another factor was a fear that centralised, operating scientific organisations might come under the influence of government, reducing the control of the donor and trustees.

In Rockefeller's case, in particular, there was also a public relations imperative. The Rockefeller Foundation board had become embroiled in controversy over its creation of an Investigation of Industrial Relations only a year after the Ludlow massacre. The Ludlow massacre occurred in April 1914 when the Colorado National Guard and the guards from the Rockefeller-owned Colorado Fuel and Iron Company attacked striking coal miners and their families, killing two dozen people including women and children. Rightly or wrongly the massacre was blamed on John D. Rockefeller Jr. The foundation decided that it needed to find a way of distancing itself from the Rockefeller family. By moving to grant-making 'the trustees were giving up the authority to monitor the day-to-day performance of their beneficiaries; as compensation the Foundation would be insulated from direct responsibility for the use of its funds' (Jonas 1989, p. 95). Operating continued in a narrow range of (then) non-controversial subjects such as public health, medicine, and agriculture.

Little is known about why subsequent foundations in other countries adopted grant-making rather than operating, but one factor may have been that the major US foundations created a precedent and a notion that this is how foundations work. Grant-making in some countries seems to have come to be seen as the only or best model, rather than one that was (reluctantly) developed in the USA as a largely pragmatic response to particular circumstances. Interestingly, the grant-making focus did not take hold in the same way in mainland Europe where there is still a strong tradition of operating foundations.

Today, in the USA and some other countries, including Australia, there are tax and legal advantages in adopting an operating rather than a grant-making approach. The effects, if any, of these advantages on donor/board choice are little explored, not least because, as noted above, operating foundations are little studied as distinct entities (on issues of definition and regulation in the USA see: Toepler 1999).

2.2.3 Rationales for Grant-Making and Operating

Grant-making clearly has some disadvantages, not least in terms of loss of control over the use and oversight of monies. This is the reason why, for example, the Bertelsmann Foundation chose to be an operating foundation and why the Amy Winehouse Foundation in the UK has recently decided to become an operating foundation. But grant-making also has some advantages. The table below sets out some pros and cons of each approach (Table 2.1).

These distinctions between foundations and other charities, and between foundations in terms of source of income and style of working, will crop up again in subsequent chapters where their significance will become more apparent. The following chapter provides a brief and generalised overview of how foundations work.

Table 2.1 Grant-making vs. operating

Grant-making	*Operating*
Flexible priorities/programmes	Lack of flexibility (staff choices constrain)
But danger of lack of focus	But focus
Scope for wide spread	Limited spread
Support to a range of organisations	No/little distribution
Hedging bets	All eggs in one basket
Problems of rational choice and moral hazard in selection	Selection of recipients and associated problems not an issue
Restricted by availability of agents/demand and supply	Free to 'create' demand, but may be restricted by supply
Democratic/responsive image	Autocratic image
High transaction costs	No transaction costs
Low apparent overhead	High overhead
Lack of control/management at a distance	High control/direct-line management
Unclear ownership of project/results	Clear ownership of project/results
Lack of follow through after grant ends	Scope for follow through
Loss of knowledge	Knowledge retained

CHAPTER 3

How Foundations Work: An Overview

3.1 Birth to Work

3.1.1 In the Beginning: Donor(s) and Money

Foundations generally, although not always, start with a donor (donor motivations are discussed in a later chapter). The donor may be alive or dead (i.e., the foundation is created as part of her/his legacy) and may be an individual, a couple, a family, brothers and sisters, or a company. In the case of community foundations, the foundation is created in order to attract donors. Sometimes, the foundation is created in order to find a politically or socially acceptable home for contested or 'ownerless' assets. For example, as noted above, in Germany the Volkswagen Foundation was created to 'solve' the problem of competing claims to ownership of the car company at the end of the Second World War (see also the case of New Zealand community banks in McKinlay 1999). Similarly, in the UK the Diana, Princess of Wales Memorial Fund was created in order to make use of spontaneous, unsolicited donations from the general public left at the gates of Kensington Palace in the days after the death of the Princess.

The size of the gift (the corpus or endowment) varies from thousands to billions, as in the case of the Bill and Melinda Gates Foundation and others. There is generally no restriction on how large or small a foundation may be although the costs of creating and running a foundation may mean that smaller gifts are not efficient; and for an endowed foundation, the gift/corpus must be large enough to produce an income.

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Because foundations typically invest their assets (the gift/corpus) and only spend the income from their investments the foundation may grow substantially larger than the original gift over the years as the capital increases in value and earns yet more income. In some countries there are restrictions on how much extra value can be accumulated (this is discussed further below).

With the exception of community foundations and public foundations in the US—and some other outliers—foundations do not generally actively seek to raise money from others. Nevertheless they may occasionally be given extra sums of money (e.g., the case of the Bill and Melinda Gates Foundation, when Warren Buffett gave the foundation a substantial gift of Berkshire Hathaway shares). In addition, of course, a living donor may increase the size of the foundation during his/her lifetime and at death. For example, the Rockefellers have continued growing their various foundations over an extended period, as have the Myer family in Australia (Liffman 2004).

Another source of growth is the takeover or sale of assets owned by the foundation. This can radically change the size of a foundation almost overnight. For example, in 1999 when Esmee Fairbairn Foundation sold its holding in M&G, the size of the corpus grew by £625 million. Conversely, of course, a foundation can suddenly—or slowly—decrease in spending power. One of the more dramatic examples of contraction was the Baring Foundation's move from being the tenth largest grant-maker in the UK to giving away a few million pounds per annum as a result of the collapse of Barings Bank following the Nick Leeson affair. Less dramatically, but no less painfully, many foundations all over the world (including the Northern Rock Foundation in the UK) were badly affected by the 2008 Global Financial Crisis.

3.1.2 A Mission/Deed

The foundation's mission is set out in the legal document that creates the foundation. The mission states the purpose of the foundation and how the money may be spent. If the foundation wants to be registered as a charity then the mission must fall within the category of charitable purposes as defined by the law in that country. The founding document or deed may also specify how long the foundation should live. The donor/founder may decree that the foundation should live for a specified number of years, should exist in perpetuity, or the lifespan may be left open. The deed may also specify where (geographically) the money may be spent. Deeds may also specify the number and characteristics of board members, for how long they may serve, and so on.

Despite the constraints of charitable purposes the missions of foundations are very varied and, to a degree, reflect the particular passions of the donor and the culture and concerns of his/her life. For example, in the eighteenth century a Reverend Gwilliam created a foundation with the purpose of giving plain 'knickers' to boys living in certain counties of England. No 'sporting of fancy' knickers were allowed; boys were allowed to apply for a replacement pair of worn out trousers but only if the legend 'gift of the Rev. Gwilliam' were still visible on the waistband (Owen 1965). Obviously, such very specific purposes can create problems in later years as perceptions of problems and their solutions change. Similarly, deeds with geographic restrictions can cause problems—for example, a once poor area may become wealthy and a once populous area depopulated.

A closely specified deed may mean that over time it becomes impossible to spend the foundation's money and the foundation is forced to apply for a cy pres order. Cy pres allows the courts to decide on a modern interpretation of the donor's original intent such that the foundation can continue to spend money. In the case of Rev. Gwilliam above the modern interpretation would probably be some form of youth welfare.

In order to avoid the problems generated by an overly specific deed, foundation creators often adopt missions that are so broad that they can be adapted to suit the needs and views of the time. For example, the Rockefeller Foundation's mission is to 'promote the well-being of humanity throughout the world' (www.rockefellerfoundation.org). Such a mission ensures that the foundation is always relevant and avoids the legal problems and expense entailed in updating a mission. However, a very broad mission creates problems for the foundation's board in deciding exactly to what within the 'well-being of all mankind' the foundation should direct its time and resources.

Another approach to the problem of specifying a clear intent without making it legally restricting is to do what Joseph Rowntree did. When Rowntree created the Joseph Rowntree Charitable Trust (one of his three foundations) in 1904 the deed specified that the funds were to be spent 'for such charitable purposes and in such manner as the Trustees shall, in their uncontrolled discretion, think fit' (Freeman 2004, p. 18). Having given his trustees near complete discretion, Rowntree then wrote a memorandum to future board members outlining what he thought the foundation should focus on—but he ended the letter by saying that he recognised that times would change and board members might wish to do other things.

As discussed in a later chapter, despite the variety of donors and the leeway offered by many founding deeds, in practice foundation giving in most countries tends to cluster around certain themes.

3.1.3 Investing to Produce Income

Unless they are spending out (see below) foundations generally live off and work with the income from the invested corpus. Foundation investments vary. Some foundations have been given or buy land and property; some foundations are given or purchase stocks and shares. In some cases a foundation owns or has the controlling interest in a company. A founder may vest company shares in a foundation in order to maintain control over the company and prevent hostile takeover bids, but this may create its own complications. In some cases a foundation may be created with a gift of assets which the foundation immediately, or later, sells. Interestingly, as discussed further below, the origins of foundation assets (how the money was made) is little discussed, whereas how foundations invest their assets is an increasingly contentious matter.

All foundations tend to be vulnerable to the vagaries of financial markets. This vulnerability is tempered somewhat by the fact that foundations with long lifespans, or created in perpetuity, can afford to take a long view and ride out the ups and downs of market change (see e.g., Charity Commission 2009).

3.1.4 Governance

In theory foundations, like all charities, are governed or controlled by a board of trustees (sometimes called 'directors' if the organisation is incorporated). Trustees may be nominated by the founder (if there is one) or selected by someone else such as a close relative or friend of the founder, a lawyer, or other advisor. In some countries trustees must not be paid (and must also fulfil certain other basic requirements such as not having a criminal record). From a donor's viewpoint one of the disadvantages of creating a foundation (rather than giving individual gifts) is that a founder cannot be the sole trustee, so in creating a foundation a donor effectively gives up a degree of control over what is done with the gift. In practice, however, this loss of control may be managed in various ways.

Arrangements for selecting/appointing board members vary, as does the size of a board. Some founders restrict membership of the board to family members only; others restrict membership by faith or some other criterion. As a foundation ages the 'family only' restriction may come to be less constraining—the family grows and diversifies in its interests and experience. But later generations of a family-only board may also have to deal with lack of interest and engagement by younger family members. Corporate foundations/giving programmes may require that some or all foundation board members are also members of the company board; this has obvious implications for the foundation's independence from the company. Community foundations sometimes emphasize the fact that their boards are 'representative of the community', but what this actually means is not always clear. In some cases it seems to mean 'representative of the community of donors'.

More recently in some countries it has come to be regarded as good practice to assess the skill sets required for the best functioning of the foundation and to advertise for board members to fill any gaps in available competencies. But this practice is still confined to a minority of foundations in most countries. It is probably still the case in the majority of foundations that board members are recruited by word of mouth and social and professional networks (see e.g., Cohen 2011; Abzug and Simonoff 2004; on cultures of trusteeship more generally see Hall 1992).

Boards vary in size. Some boards are large (20 or more members) and some are the minimum size permissible under the relevant charity law (usually three). Terms of office also vary; some board members may carry on for life, others are restricted to a specific number of years. The arguments for shorter or longer terms for board members vary. Shorter terms may prevent complacency, inject new energy, and prevent a foundation getting stuck in a rut. Longer terms of office may aid stability, organisational memory, and cumulative learning. In some cases the very longevity of board terms of office may lead to a realisation that old ways are not working and change is required (see e.g., Anheier and Leat 2006).

In many foundations the exit (for whatever reason) of the original donor is an important event. Although legally the donor has no more power on the board than any other member there may be a tendency to defer to the donor. When the donor is no longer present other board members may feel freer to be more assertive about their own views. 'Living donors, living nightmares' and 'The only good donor is a dead donor' are two sayings sometimes heard in the foundation world. What difference the founder's exit actually makes, especially if the founder's close family remain on the board, is unknown.

The composition of boards will vary from country to country but it is probably fair to say that in some regions board members have tended to be 'male, pale and stale' (see e.g., Cohen 2011). Some foundations today are making a deliberate effort to include people of colour, women, and younger people.

3.1.5 Staffing

Under charity law in most countries the board is responsible for everything done in the foundation's name. While all foundation trustees remain legally responsible for everything done by the foundation, foundations vary in terms of the extent to which the trustees get involved in the day to day running of the organisation. Many smaller foundations do not employ any paid staff so board members have to decide and do everything. In larger foundations employing paid staff there is some division of labour between board members and staff. This division of labour varies considerably between foundations.

Some boards employ staff as clerical assistants (and some employ staff as managers and then reduce their role to that of clerical assistants). Other foundation boards believe that for the foundation to work effectively in what is an increasingly complex legal, social, economic, and political environment they need to employ people experienced in particular areas of work (e.g., the arts, health, criminal justice, etc.) and/or in the little understood processes of identifying and supporting grantees to achieve the foundation's goals—processes that are often about much more than giving grants and writing cheques (see e.g., Cairns et al. 2011).

In general the number of paid staff employed tends to increase with the foundation's grant-making expenditure. In the UK, for example, in 2007 foundations spending less than £500,000 per annum employed an average of two staff, whereas those spending over £2 million employed an average of 12 staff (www.acf.org.uk). Recorded employment figures may also vary in relation to the type of foundation. For example, in the USA corporate foundations are less likely than community foundations to report employment of staff, presumably because corporate foundations are staffed by company employees (www.foundationcenter.org; for aggregate data on staffing among foundations in Europe see www.efc.be).

As suggested above, the roles of paid staff vary considerably depending in part on the nature of the foundation's work and in part on the involvement and approach of the board. Charity law in many countries allows very little formal power to a foundation chief executive officer, but—for reasons discussed below—paid staff may in practice exert considerable influence. For example, John D. Rockefeller 3rd resigned from the General Education Board (a Rockefeller Foundation offshoot) after a clash with the CEO, saying that his (JDRs) role could be better done by a stenographer.

As in the case of board members, methods for recruiting paid staff vary, as does their background. In the USA, for example, a recent survey of the largest foundations revealed that 25 % of CEO's were promoted internally, and 9 % were recruited from another foundation; most of the rest were recruited from academic, business, or other non-philanthropy fields (www.effectivephilanthropy.org/who-runs-the-big-foundations-a-look-at-the-leadership-of-the-largest-100-foundations/). These data suggest the possibility that in some countries a cadre of 'philanthrocrats' is emerging—people who are career grant-makers moving from one foundation (or other type of grant-maker) to another (see e.g., Frumkin 1998a; Houston 2010).

Data on staff characteristics are patchy at best. In the USA 17 % of CEO's and chief officers are aged over 65 and over a third of all full-time staff are 50–64 years of age. Seventy five % of staff are women and over half of CEO's are women. But in the largest foundations (those with financial assets of over $1 billion) only over two thirds of CEO's are men (www.cof.org/blogs/re-philanthropy/2015-03-06/moment-self-reflection).

3.1.6 Grant-Making Styles and Processes

As noted above, foundations may operate their own programmes, they may give grants to others to pursue the foundation's goals, or they may do a mix of both. Within primarily grant-making foundations there is considerable variation in roles, styles and processes. These are discussed in a later chapter. Here it is sufficient to give a broad flavour of differences.

One fundamental difference between foundation roles, already noted, is that between a focus on amelioration of suffering and, on the other hand, identification of causes of problems and the pursuit of sustainable change. Another way of categorising foundation roles is to distinguish between 'gift givers', 'investors', and 'collaborative entrepreneurs'. Gift givers usually give smaller one-off, fixed-term grants. They may or may not give the full sum requested and they usually require little measuring or 'impact assessment'; the grant is a gift. 'Investors' typically identify promising areas of work/organisations, assess what is needed to achieve a result, and then invest in the work at an appropriate level for an appropriate period of time. 'Investors' monitor their grants and if something appears not to be working as planned the 'investor' may pull out or may invest more resources to get things back on track. The 'collaborative entrepreneur' starts with a goal to be achieved and then looks for organisations likely to be able to deliver that goal. The relationship with the 'grantee' is a collaborative dialogue, and the size and length of the grant are determined by what is necessary to get to the desired result (Leat 1992). Unwin (2004) later added 'shopper' to this typology of foundation approaches. Roles and approaches tend to vary over time, in part reflecting wider theories of how change happens. Roles and approaches may also vary over the lifespan of a foundation.

'Venture philanthropy', 'strategic philanthropy', 'social investment', and so on are all variations on the typology above. Venture philanthropy has a strong following in various countries. Again there are various versions of venture philanthropy but one of its key characteristics is that the donor/funder gives support other than money and tends to be fairly closely involved in the work of the recipient organisation (for definitions, see e.g., European Venture Philanthropy Association 2010; for discussion of whether there is anything new about 'new' philanthropy, see e.g., Center for Philanthropy and Public Policy 2001; Frumkin 2002; Katz 2005).

Today many, but not all, larger grant-making foundations narrow their missions by creating a set of priorities and programmes. Even among foundations focused on, say, health, priorities and programmes vary. Some focus on medical research, others on, for example, palliative care, maternal health, or facilities for children.

Foundations differ greatly in the extent to which they narrow and focus their work. Much grant-making is purely responsive to requests from civil society organisations. A study from the Center for Effective Philanthropy set out to assess the strategic orientation of foundations. The definition of strategy used in the study was: a framework for decision making that is (1) focused on the external context in which the foundation works and (2) includes a hypothesized causal connection between use of foundation resources and goal achievement (Center for Effective Philanthropy nd p. 6). All respondents described their goals in terms of creating social impact but beyond that adopted different approaches with varying degrees of 'strategic focus'.

'Charitable bankers' do not use strategy. They only mention external context when citing goals, not when describing how they will achieve those goals. They describe decision making solely in terms of processes for reviewing, making, or denying individual grant requests. They behave like bankers reviewing loan applications, 'aiding the less fortunate'.

'Perpetual adjusters' use strategy very infrequently. They do not use any particular decision making frameworks on a consistent basis but frequently mention using a variety of different processes to review or revise goals and decision making. They typically note many options for focus, decision-making activities, and processes. They tend to add more programmes but rarely remove anything.

'Partial strategists' use at least one strategy to guide their decisions, but for many of their other decision making frameworks they do not articulate hypothesised causal connections between use of foundation resources and goal achievement.

'Total strategists' use externally focused frameworks for decision making that have a hypothesised causal connection between foundation resource use and goal achievement (pp. 11–14; on strategy see also Frumkin 2006; Bolduc 2007).

Practices also vary. Some foundations consider any application related to their programme priorities. Other foundations only accept invited applications. Some fund long-term and give repeated grants. Others fund short-term and limit the number of grants any organisation is allowed to receive in a given period. Some foundations will support overhead costs (rent, utilities, staff costs, etc.), while others do not. Some will fund general capacity building, and others prefer to fund specific projects with clear goals and a beginning and an end. For all foundations there is a constant tension between bureaucracy and due diligence (Anheier and Leat 2006).

Very briefly, the grant-making cycle has five overlapping phases: preparing for the grant, obtaining and assessing proposals, making a grant, managing the grant, closing and evaluating the grant (see e.g., Philanthropic Foundations Canada 2015). What is involved at each stage varies between foundations. For example, some foundations devote considerable resources to managing the grant and supporting the grantee for that period, whereas others have very little involvement with grantees once the grant has been made (see e.g., Grant 2011). In addition, as discussed further in a later chapter, for some foundations making grants is only a part of their work (see e.g., Anheier and Leat 2006; de Borms 2005).

Decision making within foundations has been little studied. Three theoretical perspectives on decision making by individuals, suggested by Breeze (2010), may also be useful in understanding decision making within foundations. 'Muddling through' explains decisions in terms of the limited time, information sources, and intellectual capacities of the people making them. Muddling through is closely related to 'incrementalism', which explains decisions in terms of restricting options to those that only differ in a small degree from those already taken (on the concept of muddling through see Lindblom 1959).

'Bounded rationality' (Simon 1981) is similar to the 'muddling through' perspective in that it emphasises the limited time, information, and capacity we typically have for making decisions. Accepting the limits of our rationality means that, according to Simon, we make decisions that are adequate rather than optimal—referred to by Simon as 'satisficing'. Individuals operating under conditions of bounded rationality use heuristics, or rules of thumb, to assist their decisions with an emphasis on authority and loyalty.

The third theoretical perspective explored by Breeze is 'cultural refusal'. 'Cultural refusal' refers to the way in which people do not pay attention to the options that are culturally alien to them (on the way in which foundations work more generally, see e.g., Orosz 2000; Fleishman 2007; Dowie 2001).

The next, and last introductory, chapter gives a brief overview of what is known about foundations in different parts of the world and gives some sketches designed to illustrate the variety of foundations' origins, missions, interests, and styles.

CHAPTER 4

From Charity to Change, Brussels to Beijing

4.1 The Variety of Foundations

4.1.1 Introduction

This chapter illustrates the scale of foundations, their variety, and their geographical spread. A survey of philanthropic foundations throughout the world would be another book, and one that would be severely hampered by lack of reliable data. Relatively few countries produce systematic data on foundations, and foundations themselves are sometimes happy, for good and not so good reasons, to remain invisible.

Foundations in different countries work in very different regulatory environments. This not only affects the availability of data but may also influence the scale and variety of foundations. Some countries encourage the creation of foundations; others may encourage their creation but keep a very close, and sometimes wary, eye on what foundations do. Some countries have tax incentives for giving; others do not. In some countries foundations operate with very little transparency; in others they are required to report publicly on what they do (see e.g., van der Ploeg 1999; Bater and Habighorst 2001; Anheier and Daly 2006; Schluter et al. 2001).

As illustrated below, a complex range of interacting factors influence the scale of foundations, as well as their range, and the variety of what they do. In addition to incentives and regulation, countries vary in their approaches to the respective roles of government and private philanthropy. Some (such as the USA and, increasingly, the UK) adopt an individualist

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approach to responsibility for social provision, others (such as France and Japan) adopt a collectivist approach.

Other cultural differences between countries influencing philanthropy and foundation formation include attitudes to inequality and to displays of wealth (one contrast here might be between the USA and Japan), as well as relative responsibilities to family versus strangers. For example, Africa generally has a more family/local approach to giving, while many northern countries also encourage giving to strangers. Closely related to the last point is the influence of religion. All religions encourage giving in some form, but differ in styles and ways of giving and to whom (see e.g., Anheier and Daly 2006).

The wealth of a country may be less important in encouraging or discouraging giving than the distribution of wealth and some of the cultural factors above. History may also play a part in the scale and style of foundations in different countries. Foundations tend to breed or encourage other foundations. Where there is no tradition of foundation formation, or where that tradition has been forgotten or forbidden (as in parts of Central and Eastern Europe in the past), there are few role models, less trust, and little peer pressure (see e.g., Pinter 2001).

The first section of this chapter discusses some of the data on foundations in different parts of the world. The second section presents a collection of sketches of foundations highlighting their scale, scope, and variety.

4.1.2 Approaches to Foundation Formation Throughout the World

Foundations operate in very different social, political, and economic environments. Some countries are very poor, others are rich. Some are highly stratified, others less so. Poorer countries may engage in just as much giving as richer countries, but giving may take a different form, sometimes less financially focussed and often more informal and closer to home. Both rich and poor countries may benefit from diaspora philanthropy when better off émigrés give back to their home country (see e.g., Yamamoto and Komatsu 1995; Newland et al. 2010; Sidel 2005; Singh 2006).

As noted above, political philosophies may influence giving and foundation formation. Countries which have a tradition of collective responsibility and a strong role for government—such as France, Japan, and until recently Australia—may have fewer and smaller foundations as compared with countries with an emphasis on individual responsibility and ‘small government', such as the USA. (For data on giving, as distinct from foundation formation, in different countries, see Charities Aid Foundation World Giving Index).

Changing levels of inequality and distribution of wealth may also influence giving and foundation formation. In many countries—such as Brazil, India, China, and Russia—the growth of philanthropy has been influenced by economic liberalisation and the emergence of a business class in the 1990s. While in the past much giving was private, informal, ad hoc, and anonymous, today the newly wealthy are more likely to be open about their giving as a source of prestige and a way of legitimating the accumulation of wealth. Growing inequality has tended to lead to a growth in civil society organisations, and giving by the wealthy may be seen as a means of improving conditions without threatening the political order (Spero 2014). Western institutions have also played a part in encouraging philanthropy as a way of addressing inequality. For example, in 1986 David Rockefeller and his daughter Peggy Dulaney created the Global Philanthropists Circle. Further impetus came from the growth of global corporations and the practice of diaspora giving from elites often educated in the West.

Religion plays an important role in encouraging giving but religiously motivated giving tends to focus on alleviating suffering rather than promoting change to remove the causes of suffering. Religions also tend to emphasise the importance of anonymity in giving. This is one of the reasons why it is difficult to obtain reliable data on giving in newly wealthy countries where giving tends to be personal, ad hoc, and informal rather than institutionalised (Spero 2014).

The link between giving and Christianity is well known, not least through the parable of the Good Samaritan. Other religions place equal if not greater emphasis on giving and make sometimes elaborate distinctions. For example, the structure of giving in Islamic societies is particularly complex. Giving is a central aspect of Muslim beliefs and practices rooted in the Qur'an and the words and actions of Muhammad. Obligatory alms (zakat) is one of the five pillars of Islam. Zakat is calculated on wealth and annual earned income and only applies above a certain income level. 'Zakat is not the same as voluntary charity because it is imposed as a commandment of God. Therefore, payment of zakat is first and foremost a sign of belief in and obedience to God' (Singer 2013, p. 345). Zakat is a way of purifying the use of legitimately earned gain, as well as the forgiveness of the sins of the giver.

In addition to obligatory zakat believers are encouraged to make additional voluntary donations (sadaqa). Both zakat and sadaqa may only be given to particular groups of people, including the poor, zakat collectors, those whose hearts need to be reconciled to Islam, and travellers. Today in some Muslim states zakat is collected under government auspices. Sadaqa can take numerous forms, from a kind word to a coin. One form of sadaqa is the pious endowment or foundation (waqf). A waqf is an income-producing asset endowed for a particular purpose, and once given it is irrevocable.

Muslim giving practices assume different forms in different communities and are adapted over time in relation to changing interpretations. The requirement to give remains unchanged but the forms of giving have changed (Singer 2013; on Muslim philanthropy and foundations see also Cheema 2010; Cleaves 2010; Kuttab 2010).

One of the best known Muslim foundations is the Aga Khan Development Network (AKDN) created by the present Aga Khan in 1967, building on his grandfather's work. The foundation's purpose is 'to realize the social conscience of Islam through institutional action' (quoted in Singer 2013, p. 355). AKDN is a group of eight institutions working in health, education, culture, and rural and economic development. The foundation focuses on work in South and Central Asia, East and West Africa, and the Middle East. Some idea of the scale of the work of the network is shown in the fact that the average budget for non-profit development activity is $600 million per annum.

There are also cultural differences in how foundations work. A study of foundations in 16 countries found diversity between and within countries. Grant-making was common in Africa, Europe, and North America. In Latin America there was a mixed picture, with grant-making uncommon in Colombia, increasing in Brazil, and 85 % of philanthropic activity in Mexico. There was the same diversity in Asia—grant-making was common in Singapore, and uncommon in India. The tax environment, legal/regulatory environment, and public attitudes towards grant-making also varied. Russia, Slovakia, and Colombia were the only countries where public opinion towards grant-making was unfavourable. The contribution of grant-making to strengthening civil society 'stood out regardless of the country' and was 'an important tool for nation building and nurturing social inclusion and social cohesion' (Monteiro and Pinho 2014, p. 57; see also maps.foundationcenter.org, a data visualization platform mapping who is funding what and where around the world).

Styles and approaches to giving may also vary between types of political regime (see e.g., Johnson 2010; Anheier and Daly 2006; Schluter et al. 2001). The democracies of, for example, India and Brazil are more likely to support grant-making for social change, while in China and Russia giving tends to be focussed on alleviating suffering (Spero 2014).

4.2 Sketches of Foundations Across the Globe

4.2.1 Introduction

For reasons noted above it is not possible to give statistical data on foundations region by region. The following brief ten pictures give a sense of the variety of foundations' origins, interests, resources, and ways of working. These vignettes are not in any sense representative of the variety of foundations between and within countries. With some exceptions the vignettes focus on the larger foundations on each continent. These foundations spend the lion's share of total foundation resources and are potentially the most powerful in agenda setting and influencing. For example, in the USA in 2012, 1000 of the 86,192 foundations gave away $22.4 billion of the total $52 billion given by all foundations (data.foundationcenter.org/about).

4.2.2 Africa

African philanthropy tends to be focused on extended family and local community. Informal giving is generally more important than formal. Giving may be financial or in kind, and giving is embedded in cultural practices and beliefs. Giving tends to be motivated by a strong personal connection to the cause. 'Big' giving usually comes from personal wealth with, just under half coming from a share in company profits. Education and health are the most likely foci. There is little systematic measurement of impact. Interestingly, there is increasing debate around ethics related to the source of funds (such as profits from land rights) (African Grantmakers Network *Africa's Wealthy Give Back,* africangrantmakersnetwork.org/Documents/ubs-uhnw- African report; see also Moyo 2010; Aina and Moyo 2014).

One example of foundation formation in Africa is the Tony Elumelu Foundation founded in 2010 in Nigeria by one of Africa's richest men. The foundation aims to chart a new course for African philanthropy and to be a driver of Africapitalism, achieving the economic transformation of Africa by encouraging competition and growth in the private sector. The foundation focuses on promoting excellence in business leadership and entrepreneurial activity, developing the next generation of business leaders, helping to build networks and a development framework for enhancing the competitiveness of African economies, and identifying impact investing opportunities.

The foundation gives some grants but largely runs its own programmes. These include the Elumelu Professionals Programme which recruits experienced professionals graduating from MBA programmes to work in Small and Medium Enterprise companies and public agencies for a ten-week placement. The foundation also delivers White Papers on various topics related to business development in Africa. The flagship programme is the $100 million Tony Elumelu Entrepreneurship Programme, which aims to identify and grow 10,000 African entrepreneurs, create one million jobs, and $10 billion in annual revenue across Africa. The foundation is working with the Rockefeller Foundation on an investment fund for an African Impact Economic Innovation Fund (tonyelumelufoundation.org).

Another example of an African foundation is the Dangote Foundation. Aliko Dangote is one of the world's richest men, with an estimated net worth of $1.2 billion (January 2015). The Dangote Foundation, founded in 1994 in Nigeria, is the Corporate Social Responsibility (CSR) arm of the Dangote Group. The foundation's finances are difficult to establish, but its website states that it has contributed over US $100 million in Nigeria and Africa over the last four years. In 2014, on the foundation's twentieth birthday, Aliko Dangote announced that he would be giving a further $1.2 billion to the foundation from his personal cash reserves and shares from his listed companies. The foundation focuses on education, health, and youth empowerment. In 2012 the foundation partnered with the Bill and Melinda Gates Foundation to work on the eradication of polio (dangote.com/touchinglives.aspx).

A somewhat different example of a foundation focussed on Africa is the Mo Ibrahim Foundation. Mo Ibrahim is credited with saying that the most important way of being 'philanthropic' in Africa is to just pay your taxes (Giving Back to Society—Africa Renewal Dec 2012:18). The foundation, based in the UK, was established in 2006. It aims to define, assess, and change governance and leadership in Africa. It does this by various means including the Ibrahim Index of African Governance, Ibrahim Fellowships and scholarships, and the Ibrahim Prize. The prize is the largest annually awarded in the world giving US $5 million for ten years, and $200,000 per annum for life thereafter to African leaders who have demonstrated good governance. The prize is not always awarded and it is difficult to find figures on the foundation's total assets and spending (moibrahimfoundation.org).

Giving prizes is an interesting approach. In general foundations give grants to make something new happen or to keep something going. Prizes are given for something that has already happened. The logic of prize giving is that a prize will raise the profile of an issue or a way of behaving, set new standards, and encourage others to adopt those standards.

4.2.3 China, Japan, and Singapore

As elsewhere philanthropy is influenced by religion as well as economic liberalisation and the emergence of a business class. China, for example, had an estimated 230 billionaires in 2012; between 2011 and 2012, 100 donors together contributed $1.6 billion to charities. The Chinese government is said to want help from private giving but to be wary of wealthy donors and foundations. Much giving is channelled through the Chinese Red Cross. The newly created China Foundation Center, linked closely to government, has established a Financial Transparency Index which uses 60 transparency indicators to rate the estimated 2700 foundations in China (Spero 2014; see also en.foundationcenter.org.ch; asianphilanthropyforum.org; Zhuang 2010; Francisco-Tolentino 2010; Upadhyay and Hayling 2014).

One of the 2700 foundations in China is the Li Ka Shing Foundation, registered in Hong Kong and founded in 1980. Li Ka-shing, a wealthy Hong Kong businessman, describes the foundation as his 'third son'. 'In Asia our traditional values encourage and even demand that wealth and means pass through lineage as an imperative duty' (www.lksf.org/ourfounder/). The foundation has assets of $8.3 billion and has granted approximately $1.86 billion since it began.

The foundation describes its mission as to inspire societal improvement through education and health care initiatives; it also works to encourage a culture of giving. The foundation's money is mostly spent in China but medical research funds may go anywhere in the world. For example, one major grant has been given to Stanford University in the USA. Li Ka-shing also has a foundation in Canada, which is Canada's second largest foundation. Li Ka-shing plans to give away a third of his wealth (estimated at $32 billion-plus) in order to motivate others to give.

Foundations in China are growing whereas in Japan there are few big givers. This is attributed to the fact that rich people are not respected and so do not display their money. In addition, there is a dependence on government stemming from a belief in collective, rather than individual, action. Few of the estimated 32,000 non-profit organisations in Japan are eligible for tax-free donations. The large foundations in Japan tend to be created by companies; for example, the Takeda Science Foundation gave 1 billion Yen in grants for bi-medical research in 2005 (Cyranoski 2007).

Japanese companies also have foundations/giving programmes in the USA. A recent survey suggests that most of these programmes were created in the late 1980s and early 1990s as part of an 'Americanisation' strategy, a way of gaining acceptance within the US business community. Interestingly, in the light of the remarks above concerning cultural obstacles to giving within Japan, the survey suggests that Japanese company giving practices differ from their US equivalents in less involvement of senior executives, executive reluctance to tell the story of corporate philanthropy, and modest and static revenue (Japan Foundation 2010; see also Kwon 2010).

It is perhaps revealing that the Giving Pledge now (2015) has 122 signatories in 11 countries, but only two come from South East Asia despite the fact that Asia's number of ultra High Net Worth (HNW) individuals (those with $30 million or more) has caught up with levels in the USA and Europe, and is expected to go on growing. Studies of HNWs in the region suggest more interest in preserving wealth for future generations than giving it away. Donors are said to be motivated to give primarily to pass values from one generation to another. Education and religion are favoured causes and giving tends to be family- and clan-oriented with an emphasis on provision of services rather than addressing causes. Giving is done quietly (Anand and Hayling 2014).

Tax incentives for giving vary. In Singapore—a leader in encouraging giving—donors can deduct two and a half times the value of their donation to approved non-profit organisations in their tax returns (Hayling et al. 2014). (It is worth noting here that tax policy may be used to encourage giving and to steer it away from creation of independent foundations.)

Only a small proportion of the population pays tax, the rate is low, and 'Tax collectors face highly mobile, extremely savvy HNW individuals who are unlikely to be swayed by modest deductions on taxes they may in any case be able to avoid' (Hayling et al. 2014, p. 23). In addition to these factors, non-profit organisations are said to be sceptical about corporate giving for corporate-run programmes. More generally, there is distrust of non-profit organisations themselves.

4.2.4 India

India leads other developing countries in private giving. Despite the fact that tax deductions for giving are limited and complex, giving is estimated to have increased by 50 % between 2011 and 2012 (Spero 2014). Unlike China and Russia, where giving tends to focus on alleviating suffering, contemporary Indian philanthropy emphasises social change. Indian philanthropy is subject to few accountability requirements; however, in 2010 legislation was introduced to restrict foreign contributions (including gifts from diaspora Indians who are no longer citizens of India).

The Sir Ratan Tata Trust is one of the larger and older foundations in India. It was established in 1919 with an endowment of RS 8 million. Today the trust makes grants in a variety of fields, including land and water development, microfinance, education, health and medicine, citizenship, governance, and arts and crafts. In the latter field the trust has developed a programme to encourage and sustain Indian craft artisans. In 2013–2014 the trust spent $24.74 million (www.srtt.org; on the Sir Ratan Tata Trust and philanthropy in India see also Francis et al. 2010).

4.2.5 Australia and New Zealand

Data on foundations in Australia is patchy. Many Australian foundations are managed by for-profit trustee companies and are thus not as visible as they might otherwise be. Australia is a good example of the dangers of generalising about a country. Traditionally foundations have been concentrated in the state of Victoria because, it is said, of inheritance tax laws. Cultural factors undoubtedly also played a part in the seemingly low tally of foundations in Australia: 'mateship'/belief in equality, a reluctance to flaunt wealth, and a strong belief in the responsibilities of government (Leat 2004a; Scaife et al. 2012). But this appears to be changing with a move towards a more individualist philosophy and some very large, and highly publicised, gifts from wealthy Australians (www.philanthropy.org.au). Australia also has some complicated regulations regarding tax deductible giving (on tax and giving in Australia see McGregor-Lowndes et al. 2006).

Ian Potter Foundation is one of the larger Australian foundations. Created in 1964 by a wealthy businessman, the Ian Potter Foundation has made significant contributions to art in Australia, including the Ian Potter Centre at the National Gallery of Victoria (NGV), which holds the Australian part of the NGVs collection. The foundation has also had a long-standing interest in the environment and conservation, initiated years before such concerns were widely recognised. In 2012–13 the foundation approved 189 grants worth (Aus) \$26.5 million; of these 63.2 % went to the arts and 5.6 % went to the environment and conservation, with the remainder going to 'community well being', education, and health (www.ianpotterfoundation.org.au).

New Zealand provides some very interesting examples of foundations formed as a result of the privatisation of community assets, including savings banks and energy providers. These foundations are known as 'community foundations' but are somewhat different from community foundations in other countries in that they usually have an endowment from one source and are also linked in different ways to government (McIlnay 1998).

Foundation North (formerly the ASB Foundation) was founded in 1988 through a trust deed under the Trustee Business Restructuring Act 1988, which covered the sale of community savings banks. In 1989 the foundation sold a large portion of its shares to the Commonwealth Bank of Australia for (NZ) \$252 million, and in 2000 sold the remaining shares to the Commonwealth Bank for \$560 million. Foundation North trustees are appointed by government and it serves Auckland and the north of the North Island. The foundation has total assets of around \$1 billion and a grants budget of around \$40 million per annum. Under its 2014 strategic plan the foundation intends to combine traditional community support funding with working in partnership with grantees and other funders to achieve greater impact (www.foundationnorth.org.nz; on philanthropy and foundations in New Zealand see also Gill and Gray 2010).

4.2.6 North America

There are good data on Canadian foundations. In aggregate Canadian foundations give over \$1 billion per annum (Imagine Canada et al. 2014). Canadian foundations are growing. In the two decades from 1994 to 2014 private foundations (foundations controlled by one donor/family/organisation) increased in number by 76 % to 5300. Public foundations

(foundations with a number of donors, such as community foundations) increased in the same period by 69 % to 5100. As in other countries assets are very unevenly divided between foundations. The top 150 Canadian grant-making foundations have total assets of $18.7 billion, almost half of which are owned by the top six foundations.

Community foundations are strong in Canada with $3.4 billion in assets of which $2.8 billion are owned by the top ten. Community foundations have somewhat different patterns of giving from Canadian private foundations. Private foundations give around 28 % of grants to education and research, 16 % to social services, 15 % to health, and 8 % to arts and culture; the comparable figures for community foundations are 22 %, 24 %, 10 %, and 13 % (ibid).

Based in Toronto, the MasterCard Foundation is the largest foundation in Canada. It was established in 2006 by MasterCard Worldwide as an organisation totally independent of the company. It has around $9 billion in assets. Its vision is 'opportunity for all to learn and prosper'. Its mission is to advance youth learning and promote financial inclusion to catalyse prosperity in developing countries. Although it works in a variety of countries there is a special emphasis on Africa. Some of its recent and current projects include: a financial education programme for disadvantaged youth in developing countries; financial services for smallholder farmers using agribusiness as a method of financing in Tanzania, Kenya, and Ghana; scholarships in various countries to enable disadvantaged young people to complete their education.

The Vancouver Foundation is the largest community foundation in Canada. Established in 1943 it aims to build healthy, vibrant, and liveable communities across British Columbia. The foundation was started in 1943 by a woman named Alice MacKay. Alice saved $1000 from her earnings as a secretary in order to help homeless women trapped in a cycle of poverty. A local industrialist and philanthropist, W.J. Van Dusen, added $10,000 to Alice's gift and persuaded nine friends to do the same.

The Vancouver Foundation now has assets of $815 million and 1600 funds under management. The foundation pays particular attention to youth homelessness and improving how the community addresses the needs of at-risk young people, especially those coming out of foster care.

Foundations in the USA are large in number and some are very large in size, in terms of both assets and spending. In 2012 there were estimated to be 86,192 foundations with $715 billion in assets, giving around $52 billion per annum (data.foundationcenter.org/about).

Creation of philanthropic foundations in the USA is, as elsewhere, in part a product of cultural and political factors. The USA generally sees the proper role of government as limited. 'Big' government is bad, and philanthropy is encouraged through a range of incentives and, to a degree, through peer pressure among the very rich themselves (see e.g., Boris 1987).

The Bill and Melinda Gates Foundation, registered in the USA, was launched in 2000. It is the largest foundation in the world, with assets of $42.3 billion (2014). The foundation has four divisions: Global Development, Global Health, Global Policy and Advocacy, and a US division. The Global Development division focuses on, among other things, financial access and inclusion for the poor, agricultural development, water, sanitation, and hygiene; it also includes work on technological innovations, including the 'Reinvent the Toilet' challenge. The Global Health Division has worked to fight AIDS, tuberculosis, polio, and malaria. The foundation decided some years ago to cease funding for abortion-related projects. The US Division has given grants to improve internet access in public libraries, and to reform K–12 and higher education, including support for charter schools and scholarships.

In the mid-twentieth century the Ford Foundation was the largest in the world and today remains in the top ten with assets of $11.9 billion in 2013. The Ford Foundation was established in 1936 by Edsel and Henry Ford (the car makers) with a gift of $25,000 from Edsel. By 1947, after the death of both Edsel and Henry, the foundation owned 90 % of the non-voting stock of the Ford Motor Company. The foundation has now sold all of its motor holdings.

In the 1950s the foundation focused on grant-making in the fields of higher education, arts, economic development, civil rights, and the environment. Through the late 1960s and 1970s $18 million was given to civil rights litigation groups. Among many notable grants, in 1969 the foundation gave $1 million to the Children's Television Workshop to create and launch Sesame Street. In 1976 the Ford Foundation helped launch Grameen Bank and the take off of microfinance.

The foundation describes its mission as supporting visionary leaders and organisations on the front-lines of social change, strengthening democratic values, reducing poverty and injustice, promoting international cooperation, and advancing human achievement.

Perhaps unsurprisingly, given its mission, the foundation has aroused controversy throughout its life. In the 1950s and 1960s it was accused of being an agent of government working with the CIA (Roelofs 2004). Then in the early years of the twenty-first century the foundation came under fire from some quarters for its $40 million donation to the New Israel Fund to promote civil and human rights, helping Arab citizens in Israel gain equal rights and promoting Israel-Palestinian peace. The foundation was accused of promoting anti-Semitism, and in 2011 it announced that funding to the New Israel Fund would cease.

In recent years the foundation has focused on democratic and accountable governance, economic fairness, educational opportunity, freedom of expression, human rights, metropolitan opportunity (housing, transport, and jobs), sexuality and reproductive health and rights, and sustainable development. In 2015 it announced a major review of its work.

4.2.7 South America

C.S. Mott and W.K. Kellogg foundations have done much to encourage philanthropy in Latin America, promoting philanthropic infrastructure and leadership. In Brazil, for example, much of the growth in philanthropy comes from corporate foundations, but because many corporations are family-owned the distinction between private and corporate giving is often weak (Spero 2014).

Fundacao Tide Setubal is a well-known Brazilian foundation. The foundation was created in 2005 by the daughter and sons of Mathilde (Tide) de Azevedo Setubal as a tribute to their mother's development work in one of the poorest areas of Sao Paulo. Olavo Setubal (Tide's husband) was a prominent Brazilian banker, foreign affairs minister from 1985 to 1986, and mayor of Sao Paulo from 1975 to 1979.

The foundation aims to promote sustainable local development that is socially just, economic activity and competition, environmental responsibility, political democracy, and cultural diversity. There is a strong emphasis on reducing the social vulnerability of young people. Work includes the Family Action Program Saint Michael, which provides training and information on health, housing, education, employment, and life skills. One project arising from Family Action is the Workshop Cooking School. This began as a means of encouraging best use of available food and creation of low-cost nutritious menus and has now become, in effect, a route into employment.

'Meetings of Hip Hop Culture' is another activity. This is designed to enhance local production, increase visibility of local actors, and promote dialogue between local groups. The Festival of Books and Literature aims to democratise access to reading (www.fundacaotidesetubal.org.br; see also Setubal 2010).

4.2.8 Europe

The quality of data on foundations in Europe varies between countries as does the scale and scope of foundation creation (www.efc.be; Schluter et al. 2001; Anheier and Daly 2006). Whereas the UK has a tradition of grant-making foundations, in much of mainland Europe foundations are as likely to operate their own programmes as give grants. As elsewhere, foundation formation is influenced by religious, social, political, and economic factors. In France, for example, there are relatively few foundations, not least because of the strong role played by the state and the emphasis on liberté, egalité, fraternité has not encouraged foundation formation. In Central and Eastern Europe foundations were abolished in the Soviet era and philanthropy is only now re-emerging (Flaherty 1992; Pinter 2001; Leat 2014). The variety of foundations in Europe is illustrated in the following examples.

Stichting Ingka Foundation is the second-wealthiest foundation in the world with assets of over $36 billion. The foundation owns IKEA but is registered in the Netherlands. Dutch foundations are only very loosely regulated, with no obligation to publish accounts and give details of spending, and Stichting Ingka Foundation does not provide more than the minimum data required.

The foundation's mission is innovation in the field of architecture and interior design. The foundation states that its money is used 'for charitable purposes and for investing long term in order to build a reserve for securing the IKEA group, in case of any future capital requirements'. An article in *The Economist* (2006) suggested that the foundation's major grants were barely a rounding error in the foundation's assets (note that Stichting Ingka is different from the Ikea Foundation, which gives grants to non-profit organisations).

In Sweden Stefan Persson, the billionaire son of the founder of the H&M fashion chain, has given 2.2 billion krona (around $322 million) to the Erling-Perrson Family Foundation which funds scientific research, education, the care and upbringing of children, and research into diseases such as Parkinson's, Alzheimer's, and diabetes (www.familjenperrsonsstiftelse.se/en).

Robert Bosch Foundation was founded by Robert Bosch in Germany in 1861. Building on his experience as an apprentice in precision mechanics Bosch went on to create an international corporation. Throughout his life Bosch was a philanthropist, a democrat, and a champion of international understanding. In 1910 he gave one million Deutschmarks to the Technical University of Stuttgart. After the First World War he supported the Weimar Republic and gave large sums to support the German Federation for the League of Nations. In the 1930s he opposed National Socialism, supported resistance activities, opposed anti-Semitic organisations, and was committed to reconciliation between France and Germany.

Bosch died in 1942. The Foundation holds 92 % of Robert Bosch GmbH's capital stock of 1.2 billion Euros. Today its total assets are around 6.9 billion Euros. The foundation works in a wide range of fields including health, education, culture, science, and international relations (www.bosch-stiftung.de - About Us; see also Watkiss 2008).

Bertelsmann Foundation is another German foundation. Bertelsmann is an operating foundation founded in 1977 by Reinhard Mohn. Its income is derived from shares in Bertelsmann SE&Co.KGaA. Based in Gutersloh it also has offices in Washington and Brussels. The foundation's mission is to serve the common good 'based on the conviction that competition and civic engagement are essential for social progress' (www.Bertelsmann.de.). It describes itself as a think tank and catalyst for change. The foundation spends around 60 million Euros per annum under two main headings: Helping People and Strengthening Society.

Realdania in Denmark has assets of \$3.5 billion. It was founded in 2000 when Realkredit was sold to Dansk Bank. At the time of the sale 2.7 billion Euros were designated for philanthropic purposes; this forms the foundation's endowment.

Realdania supports non-profit and charitable purposes in the field of architecture and planning; it runs an investment company and acquires shares in companies engaged in activities relating to the built environment; it acquires and constructs real estate in order to preserve built heritage and to develop Danish building practices. Realdania now spends between 0.5 and 1 billion DK per annum (depending on its investment income) on a mixture of grant-making and developing operating projects which may then be spun off.

In Spain one of the newer foundations is the Paideia Foundation set up by Rosalia Mera, part owner of the Zara retail chain. The foundation promotes education reform and provides support for people with mental and physical disabilities. It also works to improve public understanding of policy issues and encourages policy change. Mera's daughter is continuing her mother's philanthropic work (West 2014).

The UK has an estimated 8800 foundations with an annual spend of around £2.4 billion (www.acf.org). As elsewhere foundation assets and income are very unevenly distributed; the top 300 foundations in the UK represent about 90 % of the value of all foundation giving (Pharoah et al. 2014). Many UK foundations focus on education, welfare, and/or health. By contrast, the Jerwood Foundation focuses exclusively on the arts. One of the larger foundations in the UK, it was established in 1977 as part of the wider Jerwood family of organisations supporting the arts. The foundation has a £25 million endowment and has given away £92.5 million since 1991. It runs an art gallery in Hastings, as well as giving capital grants, small grants, and prizes to other organisations and individuals (www.jerwoodcharitablefoundation.org; on philanthropy in a variety of European countries see Schluter et al. 2001; Anheier and Daly 2006; MacDonald and de Borms 2008).

4.2.9 Russia

The development of philanthropy in Russia has been complicated. Major Western foundations including Heinrich Boll Foundation, Carnegie Corporation, Ford Foundation, Charities Aid Foundation, and George Soros established a physical presence in Russia in the 1990s. The Russian Donors Forum was established in 1998 and grew quickly, promoting information and standards. However, in 2006 the government introduced new and onerous reporting requirements and from 2012 onwards there was further legislation relating to foreign donations. Soros, Ford, and the MacArthur foundations have all since closed their offices in Russia (on the complicated story of philanthropy and foundations in Russia see Alexeeva 2010).

The Dynasty Foundation is one of the larger foundations in Russia. Created in 2002 by Dimitry Zimin, a scientist and telecommunications entrepreneur, the foundation supports science and education in Russia. It has an income of around $10 million per annum and is established in perpetuity. One of Zimin's reasons for creating the foundation is a belief that money passed on to heirs brings ruin. He also states: 'It would be misleading to claim that I am driven by some noble desire to educate humankind. It's just that I find it exciting' (Dimitry Zimin quoted in Coutts *The Million Dollar Donors Report 2013)*.

4.2.10 Saudi Arabia

In Arab countries tax incentives to encourage giving are little used partly due to the underdeveloped nature of the taxation system (Kuttab et al. 2015). Nevertheless, annual philanthropic giving by individuals, foundations, corporations, and government in Saudi Arabia ranks among the highest in the world—between 1.5 and 2 % of GDP compared with 0.5–1 % in most Western countries. In recent years there has been innovative use of endowments and zakat. Foundations have endowed shopping areas, residential buildings, pharmacies, clinics, and so on, using the income from such investment to cover administration and programme expenses. In Saudi Arabia, zakat, usually given as a handout, is now beginning to be made contingent on use for specific purposes such as education, children, or health (Kuttab and Sherif 2010; Kuttab and Matic 2014; Kandil 1998).

One of the larger foundations is the King Khalid Foundation, a royal, family-run foundation created in 2001 in memory of King Khalid. It aims to be a leader and role model in philanthropy and development work and to 'positively impact people's lives by providing innovative solutions to critical socio-economic challenges in the Kingdom of Saudi Arabia' (www.kkfeng.org). The foundation has various priorities and programmes, including training and capacity-building for non-profit organisations, and helping young people into employment. It holds 'Development Debates', leading the process of creating a National Strategy for Social Development. The foundation campaigned against domestic violence and succeeded in getting the government to pass a law (drafted by the foundation) against abuse of women and children.

4.2.11 United Arab Emirates

In the United Arab Emirates the Mohammed bin Rashid Al Maktoun Foundation based in Dubai has assets of $10 billion and is in the top ten foundations in the world (on Arab philanthropy more generally, see e.g., Ibrahim and Sherif 2012; Cleaves 2010). One of the foundation's aims is to bridge the knowledge gap between the Arab region and the developed world. Its early activities included a pledge of 100,000 books to children in the Arab world and grants to writers of children's books.

4.3 Concluding Remarks

In one chapter it is impossible to do justice to the huge variety of foundations around the world. The vignettes above have merely attempted to convey a sense of both scale, spread, and variety. As this chapter illustrates, foundations are definitely not a predominantly US phenomenon. Foundations are everywhere and they work in a variety of fields, from the arts to the environment, welfare to human rights. Some focus on relieving suffering, others on encouraging long-term social change.

The examples above have focussed on the wealthier foundations in each country. In most countries for every wealthy foundation there are thousands of much smaller foundations. Smaller foundations may not be as well-resourced as their 'big sisters' but, for reasons discussed below, they sometimes have influence well above their financial weight.

CHAPTER 5

Public Benefit or Playthings of the Rich?

5.1 Introduction

Philanthropy—whether large or small, individual, or institutionalised in a foundation—is private giving for public good. Unlike taxes, philanthropic gifts are not required, they are choices and the giver could have chosen other ways to spend his or her money. As Jersey-based Australian philanthropist Graham Tuckwell remarked when giving AU$50 million 'I could have bought a yacht … but then how could I sit in church' (Quoted in Canberratimes.com.au Feb 5 2013).

Philanthropy and foundations are widely recognised as a 'good thing'—society benefits from the generous choices of philanthropists. But precisely who or what benefits, and who chooses? The philanthropist chooses to give for public benefit, and s/he also chooses what sort of public benefit. The beneficiaries of revenues from taxation are chosen through public debate (in democracies); the beneficiaries of philanthropy are chosen in private by unelected individuals. Thus one of the charges against philanthropy and

'It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own self interest. We address ourselves, not to their humanity, but to their self love, and never talk to them of our own necessities but of their advantages.'

'I have never known much good done by those who affected to trade for the public good' (Adam Smith 1776)

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philanthropic foundations is that giving is less about public benefit and more about the priorities and preferences of the rich.

5.1.1 Charges and Responses

The Charges Philanthropic foundations have less to do with altruism and meeting needs and much more to do with the personal and often elitist interests and satisfaction of their founders. Philanthropic foundations are another vehicle through which the rich exert their influence on society.

The Responses People have the right to spend their money as they choose and the law restricts charitable giving to good causes. The variety of foundations and styles of giving means that the whole of society benefits overall. Most foundation giving is in response to applications from charities and the power of donors to control the direction of giving is further tempered by trustees and professional staff.

5.2 The Charges

5.2.1 Why Create a Foundation?

5.2.1.1 Motives for Giving

Giving with no expectation of any return is altruism but, so the argument goes, givers usually do get a return: at the least the return of feeling good or feeling they have done the right thing (see e.g., Andreoni 2006; Piliavin and Chang 1990; Wright 2001). This type of argument tends to go round in circles and may end with an assertion that motives for giving do not matter, what matters is the fact of having given, and why is of little consequence.

Motives for giving appear to be varied and are, in many cases, unknowable. Social responsibility, humanitarianism, and religious conviction may be important but John Steinbeck, among others, saw giving in a different light: ‘Perhaps the most overrated virtue in our shoddy list of virtues is that of giving. Giving builds up the ego of the giver, makes him superior and higher and larger than the receiver. Nearly always, giving is a selfish pleasure, and in many cases a downright destructive and evil thing. One has only to remember some of the wolfish financiers who spend the first two thirds of their lives clawing a fortune out of the guts of society and the latter third pushing it back. It is not enough to suppose that their philanthropy is a kind of frightened restitution, or that their natures change when they have enough. Such a nature never has enough and natures do not change that readily. I think that the impulse is the same in both cases. For giving can bring the same kind of superiority as getting does, and philanthropy may be another kind of spiritual avarice' (quoted in Nielsen 1972, p.311).

In a similar vein Rosenman argues: 'More and more "corporate philanthropy" seems to be an oxymoron—their ostensibly philanthropic actions reflect marketing strategies instead of altruistic purposes' (Rosenman 2010).

Relatively little is known about why people create foundations (as distinct from direct giving). Data from the USA suggest a variety of implicit and explicit reasons including tax efficiency, avoiding company takeover, leaving a living memorial, paying back for luck in life, preventing heirs from inheriting, religious and moral beliefs about responsibilities of wealth, wanting to improve society (Odendahl 1987; Shervish 2007; Boris 1987; Boris and Steuerle 2007).

Running through these motivations is a theme of control: controlling how much tax is paid, how you are remembered, how much your children inherit, how society looks, how your gift is spent. The very act of creating a foundation rather than giving directly to a charity can be seen as an exercise in control (Harrow 2010).

One of the attractions of the foundation form may be that it allows for enduring and tangible control. While individual gifts may earn you a plaque, a foundation has something closer to the solidity of an edifice. It is also worth observing that family foundations tend to bear a family name—although there are some notable exceptions to this rule. Naming rights to, say, a building would generally require a much larger gift than the cost of setting up a small foundation.

The charge that foundations are more to do with donor control than with doing good gains some support from the fact that family foundations do not necessarily attract the support of members of their own family. It is not uncommon to find two or three Jones Foundations, founded separately by brothers, cousins, sons, and daughters. Warren Buffett's decision not to create another foundation but rather to give to the Bill and Melinda Gates Foundation is a notable exception to the general tendency to maintain 'ownership'.

But it may be wrong to over-rationalise choice of the foundation form. Macdonald in his study of the major American foundations notes how people who have built organisations and financial empires went about creating their foundations in an almost casual way: ‘In effect he ignores the lessons of his long experience in organization-building since his objective is not really to build an institution. Rather, as he sees it, he is merely creating a vehicle for his own giving….’ (quoted in Nielsen 1972, p. 313).

5.2.1.2 What’s Need Got to Do With It?

The assumption that donors give to meet needs is not supported by evidence. Breeze, for example, suggests that people do not give to the most urgent needs but rather support causes that mean something to them. Her study, based on interviews with 60 committed donors, found four non-needs-based criteria that commonly influence donors’ decisions: tastes, preferences, and passions; personal and professional backgrounds; perceptions of charity competence; and ‘desire to have a personal impact, such that their contribution makes a difference and is not “drowned out” by other donors and government funding’ (Breeze 2010, p. 9; see also Breeze 2010).

These findings relate to donors giving directly to a range of charities. Despite potential differences between individual giving and foundation giving there may be similarities insofar as interests and passions, personal and professional backgrounds, and desire for personal impact play a part in decisions regarding the purposes of the foundation (Odendahl 1990; Frumkin 2006b).

So if need is not the primary, or only, motivator in giving, what is? A desire to ‘pay back’ is often mentioned by philanthropists as one of the triggers for giving. But for what is the philanthropist paying back? Shervish provides one answer when he suggests that philanthropy addresses the dialectic of virtue and fortune: how to justify success in moral terms (Shervish 2007). Peter Buffett (son of Warren Buffett) makes a similar point when he argues that philanthropy has become the ‘it’ vehicle to level off the playing field, but the main effect is ‘to enable the rich to sleep better at night’ (*New York Times* website: http://tinyurl.com/alliance95).

Listening to family foundation creators talk about their giving one frequently hears motives that have as much to do with internal family dynamics as with the urge for salvation or to do good. Giving is a means of family bonding and asserting family values and culture (see e.g., Ostrower 1997; Breeze 2010; Pharoah and Keidan 2011).

Tax avoidance is a common criticism of philanthropic giving and foundation formation. The following illustrates the charge: 'private philanthropy—far from being a model of all that is righteous, reasonable, and above politics—is arguably a "tax dodge" with its own grubby self-interests and inherently incapable of serving as a nobler symbol' (Mavity and Ylvisaker 1977, p. 822).

Private philanthropy may serve as a way of gaining prestige, access to particular circles, influence and 'voice', public goodwill, and so on. Creating a foundation in perpetuity is one way of gaining 'eternal life'—your name and reputation will live on in the name and work of the foundation.

Closely related to the above is the charge that philanthropic giving is motivated by a desire to cleanse 'dirty' money, or to rehabilitate a robber baron image. This criticism has been around ever since the mega gifts of Rockefeller and Carnegie, whose industrial relations left a lot to be desired (Williams 1998). More recently, Peter Buffett has referred to some philanthropic giving as 'greenwashing' (*New York Times* website: http://tinyurl.com/alliance95).

These are some of the criticisms of the motives of philanthropists and foundation creators. Arguably, more challenging, however, are the criticisms that focus on where the money goes and how those decisions are made.

5.2.2 Where the Money Goes

The potential power of donors to dictate where the money goes is indicated in two common sayings in the foundation world: 'the only good donor is a dead donor' and 'living donors, living nightmares'.

As noted above, there is little evidence to support the notion that donors are motivated to give by the needs of others. As Odendahl puts it: 'the rich do not give to the poor but to institutions they use and cherish—the charity of the wealthy doesn't just begin at home, it stays there' (Odendahl 1990, p. 27).

Critics suggest that philanthropy is more about imposing preferences rather than meeting needs. Contrary to expectations there are various studies that suggest that foundations are generally, and in aggregate, not redistributive—they do not move resources from rich to poor (see e.g., Wolpert 2006). Similarly, the charge is that 'not more than 3–5 % of all foundation money goes to organizations serving the poor, people of color, women and children at risk, gays/lesbians, disabled and troubled youth—almost 50 % of the American population'. The bulk of individual and institutional giving goes to institutions in higher education, health, and the arts (Eisenberg 2009, p. 2; see also NCRP 1991). If gifts stay within the geographical and cultural communities of donors this may further exacerbate the mismatch between needs and resources.

Criticism of where the money goes is not only concerned with the loose relationship between philanthropy and need. The charge is also that philanthropists and philanthropoids (i.e., staff and trustees) help maintain an international economic and political order which benefits the ruling class interests of philanthropists and philanthropoids (Arnove 1980; see also Barkan 2013). In most countries the tax system condones this insofar as a $1000 donation is for tax purposes just the same whether it is for an art museum or for disaster relief (Reich 2005).

Research for the Filer Commission in the USA in the 1970s concluded that 'There is a class pattern in the philanthropic allocation of private resources—the wealthier giving more to education, culture and hospitals, the less wealthy giving predominantly to the church, community welfare, and other "common-man's charities" ' (Mavity and Ylvisaker 1977, p. 800).

Almost 40 years on from the Filer Commission that pattern is still discernible. Eisenberg (2014) suggests that if the past is guide to the future it is unlikely that the new foundations and wealthiest donors will do much to fight poverty, help small non-profits or watchdog groups, or expand efforts to encourage citizen participation in democracy. The wealthiest donors and foundations in the USA do not give to organisations seeking new regulation or enforcement of old rules designed to protect Americans' health, housing, and environment. Nor do they fund organisations seeking to fend off 'predatory financial institutions' and build movements for change (Eisenberg 2014). But if large-scale giving is both an expression of an elite culture and a means of entry and badge to those circles then the tendency to favour elite institutions is predictable.

That the wealthy give to things they care about is not surprising. More worrying is the charge—from a highly respected foundation leader—that American philanthropy jeopardized health-care reform in order to let rich people shield their money from taxation (LaMarche 2014). President Obama's health-care reform proposals required saving elsewhere, and one potential revenue stream was to cap the income tax deduction for charitable contributions to the level it was at the time of the Reagan administration (i.e., 28 %). A study from Indiana University suggested that this cap would have, at worst, a very modest effect on levels of giving. Despite this, leaders in the foundation and wider charity sector launched a campaign to oppose the cap (see also West 2014 on the 'wealthification' of politics and the link with philanthropy).

The issue is not just about where the money goes but also about types of funding. Gifts are too small; even the way foundations and philanthropists choose to give is said to betray their true motives. Rather than writing a cheque for, say, $100,000 to the worthiest cause, philanthropists and foundations typically give a bit here and a bit there. According to Harford this scattershot approach simply proves that philanthropists are more interested in feeling good than doing good. 'Charity is selfish' (Harford 2006; see also Skloot 2001).

Non-profit organisations cannot survive without core funding—money to pay rent and utility bills and the flexibility to pursue opportunities. However, one common complaint is that the majority of foundation funding goes not to general operating support but to 'project' funding for particular activities or areas of work. One reason for the emphasis on project funding may be that foundations see such funding as easier to track and evaluate. Another reason may be that '…special-project funding gives foundations more control over the agendas of their grantees, responsibilities that should be vested in the boards and staffs of nonprofits' (Eisenberg 2009, p. 2).

The typical duration of funding is another criticism. Many foundations give grants that are short-term and/or dictated by policies of the foundation rather than the needs of the organisation or the nature of the task. A chronic complaint against foundations is their tendency to 'kiss and run'—to emphasise 'seed money', 'experiments', 'pilot projects', 'start-up' grants, and so on. The donor or the foundation staff alight on a new issue/interest, or discover a new seemingly promising approach, and the money flows in that direction, until that programme too is replaced by something new (Mavity and Ylvisaker 1977; Eisenberg 2009).

There is a view that foundations are becoming more rather than less controlling (Harrow 2010). According to Eisenberg, 60 % of US foundations do not accept unsolicited applications and there seems to be a growing tendency for foundations to decide who may apply for a grant. Under the banner of 'strategic philanthropy' many foundations want to support only organisations willing to carry out their priorities and adopt their approaches. This enables donors to 'call all the shots and exclude non-profits with great new ideas' (Pablo Eisenberg: http://philanthropy.com/article/Strategic-Philanthropy-/141263).

Yet another charge is that foundations follow fashion. Foundations are said to have an 'addiction' to programme change for its own sake, 'as if suffering from an extreme case of attention deficit disorder'. Foundations are unwilling to fund something new unless others also do so to 'give them cover'. This herd mentality, 'undermines the role that foundations should play in encouraging creativity, innovation and diversity in the non-profit sector' (Fleishman 2007, p. 152).

It is not just philanthropists that attract criticism. The staff of foundations—philanthropoids—are criticised too. Working in a foundation has been described as being in 'never-never land', where there are none of the ordinary benchmarks that people use in real life to assess how they are doing. Staff in foundations work with money that is not theirs, and there are few ways of telling whether it is being used wisely or not, because there is no competition and no criticism. As Macdonald once remarked no one ever got fired from a foundation for doing a bad job, only for sticking to a principle (Macdonald 1956).

In a similar vein it is suggested that the legitimacy of professionals in any realm lies in the answer to the question: Why should society reward them for what they do? Donors may be valued for their generosity, but why should society reward grant-makers with money and respect for giving away someone else's money? (Horn and Gardner 2006).

Fleishman (2007) includes among the 'besetting sins of foundations' arrogance, discourtesy, inaccessibility, and failure to communicate. 'A particularly egregious fault evident among some officers is to begin to act as if the funds that have been assigned to them somehow belong to them personally. Thus to applicants who are not part of an inner circle of favored grantees, they manage to convey a kind of thinly disguised hostility' (Pifer quoted in Fleishman 2007, p.150; see also Orosz 2000 on the sins of philanthropy).

5.3 The Responses

5.3.1 The Right to Give as You Choose

Defenders of philanthropy and foundations argue for the right to choose to give as you please; this is a basic democratic freedom and without it the world would be a poorer place. The result may be that giving is not perfectly correlated with need, but society still gains in the addition of public benefit rather than purely private consumption—the philanthropist could indeed have bought a yacht.

5.3.2 Legal Restrictions

The law restricts philanthropic giving to (legally defined) good causes, so even if the chosen cause is not as others might choose it is still a benefit rather than a loss to society. Furthermore, charity law usually restricts the power of the foundation creator by requiring a minimum number of trustees; the donor is not in sole charge of a foundation.

5.3.3 Tax Matters

In many countries tax efficiency is a weak charge against choice of the foundation form in that giving through a foundation is no more tax efficient than any other donation to charity/public benefit. Indeed, in the USA it may be more efficient to set up a donor-advised fund within a community foundation rather than a standalone, private foundation.

5.3.4 The Duty of Wealth

While some may see foundations as playthings of the rich, others see giving as a serious duty. Carnegie, for example, argued that the 'duty of the man of Wealth' is to provide for himself and his dependents 'modestly' and then to consider 'all surplus revenues which come to him simply as trust funds, which he is called upon to administer.... In the manner which, in his judgement, is best calculated to produce the most beneficial result for the community—the man of wealth thus becoming the mere agent and trustee for his poorer brethren, bringing to their service his superior wisdom, experience and ability to administer, doing for them better than they would or could do for themselves' (Carnegie 1889). According to Carnegie how foundations spend their money is dictated not by whim but by 'superior wisdom'.

5.3.5 'We're All Different'

Not all foundations are the same and not all foundations are the creations of rich individuals. For example, New Zealand's 'community' foundations (rather different from the usual type of community foundation), like the foundations of banking origin such as Compagnia di San Paolo and Fondazione Cariplo in Italy, were created as a result of the privatisation of the banking industry. The Volkswagen Stiftung was created to solve a political problem around the ownership of the German car manufacturer after World War II. The European Cultural Foundation was created by a group of leading European personalities to bring people together through cultural cooperation following World War II. Fondation de France was the brainchild of General de Gaulle's Ministers of Culture and Finance in the hope that it might revive the French philanthropic tradition discredited by the practices of the *Ancien Régime* (which required all legacies and donations to have royal approval). Foundations have different origins, different values, and 'personalities'.

5.3.6 Variations in Giving

The bias of foundations in favour of elite organisations may be true in the aggregate, but there are some shining examples of foundations taking on the corporate world for public benefit. For example, in the USA the work of the Robert Wood Johnson Foundation involved a direct challenge to the tobacco industry; and in the UK foundations have supported the campaign for a living wage, as well as improved corporate governance and responsibility. Even where foundations are supporting elite institutions it could be argued that this has a trickle-down effect benefiting wider society in the longer run (e.g., supporting medical research at elite universities).

Another response might be that foundation gifts to elite organisations are often designed to open access to those who could otherwise not afford to participate. Giving to 'education' or, say, 'culture' may be for education of the most disadvantaged children, or for involving young offenders in drama classes. For example, the Calouste Gulbenkian Foundation UK recently funded the involvement of homeless people in an opera performed on stage at the Royal Opera House, Covent Garden.

The charge that foundations give only a small proportion of their money to small and grass-roots groups might be answered with the suggestion that this criticism rests on a particular theory of change, i.e., that change comes (only) from the bottom up and that small/grass-roots organisations are best equipped to address lack of privilege and advantage. Grants to larger and national organisations may also achieve real change in the lives of the least advantaged.

Looking at what foundations do in terms of aggregate statistics is one approach, but very often the exceptions are important. Ostrower (1995) notes the culture of elite philanthropy discussed above, but she also highlights alternative sources of donor identity—religious, ethnic, gender, and so on—that influence patterns of giving.

Philanthropy is not always a matter of imposing values and preferences. For example, in the late 1940s the Ford Foundation board began thinking about what the foundation should become. Henry Ford II instructed Rowan Gaither, in charge of preparing a discussion document, that he wanted to know what the people of the USA thought about how the foundation should use its resources. The committee interviewed more than 1000 'experts', travelling a quarter of a million miles to do so (Sutton 1987).

Some donors go to great lengths to avoid dictating what the foundation should do and refuse to sit on the board of the foundation s/he has created.

5.3.7 The Power of Staff

Arguably the power of rich people to dictate where foundation funding goes is tempered by the involvement of staff. Whether by design or default foundations may become less playthings of the rich and more playthings of the middle class philanthropoids who run them. In some cases this happens by design, as in the plans for the Ford Foundation: 'The day to day business of the Foundation was to be the responsibility of hired hands; but they were not to be mere executants of the trustees' wills. The president himself was to be a member of the board; his principal officers were to be people of breadth and stature sufficient to qualify them to be board members themselves' (Sutton 1987, p. 50).

Philanthropists/donors who want to treat their foundation as a personal plaything are likely to encounter various forms of resistance from staff. Although staff are legally relatively powerless (i.e., the trustees are responsible for everything done in the foundation's name) in practice they live, eat, and breathe the work. Trustees are very much part time, and, by and large, only see what staff choose to put in front of them.

5.3.8 A Stop Gap Against Government and Market Failure

One of the strongest defences of philanthropy is that it provides a stopgap against government and market failure (see e.g., Prewitt 2006).

Government failure refers to the fact that there are some things that governments cannot easily do; they cannot, for example, provide for unpopular and minority needs. Similarly there are some things which markets cannot provide, including services for which users are unable or unwilling to pay.

Philanthropic foundations with independent resources, and unconstrained by the need to consider voters' and shareholders' demands, can fill the gaps left by both government and market. Philanthropy and foundations can attend to unpopular and minority interests and provide goods and services for which there is no market.

Philanthropy not only provides a backup against government and market failure but does so with minimum loss of individual freedom. For example, Prewitt (2006) argues that foundations are rooted in a concern with the limits of state power and the autonomy of the individual. Foundations, in effect, let us have our cake and eat it—issues are attended to without coercion and extension of government. One implication of this argument is that what foundations actually do is of little consequence; what matters is what they represent—an issue discussed further in a later chapter (Prewitt 2006).

Another related argument is that foundations are able to engage in positive discrimination. Unlike public institutions, which must treat citizens equally, foundations can discriminate in the use of their resources, directing funds towards some groups and purposes while ignoring others (Heydemann and Toepler 2006; see also Smith 1999).

5.3.9 Sources of Innovation and Change

Another defence of foundations is the claim that they have a unique capacity to be critical and innovative. Foundations, so the argument goes, are free from the need to please customers, shareholders, constituents, and supporters. This gives them a freedom to think the unthinkable and say the unsayable, to experiment and innovate without being constrained by the consequences of failure. Foundations can afford not to care if they offend established interests or if their experiment fails. Foundations, in theory at least, have a unique capacity to be the seedbed of genuine social change and creative democratic debate. With an assured income and nothing to lose, foundations really can speak truth to power (Smith 1999; Anheier and Leat 2006).

5.3.10 *Discourtesy or Necessity?*

The charge that foundations behave discourteously to grant-seekers may be defended by suggesting that working for a foundation is not quite as easy as it looks. A foundation director has been defined as a person who has never had a bad lunch or a sincere compliment. While there is no excuse for discourtesy, being uncommunicative may be explained in terms of the fact that staff usually cannot make decisions without board approval, and being friendly may lead to misplaced expectations. The dangers of friendliness are well illustrated in the advice to new grants officers at the Rockefeller Foundation, written in 1952: 'Do not ever give optimistic advice; never say, "I think your chances are good". People take cheerfulness as encouragement, and optimism as approval. If you are conservative and then the man gets the grant, he is happy, satisfied, and thinks the officers very stout fellows; but if you are the least bit optimistic and he does not get his grant, then he is likely to feel you have let him down' (Weaver 1946, p. 5). Disappointment and inaccessibility are a likely part of the territory when demand vastly exceeds supply of money, and when most foundations try to keep their staff, and their administrative costs, to a minimum in order to avoid being accused of wasting money on overheads.

5.3.11 *Coordination: Damned If You Do…*

The charge that foundations are uncoordinated and ill-informed about what others are doing may be true of some, but it is definitely not true of all. Foundations do collaborate and many go to great lengths to ensure that they are well-informed (see e.g., Leat 2009).

On the matter of coordination, foundations tend to be damned if they do, and damned if they don't. When foundations seek advice or views from other foundations about an applicant they may be accused of cronyism and operating a closed shop.

Furthermore, lack of coordination is seen by some as the greatest strength of the foundation world: a celebration of liberty and free expression, and a seedbed for pluralism and experimentation (see e.g., Prewitt 2006).

5.3.12 *Unelected and Undemocratic*

The charge that foundations are the plaything of the rich is another version of the criticism that foundations are run by the unelected, with no direct accountability to the taxpayers who subsidise them. This charge may be countered with a suggestion that this is one of their greatest strengths. Paradoxically, it is precisely because foundations are not elected that they are able to support minority and unpopular causes, take risks, and challenge the conventional wisdom (Anheier and Leat 2006).

The criticism that foundations are internally undemocratic is harder to answer. It is true that foundation trustees are often selected by word of mouth, but it is increasingly regarded as good practice to recruit trustees through open advertisement. (The issue of foundations and democracy is discussed in more detail in a later chapter.)

5.3.13 Funding Terms

The charge that foundations attach unhelpful, if not damaging, terms and conditions to funding is also more complex than it might appear. First, most of the larger foundations today give grants of a duration related to the task in hand. Rigid rules about the life span of a grant tend to be a thing of the past (see e.g., Grant 2011). There is, however, a catch here: to the extent that foundations give more long-term grants there is a danger that they become 'silted up', giving only to those already supported, with little, if anything, left for any new applicants and activities.

Approaches to core- versus project-funding are also varied and tricky. Many foundations now give ''full cost recovery' grants—the grant is designed to cover the true and full costs of the activity, including overheads. Some also give grants for core support; for example, the Ford Foundation announced in 2015 that giving grants for core costs would become a major plank in its work. But again there is a dilemma for a foundation. A project or a specific activity has a beginning and an end, and so too does the grant. Core costs, on the other hand, have no end—and so when, and crucially why, does the grant end? Again the danger is that the foundation ends up with all its resources committed to unending core grants. There is another dilemma in relation to grants for core costs: foundations are under growing pressure from various quarters (see Chap. 9 below) to demonstrate their effectiveness, but how do you measure the effectiveness of paying for utilities?

5.3.14 A Product of Culture Not Whims?

The charge that foundations operate according to the whims of donors may be met with the argument that the focus of a foundation is as much a product of its time as the whims of its creator. For example, the Ford Foundation, creating its focus in the early 1950s, defined its purpose as 'to advance human welfare', but what this meant was the promotion of peace, democracy, education, and scientific knowledge. This definition of human welfare reflected not only the concerns of the moment, but also the contemporary faith in the power of education and scientific knowledge to solve the world's problems (on foundations and changing cultures see Smith 1999; Prewitt 1999).

Some of the issues touched on in this chapter are revisited from another angle in later chapters.

CHAPTER 6

Sources of Wealth and Income

6.1 Introduction

Foundations face a cluster of charges to do with their wealth and income. One charge concerns the source of the wealth with which the foundation was initially created—how the money was made and what harm, if any, was done in the process? A related but different charge concerns the effects of foundation formation on the tax base; do foundations erode the tax base in such a way as to neutralise any good they may do? Yet another charge is that the bulk of foundation money is not applied to public benefit and, worse, actually contributes to the problems foundations claim to want to solve.

6.1.1 Charges and Responses

The Charges Foundation wealth is a product of, at best, inequality and, at worst, exploitation; foundations erode the tax base; the bulk of foundation money is not applied to public benefit and investments and may contribute to the very problems a foundation seeks to address.

The Responses Foundations would not exist at all without capitalism; tax incentives for giving raise more money than they cost in lost revenue; many foundations are now taking greater care to align their investments with their missions.

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6.2 The Charges

6.2.1 How the Money Was Made

> In Frick's picture gallery on Upper Fifth Avenue, devouring the famous pictures among the hideous greenhouse flowers or resting, full length on the real lawn, one forgets the Homestead strike and the Pinkerton agents and the bullets slicing into the Monongahela, forgets even that great river as it loops northwards towards Pittsburgh and leaves behind, on the inside of each great loop, the rotting corpse of an abandoned steel works (Buchan quoted in Burkeman 1999, p. 3).

Carnegie and Henry Clay Frick were business partners in the steel industry. Carnegie left Frick in charge of handling a labour dispute at his steel plant in Homestead, Pennsylvania. Frick, an anti-unionist, hired security guards from the Pinkerton National Detective Agency, and in an encounter between the guards and the strikers 14 people died. Carnegie sacked Frick—although whether it was because of the deaths or because of the damage to his reputation is not entirely clear. Later, Carnegie is alleged to have sent Frick a note suggesting that they forgive and forget, to which Frick allegedly replied: 'Tell him I'll see him in hell, where we are both going'.

The Rockefellers were similarly involved in violent strike-breaking at the Rockefeller-owned Colorado Fuel and Iron Company. In what became known as 'the Ludlow Massacre' a number of people were killed, including two women and 11 children. The deaths were blamed on John D. Rockefeller Jr., adding to the family reputation for ruthless business practices.

Even the Quaker philanthropists were not immune to the charge of making money through exploitation. In the UK in the early years of the twentieth century one farthing damages was awarded to Cadbury in a libel action regarding a claim that its cocoa supplies were based on slave labour (Wagner 1987).

Today, similar charges are levelled against the philanthropy of the 'modern robber barons' Bill Gates, Larry Ellison (boss of Oracle), Michael Bloomberg, Larry Page and Sergey Brin (Google), Jeff Bezos (Amazon), Mark Zuckerberg, and so on: 'The trouble is that technocrats don't do values. They just do rationality. They love good design, efficiency, elegance—and profits. That's why one of the poster children of the industry is Apple's creative genius, Jonathon Ive, who designs beautiful kit in California which is then assembled in Chinese factories. And when the execrable working conditions prevalent in such places are exposed, the company's senior executives profess themselves surprised and appalled and resolve to do everything they can to ameliorate things. And we believe them—and continue eagerly to purchase the gizmos manufactured in such oppressive plants' (Naughton 2012).

At the end of their days some of the barons—Frick, Carnegie, Mellon—sought to acquire public respectability 'or perhaps bargaining chips with the Almighty' by endowing foundations and museums. What will the new moguls' legacies be? The answer, Naughton (2012) suggests, may not be how much money they make but how much they give away. The way their nineteenth-century counterparts live on is in the charitable foundations they established.

It is not only the media barons who are criticised today. Walmart staff are so badly paid they have to receive food stamps (in effect a tax subsidy to Walmart), and the Walmart Foundation is subject to regular criticism.

In 2015 questions were raised about the source of the Clinton Foundation's money (Schweizer 2015), and there is increasing disquiet about the relationship between philanthropy and illicit financial flows (IFFs) in Africa and elsewhere.

6.2.2 Eroding the Tax Base

In most countries there are tax incentives to encourage charitable donations in general, including the creation of a foundation. The value and the terms of tax incentives vary between countries and may also vary within one country over time. The availability of tax advantages for giving, and the fact that financial advisors to the wealthy suggest charitable giving as a means of reducing the individual's tax bill, leads to the charge that giving has less to do with altruism and more to do with self- interest; giving is seen as a 'tax dodge'.

In other words, foundation wealth is not an addition to paying tax but an alternative. The link between foundation formation and levels of taxation is sometimes uncannily close. For example, in 1935 in the USA President Roosevelt raised the tax on estates above $50 million to 70 %, but retained provision for tax exemption of bequests to charitable, religious, and educational organisations. The following year the Ford family established the Ford Foundation. Henry and Edsel wrote wills in which they bequeathed all their class A stock to the Ford Foundation and the class B stock to family members. The taxes on their voting stock were paid from the non-voting stock owned by the foundation. In this way the family was able to transfer ownership of one of the nation's largest industrial enterprises and private fortunes from one generation to the next without paying any significant estate taxes (Hall 2006, p. 53). Tax matters arose again when Edsel Ford died in 1943: a controversy emerged when the government valued the stocks at $190 while Edsel's widow's attorney valued them at $58 (Sutton 1987, p. 43).

In the post-war period in the USA, non-profit organisations and foundations were increasingly part of a charitable tax-exempt universe. By the 1950s journalists and others were highlighting the extraordinary tax loopholes from which the very wealthy benefited. In 1959, in response to an attempt to liberalise the tax treatment of charitable contributions by large donors, a vocal minority on the Senate Finance Committee objected that the tax base was being dangerously eroded by, among others, tax-exempt trusts and foundations. Furthermore, more harmful political consequences may result from control over very large fortunes and business enterprises being held in a few hands and in perpetuity (US Senate 1961 quoted in Hall 2006).

Tax incentives not only 'subsidise' giving but also do so in a regressive way: 'The progressive nature of the income tax system is offset, even "reversed" by the system of tax incentives that has been incorporated into the Internal Revenue Code—the net cost of giving ranging from the lower income taxpayers's "86c on the dollar" to the highest tax bracketeer's "30c on the dollar"' (Mavity and Ylvisaker 1977, p. 800).

In April 2012 in Britain, the then Chancellor of the Exchequer, George Osborne, proposed a cap on tax relief for charitable giving. The annual limit was to be £50,000 or a quarter of the donor's income, whichever was the greater. The thinking behind this proposal was that, at a time of huge spending cuts and tax increases to reduce the public deficit, the wealthiest should contribute along with everyone else. Another important consideration was that examination of the returns of the richest individuals had shown that the very richest often enjoyed effective tax rates of 10 % or less. The proposed cap on tax reliefs for giving was intended to make tax fairer, bearing in mind both the lower rates of tax paid by the rich and the fact that one (wealthy) person's tax relief on giving has to be made up from taxes paid by (less wealthy) others.

Charities, universities, arts organisations, and leading philanthropists were furious. This, they argued, was an attack on charitable giving. Without the tax breaks donors would simply not give, and higher education, the arts, social welfare, and so on would be in financial crisis. UNICEF claimed that the world's poorest children could 'pay with their lives'.

The charity sector combined forces with wealthy donors to mount a campaign against the proposed cap entitled 'Give it back George'. Arguably, the government mishandled the whole issue suggesting at various times that the cap was necessary because some gifts by wealthy people were to dubious causes and were not always genuinely charitable. The debate became focused on the integrity of wealthy donors and the supposed catastrophic effects on charities' incomes. Whether or not it is fair to ask someone else to subsidise my tax break on my donation to charities of my choice was rarely raised. The government backed down in the face of the charities' campaign and the cap was scrapped.

Taking advantage of tax incentives for giving does arguably erode the tax base but it is legal (see Reich 2005 for a discussion of principles around tax incentives for giving). Foundation wealth may, however, occasionally be a product of less respectable schemes. For example, in 2013 it came to light that the Cup Trust, registered as a charity with the Charity Commission for England and Wales, was a front for a multimillion-pound tax avoidance scheme. The supposed objective of the Cup Trust was 'to improve the lives of young children and adults' but it donated only £55,000 of its £176 million income to its beneficiaries (3p from each £100 donation). The Cup Trust had just one trustee, a company based in the British Virgin Islands whose directors also happened to be the directors of NT Advisors, a Jersey-based tax-avoidance company (NT stands for no tax). The Trust operated by buying £176 million of government bonds (gilts) which it sold on to 'donors' for only £17,000. The donors then sold the gilts and donated the proceeds which were roughly the same as the purchase price to the charity. By doing so they were able to claim £55 million in charitable giving tax relief and the trust claimed £46 million in gift aid from the tax authority.

The above is one example of the ways in which it may be possible to create elaborate 'semi-legal' schemes to use charitable giving tax reliefs for the sole purpose of tax avoidance. But there is a wider and more contentious issue. Attempting to minimise your tax liability is not in itself illegal, and some wealthy people choose to domicile themselves in places where the tax regimes are extremely 'benign'. The moral problem arises when people who actively avoid paying tax (e.g., being domiciled in low tax countries) then give large gifts to charity attracting the praise and respect that usually accompanies such gifts. Such people, in effect, treat charitable giving (in amounts they choose and only to causes they choose) as an alternative to paying tax—and get a reputation for generosity that those who pay their taxes do not enjoy. In some cases the reputation as a philanthropist has other more tangible advantages, such as honours, seats on powerful boards, an entrée to influential circles, and so on.

This is clearly a practice that goes much wider than the Cup Trust example. Maurer (2008) refers to the 'dynamics among profit, payment and debt, as well as charity and obligation' (p. 159) and gives the following example: A High Wealth Individual (HWI) has a million dollars in profit. He gets a charitable deduction by donating it to a breast cancer research foundation he creates in Geneva. The foundation then lends the $1 million back to the HWI at a very high interest rate. This interest rate enables the company that pays it to record a loss that the HWI can then write off against profits in another company he controls. The HWI gets the million dollars back and two tax write-downs: a deduction on the way over to Geneva and a loss he can use to reduce taxes on the way back from Geneva. Even if he gets found out he has people who will vouch for the fact that he intended to repay the loan, and he may do so before it goes to trial. 'The director of the foundation will testify that they wanted to use the money on a really good piece of research, and while they were waiting for such a proposal they wanted to put their money to good work and who better to do that than the HWI—and he was generous enough to pay an above-market interest rate. The Tax Office decides it does not want a case where a judge might vilify it for persecuting a businessman dedicated to charity. 'Charitable trusts' are an important part of the offshore world. Interest earned by a charitable trust offshore cannot be taxed, and the loan back to the high-net-worth individual is also tax free because it is now transformed into a 'debt'. Here, we see how profits earned through exchange or other methods can, via gifts and debt payments, end up circumventing tax payments, and can discursively invoke a rhetoric of charitable obligation to obviate obligations to the state or society at large.' It is estimated that $11.5 trillion are held offshore by HNWIs alone; this is said to be a conservative estimate and does not include corporate assets (Maurer 2008, p. 160).

6.2.3 'Doing Good': The Cherry on the Cake or Horse Manure

Yet another charge against foundations is that, as noted elsewhere, they typically tend to spend only around 5 % of the value of their assets each year. The other 95 % remains in investments to produce future income. Thus the proportion of assets spent is tiny relative to the amount 'kept back', the cherry on the cake while the cake itself remains untouched. The foundation world, and those who write about it, focuses 95 % of their attention on the 5 % spent. Foundation staff are primarily concerned with the quantity and quality of the grants or other work done with that 5 %. The bulk of board members' time is spent devising, discussing, and monitoring strategy for spending that 5 %, and most foundations orient and present themselves in terms of what they do with that 5 %. Furthermore, the 95 % that is not spent (i.e., that remains in investments) has tended to be viewed through a different value lens from that through which spending is seen.

Emerson (2002) likens the focus on spending rather than investment to a farmer focusing solely on the manure produced by his horse. Under current arrangements, he suggests, 5 % of a foundation's resources drive 100 % of its social mission, and 95 % of resources are judged solely in terms of financial performance, regardless of whether those investments may actually be destroying the very social or other value the foundation seeks to create. Foundations, he argues, focus all their efforts on manure production and mucking-out activities rather than on whether or not their horses are headed in the right direction.

Failing to apply the 'cake' (the 95 % invested) to public good is one charge but, arguably, this is a sin of omission. A stronger charge is that some foundations actually do harm with their investments.

6.2.4 Sources of Income: Taking with One Hand and Giving with the Other

Foundations have traditionally tended to focus on investments that will bring the greatest financial return, without considering how those investments relate to their mission. The result is that a foundation may be investing in—and earning income from—the very things that are causing or contributing to the problems it spends money on attempting to solve. For example, a foundation giving grants to organisations working with women who have been victims of domestic abuse may have earned that money from investments in the alcohol industry. Even the most sophisticated foundations may fail to match good intentions and investments.

The Bill and Melinda Gates Foundation is one foundation that has been severely criticised for failing to align its investments with its professed mission. In 2007 the *Los Angeles Times* estimated at least 41 % of the foundation's assets came from companies whose business operations were at odds with its philanthropic work. The businesses include BP, in which the foundation had $295 million of stock in 2005, and Royal Dutch Shell, in which it had a $35 million stake. The two oil companies jointly own the Sapref refinery, outside Durban in South Africa, which is blamed for 24 significant spills, pipeline ruptures, and explosions since 1998. With the Mondi paper mill (owned by Anglo American, in which the foundation has a $39 million investment), it is held responsible for significant air pollution by toxic fumes. Two studies have found high levels of breathing problems and asthma in local children, largely attributed to sulphur dioxide and other pollutants.

Furthermore, the foundation is funding studies into a microbicide which could help protect women and their future children from HIV while investing in pharmaceutical companies which have lobbied hard to prevent affordable copies of their AIDS drugs being manufactured by generics companies in India. One company, Abbott, makes a drug called Kaletra, which doctors say is essential for patients in Africa for whom basic drugs no longer work. Although Abbott has dropped the price in Africa, it nevertheless costs $500 a year in Nigeria and is not affordable. The foundation states that its first priority is stopping AIDS, and it has put large sums into vaccine research. The critics note that substantial sums of that money come from companies such as Abbott, in which the foundation holds $169 million of stock. Further questions have been raised about the Gates Foundation's investment in Monsanto and what this might say about its real intentions in relation to third world agriculture (Piller et al. 2007).

6.3 The Responses

6.3.1 This Is Capitalism

Defenders of foundations respond to the 'tainted money' charge by pointing out that inequality is one of the costs of living in a capitalist society. Bill Gates' reply is that capitalism has worked very well and anyone who wants to move to North Korea is welcome. Similarly, David Harsanyi (2011) suggests that the Occupy Wall Street crowds—and the progressives who support them—focus on bringing the wealthy down to earth rather than lifting the 99 %; their belief is that too much wealth is fundamentally immoral and unhealthy for society.

Foundations, the defenders assert, are the products of capitalism—without capitalism foundations would not exist. This position was famously expressed in Henry Ford II's letter of resignation from the foundation in 1977 after 34 years on the board: 'The foundation exists and thrives on the fruits of our economic system. The dividends of competitive enterprise make it all possible. A significant portion of all abundance created by US business enables the foundation and like institutions to carry on their work. In effect, the foundation is a creature of capitalism—a statement that, I'm sure, would be shocking to many professional staff in the field of philanthropy. It is hard to discern recognition of this fact in anything the foundation does. It is even more difficult to find an understanding of this in many of the institutions, particularly the universities, that are the beneficiaries of the foundation's grants.' Ford goes on to make it clear that he is not suggesting that all university professors are communists or that all foundation staff are socialists. Rather, he is suggesting that it is 'time for the trustees and staff to examine the question of our obligations to our economic system and to consider how the foundation, as one of the system's most prominent offspring, might act most wisely to strengthen and improve its progenitor' (downloaded from www.philanthropyroundtable.org).

Andrew Carnegie confronts the issue head on, considering whether philanthropic gifts are a better option than paying higher wages: 'If we consider what results flow from the Cooper Institute, for instance, to the best portion of the race in New York not possessed of means, and compare these with those which would have arisen for the good of the masses from an equal sum distributed by Mr Cooper in his lifetime in the form of wages, which is the highest form of distribution, being for work done and not for charity, we can form some estimate of the possibilities for improvement of the race which lie embedded in the present law of the accumulation of wealth. Much of this sum if distributed in small quantities among the people, would have been wasted in the indulgence of appetite, some of it in excess, and it may be doubted whether even the part put to the best use, that of adding to the comforts of the home, would have yielded results for the race, as a race, at all comparable to those which are flowing and are to flow from the Cooper Institute from generation to generation' (Carnegie 1889 Wealth, *North American Review*, http://www.swarthmore.edu/SocSci/rbannis1/AIH19th/Carnegie.html).

Another reply to the robber baron/tainted money charge might be that not all foundation money is earned on the back of exploitation. Quaker philanthropists such as Rowntree and Cadbury tried to apply their values into the way in which they treated their staff. Robert Bosch, creator of the Robert Bosch Stiftung, which owns over 90 % of the capital stock of Robert Bosch GmbH, is another example of a 'concerned capitalist'. Bosch introduced the eight-hour work day in 1906, paid high wages, supported industrial arbitration, and provided retirement benefits. He stated 'I don't pay good wages because I am rich. I am rich because I pay good wages' (quoted in Watkiss 2008, p. 39). However, wealth and good works are often complicated. The profits Bosch made from armaments contracts in World War I were donated to good causes, including relief, and later democracy building and international reconciliation. During World War II Bosch accepted arms contracts and employed forced labour at the same time as supporting the resistance and working with others to save Jews and other persecuted groups from deportation.

In Australia Sidney Myer, the creator of the Myer department stores and founder of the Sidney Myer Foundation, was widely viewed as a responsible and generous employer, providing health care and rest homes at the seaside for employees. During the Depression rather than sack staff he cut all wages from the top to the shop floor, as well as personally funding public works programmes to provide further employment. At Christmas he gave a party for 10,000 people in Melbourne with a gift for every child. One hundred thousand people attended his funeral in 1934 (Liffman 2004).

6.3.2 Tax Incentives and Giving

One reply to the charge that foundation wealth is subsidised by the ordinary taxpayer might be that this is not true of all foundations. For example, when John D. Rockefeller gave $100 million to establish the Rockefeller Foundation in 1913 he derived no financial benefit from the transaction.

More generally, it may be argued that tax incentives are worth their cost. For example, in the USA in 2012 $315 billion were given at a cost of $50 billion in lost tax revenue (Reich 2013). Furthermore, tax incentives are said to 'succeed in causing donations to increase, probably by about as much or more than they cost in terms of reduced tax revenue' (Bakija 2013, p. 581).

6.3.3 Investment Income: A Force for Good?

There are two broad types of response to the charge that there is a mismatch between foundations' investment income and their missions. The first type argues against aligning investments with mission, suggesting that the foundation's primary duty is to maximise income for charitable purposes. Gates, for example, announced that he would review his investments against the foundation's mission and then decided against doing so on the grounds that his responsibility was to generate maximum income to apply to good causes. The Foundation would only refuse to invest if it saw the product as 'egregious', and the only example given was tobacco. Similarly, Harvard's president, explaining the decision not to disinvest in fossil fuels, said that it would be neither 'warranted or wise' and argued that the school's $32.7 billion endowment is a resource, not an instrument to impel social or political change (Schwartz 2014). This is in sharp contrast to the UK-based Wellcome Trust which sold its multimillion-pound stake in Wonga, a payday loan company.

A slightly different version of the 'maximise income for good causes' response is that disinvesting in 'incompatible' income sources may look good and feel good, but it will have little, if any, impact on large, wealthy companies.

The second broad type of response to the charge that there is a mismatch between sources of income and mission suggests that this may have been broadly accurate in the past, but is less so today. Many foundations are devoting considerable thought to ways in which they can use all of their assets in pursuit of their missions. As one foundation vice president remarked: 'a private foundation should be more than a private investment company that uses some of its excess cash flow for charitable purposes' (Godeke and Baker 2008, p. 11).

Jenkins and Rogers (2015) use the phrase 'intentional investing': 'which means that trustees have thought about the management and use of their charity's assets so that their approach supports the delivery of their charitable aims' (p. 1). Thinking about investments with mission in mind has, they argue, moved from being a minority interest to mainstream practice.

Investing with mission in mind takes various forms and goes by various names. Emerson (2002) uses the term 'blended value' to describe an approach that attempts to align investment income, grant support, and mission. He gives various examples to illustrate a blended value approach, including the Abell Foundation in Baltimore, which manages a venture fund investing in firms that make a commitment to building or expanding in the Baltimore area alongside giving grants to non-profit organisations working in that area. Similarly, the Rockefeller Foundation established the Provenex Fund as a social investment fund that provides venture capital to companies developing health products of greatest potential social benefit.

Ethical investment is another form of intentional investing. Ethical investment may involve negative screening, ruling out investments in, for example, pornography, alcohol, arms, tobacco, high interest rate lending, genetic modification, animal testing, environmental breaches, and so on. What is ruled out will depend on the particular values of the investor. For example, one foundation might refuse any investment in fossil fuels; another might screen out any companies involved in animal testing. Another approach to ethical investing involves positive screening, actively seeking to invest in products and services consistent with the foundation's values and mission. For example, a foundation might seek to invest in low-income housing, or green energy companies, or companies that pay the living wage.

Other approaches avoid blanket exclusions and instead might accept an investment in, say, a pharmaceutical company that is making genuine progress in replacing or refining its use of animals in experiments. Similarly, some ethical investment advisors suggest a 'best of breed' approach. Instead of ruling out all, say, oil companies, an oil company seen as 'best of breed' in terms of environmental responsibility, safety, and so on would be accepted.

Another argument in favour of keeping investments in certain areas is that this enables foundations to play the role of active shareholders. Foundations typically delegate the voting of their proxies to investment managers who tend to vote those proxies on the basis of recommendations from the management of the companies in which stock is held. A small but growing number of foundations are taking a more active and involved approach to their shareholdings and voting their proxies in ways that align with their missions and values.

Rockefeller Philanthropy Advisors' *Unlocking the Power of the Proxy* and *Proxy Season Preview 2008* argue that by failing to take a more active shareholder role foundations miss the opportunity to influence corporate policy, and may unknowingly support actions that conflict with their own principles and values.

Aside from proxy voting, foundations may also use their investments to attempt to influence the policies and practices of a company. A foundation with a substantial investment in a company that is revealed to have poor employment practices may try to use its influence to change those practices, and only if that fails will it consider disinvesting. For example, the Rockefeller Brothers Fund has had private meetings with Exxon Mobil in an effort to get the company to change its practices in relation to climate change.

A *Philanthropy Journal* blog suggests that, 'By investing more time and attention to their role as shareholders, foundations can make a bigger impact on the critical issues they spend so much time and attention trying to address through their grant making' (philanthropy journal.blogspot.com.au/2008/04/foundations-can-be-more-active).

All forms of ethical investing involve delicate issues. For example, even if it is accepted that the responsibility to generate maximum income only applies if the investment is consistent with the charity's mission, there are still difficult issues to do with just how much loss of potential income a foundation is comfortable with.

There are also tricky issues about where to draw lines. For example, should a foundation that does not wish to invest in alcohol invest in supermarkets selling cut-price alcohol, and arguably contributing as much if not more to irresponsible drinking than the producers of alcohol? Then there are problems in detecting 'unethical' investments. For example, British American Tobacco is clearly a tobacco company, but it is more difficult to find out which other companies/groups have substantial tobacco investments. The Church of England was recently caught out in relation to investments it had in a payday loan company, which the Church had publicly stated it wished 'to compete out of existence'. The problem was that the investment was held through a series of venture capital funds.

It is even more difficult to find out which organisations pay wages below widely accepted standards. Not only is this difficult in itself but it has become even more so with the growth of contracting out of certain services. So, for example, it was recently revealed that John Lewis, a widely respected UK retailer whose strapline is 'never knowingly undersold', does not pay its cleaners the living wage. The store's response was that this service was contracted out and thus not its responsibility.

Fossil fuels has been one of the big investment issues in recent years. In September 2014 the Rockefeller Brothers Fund—whose family fortune was made in oil—announced its intention to begin divesting its fossil fuel investments. In doing so they join a growing band of leading US investors (Schwartz 2014). The arguments for disinvesting vary. Some want to align their assets with their environmental principles. Some want to name and shame companies contributing to climate change. Some believe that the movement to fight climate change will lead to new regulations and disruptive new technologies that will make fossil fuels an increasingly unattractive investment. Some argue that the divestment movement is about changing the conversation on climate change, rather than hurting individual companies.

For some foundations disinvesting in fossil fuels is a moral duty to future generations. 'The moral case for divesting from South Africa 30 years ago seems clear. Twenty years from now, how could we defend keeping our investments in business-as-usual fossil fuels at precisely the moment when scientists are telling us there is no time left to lose? The threat of runaway change is too imminent to delay the kind of energy transition that Divest-Invest demands' (Dorsey and Mott 2014, p. 16).

The range of approaches to investing and the terminology become ever more complicated. Council on Foundations refers to 'impact investing' and defines this as 'any investment activity that intends to generate positive social and financial returns. Whether called impact investing, mission investing, social investing, social-impact investing, mission-related investing, program-related investing, or sustainable and responsible investing, the practice focuses on activating new financial resources to solve social and environmental problems' (www.cof.org/content/impact-investing; on impact investing more generally see also Clark et al. 2014; Center for Effective Philanthropy 2015; and for a suggestion that there is nothing new in impact investing see Brealey 2013 and Andrews et al. 1970). Perhaps unsurprisingly one report suggested that the market for social impact investment is likely to stagnate due to confusion around terminology and lack of an adequate international evidence base (see bit.ly/VygVM7).

Mission-related investing (MRI) is described by Rockefeller Philanthropy Advisors as philanthropy's new passing gear and as a natural extension of thoughtful and effective philanthropy (Godeke and Baker 2008). MRI's are investments that seek both a social and a financial return; under US law they are not regarded as charitable and are reported in the same way as any other investment. MRI requires taking into account the 'jeopardy investment' rules which forbid foundation investment in ways that might imperil the foundation's ability to carry on its exempt purposes. The jeopardy investment rules have traditionally encouraged foundation trustees to want to maximise risk-adjusted returns from a diversified portfolio. Any other approach could raise questions about how prudently the trustees are acting to protect the foundation's interests.

Programme Related Investment (PRI) is different from MRI's. PRI's in the USA are not covered by the jeopardy investment rules because they are defined as charitable expenditure rather than an investment. In order to qualify as a PRI production of income must not be a significant purpose and the grant/investment must advance the foundation's charitable objects.

More generally, some see foundations as becoming more entrepreneurial in their use of money (see e.g., Dees 2008; John 2006). To some this is an advance, to others such approaches are part of a wider trend toward the 'marketisation' of philanthropy (Nickel and Eikenberry 2009; Clark et al. 2014).

There is no clear 'winner' in the sources of wealth debate. As with other debates in the world of foundations the issue is more complicated than it first appears—and foundations themselves are changing their practices in response to critics.

CHAPTER 7

Warehouses of Wealth: Payout and Perpetuity

7.1 Introduction

As noted above, endowed foundations generally fund their work using income from investments. This means that of necessity they must 'store' a pot of money to generate income year by year. In addition, many foundations are required (by the original deed) or aim to exist forever, thus further underlining the need to conserve their wealth.

7.1.1 Charges and Responses

The Charges 1 Foundations are nothing more than warehouses of wealth, storing up rather than distributing money. In addition, their perpetual life means that they have no incentive to spend and no sense of urgency in fulfilling the purposes for which they were created. Foundations should be required to pay out each year a minimum percentage of their wealth.

The Charges 2 Foundations should not be allowed to exist in perpetuity.

The Responses 1 In many countries there are required payout rates—but these are subject to criticism on grounds of practicality and potential perverse effects. Payout rates may not be the most important issue.

D. Leat, *Philanthropic Foundations, Public Good and Public Policy*,
DOI 10.1057/978-1-137-48289-1_7

The Responses 2 Not all foundations are established in perpetuity, and some choose to spend all of their money in a set period of time. Furthermore, perpetuity has some important advantages.

These two sets of charges and responses are related but somewhat different. They are dealt with separately below.

7.2 The Charges 1

7.2.1 Warehouses of Wealth

The term 'warehouses of wealth' was used in a series of articles published by the *Philadelphia Inquirer* in April (18–24) 1993, criticising big charities in general and foundations in particular as belonging to a tax-free economy. Endowed foundations were accused of being more interested in storing up their money than putting it to use for public good. While most foundations distribute somewhere around 5 % of the value of their assets in grants each year, the other 95 % remains in the 'warehouse', earning more money but contributing nothing immediate to the public good.

In the USA, foundations are required to spend 5 % of the average monthly value of their endowment during the previous year. This spend may include both grants and the administrative costs of operating a foundation (for a summary of requirements in Europe see Toepler 2004).

A payout requirement was introduced in the USA in 1969 in response to fears that foundations were being used as tax shelters, that they were becoming more and more powerful and threatening democratic decision making. The rate was originally set at 6 % of total income or the market value of assets, whichever was the greater. In the 1970s a combination of recession and inflation led to the need for the rate to be amended, and in 1981 the rate was lowered to 5 % of the market value of assets. As discussed below, one of the practical problems of a mandatory payout rate is the need to adjust to economic and market conditions.

During the 1990s the US Council on Foundations commissioned various studies of the effects of a 5 %, 6 %, or 7 % payout rate on the sustainability and accumulated total spending of a hypothetical foundation started in 1950 with a $1 million endowment. Each of these studies concluded that a 5 % payout rate preserved the real value of the endowment while maximising spending over the lifetime of the foundation (Toepler 2004). A later study of actual foundations suggested that a payout rate of more than 5 % would impair foundation sustainability. Then, in the boom times of the late 1990s, there were calls for the payout rate to be raised to its original 6 %. The debate in the USA concerning the exact percentage payout suggests that 5 % is less a product of economic reasoning and more one of decades of political bargaining (Deep and Frumkin 2005).

The criticism that foundations sit on or warehouse their money has recently resurfaced in various countries throughout the world. The Global Financial Crisis has brought increasing pressure on service-providing non-profit organisations (and governments), as well as less investment income, and a decline in the value of assets for many foundations. In response some foundations have reduced their grant-making in line with their reduced investment income, reluctant to dip into their endowments. One effect of this has been to re-focus attention on foundations' payout rates, with calls in the USA, for example, for an increase in the required rate (Eisenberg 2009).

In the USA the 'warehouses of wealth' criticism has been raised in relation to Donor Advised Funds (DAFs). DAFs are funds created within larger structures by individuals, families, and so on. Fidelity Charitable in the USA is one of the largest 'houses' for DAFs, but there are other similar structures in other countries in the form of community foundations, banks, and other for-profit philanthropy managers. DAFs enable the individual to create what is, in effect, a 'sub-foundation', without the legal and administrative complications, enabling the donor to spend the fund when and on what he or she chooses, while the host organisation earns a percentage of the value of the assets managed.

DAFs are growing in the USA at what has been described as 'eye-popping double digit rates' (Madoff 2011). On the one hand, DAFs have been welcomed as encouraging giving and democratizing philanthropy, making it easy for anyone, whatever their means, to create an endowment to use as and when they choose. On the other hand, DAFs are criticised for sitting on money, thus depriving not only the government of tax revenue but also charities of much-needed income. Donors and the people who manage their money are said to be the only winners.

In Australia the 'warehouses' charge has emerged in relation to Private Ancillary Funds (PAFs). Like DAFs, PAFs enable people with smaller funds to create an endowment for giving, and were originally not subject to any payout requirement. However, because there was a fear that these new organisations were being used as vehicles to build endowments, rather than as charitable distribution mechanisms, the Australian government decided to introduce a requirement that PAFs spend at least 5 %

of their assets per annum. The logic of this requirement is interesting in itself—the government discussion paper argued that the public benefit derived from the money located in PAFs must be at least as great as the tax foregone (Australian Government Treasury 2008).

Foundations in Britain are not required to spend any set percentage of their income each year, although they are required to apply their income for charitable purposes and the Charity Commission (the regulatory body for England and Wales) may inquire into what is seen as unnecessary accumulation. In the UK the charge that foundations were sitting on their money re-surfaced in a report by Driscoll and Grant (2009), who suggested that the median payout of the 21 foundations studied was 3.5 %. They continued: 'Were the 5 per cent payout "rule" adopted in the UK (assuming the 21 foundations to be typical), this could increase the charitable funding of endowed foundations by 31.5 per cent, or around £1 billion per annum' (p. 32). Even assuming the 21 foundations are typical, and ignoring other complications discussed below, Driscoll and Grant failed to point out that this extra £1 billion would happen only once (i.e., once the money is spent it is no longer available for further income generation). The idea of extra billions flowing into the non-profit sector was, unsurprisingly, taken up by charities themselves and by Bishop and Green (2008) in their widely publicised book *Philanthrocapitalism: How the Rich Can Save the World*.

7.2.2 In Favour of Mandatory Payout Rates

There are various arguments in favour of a mandatory payout rate. A payout rate is said to encourage early intervention to prevent problems developing; avoid inflationary pressures increasing the costs of intervention; promote intergenerational equity, in that generational benefits ought to roughly equal tax expenditures/tax foregone; take into account the growth of philanthropy (new money will always come in to replace money spent); encourage faithfulness to a donor's wishes; create legitimacy, curtailing criticism from non-profit organisations and government. It is also argued that 5 % works—it has the weight of tradition and professional expertise behind it (Bothwell 2003; Billiteri 2007; Deep and Frumkin 2005).

Yet another argument for a mandatory payout rate is that it creates an investment incentive: 'the fact that most European countries do not mandate payout rates removes structural incentives to seek higher returns. As a result, the investment policies of European foundations are typically far less aggressive than those of their North American counterparts'…'the implications are substantial: lower returns imply lower payout rates—in 2006, the top 50 European foundations paid out 3.8 billion Euros on assets of 147.2 billion Euros, whereas the top 50 US foundations paid out Euros 6 billion on assets of Euros 133.1 billion' (Martin 2008, p. 279).

7.3 The Responses 1

7.3.1 Against Mandatory Payout Rates

7.3.1.1 Robbing Peter to Pay Paul

A mandatory payout rate appears both logical (money that is not being distributed provides no public benefit) and obviously attractive to charities and governments hard-pressed for revenues. But there are some strong arguments against imposing mandatory payout rates.

One point is that a 5 %—or indeed any payout rate—does not release any additional money into the sector. All it does is take money from future grantees to give to today's grantees, minus interest earned and any capital gain—but even that is only true to the extent that foundations are currently paying out less than 5 %. It should also be noted that 5 %—or any %—does not necessarily achieve greater public benefit, and how to achieve greatest public benefit is the nub of the issue.

7.3.1.2 Market Volatility

More generally, those against a mandatory 5 % (or higher) rate argue that this does not take into account: volatility and uncertainty in financial markets, the 'down' years, and erosion of the value of the corpus, as well as the potential for greater returns over the longer term; the emergence of new and unforeseeable problems; the cycle of foundation programme planning and implementation requiring different levels of spending at different stages; the limited capacity of non-profits to absorb additional money; the diminishing returns of additional spending at any particular point in time, i.e., the problem may not be lack of money but lack of knowledge, and until there has been time to develop better solutions or to explore particular avenues, spending more may achieve very little.

7.3.1.3 A Ceiling Not a Floor?

Two other arguments against a mandatory payout rate are that a payout rate makes assumptions about the inflow of new money into philanthropy, and overlooks the fact that a required minimum payout rate tends to become not a floor but a ceiling. (For expansion of some of these arguments for and against, see Deep and Frumkin 2005; Renz 2012.)

This last point is worth expanding. Analysis of foundation payout rates in the USA suggest that foundations congregate around 5 % payout, meeting the minimum requirement rather than spending (more) according to need. This may be due to:

(i) Managerial and board constraints and incentives. It is difficult to measure the impact of grants compared with the rate of return on investment—the latter is measurable whereas the former is less so. In addition, prestige and power in the philanthropy world is based on asset size, and higher assets tend to lead to higher pay for staff.
(ii) Conceptual obstacles related to measuring return and the failure to calculate a discount rate, i.e., all asset allocation decisions have opportunity costs over time.
(iii) Distortion introduced by US excise taxes, which penalise a foundation if it increases payout rate for a year or two and then drops back to 5 % (Deep and Frumkin 2005). Nevertheless, a study by Renz (2012) in the USA found that 20 % of foundations actually exceeded a 10 % payout rate (i.e., double the required rate).

7.3.1.4 Practical Problems

Another set of arguments against a mandatory payout rate concerns the practical problems involved. Arguing for a mandatory payout rate of, say, 5 % requires an assumption that foundations are currently failing to achieve this level of spending. But establishing what average percentage of income or assets foundations pay out at present is not straightforward (see e.g., Renz 2012).

Looking at one year's figures is misleading because many foundations do not spend at the same rate every year—often for very good reasons. For example, a foundation embarking on a new programme may spend rather little in the first year while it does its research, draws up guidelines, assesses priorities, and so on. In, say, the second and third years it may spend well above average (in effect spending three years of money in two), and then in subsequent years the spend may drop down again.

A further complication is that some larger foundations operate a Total Return approach to spending, which means, among other things, that they even out market highs and lows (Charity Commission 2009). For these reasons it is not clear that a required 5% payout rate would make any major difference to foundation average spending in, for example, the UK, Australia (for some types of foundation), and parts of Europe where there is no specific mandated rate. Furthermore, if foundations are hoarding money for no good reason, then, arguably, the issue may be more a matter of enforcement of laws relating to use of money for public benefit and less one of new regulations.

Another measurement problem relates to the fact that loss of longer-term growth versus immediate good is a dispute over the time value of money and how to discount the payments made in the future relative to today (Boris and Steuerle 2007). Calculating this is complicated by the fact that returns accrue tax-free to the foundation but private individuals accrue income on an after-tax basis. Following this through would logically require no payout at all because foundation gains are always worth more. But, as Boris and Steuerle argue, this avoids the key issue—when foundations pay no tax, individuals have to pay more.

There is also a question about the period over which any required rate is measured. If 5 % is applied year by year and if income fluctuates then what does this do to patterns of grant-making? How does the foundation manage uncertainty of income levels and ensure that it is prepared for an increase or a cut in spending (i.e., to meet the annual 5 % requirement)? The same problem applies if the 5 % is taken to refer to the value of the corpus.

One of the issues that periodically surfaces in debates in the USA concerns what payout should cover: grants/transfers to other organisations only, or grants plus the costs of grant-making and operating? At one stage in the USA there was a fear that a 5 % payout rate did not actually result in more spending on grants but merely in higher salaries and expenses. In 1984 a limitation on administrative expenditure was introduced, but accomplished little other than more complex reporting so the provision was allowed to sunset (Toepler 2004).

This is clearly an issue of some importance. If payout covers only grants then arguably it sends the message that grant-making is cost-free and/or at the least discourages spending on the legitimate costs of good grant-making, let alone the other valuable functions of a foundation. If the costs of grant-making are included in payout rates then clearly the rate does not necessarily encourage more money going to good causes, but may rather simply encourage or indicate high operating costs such as salaries and expenses.

Frumkin (1998a) argues that following the Tax Reform Act 1969 expenses as a percentage of grant outlays increased dramatically in the USA. For example, the Ford Foundation's administrative expenses as a percentage of grant expenditure rose from 2.3 % in 1966 to 22.3 % in 1978 (arguably, this may not be solely due to the TRA 1969, but may have to do with the stage in the foundation's life cycle and changing policies and practices). Usually, according to Frumkin, 75 % of non-grant expenses are the salaries of foundation staff. Frumkin suggests that one solution to the deleterious effects of increasing expenses is to remove administrative expenses from qualifying distributions in meeting a foundation's minimum payout requirement (p. 274).

7.3.2 Payout: The Wrong Issue?

While much discussion in the USA has taken a required payout rate as given and focused on what the rate should be, there is another growing strand of argument that suggests that the whole issue of a required rate and where it should be set is a red herring detracting from the real questions foundations should be asking.

If we take a step back and ask what this is all about then it becomes clear that the whole discussion in the USA 'has become somewhat of a free for all where actuarial hypotheses are pitched against political and ideological desirabilities. Lost in the melee is the original intent and purpose' (Toepler 2004, p. 279).

The original purpose was to reduce fear of the size and power of foundations and to prevent use of foundations as tax shelters. Today the discussion about payout is more likely to be about the needs of the non-profit sector, current versus future needs, social justice funding, the environment, and sometimes (as in Australia) explicitly about value of foundation spend relative to tax foregone. Increasingly, commentators are arguing that mandatory payout rates are the wrong answer to current concerns (see e.g., Toepler 2004; Billiteri 2007).

The suggestion is that arguing about payout rates deflects attention from the real issue, which is about foundations' missions, strategies, and public benefit. A payout rate is arguably the wrong question. A better question is, what do foundations need to do/spend in order to be most effective? (As an aside it is worth considering here in what other fields we measure the effectiveness of an organisation by the amount it spends each year and/or require it to spend a certain amount. Paradoxically, in the non-profit sector effectiveness and money spent seem to be all too often confused.)

Those who believe that payout rates are the wrong issue argue that what is needed is a discussion that links payout to mission in each individual foundation. Future versus current needs depend partly on the foundation's mission. For example, if the foundation exists to support a museum or to promote modern art, then it will have a different set of calculations regarding current and future spending than if it exists to, say, eradicate malaria. Rather than force foundations into a 'one size fits all' required payout rate the suggestion is that foundations should be required to think about how much they spend relative to their mission and provide a clear rationale for their decision. Billiteri (2007), for example, suggests that every foundation should have a written payout strategy reviewed by key staff and formally endorsed by trustees. The strategy should be 'firm and dynamic' and should be based on two key questions: what is the foundation in business to do, and how to deploy assets to accomplish the mission in the most effective and efficient way?

This approach, relating spending to mission and the best allocation of assets to achieve mission, not only caters to differences between foundations in size, age, mission, and so on, but also allows for recognition of much deeper and wider issues to do with the distinctive role of endowed foundations.

7.4 The Charges 2

7.4.1 Perpetuity: The Issue

Many, but not all, foundations are established in perpetuity. If a foundation's duty, or goal, is to live forever then obviously the rate at which it spends must be very carefully calculated. Thus the debates around payout are linked to those concerning the proper lifespan of a foundation. If a foundation consistently spends more than it earns then, whether it admits it or not, it is likely to shorten its own life.

In general foundations adopt one of three positions—perpetuity, spending out, and keeping an open mind (Jenkins and Rogers 2012). Some foundations are required by their deed to attempt to live forever, some are required to spend out within a set period, and some have no specified lifespan.

7.4.2 *Against Perpetuity*

In the USA in the 1960s, as part of a wider package of reforms designed to limit the power of foundations, there was a suggestion that foundations should never be allowed to live for more than 40 years (Brilliant 2000). The suggestion was not taken forward.

In 2009 Bill Gates released his first annual letter on philanthropy. Among other things he announced that in 2009 the foundation would be increasing its spend to $3.8 billion—about 7 % of assets. He continued: 'although spending at this level will reduce the assets more quickly, the goal of our foundation is to make investments whose payback to society is very high rather than pay out the minimum to make endowment last as long as possible' (www.gatesfoundation.org). Mayor Michael Bloomberg expressed a similar position when he stated that the best measure of a philanthropist is that the cheque to the undertaker bounced (Dempsey 2009; on perpetuity and the link with payout see also Bothwell 2003).

Today, foundations are talking much more about the lasting impact of the work they fund. At the same time there is a slow but growing discussion of spend out and questioning of the value of perpetuity (Eisenberg 2009).

One argument in favour of spending out is that it enables the foundation to apply all of its assets to immediate and urgent problems—why wait until tomorrow if the problem is now and is only likely to get worse by waiting? Big issues call for big gestures. Another argument is that as they get older organisations tend to become stodgy, bloated, and fossilized, and spending out prevents the perils of ageing. Innovation requires change and dynamism and this is unlikely to come from older foundations stuck in their ways (Anheier and Leat 2006).

Spending out is also said to concentrate the mind. If a foundation knows that it will live forever then tomorrow will always do. If it knows that it has a limited lifespan then making a difference becomes urgent and very real. Everything has a new and immediate significance, there is no time to waste (Renz and Wolchek 2009; ACF 2010).

Furthermore, those in favour of spending out argue that the mindset of perpetuity may mean that the preservation of assets becomes more important than the actual work (ACF 2010).

Other factors that may encourage consideration of spending out include: a rapidly changing context; growing need; growing pressure on public expenditure; a decline in the relative value of a foundation's assets (i.e., assets and income do not buy what they used to and the foundation becomes an increasingly minor player in overall provision); volatile markets and a global downturn; a wider do it/see it now culture; and an emphasis on prevention rather than cure.

7.5 The Response 2

7.5.1 Perpetuity Is Not for All

Although perpetuity has tended to be seen as the norm, there are examples of foundations that have deliberately spent all their money and closed down.

The Julius Rosenwald Foundation was established in 1917 and closed by design in 1948. Rosenwald was in favour of spending out because he believed it avoided a tendency toward 'bureaucracy and a formal or perfunctory attitude toward the work which almost inevitably develop in organizations that prolong their existence indefinitely. Coming generations can be relied upon to provide for their own needs as they arise' (Frumkin 2006a, p. 328).

Aaron Diamond and his wife agreed that their eponymous foundation should be spent out within a decade of their deaths (McGee 2010). Atlantic Philanthropies, established in 1982, decided in 2002 to spend out by 2020. Spending out has become more common in recent years, encouraged by Atlantic's founder Chuck Feeney who has been a leader in promoting the Giving While Living movement among philanthropists and foundations. Bill and Melinda Gates have stipulated that their foundation spend out within 20 years of their deaths. Warren Buffett has stated that the proceeds from the Berkshire Hathaway shares he still owns at death must be spent on philanthropic purposes within ten years of his estate being settled.

7.5.2 In Favour of Perpetuity

The practice of living forever has some logic to it. By investing their capital for the long-term foundations can generally both spend the income and, over the years, increase the value of their assets, thus generating more income. Another argument in favour of perpetuity is that foundations can serve both current and future generations, achieving some degree of intergenerational equity. In addition, some would argue, as they age foundations become wiser and better at what they do (see e.g., ACF 2010). A further argument in favour of perpetuity, or at least a long life, is that it enables a foundation to provide the long view that is missing from politics and markets driven by short-term imperatives.

If there is a choice in the foundation deed relatively few foundations voluntarily choose to 'spend out' (i.e., to start spending their assets with the logical consequence that both their asset base and their income becomes smaller and smaller over time, until they have nothing left). The decision to spend out is both unusual and complicated. Because relatively few foundations have spent out there is little experience to go on, and the myriad major and minor decisions have to be first anticipated and then dealt with. Spending out—planning for closure—involves legal considerations, very careful budgeting, and issues to do with premises and staffing. For example, how does a foundation ensure that it has enough money for the final years, but does not end up with unspent monies? How does it keep staff who know that their jobs are about to end?

Spending out also involves considering the effects on grantees and the fields in which the foundation works. Suddenly injecting very large sums of money into a field of work or individual organisations can be damaging, but so too can leaving organisations and issues without a source of funding. For these reasons, foundations that decide to spend down have to devise carefully considered exit strategies.

Spending out requires a very different investment policy. Instead of investing for the long-term, accepting that investments go down and then, usually, up again, foundations that are spending out cannot afford to get caught in a downward market. Spending out entails having some very safe investments easily accessible over the short-term. Because these investments are safe, they usually generate rather lower income and little capital growth. Thus spending out may actually reduce the total sum spent by a foundation.

Payout rates and perpetuity will no doubt continue to be contested issues in the coming decades. A lively debate and an awareness of the issues and options may be a more constructive solution than arbitrary rules and fixed percentages.

CHAPTER 8

Cash Machines or More?

8.1 Foundations: Money, Value Added, and Overhead

8.1.1 Introduction

One of the charges charities fear most is being seen to spend too much on 'overheads'. In a charity's publicity and fundraising materials, there are often prominent claims that 'every penny/cent' goes to help those in need, implying that the charity spends nothing on offices, utilities, staff, and so on. Endowed foundations do not need to make such claims for fundraising purposes, but trustees may nevertheless keep a tight rein on any spending that is not directly related to the foundation's mission. Organisations that work to support and advise foundations are frequently asked what percentage of a foundation's income it is reasonable to spend on overhead, and whether there are any benchmarks.

8.1.2 Charge and Responses

The Charge Grant-making foundations are little more than expensive machines for dispensing cash to grantees.

D. Leat, *Philanthropic Foundations, Public Good and Public Policy*,
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The Responses

1. Foundations' overhead costs vary in relation to the nature of their grant-making and programmes.
2. Foundations add value over and above the grants they give.

8.2 The Charge

8.2.1 Expensive Cash Machines?

Outside the USA there is little systematic data on foundation overhead costs. A 2005 study by the Urban Institute, the Foundation Center, and Guidestar found that administrative expenses were 7 % of US independent foundations' $21.2 billion qualifying distributions (i.e., those that count toward federally required payout levels). However, the study also found that expense ratios ranged from around 5 % to more than 50 % (Foundation Center Press Release July 18 2005). On the surface these figures appear to support the charge that at least some foundations are indeed very expensive cash machines.

Concern that foundations are nothing more than expensive cash machines was fuelled by an article published in the *Harvard Business Review* in 1999 (Porter and Kramer 1999): 'If foundations serve only as passive middlemen, as mere conduits for giving, then they fall short of their potential and of society's high expectations' (pp. 121–122). The argument was based in part on the following calculation: when an individual gives $100 directly to a charity, the nation loses $40 in lost tax revenue but the charity gets $100, so the immediate benefit is 250 % of tax foregone. When $100 is given to a foundation, $40 is again lost in tax revenue but the immediate social benefit is only the $5.50 the foundation gives away which is less than 14 % of the tax foregone. Porter and Kramer's calculation (which assumes that money and social benefit are the same) could be used as an argument for a higher payout rate, but they use it instead to suggest that foundations must find ways of adding value to what they do.

8.3 The Responses

8.3.1 Introduction

There are two broad types of reply to the charge that foundations are little more than expensive cash machines. The first type of reply focuses on the complications of calculating overhead costs and variations in such costs between foundations. The second type of reply emphasises that foundations add value in a variety of ways quite apart from dispensing money.

8.3.2 Accounting for Higher Costs

Various US studies have shown that, unsurprisingly, staffing is the most significant factor influencing cost levels (Council on Foundations 2007; Renz 2011). These studies also show that the reported costs of grant-making vary in relation to type of foundation. Community foundations (nearly all of which employ staff) are most likely to report operating expenses, whereas corporate foundations (often staffed by company employees) are least likely to. Other types of foundations reporting no or very low expenses are likely to be run by donors, family members, and unpaid trustees.

Size of the foundation also matters: larger givers tend to report lower expense-to-distribution ratios suggesting greater efficiency with size. This assumes that other things are equal, which they may well not be if, for example, size is also related to a large donor base involving higher accountability demands, such as in community foundations.

Age too plays a part in differences in overhead costs. For example, the youngest community foundations have the highest ratios of expenses to distribution possibly due to high start-up costs and the tendency to do little grant-making in the early years of endowment building. There is also a suggestion that a larger asset base leads to higher costs, i.e., more assets require more and more costly investment management.

Costs also vary in relation to the programmes a foundation runs.

- International giving costs more than domestic giving.
- Grants to individuals are generally higher cost (than grants to organisations).
- A small grants programme is more costly than a small number of larger grants.
- Direct charitable activities also raise costs.
- Frequent outreach and grantee support activities raise costs.

(see also Boris et al. 2006; on comparing overhead costs see Pollak and Rooney 2003).

8.3.2.1 Practical Problems

There is another set of problems in assessing and comparing overhead costs. On what basis is the cost calculated? Of what is the cost a percentage? Foundations employ different methods in calculating percentage costs. For example, a foundation might present costs as:

- a percentage of total assets
- a percentage of total income
- a percentage of grants given
- (in the USA) a percentage of total payout
- a percentage of total expenditure
- a percentage of total expenditure minus grants and direct charitable activities

The Bill and Melinda Gates Foundation illustrates the significance of the base for the calculation. Taking the total 2007 expenses of the foundation and subtracting grants gives total operating costs of $263.7 million. These operating costs include three major components: (1) direct grant-making expenses to pay salaries and operating costs of the programme staff who make and manage grants (2) 'direct charitable expenses', such as technical assistance to support the work of grantees, and (3) administrative costs to operate the foundation, including salaries and benefits for support functions such as finance and human resources, legal services, rent, office supplies, and so on. For the Bill and Melinda Gates Foundation these were as follows: $127.2 million in direct grant-making expenses, $41.8 million in direct charitable expenses, $94.7 million in administrative costs to operate the foundation, giving a total of $263.7 million total operating costs.

If the foundation's operating costs are calculated as a percentage of total expenditure including grants then it is 7.96 % ($263.7 million divided by $3.312 billion). However, the foundation believes 'a better definition of "administrative overhead expenses"' would exclude direct grant-making costs and direct charitable activities. Subtracting these gives an overhead cost percentage of 2.85 % (i.e., $94.7 million divided by $3.132 billion). So it is possible to move from 7.96 % to 2.85 % costs just by changing the way in which the calculation is made. (www.gatesfoundation.org Reader's Guide to the Form 990-PF). Incidentally, it is worth noting that the Bill and Melinda Gates Foundation illustrates another way of reducing apparent costs in a foundation. One entity—the Bill and Melinda Gates

Trust—manages the investment assets and another entity—the Bill and Melinda Gates Foundation—distributes money to grantees.

8.3.2.2 Another Explanation for Differences

Studies in the USA suggest that foundations do not always report their expense data in the same way; the same expenses may be recorded under different headings from foundation to foundation. Under-reporting is one matter, another is misreporting of 'other expenses'. This is meant to be a residual category, but a Foundation Center study suggests that it is used as a catch-all category by those who do not take time to allocate items to the correct line on the forms (Boris et al. 2006; Renz 2011; see also Pollak and Rooney 2003).

It seems likely that in other countries there are similar differences between foundations in methods of classifying/allocating certain costs. One reason for this may be that it is not clear into which category some costs fit. Another reason is that some real effort is required to accurately allocate costs between, for example, charity support costs and governance costs. Staff time spent on each is recommended as often the best method of allocation—but to properly allocate staff time would involve detailed time diaries according to an agreed framework, and repeated regularly to ensure that monthly/quarterly and annual variations are taken into account.

8.3.3 The Costs of Creating Public Benefit

Foundations are not simply about grant-making but rather about creating maximum public benefit within the constraints of the organisation's resources. Administering grants is only one part of what many 'grant-makers' do.

Grant-making requires allocation of limited resources (i.e., demand usually exceeds supply) and due diligence in ensuring that the applicant is able to make effective use of the grant. This part of grant-making is very broadly akin to bank lending, and therefore may incur roughly comparable administrative costs.

8.3.3.1 The Costs of 'Just' Making Grants

So what is involved in simply making grants, transferring, with due diligence, limited resources from A to B to achieve a social purpose? Note here that grant-making is not simply moving money from A to B. Because demand for grants exceeds available resources, choices and judgements about the best use of money are involved. These choices and judgements involve staff time and knowledge, as well as case-by-case information about what the money is for and by whom it will be spent (Leat 1998).

Making grants involves: creating guidelines on what will be funded, and for how long, etc.; designing and disseminating publicity materials; designing an application process and materials; receiving and processing applications; verifying information and getting further information; designing and creating a decision-making process; holding meetings and making decisions; notifying successful and unsuccessful applicants; issuing conditions of grant letters; issuing cheques; ensuring that the grant is used for the purpose intended; accounting for the monies expended. For a larger foundation with a small grants programme this process may involve thousands of communications. A small grants programme intended to reach very small local groups may incur additional outreach and application support costs (Note that monitoring and evaluation of grants are not included in the above—this would obviously add a whole other layer of costs).

In addition to all of these costs there are costs of running an organisation, employing staff, housing and equipping the organisation, and so on. There are also costs involved in being accountable to regulators and other constituencies, as well as dealing with queries, and wanted and unwanted publicity. In general, we might expect organisations with greater public accountability to have higher costs in this respect as compared with, say, a small family foundation.

One other important layer of cost comes from the imperative to understand and keep up to date with needs in the field, and with what other funders (across sectors) are doing. This is important if funders are to avoid duplicating funding by others and/or missing new/unfilled areas of need. This sort of knowledge is arguably a crucial element in real due diligence, and may be the basis for ensuring effective funding (e.g., apart from the matter of new needs, there may be'gaps' in available funding such that a grant for, say, staffing may be of little use unless there is funding available for training, or office space, etc.). Keeping up to date with an increasingly complex and rapidly changing environment is obviously an ongoing, rather than a one-off, cost.

But all this is only part of what many, misleadingly labelled, 'grant-makers' do.

8.3.4 *Funder Plus*

The notion that foundations are more than cash machines has been gaining ground in recent decades (Schramm 2006). Phrases such as 'value-added', 'funder plus', and 'more than money' have entered the foundation sector lexicon (see e.g., Renz and Elias 2007). But these terms are often used to refer to somewhat different types of activity. The field of'funding plus' has been described as'emergent and ambiguous' (Cairns et al. 2011, p. 5). One approach sees 'funder plus' as primarily about the ways in which foundations may assist grantees over and above the grant. Another approach sees a foundation's added value in terms of activities which the foundation undertakes apart from, alongside or instead of grant-making, often adding something different rather than simply adding to the grant.

Buteau et al. (2008), adopting the first approach, focus on 'assistance beyond the grant' with a list of 14 types of assistance that foundations frequently provide to their grantees, including general management advice, strategic planning advice, research or best practices, use of foundation facilities, encouraged/facilitated collaborations, information technology advice, governance help, and communications/marketing/publicity assistance (Buteau et al. 2008). Interestingly, in terms of the overhead costs debate, they conclude that the majority of grantees of a typical large foundation receive no assistance beyond the grant, and the 44 % that do generally receive only two or three types. A second conclusion is that receiving only a few types of additional assistance is ineffective; comprehensive assistance or a set of field-focused types of assistance is necessary to make a difference.

The second approach to 'funding plus' focuses less on the grant and the grantee and more on making full use of all of the foundation's financial and non-financial resources. For example, Anheier and Leat (2006) argue that foundations, at their best, do not confine themselves to grant-making, but rather use a range of tools to pursue their missions. They may use their networks to convene and communicate, building bridges between otherwise unconnected people, organisations, or ideas. They may use their knowledge and overview to identify gaps, similarities, or links, and to reframe issues and potential solutions as well as supporting advocacy for change. 'Conventional foundations focus on building, and giving away, their financial resources; foundations adopting a creative approach focus on building, using and sharing knowledge, networks and an independent voice' (p. 236). Similar approaches are suggested by Craig (2002), de

Borms (2005), Fleishman (2007), Brest and Harvey (2010), Esposito and Foote (2003), and Orosz (2007). What these approaches have in common is a view that foundations are more than funders and capacity builders of grantees, but may also act as agents in their own right. Foundations are active, independent participants in change rather than merely the passive servicers of others who act (for an illustration of foundations acting as independent agents, see e.g., Leat 2014).

8.3.4.1 Beyond Moving Money to Effectiveness Multipliers

There are at least two broad types of effectiveness multiplier. First, some foundations seek to make their grants more effective by providing various forms of support to grantees. This sort of 'grants plus' work may be costly in additional 'overhead' but it can be a net saving if it ensures that a grant does not fail, or if it enables the grantee to work with the grant at a higher, wider, more effective level.

Second, many foundations go beyond simply moving money to activities that encourage wider understanding of problems, their causes and solutions, evaluation, learning, dissemination, convening, coordination, and so on. These are add-on activities that seek to make grant-making more effective in pursuit of lasting public benefit that goes beyond the immediate grantees. These activities are the effectiveness multipliers—but they are also the activities that incur most 'overhead' cost. Time and money spent on adding value also, of course, has an opportunity cost—and that cost may mean weighing further incremental benefit against substantial change in another or new field of activity (see e.g., Benedict 2005).

If a foundation is only in the business of making grants then the foundation's reach is obviously limited: a grant is made to a group and that is where it begins and ends, *unless* other activities are added, such as evaluation-dissemination-learning (evaluation is of little value without dissemination and learning). Foundations often have a unique overview of a field and the potential to bring people, organisations, and knowledge together within and across sectors. That unique overview may enable them to spot gaps in funding and knowledge and/or to make connections between disparate pieces of work and knowledge. These are among the ways in which foundations have the potential to really add value and to multiply effectiveness, playing a role that few others are in a position to play. But these are also activities that increase 'overhead' costs. The cost of cutting costs is that these effectiveness multiplier activities get lost, or reduced in scale and value (see e.g., Nittoli 2003; Bales and Gillian 2004; Sharp 2010; Cairns et al. 2011; Center for Effective Philanthropy 2008).

The charge that foundations are no more than expensive cash machines is more complicated than it might appear. Not only are costs difficult to calculate and compare, but dispensing money is increasingly seen as only part of a foundation's role.

But the 'funder plus' approach to the roles of foundations raises at least two other questions. When foundations 'add value' does that constitute 'interference' in the work of grantees by 'outsiders'? Can grantees refuse such help? Does such help undermine grantee skills and confidence, and is it sometimes a means by which funders may claim ownership of results to which they have contributed relatively little?

A second, arguably more important, question is about the mandate of foundations—giving grants to others requested by them is one thing, but when a foundation imposes its perceptions about what should be done and takes independent action to, for example, create something new from where does it derive its legitimacy to take such action? There will always be those who argue that the role of a grant-making foundation is to support the non-profit sector in what it chooses to do, rather than seeking an independent role and profile. On the other hand, there will be those who suggest that foundations have a range of resources other than money. Those other resources—independence, overview, knowledge, and so on—are potentially more powerful than the very limited money available to foundations. Failing to use all resources to maximum effect is a failure of public duty.

CHAPTER 9

Missing Measurement, Misunderstanding Measurement?

9.1 Foundations and Effectiveness

9.1.1 The Growing Pressure to Measure

From the 1990s on there has been increasing pressure on foundations to measure their impact—or, perhaps more accurately, the impact of their grantees. Articles by Porter and Kramer (1999), and Letts, Ryan, and Grossman (1997), for example, put the impact of foundations under the spotlight.

There were various reasons for this change. Contracting out of public service provision, non-profit organisations receiving public money, a wider emphasis on value for money, economy, efficiency, and effectiveness were important factors, as was a wider culture of accountability and transparency, and questioning of all insitutions, including charities and other bodies, in receipt of public money directly in grants and contracts, and indirectly in tax subsidies (Power 1994, 2009). The pressure for demonstrable impact was given a further spur by several high-profile scandals demonstrating that non-profit organisations were not immune to major exploitation. What do foundations actually achieve and is philanthropy worth the costs—lost tax, plus foundation overheads—became common questions. Another factor was the rise of new players and approaches. For example, venture philanthropy and social investment had the notion of impact at their core. As Jung and Harrow put it, there was a shift from 'moral agency and charitable communitarianism to performance measurement and mercantile individualism' (2015, p. 15; on the rise and

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rise of demands for measurement see also Flynn and Hodgkinson 2001; Bernstein 2011; Brest and Harvey 2010).

The notion that foundations should have demonstrable impact has grown in recent years. Despite periodic anxieties about demonstrable impact it is probably fair to say that foundations in the twentieth century were generally happy to do good and give gifts for a good cause. 'Fund it and forget it' was a common approach—when the money is gone it's gone, move on to another grants round. Furthermore, many foundations focussed on giving small, one-off grants, meaning that measuring was both impractical and inappropriate: is it necessary or feasible to measure the value of a camping trip or puchase of a piano?

Nevertheless, it may still be argued that despite improved practices philanthropy remains an underperformer in both measuring performance (Buteau and Buchanan 2011; Ostrower 2004) and in achieving social outcomes (Brest 2010).

The argument around the topic of foundation effectiveness has several different strands. This chapter focuses on two aspects: the demand for demonstrable impact and what it entails, and the value of impact measurement. Another strand in the effectiveness debate not covered here questions whether foundation spending is more or less effective compared with government spending (i.e., the benefit that would have been produced by the money foregone in tax reductions—on this issue, see e.g., Schlessinger 1998).

9.1.2 Charges and Responses

The Charge There is little evidence that foundations are effective, not least because they fail to measure their impact.

The Responses It is debatable whether: (a) 'effectiveness' is an appropriate concept in relation to foundations; (b) measurement of impact is either desirable or possible; (c) those who argue that foundations are ineffective understand their potential contributions.

9.2 The Charge

9.2.1 No Change?

What has changed as a result of the fortunes spent by foundations over the decades? Arguably, even in the USA where foundation spending is huge, the major social problems remain largely untouched: public education in urban communities remains poor, delivery of healthcare remains inadequate, social inequality persists, and there is still lack of serious investment in urban and rural poor neighbourhoods. Similarly, in the developing world the problems remain the same: tens of millions impacted by HIV/AIDS, billions with no access to clean water, almost 10 million children dying annually of preventable diseases, billions living on less than $2 per day, and environmental degradation on a massive scale (see Rockefeller Philanthropy Advisors 2008; Reich 2013).

There is also an argument that foundations are becoming less effective. The list of foundations' great achievements in the USA comes from decades ago, and '…the US foundation debate is clouded by institutional myths distorting an accurate assessment of the organizational field by focusing on a small number of highly successful foundations early in their genesis' (Toepler 1999, p. 168; see also Anheier and Hammack 2010).

9.2.2 Maintaining the Status Quo?

In some ways more damning than the claim that foundations have no impact is the claim that their impact is no more than ameliorative: 'Although these foundations claim to attack the root causes of the ills of humanity, they essentially engage in ameliorative practices to maintain social and economic systems that generate the very injustices and inequalities they wish to correct…. They continue to be optimistic about evolutionary social change occurring through rational planning by so-called "politically neutral" experts' (Arnove and Pinede 2007, p. 393). Worse still is the charge that foundations 'cool out' or damp down demands for social change (see e.g., Dowie 2001; Roelofs 2004).

9.2.3 Ineffective Practices?

Some attribute foundations' supposed ineffectiveness to the way in which they work. For example, Skloot argues: 'We're like gamblers playing the two dollar slots in Vegas. We sit straight ahead, holding our little bucket of metal coins. Repeatedly we drop in small change, hoping for a big pay off. We sit straight ahead, rarely pulling our eyes away from the spinning icons. We don't interact with the players on our left or right. If we did, we wouldn't learn much anyhow—they're behaving in just the same way…. We put large dreams on small coins. Even if we win a modest jackpot, we almost always feed the slots more than we win' (Skloot 2001, p. 5). 'While some might argue that this "let 1,000 flowers bloom" approach is inherently democratic, normal and typically American, I suggest it is autocratic, ineffective and wilful—and typically American.' (Skloot 2001, p. 8).

Other claims are that focus on programme innovation at the expense of organisation building, failure to cooperate across sectors, and failure to lead are 'a few of the reasons why the large foundation, almost uniquely suited to be a catalyst for change, to be a constructive healing force, to be a boundary crosser, so often remains disappointing in its performance' (Levy 2002b, p. 5; see also Schramm 2006). Yet another criticism is that the foundation executive as public intellectual, as talent scout, as gadfly, as alternative source of ideas has given way to a certain anonymity, a risk-averse sameness (see e.g., Freund 1996).

9.3 The Responses

9.3.1 An Inappropriate Demand

'Impact measurement is a contentious, emotive and difficult arena, frequently driven by positivist world views and neo-liberal agendas' (Harrow and Jung 2015, p. 177).

There is an argument that criticism of giving in terms of what it does or does not achieve is inappropriate and misunderstands the nature of giving. Frumkin (2006b) distinguishes between expressive and instrumental giving. Expressive giving is about expressing the donor's (whether an individual or foundation) values, interests and support for a cause. The donor does not intend or expect that his/her gifts will have any significant impact, but the hope is that in combination with many other gifts they may do so. Instrumental giving by contrast is focused on achieving a particular objective that will have a significant impact on a problem.

The distinction, however, is not clear-cut. Some foundations give 'expressive' and relatively small grants to charities working to achieve some specific impact—so the gift may be expressive but the effect is instrumental. This means that the distinction is not so much one of outcome but of intent (see also Fleishman 2007).

There is also an argument that measuring the results of giving turns giving into something else—shopping, or investing for a return. This, so the argument goes, is the 'marketisation' of morality and philanthropy' (Jung and Harrow 2015): the key question and driver becomes not is this the right or just or good thing to do but rather will this course of action deliver a return.

9.3.2 No Responsibility to Produce Maximum Benefit?

Underlying the charge that foundations fail to demonstrate impact is an implict assumption that foundations have a duty to produce impact. One question rarely discussed in the effectiveness/impact debate is whether foundations have a responsibility to work in ways which will produce maximum benefit. At first reading the answer to this question may seem obvious. But the Buck Trust case illustrates the complexity of the issue.

Mrs Beryl Buck died in 1975, leaving around $12 million in oil shares in trust for charitable, educational and religious uses in Marin County. At the time Marin County was the second-wealthiest county of its size in the USA. The shares rose dramatically in value just after the bequest was made and by 1985, ten years after Mrs Buck's death, the total assets had an estimated value of $400 million.

The San Francisco Foundation (SFF), in charge of the management of the funds, took the trust to court seeking to broaden the geographical range of the trust so that money could be spent in less-wealthy Bay Area counties. Trust law in many countries (including the USA) requires that donor's wishes are followed unless the stipulations of the trust have become illegal, impossible, or impracticable to enforce, in which case the doctrine of cy pres (as near as possible) allows the trustees to find an alternative use. In brief, the SFF argued not that it was impossible, impracticable, or illegal to spend the money in Marin County, but rather that the money could be better, and more effectively, used in nearby less-wealthy areas where the gift would produce greater public benefit.

If the logic of breaking Mrs Buck's will was that the money could be better spent outside of Marin County, then the only places that deserve money would be the poorest of the poor in the poorest of all countries (Wildavsky 1987, p. 30). 'Are there then criteria of effectiveness, or worthiness according to which grants made outside of a specific local area such as Marin County would be more worthwhile? I think not, since a major purpose of private philanthropy is not to accept market choices, to make decisions other than would be made by the private market, because if we want decisions made solely by markets there would be no rational foundation cost-benefit, or related type efficiency analysis.… Cost-benefit analysis…is based on analogies in the market, albeit gross and imperfect, and that if one does not wish to follow the market, there is not one reason I can think of why one should perform any type of such analysis whatsoever' (p. 35).

9.3.3 Effectiveness and Values

Another objection to the argument in favour of measurement is that effectiveness always implies a value judgement, despite the aura of objectivity talk that 'impact measurement' lends to giving. Sievers (2010a) argues that lists such as Barron's '25 Best Givers' 'offers the illusion of tough minded "bang for buck" comparisons but is in fact no more valid than any number of other ways of describing philanthropic effectiveness.…Its fundamental premise is an empty shell of a concept—impact—in which layers of subjective judgements masquerade as rigorous analysis' (p. 3). The point here is that in a market-oriented society 'effectiveness' tends to be treated as a goal in itself, without questioning the values implied. So, for example, the neoconservative foundations in the USA were widely regarded as highly effective in promoting a particular set of ideas—but some would argue that they effectively damaged social justice (Roelofs 2004; Covington 2005). In other words, 'Phrases like "effective philanthropy" or "charitable utility" are just that—empty phrases. They have no content that can be tied down apart from the philosophies of those in charge' (Wildavsky 1987, p. 16; see also Frumkin 2002).

Abramson and Spann put the point slightly differently: 'Measuring the impact of foundation work objectively is…a bit like trying to determine the success of a party. Since everyone comes for entirely different reasons, success can never be judged by applying a single standard' (Abramson and Spann 1998, p. 12).

9.3.4 Effectiveness and Goals

Questioning whether foundations are effective involves considering what foundations are trying to do. Foundations may be trying to: ameliorate/give relief (charity); identify root causes of problems (original US use of the term philanthropic foundations; also known as 'scientific philanthropy'); encourage provider organisations to be more efficient and effective (venture philanthropy); and promote debate, discussion, and real experimentation in paths to public benefit (creative philanthropy).

If the goal of foundations is to deliver services then measuring how well they do this is a sensible request. If, however, the goal is to foster a vibrant civil society then the value of measurement is questionable. As Reich puts it, 'The pluralism rationale does not demand efficiency for the success of the argument; a society might forego tax revenue for the sake of fostering citizen's voices and sustenance of a diverse associational sector' (Reich 2013, p. 534).

9.3.5 The Effective Ineffective Foundation

Another strand of argument in the effectiveness and measurement debate focuses on the role of foundations as innovators. Effective innovation, so the argument goes, necessarily entails failure and mistakes. One danger of the cult of effectiveness is that foundations' innovative urge is constrained by the need for 'success' (Anheier and Leat 2006; see also Cutler nd).

According to some the 'effective' foundation is one that is sometimes ineffective (i.e., fails) but always learns from that failure (Pauly 2004). However, there is also an argument that foundations are very reluctant to admit or talk about mistakes and failure, and thus lose the opportunity to transform the ineffective into effective learning. Frumkin distinguishes between constructive and unconstructive failure; constructive failure involves learning and communication, unconstructive failure does not (Frumkin 1998b).

In 1946, Warren Weaver, a senior member of staff at the Rockefeller Foundation (RF), wrote a guide for a new recruit. In it he argued in favour of mistakes: 'it can be persuasively argued the RF *ought* to make mistakes. If it does not, it has almost surely not been as imaginative and as adventuresome as it should have been in ferreting out hard and important problems and in attempting their solution. Although we have certainly made some mistakes which we never should have made, it seems probable that we have, on the whole, made too few mistakes—or at least, too few good mistakes. A "good" mistake, I take it, is one which is recognized and profited by; and which represents a bad outcome of a situation which (though somewhat risky) contained really important promise. The moral is that an officer should be alert, imaginative, and flexible; and should not be too afraid—too desperately and paralyzingly afraid of making a mistake[1]. And when one is made we should do a good thorough autopsy, and find out what the patient died of' (Weaver 1946, p. 50).

It should also be noted that 'failure' and 'mistakes' imply an underlying value judgement, as Wooster's book on the greatest philanthropic mistakes illustrates (Wooster 2010): what values are involved in the conclusion that foundation funding of public broadcasting in the USA was/is a 'great mistake'?

9.3.6 *Measuring Impact: A Fool's Errand?*

Another set of arguments focuses not on the appropriateness of measuring effectiveness, but on the feasibility of doing so.

Many of the dangers of goal displacement, and the 'games' performance measurement in terms of outputs/outcomes, are well rehearsed (see e.g., Power 1994, 2009). But there are deeper problems for foundations rooted in the assumptions of grant-making and production of social benefits. If foundations are to measure their performance in producing sustainable social benefits they have to, in effect, show that this grant produced (or, more modestly, contributed to) this benefit/outcome. Put very simply, grant-making works with a theory of production of benefit that in effect says: when grant A 'hits' organisation B then, if the correct processes have been conducted, B will produce benefit C (Leat 2006).

One obvious problem is that of timing: when/after how long does the foundation assess whether grant A has produced benefit/outcome C, or when is it possible to judge something a success or failure, effective or ineffective? Sievers (2010) gives the example of a foundation programme in the 1950s to support promising young Africans in higher education, which brought Barack Obama Sr to the USA. Was that grant effective or ineffective, and when would one reach that conclusion? Sievers goes on to argue that examples of long-delayed but hugely important events stemming from foundation contributions were the result of 'visionary support of people and ideas, not of investments targeted to produce specific impacts that might be calibrated against alternative investments in a given time period' (Sievers 2010a, p. 3).

This issue of timing is complicated by the fact that foundations typically do not fund for a duration related to the task in hand, but for a duration determined by the foundation's policies. Therefore, performance measurement is similarly arbitrarily related to the likely time required for the task. This can have a profound effect on the appearance of success and failure, and on the reliability of that. For example, in the short term, grant A may indeed by followed by benefit C, or not; in the longer term, benefit

C may disappear, become apparent, or still fail to appear. As Fleishmann (2007) graphically notes, failure is a 'squishy concept'.

Another obvious problem stems from the co-productive nature of the production of benefit C. Was it the foundation/grant that produced the benefit or the grantee organisation? Or both? Important though this issue is—and it looks set to become more important as performance ownership becomes more valuable and more contested—it sets a higher bar than that to which foundations typically aspire. In other words, foundations (and grantees) are generally happy to see that C follows A—everyone claims the credit and no one is currently too bothered about challenging the finer details.

The deeper problem for foundations is rooted in a complex set of implicit theories to do with 'success', sustainability and social change on which the whole enterprise of conventional grant-making depends. These theories include the assumption that 'good and successful' projects are a function of good ideas, well-thought-through plans, and good organisation. It takes a year (or maybe three) for a project to prove itself/produce benefits; 'good and proven' projects will find more funding when the foundation grant ends. More fundamentally, current dominant approaches to grant-making assume that it is possible to predict and create a knowable future (Fowler 1995). Problems have causes that are singular, knowable, and uncontested; there is a known solution and money can produce this solution.

The process of grant-making and outcome funding/measurement is based on a number of questionable assumptions. Among them are:

1. Good organisations have within themselves the capacity to achieve what they set out to achieve.
2. Organisational structures and processes, management, and financial resources are major determinants and predictors of organisational capacity and achievements.
3. Evidence of clear objectives, planning, and control processes are particularly important indicators of the 'good' or capable organisation.
4. Sustainability and future funding is something for which the 'good' organisation can plan and has planned.
5. The future of voluntary organisations and the environments in which they work will be a continuation of present trends (Leat 2006).

These are just some of the assumptions underlying the rational model of planning and change implicitly adopted by many foundations and expressed in grant-making processes. Typical grant-making processes assume that a plan can be made in advance. Success requires that the plan is adhered to; the organisation and its plan exist in a hermetically sealed compartment in which external factors do not matter, or, equally implausible, are both foreseeable and controllable. These assumptions then carry over into performance measurement in terms of outputs/outcomes. 'Good grants' to 'good' organisations will produce the outcomes specified in the grant application. Measuring the performance of grants/grantees is a matter of determining whether they produced the outputs/outcomes specified in the original plan. The foundation's performance is measured by either or both the outputs/outcomes of the grant and, by implication, the effectiveness of the foundation's processes in spotting the good plan and the good organisation. Thus if the specified output/outcome follows the grant then the grant, and the foundation, were effective; if the grant does not produce the specified outcome then there was something wrong with the proposal and/or the grantee organisation, and thus with the foundation's processes for assessment.

If, however, the rationalist view of planning and production of social benefit is rejected in favour of a more realistic view, then the 'A (grant) followed by C (benefit/outcome) = effective foundation performance' and 'A (grant) not followed by C (benefit/outcome) = ineffective foundation performance' becomes more complex. A more realistic view might be that:

1. Organisations exist in contexts made up of, among other factors, other organisations whose actions wittingly and unwittingly impinge on, constrain, subvert, and support each other.
2. Knowledge, communication, coordination, and compliance are imperfect.
3. Resources are limited.
4. Social conditions, organisations, and individuals do not stand still.
5. Workable social plans are usually those that provide a basis for departure rather than a blueprint for action.
6. Risks are ever present and certainty is in short supply.
7. Linkages and networks with other voluntary, statutory, and private organisations often underlie successful interventions.
8. People—individuals—may matter more than structures, not least in their capacity to constantly adapt to new demands and obstacles, and to make relationships (Hogwood and Gunn 1984; Leat 1999).

To these might be added:

1. Achieving sustainable change requires both strategy and opportunism.
2. Opening or open policy windows, over which foundations and grantees have limited control, play an important part in achieving social change.
3. Change is very rarely in the gift of one organisation or institution.
4. Serendipity and luck often make the difference between success and failure.

If this view is accepted, then foundation performance measurement becomes far more complex and far more uncertain. Rather than working on puzzles to which there is one right answer foundations more often work with mysteries (for an analysis of the weaknesses of current foundation approaches to outcomes and strategy see Patrizzi et al. 2013).

Smith makes a similar point when he argues that the germ theories that have influenced foundations' approaches to change for much of the twentieth century should be replaced by a 'virus theory'. While germ theory focuses on single causes and complete cures, virus theory emphasises that problems are multi-causal, multi-phased, systemic, long term, and likely to leave damaged environments. 'Virus theory suggests that foundations need to think systemically, be prepared to fund over the long haul, look at and enhance the whole environment associated with a social ill, and seek to bring about an "equilibrium" rather than a cure' (Smith quoted in Abramson and Spann 1998, p. 6). This type of approach requires close monitoring to detect breakdowns in equilibrium, and the capacity to take swift corrective action.

Some of the potential effects of concentration on outcome/output performance measurement by foundations have already been mentioned: the danger that focus on achieving outcomes leads foundations to neglect other process-based goals and principles; the danger that emphasis on performance measures reduces foundations' willingness to be truly innovative risk takers; taking a long-term view (see e.g., Anheier and Leat 2006; Sievers 2010a).

There are other dangers. One danger is that foundations develop an inflated or overly deflated sense of their own importance, praising and blaming themselves and their grantees for sins and successes for which they are only partially responsible. If things go well there is a danger of assuming that the outcome would not have been achieved without the grant, and whichever way things go there is the risk of ignoring the operation of other intervening variables that helped or hindered (Ebrahim and Rangan 2010, 2014; Herman and Renz 1997).

Outcome measures tend to focus on what has occurred rather than what might have occurred, paying scant attention to opportunity costs and counterfactuals. They also tend to ignore good and bad indirect/unintended effects, such as the effects of aid diverting attention from structural/political problems or, more positively, the effects of failures and mistakes on organisational experience, learning, and subsequent effectiveness.

The danger of overlooking opportunity costs is important. For example, many foundations tend to spend on amelioration, often apparently effective in the short term, yet with narrow impact on immediate grantees. But if the total spent on, say, housing 30 people per annum were spent in a ten-year focus on changing housing policy the effect could benefit not just 300 immediate grantees but 3000 or 3 million people. Similarly, Kovacs (2011) argues that the Bill and Melinda Gates Foundation's focus on educational reform as a route to raising levels of achievement overlooks the link between poverty and academic achievement, and that what they should be doing is encouraging anti-poverty and living-wage policies. The danger is that pressure for performance measurement may exacerbate the pressure for short-term results, discouraging long-term trade-offs for greater impact.

Another weakness of performance measurement is that it is essentially backward looking. As such it has a role to play in accountability as audit, but, arguably, much less value in learning and replication. Evaluations for learning and replication would be designed differently and would have to incorporate a more complex, dynamic view of future iterations.

But it is worth noting here that even critics of measurement admit it may have some advantages. 'The bad thing about sentimental commitments to rationality is that they lead us to expect rational techniques to work in situations to which they are profoundly ill suited. The good thing about the quasi-religious quality of rationality-enhancing techniques such as performance assessment is that even when techniques fail, the ritual of their application, like any successful ritual, may move people to self-improvement and cooperative action and so enhance the capacity of the organisations or industries to achieve collective goals'. (Di Maggio 2001, p. 250; see also Radin 2006).

In other words, one positive value of the emphasis on performance measurement may lie in the questions and questioning mindset it generates. Thinking about outcomes may encourage a foundation to think more clearly about what that outcome would look like, what and who would have to change in order to achieve it, and whether this can feasibly be achieved by the organisation, methods, and in the timescale proposed. Paradoxically, one of the greatest values of outcome measurement may be before, not after, the event.

9.3.7 Measurement: Too Little, Too Late?

Related to the points above is an argument that measurement is of little value to foundations because results generally come too late for, and are of limited use in, foundation decision-making. If something appears to be ineffective is that an argument for terminating funding or for increasing effort and funding? Furthermore, various studies suggest that funding decisions are influenced by a range of factors other than measurement (see e.g., Weiss 1987; McGrath 2011).

9.3.8 Misunderstanding the Contributions of Foundations?

A rather different set of arguments in reply to the charge of foundation ineffectiveness concerns the nature of foundations' contributions: 'foundations typically enter the scene only after other actors create the conditions needed to spark their interest—and these conditions often include the emergence of organisations able to serve effectively as the recipients of foundations' support'. 'More often than not, they swim downstream rather than fight the current, and they tend to swim in packs' (Heydemann and Kinsey 2010, p. 210).

Foundations may not aspire to measurable impact. Their goals are arguably limited by internal constraints, cultures, and a limited repertoire of strategies such that 'Even quite pressing international concerns, therefore, may not receive attention if they require responses that foundations feel they are institutionally ill-equipped to make (ibid, p. 210). In a similar vein Prewitt argues that foundations can only ever be followers, because they need grantees to give to (for illustration of some exceptions to this observation see Leat 2014). This point relates to the argument in the following chapter, that the influence of foundations is overstated.

The pressure to measure does not seem likely to diminish in the near future but there are some signs that the nature of the debate is changing. Rather than focussing solely on the practical problems of measuring, the future discussion may also include some consideration of the values and assumptions underlying the current 'metrics mania' (Bernstein 2011).

Note

1. J.P. Morgan once said "There is nothing so timid as a million dollars".

CHAPTER 10

Foundations and Democracy: Threat or Promise?

10.1 Introduction

As discussed above, governments in many countries increasingly look to philanthropy to fill the gaps in provision left by public spending cuts of recent decades. Philanthropists are applauded and, in some countries, government encourages giving with tax incentives designed to increase the size of the philanthropic pot.

But the relationship between foundations and government is arguably more complex (Hall 1992, 1994, 2013). The business of democratic government is public benefit; the business of philanthropic foundations is public benefit—coupled with private preference. Foundations are an expression of democracy (the right to choose how to spend your money after paying taxes and within the law); and foundations have potentially undemocratic effects on public priorities and provision. For example, referring to foundations, Covington talks of 'a supply side version of American politics in which policy ideas with enough money behind them will find their niche in the political marketplace regardless of existing citizen demand' (Covington 1997, p. 48; Covington 2005).

A question confronting modern governments that have encouraged a vigorous philanthropic sector: is foundation autonomy compatible with democratic accountability? (Prewitt 2006, p. 375).

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10.1.1 Charges and Responses

The Charge Philanthropic foundations enable wealthy people to buy policy influence, undermining democracy, and, in some cases, government policy and priorities.

The Responses Giving is a democratic right and philanthropy is a mark of a civilised society. Philanthropic foundations do good by doing things that government cannot, will not, or should not, as well as by promoting democracy, supporting a vibrant civil society, and giving voice to the voiceless. Furthermore, when put in context, foundation giving is really not big enough to skew democratic priorities.

10.2 The Charges

10.2.1 A Brief US History

Relations between foundations and the US federal government have been described as the most complex of historical issues in American philanthropy (Karl and Karl 1999). In many other countries the tensions between independent, wealthy foundations and governments have not yet come to the surface, but arguably are equally relevant.

Before the Rockefeller Foundation even formally existed, John D. Rockefeller (JDR) had come into conflict with government. In 1908 JDR sought a charter for his foundation but Congress was having none of it, seeing the embryonic new foundation as a dangerous concentration of wealth with no specific purpose and designed to exist in perpetuity. Even when JDR replied that he was willing to give Congress the power to oversee and reject specific foundation grants and to dissolve the foundation eventually, Congress was still suspicious (on the history of Rockefeller philanthropy see Jonas 1989; Harr and Johnson 1991; Chernow 1998; Arnove and Pinede 2007).

In 1915–1916 The Walsh Commission (a commission of the US Senate) suggested that general purpose foundations with enormous resources 'are so grave a menace…. It would be desirable to recommend their abolition' (quoted in Roelofs 2004, p. 9).

The tax laws of 1913 and 1917 led the Internal Revenue Service to monitor all charity and philanthropy: 'The battle tapped the roots of the relation between wealth, the ownership of private property, and those seeking opportunity for themselves in a world narrowed by the tides of immigration and the closing of the frontier' (Karl and Karl 1999, p. 55). Once fear of great wealth came to dominate debates it became universal, irrespective of whether wealth was turned to public good.

However, once the large US philanthropic foundations such as Rockefeller, Carnegie, and Russell Sage were established in the early twentieth century, their value in supporting colleges, hospitals, and research institutions came to be appreciated by many. Foundations at this time in the USA played a central role in the development and maintenance of elites who would manage both governmental and non-governmental resources, and keep in check the spread of government programmes. The larger foundations also functioned as a source of research and development intelligence, including in relation to issues Congress would not have considered touching, such as race relations, birth control, and venereal diseases (Arnove and Pinede 2007; Smith 2002; Bulmer 1995).

Later, foundations had other uses, including fundraising by various presidents and involvement in funding of CIA programmes in Eastern Europe during the Cold War, allowing the US government to have a presence Congress would not have allowed (Arnove 1980).

In the 1950s suspicion of foundations re-emerged in the form of the Cox/Reece Committee, charged again with looking into tax-exempt entities, including foundations. In the 1960s the number of foundations increased dramatically and concerns were again expressed about the number of tax-exempt organisations and their lack of accountability.

But at the same time lack of accountability had its uses. In the interests of shaping foreign policy money was funnelled through a maze of foundations, including American Friends of the Middle East, an anti-Zionist pro-Arab organisation, and to the Cuban Freedom Foundation as a sponsor of Free Cuba Radio. As Karl and Karl note: 'Involvement of foundations with the federal government was a utilitarian practice that worked best behind the scenes, out of the public eye' (Karl and Karl 1999, p. 63; see also Arnove 1980).

The US Tax Reform Act of 1969 was designed to bring some accountability to foundations and to address fears that foundations were being used to conceal and control fortunes. The 1969 act gave community foundations favoured status as public charities, and this, along with an increased administrative burden, led to the termination of many small private foundations. As one commentator noted at the time: 'The bell may have faintly tolled for the private foundation; it is now to be found only in captivity and there are strong doubts about its ability to reproduce' (John Simon quoted in Brilliant 2000, p. 105).

In 1973 the Filer Commission was established by some leading foundations. The commission suggested creation of an office in government devoted to the impact of foundations on policy. This post would have recognized foundations as quasi-governmental institutions and acknowledged the utility of foundations to governmental policy-making, and given them official government standing. 'No one seemed to know that that was what Rockefeller and Carnegie had wanted in the first place, but never mind' (Karl and Karl 1999, p. 63).

Foundations decided this would void their 'independence' and damage the possibility of future foundation formation. At that stage the Internal Revenue Service was viewed as a benign regulator willing to accept foundation help in framing regulations.

The Filer Commission's suggestions were arguably the last effort at a rational approach to the relations between government and foundations. In the 1980s the US government saw foundations' roles as 'taking up the slack' and 'a thousand points of light'. The impossibility of foundations replacing government-supported welfare with private philanthropy was never clearly articulated. The problem lay partly in the fact that in the early 1980s US government cuts were 20 times larger than total annual foundation spending in the relevant areas; and partly in the fact that foundations were moving 'cautiously like post-earthquake occupants returning to buildings that may collapse with a wrong footstep or a shift in balance. The paradox in the present state of affairs rests on the inability to reconcile the calls for involvement in voluntary action and charitable support of those in need with the fear that philanthropy holds within it the seeds of a revolution no one seems to understand' (Karl and Karl 1999, p. 64).

In the last two decades of the twentieth century the neoconservative foundations brought some of the old issues of foundations, policy influence, and political bias to the fore again in the USA. The Republicans devastated by Goldwater's defeat in 1964 saw left-leaning philanthropic foundations as partly to blame. The Republicans decided that they too could use philanthropic money to further their own policy goals, and began putting money into conservative think tanks as a conservative 'resource bank' (Covington 2005). These conservative foundations were widely seen as effective in shaping an entire policy agenda. This has been attributed not so much to the size of their spending as to the ways in which the money was spent (Smith 2002; Rich 2005; Covington 2005; Krehely et al. 2004).

The foundations worked to build institutions and fund individual writers, and they assumed that large ideas and values matter in the policy process; politics is 'a relentless intellectual contest, to be waged as an aggressive war of ideas' and ideas can be propagated, marketed and sold (Smith 2002, p. 25).

Karl and Karl sum up the twentieth century history of the relationship between foundations and government as follows: 'As relationships go, it is a functional one with a few episodes of genuine respect, periodic moments of very close cooperation both sides are quick to conceal, and a certain amount of bitter hostility, but held together by a utility that may be too profound to be acknowledged by either side' (Karl and Karl 1999, p. 58). The same might also be said of the early years of the twenty-first century (Ravitch 2013; see also Kunz 2014).

In 2004 in the USA there were calls for another Congressional investigation of tax-exempt foundations (Fonte 2004). Distinguishing between 'regime improvement', 'regime maintenance', 'regime transformation', and 'regime revolution', the argument was that some foundations were positioned in the last two categories, engaging in activities that seek to delegitimise the American regime itself. The examples given were of foundations alleging and challenging institutionalised racism and oppression of marginalised groups, and funding Palestinian groups. Odendahl (2004), commenting on the call for a new Congressional investigation, notes that the USA is living in a new era of fear; watch lists of terrorists have replaced the black lists of the 1950s McCarthy era. Odendahl does not support the call for a new investigation, but she does encourage foundations to move away from protecting the American regime to supporting regime transformation (i.e., promoting changes that encourage deconstruction of the current political regime and values in order to reconstruct a new regime through evolutionary means).

10.2.2 Unpicking the Charges

Although each historical period in the USA has its own anxieties about foundations, there are some distinguishable themes of wider relevance.

10.2.2.1 Sucking Wealth Out of the Tax Base

This charge has been discussed above. In most countries governments offer attractive tax incentives for giving and, in some cases, these disproportionately benefit the very wealthy. This means that the ordinary taxpayer in effect subsidises the donations of the very rich (by paying more tax than they would otherwise have done).

10.2.2.2 Unregulated and Unaccountable Concentrations of Wealth and Power

This theme is particularly prominent in the first half of the twentieth century in the USA. But it is also heard today in criticisms about the potential power of the Bill and Melinda Gates Foundation and the Warren Buffett gifts (see e.g., Youde 2013).

10.2.2.3 Influencing Policy

Closely related to the anxiety concerning concentrations of wealth and power is the suggestion that foundations use their money to usurp democratic processes, and the roles of public officials, by taking upon themselves the job of framing issues and shaping debates. 'It is still the foundations with the profits that they have derived from the given social system, that decide who will study the issues, what results will be disseminated and which recommendations will be made to shape public policy. Decisions that should be made by publicly elected officials are relegated to a group of institutions and individuals who cannot conceive of changing in any profound way a system from which they derive their profits and power' (Arnove and Pinede 2007, p. 422; see also Ravitch 2013; Rogers 2011; Roelofs 2005).

A somewhat different version of this theme focuses not on foundations' roles in influencing particular policies but rather on their roles in shaping agendas and policy discourse (this point is discussed further below). Note that the issue here is not foundation activities in political campaigning, which is illegal in many countries. The charge is that foundations' influence on policy is more subtle and arguably more fundamental, shaping priorities and the terms of debate.

10.2.2.4 Narrowing Alternatives

Closely related to the charge above, foundations are accused of narrowing alternatives and options. 'When an organisation such as Ford with assets of approximately $15 billion, decides to throw its weight behind one cause rather than another, it is no small distortion of democracy. This steering prevents threatening alternatives from appearing on the serious political agenda. Those who see our travails arising from corporate power and wealth gradually are excluded from political discourse; they are labelled "irresponsible", "unrealistic", "unfundable".... A further instrument of control arises from the form that grant making assumes, for example, providing support for specific projects rather than organisational infrastructure' (Roelofs 2004, p. 123).

10.2.2.5 'Bribing' State Governments

A slightly different version of the argument above is that some foundations, rather than simply framing issues and influencing debates, seek to buy policy influence by offering funding to state governments to pursue certain types of policy or provision. For example, a Pennsylvania House of Representatives subcommittee referred to foundations as 'purchasers of public policy' and argued, 'It is one thing to seek change, it is quite another when changes in public policy are influenced by the offering of private money to state governmental institutions' (quoted in Roelofs 2004, p. 70). Similarly, Ravitch argues 'Before considering the specific goals and activities of these foundations, it is worth reflecting on the wisdom of allowing education policy to be directed, or one might say captured, by private foundations. There is something fundamentally anti-democratic about relinquishing control of the public education policy agenda to private foundations run by society's wealthiest people' (Diane Ravitch, education historian and Assistant Secretary of Education under President George H.W. Bush—quoted www.walmart1percent.org/issues/education).

In the same vein, Kim Dennis, ex-executive director of Philanthropy Roundtable (an association of right-leaning foundations), argues that foundations "...bribe government to take on projects they would not otherwise do' when they offer grants (quoted in Roelofs 2004, p. 69). What one person calls 'bribery' another may call 'leverage'.

10.2.2.6 'Cooling Out'

A more subtle argument suggesting that foundations undermine democracy goes as follows: foundations' grant-making processes group and classify people and issues, separating out groups such that the poor become just another category. Foundations allegedly fragment movements and discourage a broad left developing (see e.g., Roelofs 2004; Douglas 1987; Dowie 2001).

10.2.2.7 Creeping Privatisation
Another objection to foundation giving is that it effectively 'privatises' provision, changing the balance of funding from the public to the private sector and exposing those most in need to the vicissitudes of the market. Essential services become not a right but a gift to be given as and when the donor chooses (Levy 2002a; see also Jung and Harrow forthcoming; and on approaches to public and private goods see Desai 2003).

10.2.2.8 A Substitute for Justice?
A criticism of philanthropy related to those above is that foundation giving (and charity in general) may become a substitute for real justice and rights. Philanthropy mitigates the consequences of injustice rather than addressing the roots of the injustice itself (see e.g., LaMarche 2014). This is certainly a legitimate challenge to some foundations, but in some countries there is a growing move to practice 'social justice philanthropy'. The exact meaning of this is unclear, but at root it emphasises the need to address the roots of injustice rather than merely focusing on the consequences (Jagpal and Laskowski 2011).

10.3 The Responses

10.3.1 Introduction

Despite the anxieties and claims above, foundations in the USA and elsewhere have survived and even thrived. So what do foundation supporters have to say in their defence? And why do governments generally continue to not merely tolerate, but actively encourage, foundation creation?

Support for the existence and influence of foundations in modern democracies takes various forms. Some, in effect, deny the 'charges' outlined above; some produce other more positive reasons for the value of foundations in democracies.

10.3.2 Denying the Charges

10.3.2.1 Misplaced Fear
One response to the anxieties described above suggests that fears concerning the influence of foundations are misplaced and overblown. Despite the suggestion that influencing policy should be a key factor in

every foundation's strategy (Orosz 2000), the truth is that the majority of foundations do not see such activity as part of their role (see e.g., Anheier and Daly 2006).

Furthermore, it is suggested that foundations, always keen to stress their individuality, are generally too uncoordinated to exert real influence. Even the supposedly influential Neo-Con foundations in the USA were, some argue, really not that powerful: 'That their policies have been adopted is no great sign of their power; how much skill is needed to persuade the representatives of the wealthy to adopt policies favourable to the wealthy?' (Roelofs 2004, p. 25). US foundations' lack of power is further demonstrated by their failure to achieve the defunding of social service agencies, the abolition of farm subsidies, the elimination of environmental laws and abortion rights, and the dissolution of the National Endowment for the Arts (on the power of money in policy influence and its limits see also West 2014).

Yet another strand in the 'misplaced fear' response is that '…foundations reflect cultural trends more than it generates them'. The commonplace view that foundations are powerful influencers is 'partial, incomplete, and mostly, overstated' (Prewitt 1999, p. 979; see also Eikenberry 2006b). Foundations are incapable of 'inventing' social causes or movements; they are 'not equipped to be seriously in advance of the grantee institutions on whom they depend for ideas and implementation' (Prewitt 1999, p. 985). Foundations are not cultural leaders but early followers (see also Anheier and Hammack 2010).

Yet another variation on this type of response might be that foundations less often seek to change policy and more often work to ensure that existing policy is properly and fully implemented.

10.3.2.2 'It Depends'

A more nuanced version of the 'not that powerful' defence highlights the variability of foundation influence. For example, Toepler argues that perceptions of foundations' effectiveness and influence are based on attributing individual findings to the aggregate. Furthermore, he suggests, examples of high-impact influential foundations are largely drawn from the past, when the impact of foundations may have simply been a function of their size relative to what was then in the USA small government (Toepler 1999).

This strand of argument is interesting in that the heated attacks on foundations in the USA in the twentieth century were indeed based on generalisations from exceptional cases (i.e., the very large foundations such as Rockefeller, Carnegie, and later Ford). Furthermore, of course, the notion of concentrations of wealth and power (at the heart of the criticisms) is relative. For all the emphasis on the growth of philanthropy today in fact foundations' spending power has been steadily diminishing relative to that of (most) governments. Again the exceptions—the Bill and Melinda Gates Foundation, for example—cannot be used to prove the rule.

It is important, defenders argue, to see foundation spending in a wider context. For example, in 2003 private giving (including corporate, individual, foundation, and bequest giving) was \$240.7 billion; it took the US government a mere 41 days to spend \$240.7 billion in that year. The total amount given or pledged by Bill and Melinda Gates by 2003 was \$23 billion; total US federal government spending in 2003 was \$2.16 trillion (Fulton and Blau 2005).

Not only are foundation resources tiny relative to those of government and business, but arguably foundations' potential power and influence is further diminished by their tendency to work on bite-sized projects divorced from wider structures.

A slightly different version of the 'it depends' defence highlights the serendipity of influence. 'Successful engagement in the policymaking process is a consequence of patience, serendipity and opportunities shrewdly seized, all of which make sweeping theoretical generalisations about the foundation role in policymaking difficult' (Embree quoted in Smith 2002, p. 1; see also Kingdon 2003).

The arguments above are essentially negative defences of foundation influence: we don't need to worry about foundations' policy influence because, for various reasons, they just aren't that powerful. But there are other more positive defences of the importance of foundations in a democracy.

10.3.3 Positive Responses

10.3.3.1 Protection Against 'Big' Government

One positive defence of the roles of foundations in democracies is that foundations act as a counterweight to overly powerful governments. For example: 'tax exemption is a means of preserving the strength of the private sector and ensuring that our cultural and educational life is not wholly subject to the monolithic dictates of government.… The policy is based on the wise conviction that we will be better off if these activities so crucial to the core of our national life are participated in by individuals and groups with a wide range of points of view. We don't believe that Big Government has all the answers; we want a lot of people in on the act' (Gardener 1970, pp. 215–216).

Similarly: 'No government agency, however vigorously led, can readily break the crust of ingrained bureaucratic habits which can lead to the mechanical performance of old things in the old ways—though the old ways have been rendered obsolete by new conditions. No government agency, however enlightened, can hold the entire nation in a single vision or can move quickly enough to do all the things a pluralistic society demands. None, however courageous, is at liberty to undertake the high-risk ventures that are inherent in social innovations—ventures which are as likely to end in an instructive failure as a singular success. The very bigness of Big Government, with its generalizing rules, makes it a seemingly remote monolith, unresponsive either to urgent and unique local needs or to emergent new opportunities for imaginative social action'. (Peterson 1970, pp. xiv–xv).

Mavity and Ylvisaker (1987) provide a more subtle version of this type of defence of foundations. Foundations may serve as a countervailing force to government and other private influences: '(a) by counterbalancing patterns of resource allocation. If government is concentrating on or neglecting one set of social concerns and corporate and individual givers another, foundations can shift in contrary directions and attend to other constituencies; (b) by providing complementary support that helps non-profit agencies fend off or cure distortions of their priorities, terms of reference, or operating modes caused by overdependence on other funding sources; (c) by offsetting or neutralising the political and special interests that often accompany governmental, corporate or personal giving; (d) by taking a longer and broader view than other funding sources can or will adopt' (p. 373).

It is also argued that the 'relative freedom from the fickleness of the political system has allowed foundations to choose the social needs they think are most important to address. Foundations' capacity to in effect anoint themselves has…allowed them to take on social issues too hot for government to handle' (Karl 1996, p. 3).

10.3.3.2 Pluralism

Yet another positive response is that foundations are essential bulwarks of pluralism: 'democracy benefits when new ideas and energy rise to the surface and find their place, even if that process involves conflict… Pluralism is a core value of democracy.… Through multiple viewpoints and free, open debate and research problems can be better analysed and addressed—and democracy enhanced' (Berresford 2004).

10.3.3.3 Maximum Public Benefit and Minimum Loss of Economic and Political Freedom

A closely related defence comes from Prewitt, who suggests that the value of foundations lies less in what they do and more in what they represent. A liberal society wants public goods at least cost to the economic and political freedom of citizens. Foundations are valued because they provide a means of channelling private wealth into the provision of public benefit without encroaching on political and economic freedom (Prewitt 2006). In other words, foundations may (or may not) be less redistributive than government and less cost-effective than business, but they have the advantage of not curtailing political and economic freedom.

10.3.3.4 Cost-Effectiveness

The non-profit/charity sector is sometimes said to be more cost-effective than government, and this claim may be extended to encompass foundations. But there is little empirical evidence to support this claim, and as various authors note it is somewhat counter-intuitive because foundations do not have the discipline of a bottom line or any strong lines of accountability (see e.g., Prewitt 2006).

10.3.3.5 Redistribution

Another argument in defence of foundations is that while they may be 'undemocratic' they are redistributive. The problem with this defence is that the evidence to support it is very mixed. Foundations appear to be as likely to spend money on the pleasures of the rich as on the needs of the poor (Anheier and Leat 2006; Prewitt 2006; Wolpert 2006; Reich 2013). In addition, this argument would require evidence that foundation spending is more redistributive than would have been achieved had the money been taxed.

10.3.3.6 Creativity

A rather different defence of the value of foundations builds on their very lack of accountability. It is precisely because foundations do not have to please constituents, shareholders, customers—or indeed the general public—in order to survive that they are so valuable as sources of risk-taking, experimentation, and creativity. So, for example: 'private philanthropic institutions are structurally equipped to act in constructive ways not readily available even to the best agencies of government. They can experiment with diverse approaches to social problems, without fear of being voted out of office.… They can make their own failures a source of knowledge to government itself about what it would be wise to avoid in its policies—just as they can provide government with a model of a successful social test.… They can apply their sophistication and independence to the legitimate demand for healthy criticism of America's institutions—government and non-government alike' (Peterson 1970, p. xv). Foundations can think and do the unthinkable—or the unpopular—and take the risks necessary for genuine innovation. Foundations are capable of acting as 'society's passing gear' (Ylivsaker 1999; see also Anheier and Leat 2006; Kramer 2009).

Foundations' independence means that they can offer support to the unusual or the unexpected because they are not beholden to the consensus-forcing expectations placed on the public sector (Prewitt 2006). By stimulating alternative ways of thinking and a voice for the little-heard, foundations are, paradoxically, a means of maintaining healthy democratic debate. Furthermore, because of their longevity/perpetuity and lack of the fear of being voted out of office, foundations can provide the longer-term view often missing among politicians tied to (short-term) electoral cycles (Anheier and Leat 2006).

10.3.3.7 Promoting Democracy

A rather different set of arguments in favour of foundations focus on the ways in which they may actively promote democratic institutions and wider governance.

The story of the creation and work of Fritt Ord in Norway highlights the way in which foundations may have their origins in a passionate concern for the defence of democracy. The story begins with two men—neither of them particularly rich—Jens Henrik Nordlie and Jens Christian Hauge. Nordlie was Managing Director of the Narvesen Kioskkompani (Narvesen Kiosk Company), founded in 1894, Norway's main distributor of newspapers and journals through its railway station kiosks and other outlets. Hauge had been leader of the Norwegian military resistance before becoming Norwegian Minister of Defence from 1945 to 1952, and Minister of Justice in 1955. In the 1970s the Cold War and memories of the Nazi occupation added to fears of Soviet occupation. Nordlie and Hauge began to look for ways in which they could protect and promote free expression and democracy in Norway. Meanwhile, the Narvesen Kiosk Company, still wholly-owned by the Narvesen family, was becoming concerned about a possible takeover. The solution by Nardlie, Hauge, and Narvesen's deputy executive director Finn Skedsmo was to persuade the Narvesen family to sell their shares in the company to a new public-benefit foundation, Fritt Ord—Free Word—committed to supporting freedom of expression (for further details of this story see Watkiss 2008, pp. 99–113).

Some foundations are active in encouraging citizen organising and education and voter registration. For example, the election of Cleveland's first black mayor is frequently linked to Ford Foundation funding of a voter-registration drive (Smith 2002).

Other foundations have explored the potential of new models of democracy, such as participatory and deliberative forums. These models have their critics. For example, some suggest that such approaches filter out unusual ideas and systemic critique and 'encourages people to base decisions on their own experience, or that of the other participants. This may impoverish discussion on issues that are fairly remote from their experience (e.g. trade, militarism, and other foreign policy questions). Perhaps more significantly, it discourages exploring the connections between remote matters and local problems' (Roelofs 2004, p. 50). While this may be true, the point is that foundations are exploring and experimenting with ways of promoting new models of democracy; and arguably are one of the few institutions able to do so.

10.3.4 Looking in the Wrong Place?

Finally, there is another important view concerning foundations' roles in democracies. Instead of looking for foundations' influence on particular policies (which would be generally difficult to trace) it may be more appropriate to look beyond discrete policy decisions to the broader 'politics of knowledge' (Lageman 1992). 'Foundations have been the key participants in this politics, building institutions and shaping the fields of knowledge that have a bearing on policy decisions, giving prominence to individual experts and to groups working in particular policy domains, structuring the lines of communication between experts and the public and, through training and education, fostering access to those knowledge producing elites' (Smith 2002, p. 6; Heydemann and McKinsey 2010; for an example of an attempt to trace the role of a foundation in influencing a particular policy, see Davies 2004).

CHAPTER 11

Dark Corridors or Glass Pockets?

11.1 Introduction

The accountability—or lack of it—of foundations is a theme that underlies many of the issues discussed in previous chapters. If foundations were better regulated and more accountable then the 'playthings of the rich' charge would have less relevance. If foundations were better regulated and more accountable their effects on democratic process would be more apparent— and so on.

11.1.1 Charges and Responses

The Charge Foundations are largely unregulated, unaccountable organisations lacking in transparency.

The Response Demands for greater accountability are inappropriate and often confused; foundations are regulated in various ways and more regulation would discourage giving and damage potential for risk-taking and innovation.

11.2 The Charges

11.2.1 Unaccountable and Unregulated?

Foundations are formed as a result of private gifts, so why should they be accountable to anyone? One obvious answer is that, whereas businesses

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have shareholders to whom they must answer and governments have voters, foundations have no inbuilt structural mechanism to ensure that they do what they promise, so there needs to be, at the least, some mechanism to ensure that the foundation carries out the wishes of the donor and operates honestly, efficiently, and effectively.

Another reason for making foundations accountable is that they are semi-public organisations, enjoying certain privileges, including tax deductions, granted on the assumption that they will provide public good. As a result the use or misuse of foundation funds is legally the concern of society (Fitzgibbon 1997; Gaul and Borowski 1994).

There is also a growing argument that foundations need to be made more accountable as they come to occupy a space previously seen as belonging to government. Examples include Mark Zuckerberg's investment in Newark, New Jersey, schools and multiple philanthropic efforts in Detroit to fund what were formerly public functions. Discussing Zuckerberg's $100 million donation, one observer remarked: 'he and his staff can go in and negotiate massive reforms in the Newark school system, none of which went through any levels of public process, in return for this big gift' (Rourke 2014, p. 5). Similarly, in Detroit the funds donated by a group of foundations to revitalise the city were subject to stringent conditions: 'This crosses a line between merely seeking and blatantly demanding responses from potential grantees, including public agencies that should be answerable only to the voters' (Schambra quoted in Rourke 2014, p. 6). Fears that foundation money is directly or indirectly funding terrorist organisations have further fuelled demands for greater accountability.

Foundations have long been accused of secrecy: 'For the most part, foundations still operate behind closed doors, in dark corridors where the precept of Justice Brandeis that sunlight is the best disinfectant is hardly known.… And, on the rare occasions when someone has the temerity to utter a reservation about a foundation's policies or practices, even such constructive criticism seems to easily penetrate the genetically endowed thin skin of those who earn a living by giving away money' (Levy 2002b, p. 5; see also Karoff 2004).

Foundations' lack of accountability stems, it is suggested, from their financial independence—they do not have to please anyone in order to survive. 'Foundations lack the three chastising disciplines of American life: the market test, which punishes or rewards financial performance; the ballot box through which the numbskulls can be voted out of office. And the ministrations of an irreverent press biting at your heels every day' (Peter

Goldmark, former Rockefeller Foundation President, quoted in Arnove and Pinede 2007, p. 390).

Furthermore, critics argue that it is not in foundations' or grantees' interests to encourage greater accountability. Grantees have an interest in avoiding close scrutiny of the effects of their interventions, and foundation boards and staff similarly have an interest in believing that the money was well spent. The result, some argue, is a collective dance of deceit in which funders are told what they like to hear and grantees are freed from true accountability for their efforts (see e.g., Emerson 2001). One result is that there is little opportunity for others to assess the work of foundations and little incentive for foundations themselves to be self-critical. 'Openness about problem recognition and problem fixing is discretionary and the privacy of foundation decision-making makes it impossible to assess the extent of philanthropy's being "asleep on the job" or actively monitoring its own processes and products (Harrow 2016).

True accountability will only exist, so the charge goes, if foundations face sustained fiduciary scrutiny from external parties with real powers to reward or honour exemplars, challenge laggards, and penalise transgressors (Schmidt 2015). More words alone will not do. As MacDonald notes: 'Giving away money through a foundation is a wearisome and complicated business, vexing to the soul and wearing on the liver. Like an army, the United Nations, and other large bureaucratic organizations, a foundation excretes an extraordinary quantity of words, most of them of stupefying dullness' (MacDonald 1956, p. 102).

11.3 The Responses

There are various responses to the charge that foundations lack accountability and transparency.

11.3.1 Tax Subsidies and Accountability

One set of arguments challenges the legitimacy of the demand itself. Yes, foundations receive tax subsidies but that does not imply that they should therefore be publicly accountable. 'It would be difficult for any individual…to get through a single day without coming into contact with or being affected by government. To say that these contexts, even subsidies which we all share, some directly, others indirectly, to say that these contexts gave government the right to control private behavior, would mean that there is no limit whatsoever of any kind whatsoever on control of individuals by government…. Are people to become convinced that government aid or tax preferences mean government control?… Treatment of tax preferences (i.e., deductions given to individuals who choose to follow approved governmental activities, such as charitable giving) as semi-illicit forms of spending suggests that there is something not quite right about them that entitles governments to impose sanctions or limitations on those who take advantage of what the government has offered' (Wildavsky 1987, p. 33).

11.3.2 Adequate Regulation

Another set of arguments accepts the need for accountability, but suggest that foundations are already adequately regulated even though there is considerable variation between countries in what is regulated, at what stage, and by whom. For example, the following chart illustrates the similarities and differences between four countries within Europe (Table 11.1).

The countercharge to the response that foundations are already regulated suggests that government regulation at national or state level, or through tax authorities, is often weak because these agencies do not have the personnel capacity to monitor and regulate effectively. Even in the USA the accountability-enforcing arrangements of the state and federal governments are said to be entirely inadequate, functioning primarily to detect, deter, and punish illegal actions by a tiny number of organizations (Fleishman 1999; see also Bothwell 2001).

Regulation comes from various sources and has various consequences. Closure of a foundation as a result of a regulatory inquiry is rare but not unknown. For example, in 2014 the Pearson education publishing company closed its foundation after an inquiry by New York Attorney General Eric Schneiderman determined that the foundation had engaged in activities to aid its for-profit business. The inquiry revealed that the foundation, working with the Gates Foundation, had sought to develop classroom materials and tests for new academic standards adopted in most states from which the publishing company stood to make considerable profit.

In addition to formal, legal regulation foundations are subject to other forms of accountability. Regulation may be disguised as exhortation or standard-setting (for one example of this type of regulation, see Harrow and Jung 2015).

Table 11.1 Foundation accountability in four European countries

	France	*Germany*	*UK*	*Spain*
Main legislative reference	Law 87–571 of the Promotion of Philanthropy 1987. Law on corporate foundations 1990	German civil code. State legislations	Charities Act for England and Wales 1993	Act 30/94 Real decreto 765/95 Real decreto 316/96 Real decreto 384/96 Real decreto 776/98
Prevailing type of foundation	Operating	Grant-making	Grant-making	Mixed
Rules for establishment: State authorisation Public register	Yes, by the Min of Interior to acquire legal personality. No.	Yes, by Lander Authorities to acquire legal personality. In some Lander registration required. No public register at Federal level.	No Yes, must register with the Charity Commission.	Yes Yes, different public registers for different activities.
Supervision Internal: Supervisory authority:	No Min. of Interior	Yes Each state has own supervisory agency. In some control of efficiency of foundations' operations; in others simple control of conformity with law.	Yes Semi-independent Government body (Charity Commission). Control of legitimacy and efficiency focused on annual reports and accounts, plus wide information and consultative power.	Yes Protectorados for authorized foundations. Control of legitimacy and efficiency.

(*continued*)

Table 11.1 (continued)

	France	*Germany*	*UK*	*Spain*
Financial Accounting and Reporting:	Yes	Yes	Yes	Yes
Obligation of bookkeeping and accounting.	Bilan, Compte d'Emploi, Annexe	Annual accounts	Annual Reports and Accounts	Balance sheet, inventory, budget Memoria
Financial documents required	Annual report plus accounts	Audit and random reports may be required	Audited annual report and accounts	(as above)
Documents to submit to supervisory authority	No	No	Yes, must be in Public Register.	Yes, Protectorados deposit financial documents, open to public.
Public disclosure of financial information				
Social Reporting:	No	No	Yes	Yes
Obligation to publish information about activities	Yes	Yes	Yes	No
Self-regulation/code of practice				

Adapted from European Foundation Centre (2011), see also van der Ploeg (1999), Heydemann and Toepler (2006)

11.3.3 Self-Regulation

Foundations in many countries engage in self-regulation via codes of practice and membership organisations (see e.g., Gugerty 2009). Codes are written by members in order to ensure ownership and feasibility, but this can have a lowest common denominator effect. Self-regulation is attractive to many foundations as a means of flushing out any rotten apples and maintaining reputation without onerous legislation. One means of self-regulation is improving board governance, but Bothwell suggests this is a 'sisyphean' task: 'A foundation board of directors is both a beauty and a beast; it is a beauty because anyone can create a foundation for almost any (charitable) purpose, it is a beast because it can act improperly. Keeping the beast, however, is the price we pay for keeping the beauty. There is no silver bullet to slay the beast in the board. There are no ways to guarantee selection of good, conscientious people as board members, nor to keep them focused on proper board oversight matters' (Bothwell 2001, p. 4; on self-regulation see also Ilchman and Burlingame 1999).

Accreditation programmes are another form of self-regulation but tend to be rare in the foundation sector, partly perhaps because of the diversity of the sector and because imposing a 'type' goes against the foundation sector's cherished independence and celebration of difference.

One countercharge to the self-regulation argument is that codes of ethics, codes of conduct, accountability standards, and principles of good practice are ineffective without enforcement. But even when there is enforcement, in theory it may have little effect. For example, since the early 1980s the US Council on Foundations has had Principles for Effective Grantmakers, and a foundation not willing to agree to the principles may either be denied membership or have its membership terminated. Despite the fact that there is little evidence of these sanctions being applied, a group of right-wing foundations created its own 'mini council'—Philanthropy Roundtable—because it did not want to agree to the principles and practices.

Independent watchdogs are also rare in the foundation sector. The National Committee for Responsive Philanthropy (NCRP) in the USA is one exception. NCRP evaluates foundations for their responsiveness to disenfranchised populations.

The Foundation Center in the USA has a 'Glasspockets' initiative designed to foster foundation transparency and accountability. The website includes a section showcasing the online transparency and accountability practices of more than 50 of the largest US foundations. 'Foundation Transparency 2.0.' lets visitors explore online communications tools foundations are using; 'The Reporting Commitment' allows users to track grants information from leading US foundations; and 'Eye on the Giving Pledge' reports how more than 100 of the world's billionaires are participating in the Giving Pledge.

Foundations may also attempt to make themselves accountable to grantees via grantee-perception surveys.

11.3.4 Confused Demands: 'It All Depends'

Demands for greater foundation regulation, accountability, and transparency may be met with the response: 'It all depends on what you mean'.

When critics demand greater accountability, what are they asking for? One radical interpretation of demands for greater accountability is that foundations should be governed by democratically elected boards. But if boards were democratically elected then how would foundations differ from government—and what would be the effects on risk-taking, innovation, and so on?

A major problem with the term 'accountability' is that its popularity is inversely related to agreement about its meaning. It is unclear for what, and in what sense, foundations are being asked to be more accountable. Are foundations being asked to account for the proper use of money (fiscal accountability), their use of proper procedures (process accountability), the quality of their work (programme accountability), and/or their choice of priorities, and the relevance and appropriateness of their work?

Then there is the question of to whom foundations should be accountable. Foundations tend to talk about 'society' and 'community' rather than specific stakeholders. A list of foundation stakeholders might include: donors, the tax authorities, grant seekers, grant recipients, beneficiaries, board members, staff, government (at various levels), media (as proxies for taxpayers/the general public), other foundations, other funders, companies in which the foundation has investments, companies in which the foundation has chosen not to invest, future generations, the natural environment, and so on.

Foundations may be seen as accountable to different groups for different things, to the same group for different things, and to different groups for the same thing (Leat 1990). Inappropriate accountability requirements may arise from lack of clarity over for what the organisation is accountable to a particular group.

There are also questions about what accountability entails. Contractual accountability may be defined as fulfilment of the terms of the contract. Failure to meet the agreed standards requires change on the part of the accountor (i.e., the one giving the account).

Explanatory accountability refers to giving an account, to describe, and explain. It does not necessarily imply any requirement that the accountor listens to responses to the account, nor that anything is changed.

Consultative accountability involves offering those accounted to an opportunity to express their views. This may be a one-way consultation or a two-way dialogue. Again, there is no necessary commitment or requirement to change anything.

Responsive accountability is about taking into account or being mindful of the interests of those to whom the accountor perceives itself to be accountable. It does not imply systematic consultation or any change. This is arguably one of the weakest and most common meanings/types of accountability.

Challenging demands for greater foundation accountability also raises the issue of sanctions. It is worth considering who has what sanctions and what strength they have. Foundations do not have customers or constituents to exercise sanctions, but they may be vulnerable to loss of tax reliefs and loss of licence to operate/charitable status. Some are vulnerable to loss of present and future donors; and corporate foundations are vulnerable to loss of customers and shareholders of the associated business. And all who value their reputation are vulnerable to that loss (see e.g., Siska 2001).

Demanding that foundations be more transparent is subject to many of the same queries. In general, however, transparency tends to mean giving people information to make a judgement with no implication of sanctions or change. When foundations are asked to be more transparent the demand may be for information about: their existence; governance; size and sources of income; investments; management and staffing (e.g., salaries, equal opportunities, etc.); priorities; funding policies; processes, including decision-making criteria; expenditure, including costs and cost headings; grants' outputs, outcomes, and impacts.

11.3.5 The Downsides of Glass Pockets

Finally, there is an argument that too much accountability and/or transparency is unhelpful, if not actually counterproductive.

Accountability clearly has costs. It may be seen as an administrative burden, as deterring new donors, encouraging applications the foundation cannot handle, and as discouraging creativity and risk-taking. Accountability to grantees can lead to conservatism and complacency.

Andrews argues that ‘glass pocket principles’ need to be more nuanced than they have been so far, acknowledging that there are circumstances in which transparency can be potentially harmful (Andrews 2014). Transparency may be dangerous when space for civil society is closing and cross-border funding is contested. Andrews gives the example of the Hungarian government, which recently accused Norway Grants and others of political meddling, and published a list of supposedly ‘problematic’ and left-leaning grant recipients. Andrews also points out that once data are made public they are public forever, and no one can know how things will play out. Data on grants to LGBT organisations in Uganda had the power to endanger lives when the Ugandan government passed laws against ‘aggravated homosexuality’.

Lack of accountability can bring advantages, enabling foundations to take a long view, providing patient money, investing in uncertain experiments, and presenting the most successful to democratic publics for approval and take up (Reich 2005).

Frumkin provides an interesting analysis of the potential dangers of regulating foundations. The Tax Reform Act (TRA) 1969 imposed the first real set of regulations on foundations in the USA. The unintended consequence of foundations’ quest for legitimacy following passage of the TRA has been a reduction in the capacity of foundations to address contemporary social problems which, in turn, Frumkin argues, is related to the emergence of highly-staffed foundation bureaucracies and a push to professionalise grant- making. Increased administrative costs have, according to Frumkin, led to the emergence of targeted, project-oriented grant-making designed to use the skills of the emerging class of foundation professionals. Multiple professional associations have produced training programs which ‘seek to inculcate philanthropic norms and standard operating procedures’ (Frumkin 1998a, p. 273). Increasing collaboration and normative isomorphism have made it difficult for foundations to fulfil their unique function of providing large sums of venture capital to support innovative and controversial initiatives. ‘In the end, mimetic processes fueled by growing associational ties and normative isomorphism, driven by the emergence of a single code of conduct, have moved foundations toward a more unified organizational field’ (p. 273). This collaboration and cohesion have constrained foundations' creativity (on trends in accountability more generally, see e.g., Ilchman and Burlingame 1999; Clotfelter and Ehrlich 1999; Lasby and Barr 2012).

11.3.6 Not More or Less, But the Right Sort

Some argue that the issue is not more or less accountability, but rather the right sort of accountability. Being accountable may add very little. Dwight MacDonald, commenting on the Ford Foundation's public presentation of its intended programme, said that it was 'a work of awesome earnestness, composed in the most stately foundationese, where meaning, such as it is, decently drapes itself in Latin-rooted polysyllables….' (quoted in Sutton 1987, p. 48).

Frederickson (2001) suggests that the accountability of foundations would be improved if attributions of causality and performance measures were treated with caution; if it were accepted that institutions and communities are all different and performance measures do not encourage 'one size fits all', or one standard, for all. Those demanding greater accountability also need to recognise that some grants are designed not to solve problems, per se, but to build institutional capacity to solve problems, as well as acknowledge that there are few short-term solutions: foundations tend to be most effective when they work long-term. Frederickson also suggests that if foundation accountability is to be appropriate it has to be recognised that doing something is better than doing nothing, and that good and poor performance measures may say something about the difficulty of the problem addressed (Frederickson 2001).

Similarly: 'When we focus not on maximising the value of (philanthropic institutions) to society but on how they can best contribute to *democratic flourishing*, we gain a better understanding, I believe, of what kind of accountability mechanisms are most important' (Reich 2015, p. 54).

A final note of caution from Frumkin: 'in the long run the opening up of foundations holds both promise and danger. On the positive side, securing information about the grant-making activities of major foundations is now easier than it has ever been.… On the negative side, the new ethos of openness has obscured to some extent serious critical evaluations of foundation performance. With their tremendous resources directed outward, foundations now control their image more fully than ever before' (Frumkin 1999, p. 94).

CHAPTER 12

The Future Is Monstrous?

12.1 Introduction

Jacques Derrida (1995) argues that a future that is not monstrous would not be a future but a predictable tomorrow; all real innovations have something scary or 'monstrous' about them. Futurology is a dangerous business for various reasons. This final chapter claims to do no more than highlight some issues foundations may face in the coming decades.

If the future is more of the same—a predictable tomorrow—then the future for foundations looks rosy: more very wealthy people, creating more foundations, in more countries, with more money. But it is not difficult to imagine a more monstrous future.

12.2 Issues Ahead?

12.2.1 Tax Advantages

Questioning of the tax privileges enjoyed by foundations is one potential challenge ahead. The logic of tax advantages for giving was summed up by the US House Ways and Means Committee Report relating to the Revenue Act of 1938: 'the exemption from taxation of money or property devoted to charitable or other purposes is based upon the theory that the Government is compensated for the loss of revenue by its relief from financial burden, which would otherwise have to be met by appropriations from public funds, and by the benefits resulting from the promotion of the

D. Leat, *Philanthropic Foundations, Public Good and Public Policy*,
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general welfare' (quoted in Brilliant 2000, p. 21). That logic still broadly holds, but today hypothetical benefits are rarely enough. In some countries there is a possibility that tax advantages will diminish and/or that more evidence of public benefit will be required. These demands could create a new dilemma for foundations—will they eschew tough issues, risk-taking, and innovation in favour of short-term, easy, demonstrable impact?

But abolishing tax advantages for giving is politically dangerous for governments, as both the Coalition government in the UK and the Obama administration in the USA recently discovered. It is more likely that governments will choose to reform tax structures in various ways. For example, Reich (2005) suggests that governments could equalize the tax benefits of giving for all by allowing donors a tax credit linked to the amount donated, rather than a tax deduction linked to the donor's tax bracket, and could also give additional tax advantages to programmes redressing poverty.

Schmidt (2015) argues that the amount of immediate benefit generated by foundations could be increased by tying rate of spending out to the level of tax deductibility; in other words, if a foundation promises to spend out in 10 years then it attracts a higher rate of deductibility compared with a foundation set up for a longer period.

Schmidt (2015) also argues in favour of a distinction between gifts to organisations that continue under the control of their donors and families and gifts to operating charities; only gifts to operating charities should be considered as gifts for charity liable for tax deductions.

12.2.2 Greater Regulation

While governments are encouraging philanthropy there is also evidence that they are also beginning to restrict what foundations and individual philanthropists may do. The International Center for Not-for-Profit Law estimates that since 2012 30 new countries have been added to the list of those that restrict cross-border giving (quoted in Pickering 2015, p. 40). It is not only cross-border giving that is being restricted. Support for advocacy and campaigning has long been restricted in some countries, but now new countries, including the UK, are introducing restrictions. For foundations a monstrous future could well be one in which philanthropy is heavily steered toward, if not confined to, service provision.

12.2.3 The Rise and Rise of 'Effective Altruism'

The plea for giving that is 'evidence-based' has been growing in recent decades, and now seems to be coalescing under the banner of 'effective altruism', which seeks to combine empathy with evidence (www.effective altruism.org/about-ea; on evidence-based philanthropy, see also e.g., Brest 2012). Some of the limitations of measurement in the work of foundations have been discussed in Chap. 9; and Patrizzi et al. (2013) provide a cogent analysis of the limitations of strategy, outcomes, measures, and 'traffic lights' (a widely used way of assessing whether a foundation grant or programme is 'on track') in conditions of complexity and uncertainty. 'Evidence-based' philanthropy may be increasingly challenged not only as a way of encouraging illusions of simplicity and control, but also as steering foundations in the direction of 'biggest bang for your buck' and a medical model of working in which randomised control trials and calculations of net-benefit rule. Where was the randomised control trial for the ending of slavery or the introduction of gay marriage?

Democratic societies require a dynamic tension of conflicting ideas. With the growing emphasis on measurement, foundations may need to consider the possibility that evaluation will overtake a passion for new ideas, new values, and ways of doing things. The daring and dreaming the 'impossible' gets squeezed out and replaced by plans and key performance indicators. Odendahl (2005) imagines a young, ambitious black minister approaching a foundation saying, 'I want to tear down discrimination'. The exchange goes like this:

> *Foundation*: 'Well, what's your plan'?
> *Black minister*: 'I am going to talk to some people and see what we can do. And I'm going to do it in ten years or less'.
> *Foundation*: 'Impossible, can't believe it, can't work, no strategic plan, no infrastructure. You and this little church basement? Pu-leeeze!! We're sorry, we've got more proposals than we could support this year' (6). (The applicant is, of course, Martin Luther King).

Foundations may also begin to examine the limitations of rational problem solving. Discussion, better staffing, capacity-building, training, and dissemination of knowledge can only go so far in addressing problems in policy. Some conflicts are 'hardwired' into complex policy problems by the very nature of democratic decision-making (Stevens and Brown 1997).

12.2.4 *Relations with Government and Business*

Foundations face potential challenges concerning their relations with government and business. All of the major early twentieth-century US foundations (e.g., Russell Sage, Carnegie, Rockefeller, Rosenwald, and Commonwealth) shared a vision of philanthropy as more 'efficient' and 'scientific', and all of them understood that they had to engage government. In recent decades foundations in many countries seem to have avoided direct engagement with government, and some even seem to ignore government altogether (Karl and Karl 1999). But as Rosenman (2005) argues, only government has the power to improve public policy and institutions, to set public priorities, and to raise and allocate resources in ways that can reduce both need and the demands on non-profit organisations. Private giving can never fill the vacuum left by a disappearing government. Private giving cannot take the place of government but, foundations can finance long-range efforts that will enable non-profit groups to understand that a strong government, responsive and responsible to its people, is essential to a strong civil society. Foundations, Rosenman argues, must champion the state. Similarly, LaMarche states that the 'public option' is not an option, it is an imperative (2009).

Addressing relations between foundations and government will not be easy. Private philanthropy and government operate in tension and in tandem. The giving part of philanthropy carries out functions that are the counterpart of what is done by the government—listening to public opinions, identifying social problems, investigating and analysing, choosing ways of dealing with those issues, assembling resources, allocating resources, and evaluating performance. 'Foundations can do these things without having to levy taxes or get elected. When this comparison is made it is easier to understand the ''love-hate relationship that exists between society's public and private legislators.… They are at once practitioners of the same art but competitors, each with its own working habits and competitive advantages, each struggling to keep and expand its own share of the market of social influence' (Mavity and Ylvisaker 1977, p. 799).

The story of relations between philanthropy and government in the USA in the 1930s illustrates some of the tensions, and perhaps provides a salutary tale for some governments today. Hoover, as Commerce Secretary in the 1920s, dreamed of no-cost federal governance, in which localism and private initiative responded to problems under the overall direction of the federal government—what in the UK today might be called Big

Society. By the early 1930s, with Franklin D. Roosevelt in power and Harry Hopkins as head of administration of Federal Emergency Relief, relations between government and philanthropy changed. Hopkins, wanting to find a redistribution formula that would prevent rich states from claiming a disproportionate amount of (matched) federal funds, prohibited transfer of federal funds to private agencies (Kunz 2012).

Acknowledging that foundations and government work in tandem and in tension may be one step on the path to making the competitive relationship between foundations and government democratically productive and creative.

12.2.5 Power and Decision-Making

As various authors have noted, we live in a phase of 'second modernity' (Beck et al. 2003), in which the premises of the first (post-war) modernity are challenged. National borders, the hollowing out of nation states, gender roles, the nature of power, employment practices, ownership and accountability, new technologies, and approaches to the environment have all radically changed, and will likely continue to change. A monstrous future will require that foundations examine their assumptions about various matters, including the nature and location of power and influence.

As Naim (2013) notes, power is shifting 'from brawn to brains, from north to south, from west to east, from old corporate behemoths to people in town squares and cyberspace' (p. 1); it is also becoming easier to get, harder to use, and easier to lose. Routes of influence are changing, but as Smith (2002) argues, some foundations have yet to get to grips with the changing framework of contemporary policy discourse, which is no longer mediated by political parties, interest groups, and elite opinion-makers, but rather by the media, direct mail, talk radio, the web, and so on: 'These new realities of the policy process have posed continuing, bewildering challenges to mainstream foundations whose work has been grounded in problem-oriented, field specific and, above all, pragmatic work' (p. 25).

In many countries foundations will grapple with the reinvention of public-sector institutions and the reformation of the overall architecture of state operations. The shift from government to governance, from a hierarchy of command to polycentric and 'strategic' network relations within and across new policy communities, is bringing new kinds of actors into the policy process and enabling new forms of policy influence that circumvent some of the established actors and agenda. The divide between public, private, and non-profit sectors is increasingly blurred and responsibilities and accountabilities—and power—are being rearranged across the fuzzy divide (on new forms of government and governance, see e.g., Jessop 1998; Marinetto 2003; Ball 2008).

12.2.6 Talking About Happiness

Foundations talk about promoting 'public good' and 'public benefit' but they rarely talk about furthering public happiness. Governments, by contrast, are increasingly concerned with happiness, and the United Nations produces an annual map of human happiness throughout the world. Comparing happiness between countries reveals that the key factors that make a difference are: good government, prosperity, freedom/democracy, gender equality, and healthcare (especially mental health) (on the economics of happiness, see e.g., Veenhoven 2012).

12.2.7 Grant-Making and Money

Foundations may increasingly examine the nature of grant-making and its place in the foundation toolbox. Various trends suggest that interest in operating, rather than grant-making, may be increasing. In some countries grant-making is constrained by distrust of non-profit organisations; newer donors too show some signs of wanting to bypass such organisations. As already noted, the largest foundation in Germany (and one of the largest in Europe)—the Bertelsmann Foundation—has deliberately chosen to be an operating foundation. Observation of the European foundation field more generally suggests that grant-making foundations are increasingly operating some projects and functions themselves, rather than contracting them out to grantees. It could also be argued that even if foundations do not explicitly operate their own projects, they may increasingly implicitly do so. As grant-making becomes more professionalised and more concerned with effectiveness, the level of control exercised by the foundations may be such that the grant-making/operating distinction is eroded, and the benefits of grant-making called into question.

There may be increasing debate about the power of grant-making to effect social change. Some view grant-making as rigid, predictive, and predetermined, whereas change requires nimble opportunism and constant adaptation. Rather than being like the orchestra conductor foundations need to behave more like the jazz ensemble. Heintz (2014) contrasts the old foundation as 'conductor of an orchestra' with a new model of change-making as a jazz ensemble with no particular leader.

In a similar vein Skloot (2001) suggests the need to move away from money as foundations' primary tool, and away from grants as discrete transactions made in a linear, mechanistic, transactional, and isolating fashion. A new model is needed, more like a network driven by information and knowledge which is shared constantly and purposefully among grantees and foundations by web, print, and constant personal connection. Mutual learning and relationships flourish; technical assistance is constant; metrics are determined jointly and shared for mutual gain. Instead of being funders foundations 'become information resources, brokers (and givers) of money and relationships, ongoing learners and listeners and active promoters of success' (Skloot 2001, pp. 15–16). One effect of this type of model would be the need for change in the quantity and types of staff required. Knowledge of the field, ability to collaborate, and maturity would become as important as the ability to analyse grant proposals.

Another effect of this type of model would be a reconsideration of the power of money. Over 60 years ago Raymond Fosdick, president of the Rockefeller Foundation, wrote of a 'distorted perspective in relation to the effectiveness and power of money. There is a common fallacy—and even some foundation executives may not be immune from it—that money can create ideas, and that a great deal of money can create better ideas. Nothing could be wider of the mark. You cannot buy scientists or poets as you would buy vegetables in a cash and carry store. A "crash program" cannot produce genius'. There is, he argues, no substitute for men with brains, training, flaming ideas demanding expression, 'without them money will purchase nothing but motion and futility'… Unless a foundation understands the relatively limited usefulness of money, its performance will likewise be limited' (Fosdick 1958, p. 287). In this age of 'new' mega-philanthropy the limits of the power of money may need repeating.

In the future, foundations may see their primary role not as grant-makers but as a combination of one or more of the 20 functions identified by Ylvisaker (1999). One obvious function is providing financial support in various forms, including grant-making, lending, insuring, investing, and so on. Another set of functions has to do with initiating and/or accelerating awareness of an issue, focussing attention, and/or analysing or redefining a problem already on the public agenda. Foundations may also serve as inventors, demonstrators, or testers of new approaches to addressing issues. Other functions include leveraging, collaborating, partnering, and convening likely and unlikely partners. More contentiously, foundations may act as advocates and critics. Or they may serve to offset or neutralise the special interests of government, corporate, and individual giving. Foundations may act as unifiers and bonders, or as leaders ahead of the general consensus.

The suggestions above for new models of foundation work would require that foundations come to terms with losing control—moving from conductor to member of a jazz ensemble. But arguably loss of control is happening anyway. For many foundations strengthening civil society is a necessary step towards social change. To that end they give grants to build social movements, but then cannot always exert the level of control they might wish: 'Movements are developing in the world on really important issues that defy the procedures of philanthropy. They are leaderless, paperless movements—appearing and disappearing. It's possible that these will be the kinds of movements that will effect social change in the future. If we don't figure out how to relate to them social change philanthropy could become irrelevant' (Kravero 2014, p. 52). Will foundations respond to loss of control by moving away from grant-making to direct action and operating?

12.2.8 Foundations and Dinosaurs?

In a monstrous future it is possible that the foundation form will be less and less adopted. Faced with increasing regulation and demands for transparency, philanthropists may decide that giving is best done without the trappings of an institution. The old foundations of the past may be seen as dinosaurs lumbering around while the new givers, unencumbered by bureaucracy, rules, regulations, and codes of practice, give nimbly—and beneath the radar.

12.2.9 Legitimacy Matters

Related to tax issues but potentially more threatening are questions concerning foundations' democratic legitimacy. As Frumkin (1999) asks: 'How did philanthropy arrive at the point where it now finds itself, where effectiveness has become an ill-defined obsession, where accountability concerns remain largely unresolved, and where legitimacy is neither understood nor achieved?' (p. 90).

The legitimacy of foundations may be questioned from two angles—pragmatic and democratic. Pragmatic questions largely concern the way in which foundations work, focussing on a set of acquired weaknesses. These include: short-term thinking and giving; focus on innovation and failure to follow through; focus on process; a tendency to be parochial; a tendency to work in silos; individualism; failure to value their knowledge as much as their money; both over-claiming and false modesty. Criticism on these grounds can be, and in many cases is, met with change on the part of foundations. Questioning the democratic legitimacy of foundations is harder to deal with. The democratic legitimacy of foundations is not an acquired weakness, it is at the heart of foundations' very being.

In addressing questions regarding effectiveness and legitimacy, foundations face a dilemma. On the one hand, in order to bolster their own legitimacy they have to show that they produce results, and results that are greater than could be achieved by direct giving and/or by government spending tax foregone. On the other hand, one of foundations' potentially strongest claims to value-added is that, as resource-independent organisations, they are freer to be innovative, taking the risks and the long-term view, and bearing the failures that real innovation implies. The rush for results may simultaneously bolster foundations' legitimacy and undermine their claim to add value in ways that other institutions cannot.

In terms of wider social benefit and policy, foundations' potentially innovative role is distinctive and critical: 'There are endless sound bite solutions and entrenched clichés and positions sometimes based on sectoral, professional or organisational pride and advantage. But genuinely creative, innovative ideas are in short supply. Endowed foundations, free of market and political constraints and considerations, and as yet uncaptured by one professional or disciplinary group, have the potential to fill this gap in real creativity and innovation. Foundations can, if they choose, think the unthinkable, ignoring disciplinary and professional boundaries. They can take risks, consider approaches others say can't possibly work, and they can fail with no terminal consequences. Equally important, foundations have the luxury of being able to take a longer-term view. Foundations are free to be imaginative and creative, working across sectoral, organisational, professional and disciplinary boundaries, without the sometimes stifling constraints of short-term, ill-conceived performance measurement criteria' (Anheier and Leat 2002, pp. 179–80).

Demonstrating foundations' democratic legitimacy and value is likely to require some serious questioning and analysis: 'Greeting card phrases such as "the welfare of mankind" do not tell us what we need to know. A better understanding of the role of foundations in our political system might do at least part of the job' (Karl 1999, p. 95).

Smith (2002) provides a still relevant agenda for a real analysis of foundations' roles and legitimacy in modern democracies. We need to ask:

- What values do foundations embody as they pursue a policy role?
- How do those values serve to counter-balance the weakness in the values of the public sector and the marketplace?
- How can foundations enhance innovation in the face of governments' tendencies to programme rigidity?
- How can foundations move fundamental but ignored issues onto the policy agenda?
- How can foundations give voice to marginalised groups?
- How can foundations advance pluralism in the face of the homogenising tendencies of commercial markets (and perhaps governments)?
- How can foundations address inequalities that arise within market economies?

> 'The test of foundations' role in democratic policymaking resides in questions at this level of analysis and it is only in providing explicit answers to these questions—and demonstrable work in these directions—that foundations can continue to derive their democratic legitimacy'. (Smith 2002, p. 29).

Another more radical solution to issues of foundations' democratic legitimacy was suggested by the Rockefeller Foundation over 100 years ago with a proposal for a 'public council' of the Rockefeller Foundation. The thinking was this: 'No great philanthropic trust can permanently endure as a paternal institution, far ahead of the people in wisdom and foresight. Its wisdom and foresight must in some true sense, like the political government, express the will and intelligence of the people. Its wisdom and foresight must at least be susceptible of recognition by the people in order that they may follow willingly and effectively where it leads. In short, the policy of the trust must, in the long run, be democratic'. The proposal was for a body that would represent the whole of the USA, with representatives for every state as well as specialists in particular fields and countries in which the foundation was active. The council would have an annual conference at which directors of foundation programmes would be required to present their work and 'the freest possible discussion of the reports would be encouraged' (p. 8). The council would function both as a vehicle for accountability and as a source of suggestion, criticism, and inspiration. The function would be more than special pleader for local needs. 'Any indication that such a Council tended to exert its influence in accordance with what are known as "pork barrel" methods, would be conclusive evidence that the Council could be of no further use to the Rockefeller Foundation' (RF, Record group 3, series 900, Box 21, Folder 163, pp. 6–9, Rockefeller Archive Center, New York).

Responding to legitimacy challenges foundations in the future may choose to clearly articulate and promote the paradox of foundations. Western ways of thinking are predominantly binary—we think in terms of either/or, one or the other. In other cultures thinking in terms of 'and/and', accepting that something may have several contradictory facets, is commonplace. When we think in terms of 'one or the other', foundations are a contradiction. Foundations in the future may wish to promote a move away from binary thinking, such that foundations become a paradox rather than a problem. Foundations are simultaneously public and private; they are created from private wealth but are for public benefit. They are playthings of the rich allowing them to impose, subsidised by tax foregone, their own values, preferences, and priorities on society. At the same time foundations are a manifestation of the democratic right to choose, as well as a means of providing maximum public benefit with least loss of personal freedom.

Decision-making in philanthropic foundations is concentrated in a few unelected hands. At the same time the fact that foundation decision-makers are unelected may be a strength enabling support for unpopular causes and genuinely risky innovation.

Foundations are the only organisations that can exist in perpetuity without having to please anyone, but arguably, perpetuity (and conservation of wealth) may be a strength, enabling foundations to benefit future generations, take a long-term view in a wider culture of short-term thinking, and encourage donor trust. Foundations are a product of capitalism and inequality, but at the same time they may ameliorate inequality and, through their investment policies, challenge capitalism's worst excesses.

That foundations are largely free to do as they please without having to please customers or constituents is arguably their greatest weakness and their greatest strength, giving them the freedom to fail and innovate, to support, adapt, and disrupt. In democratic societies foundations contain both threat and promise.

12.2.10 Keepers of the Public Faith?

Buchanan suggests that foundations should approach their work ‘more as students and champions of the human condition than as cost accountants and social engineers’ (2014, p. 59). Similarly, there are various calls for foundations to play a part in protecting and invigorating public morality in the face of the privatising tendencies of government, the market, and the non-profit sector (see e.g., LaMarche 2010). In many societies there is considerable effort to protect both individual privacy and the private more generally, but much less effort to promote public morality—a morality that focuses not on individualisation but on our responsibilities towards each other.

In 1977 Mavity and Ylvisaker described the role of foundations as keepers of the public faith and conscience. For them this entailed: improving the processes and competence of government; helping to define and clarify public issues; helping to ensure the right and participation in government and society of all members of the public; and improving the responsiveness of the private sector to public needs. Those roles may be just as relevant and necessary in a monstrous future.

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