

# Philanthropy and the Limits of Accountability:

A Relationship of Respect and Clarity



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## Foreword

# Philanthropy and Accountability: A Time for Reflection

By Chris Gates, Executive Director of Philanthropy for Active Civic Engagement (PACE)

There is no denying that new forms of communication technology, and constantly evolving social media tools, have altered the terms of our social compact. As one young tech executive recently pointed out, what some people don't understand is that inside every device and every piece of software is the DNA of both democracy and transparency.


Sector after sector, institution after institution, have realized they need to rethink the relationship they have with their customers and their constituents. The deference that society once showed experts who knew things that “we” didn't has been replaced by a society filled with people who have the ability, with the swipe of a finger or a keystroke, to become instantly informed about, and engaged in, a vast variety of topics.

Citizens everywhere have demanded more voice, more inclusion, and more information in every aspect of their lives. Experts, leaders, journalists, nonprofits, businesses, and governments are no longer deferred to as they once were. Government agencies now must answer for their inefficiencies. Businesses must justify this quarter's flat profits even before the quarter is over. Schools are now expected to prove “learning outcomes.” Donors and volunteers both demand real-time accountability from the nonprofit organizations they support.

This is all seen today as normal, when as recently as a decade ago all of these organizations were much more opaque and often given the benefit of the doubt. Lest we forget, Facebook was founded in 2004, YouTube in 2005, and Twitter in 2006.

So while the media, political parties, government, nonprofits, and businesses all work to meet the new demands of these hyperconnected times, there is one sector that has—until recently—remained nearly immune from such pressure. That is the field of organized philanthropy.

For decades, foundations have done their work with little pressure to make their operations more open and understandable. Boards have been free to make decisions behind closed doors about which areas they will focus on and what projects and organizations they will fund. Though foundations are created through a charitable donation as defined by the Internal Revenue Service, they have generally been considered, and have acted like, private organizations. These institutions have largely done their work out of the glare of public review from the time of their founding. It was as if the practice of philanthropy had escaped widespread public scrutiny because, by definition, philanthropy was about “doing good.”



But that set of assumptions has been changing. More and more funders are moving toward an approach called “strategic philanthropy,” where their boards and staff members develop a policy or outcome agenda and then use their grants to pursue it. Fewer and fewer funders accept unsolicited, “over the transom,” proposals. Some funders are now engaging in public problem-solving efforts in ways that Andrew Carnegie and John D. Rockefeller probably never imagined, which has sparked a lively debate about how “public” or “private” foundations really are, or should be. What are still officially considered “grants” are now sometimes detailed portfolios of work that have been developed by the funder itself, with the nonprofit partner serving more as contractor than grantee.

Philanthropy for Active Civic Engagement (PACE), a learning collaborative of foundations that make grants in the civic engagement, service, and democratic renewal space, feels the time is right to explore these complicated, and sometimes controversial, issues of accountability and transparency. In a joint effort with the Charles F. Kettering Foundation, a nonpartisan, nonprofit research foundation that studies how citizens make choices, it engaged in a series of conversations, meetings, and interviews with philanthropic and social sector leaders over the course of the past year, exploring how philanthropy might best respond to the new realities of an accountability society.

This report draws the outlines of what a new conversation about accountability and transparency in the field of philanthropy might look like. A case can be made that private foundations are both quasi-private and quasi-public institutions, which makes the conversation even more difficult and textured, but it is a conversation that philanthropy must join.

How are we redefining our role in addressing the public agenda? How can we improve our working relationship with citizens, communities, fields of work, and grantees? How do we work with other sectors in a collaborative way? Is our role to provide venture capital to social entrepreneurs? Or to scale successful innovation? How open and inclusive should we be in developing our social change agendas and strategies?

As philanthropy responds to a changed world and its evolving new role, it would do well to develop answers to these questions, mindful of the fundamental relationship of respect and clarity that their publics seek. To do this, we will need to engage as a sector.



# Philanthropy and the Limits of Accountability: A Relationship of Respect and Clarity

## Introduction

A growing emphasis on accountability and transparency has found its way into a broad range of institutions in the nation's public and private life. From the Obama administration's proclamation on "open government" on his first full day in office, to the emerging demands in multiple states for clear labeling of foods that contain genetically modified ingredients, to the persistence of high-stakes testing in public education as a means of "grading" schools, the evidence appears everywhere.

No sector—including philanthropy—has been immune to the increasing pressure for disclosure and reporting. Major national foundations and small community foundations have all been dealing with the demand to demonstrate impact, and many are recalibrating their giving portfolios in order to have a greater demonstrated effect. "Strategic philanthropy," "impact investing," and "collective impact" are all related strategies that reflect this imperative.

In response to this trend, the Kettering Foundation partnered with PACE to invite a distinguished group of foundation executives and thought leaders in the philanthropic and social sectors to a series of three roundtable discussions. Twenty-three participants took part in the conversations (two offered individual interviews instead), which took place in Dayton, Ohio, and Washington, DC, in 2012 and 2013. They explored in depth what "accountability" and "transparency" might mean for philanthropy—and how philanthropy might respond.


This report features their insights and questions.\*

A number of pressures drive the concern for greater accountability and transparency. Polling data indicate Americans have less and less confidence in all of the institutions of public life. Regulating authorities have begun to create more stringent requirements. A revised 990 tax form introduced by the IRS in 2007 requires expanded recordkeeping and disclosure of information from tax-free organizations. As the federal budget crisis continues and spending on public programs decreases, many of the problems addressed by philanthropy have increased in intensity. Meanwhile, many philanthropic organizations are directing more attention to showing greater impact.

There is debate over whether philanthropy holds a public trust and is therefore obliged to respond to public demands. Furthermore, accountability may mean something different to citizens than it does to those doing the work of philanthropic organizations. Institutional moves toward greater accountability may have paradoxically widened the gulf between citizens and the institutions that serve them.

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\* Statements made by the participants quoted in this report are indicated in *italics*. The conversations were held under assurances of anonymity to allow people to speak freely. Therefore, no attributions are given and, in rare cases, edits are made to obscure identity.



Over the course of these workshop discussions, participants worked their way through these and other challenges, to call for an approach to accountability that is rooted in respect for the role of the public and seeks to provide clarity about what institutions are trying to do.

## I. Philanthropy @ Crossroads

Modern US philanthropy can trace its roots to the Gilded Age wealth of Russell Sage, Andrew Carnegie, and John D. Rockefeller, whose foundations received their charters in 1907, 1911, and 1913, respectively. According to philanthropy critic Joanne Barkan writing in *Dissent*, “These were strange new creatures—quite unlike traditional charities. They had vastly greater assets and were structured legally and financially to last forever.”<sup>1</sup>

Establishment of the income tax in 1913 spurred the creation of new tax-free foundations, and their numbers increased substantially amidst high post-World War II income tax rates, giving rise to government efforts to exert greater control over these independent entities. The modern era of organized philanthropy was established with the 1969 Tax Reform Act, whose provisions remain in force to this day. This act created the “private foundation,” which is what most people have in mind when they say “foundation.” (The two terms are used interchangeably in this report.)


Private foundations must meet a set of requirements in order to retain their status. They must pay out at least five percent of their endowment for charitable purposes each year, although this amount may include a number of administrative, travel, and other expenses. Foundations also must file annual reports with the IRS, may not own or operate significant for-profit businesses, may not engage in self-dealing or political activity, and must follow other specialized rules for nonprofits.

According to IRS data accessed through the National Center for Charitable Statistics at the Urban Institute, in 2010 (the latest data available) 88,879 private foundations had filed tax forms in the previous two years. The great majority of these foundations do not have the large amounts of money public imagination may ascribe to them. Most (63 percent) hold assets of less than \$1 million and only 2,531 (3 percent) have over \$25 million.

### A Shifting Landscape

As a group, foundations have few direct external pressures. They have no need to show a profit to survive and answer to no shareholders. The legal requirements are straightforward.

However, even from the beginning, foundations have had a complicated relationship with government and society-at-large. There was serious reluctance to grant a charter to The Rockefeller Foundation, with Theodore Roosevelt and William Howard Taft both expressing vehement opposition during their campaigns for the presidency. Roosevelt, a “trust buster,” insisted “no amount of charity in spending such fortunes [as Rockefeller’s] can compensate in any way for the misconduct in acquiring them,” while Taft called the initiative “a bill to incorporate Mr. Rockefeller.”



Today, regulators continue to consider raising the payout threshold and adding other restrictions. Iowa senator Chuck Grassley came to be known for using his chairmanship of the Senate Finance Committee (2003–2007) to launch hearings into the activities of nonprofit organizations, including those of foundations. And, as the recession that began in 2008 wore on and state and local government revenues fell, these entities began looking in earnest at foundations as a way to fill funding shortfalls.

Participants in the roundtable conversations point to many initiatives by different levels of government as threats to their ability to function effectively. As one participant said:

*In something like 19 states, there's a bill, or laws have already changed. Whether it's Illinois or Pennsylvania, [states are changing] how they're approaching the property tax exemptions. And hospitals [are] losing their exempt status. Churches [are] losing their exempt status for part of their property because [government] coffers are bare and they're looking at creative ways to fill the coffers. They're looking at the sector in very different ways.*

Whether the pressures are directly attributable to empty government coffers or to other causes, the sense of pressure is unmistakable. Those working in the philanthropic sector often have a sense of being besieged.

## **An Arm of Government**

Philanthropy is beginning to occupy a space that goes beyond the supplemental role it has traditionally played in public life—that is, by providing amelioration in areas once seen as the sole purview of government. Thus, it could be perceived that the philanthropic sector is in danger of becoming an arm of government. Examples include the 2010 Mark Zuckerberg investment in Newark, New Jersey, schools and the multiple philanthropic efforts underway in Detroit that fund what were formerly public functions. (See sidebars on Detroit and Zuckerberg's investment in Newark on pages 6 and 8.)

Because it provides a particularly stark example of this phenomenon, Detroit came up repeatedly among conversation participants. One participant referred to it as “ground zero” for this conversation. Discussion focused on the way these circumstances have placed foundations in the center of policymaking. Who ought to have the final say over such public projects? As one participant put it:

*[The foundations are] making public investments and yet they're doing it behind the wall. They struggle with trying to figure out what it means to be transparent, how transparent we need to be, how accountable we should be, what's appropriate, what's not appropriate. . . . It's not a conversation about your legal requirements. . . . It's a different conversation about what your obligation is to the communities that you serve.*

This question is not restricted to Detroit of course. Foundations are stepping into the public arena in bolder, and sometimes more prescriptive, ways. One participant raised a concern over the Zuckerberg investment in Newark: “[He] and his staff can go in and negotiate massive reforms in the Newark school system, none of which went through any level of public process, in return for this big gift.”



## II. Impact, Effectiveness, Institutional Accountability

Many organizations view “accountability” from a primarily institutional standpoint. Foundations widely accept that making efforts to employ organizational best practices is a good idea. The field of philanthropy has become increasingly professionalized, and a cottage industry that assists foundations and their staffs with implementing such best practices has grown. The Foundation Center lists 21 major works on its “best practices” Web page. Its “ethics and accountability” page includes sample financial disclosure forms for staff and board members, and advice on whether a company and its related private foundation share office equipment and supplies.<sup>2</sup>

This level of accountability is not in dispute.

### Public vs. Private Money

Although private foundations are chartered as tax-exempt organizations there is a reasonable debate over whether their money is private or public. For many who view these funds as public dollars, the level of accountability extends beyond satisfying the foundation board and its donors. In essence, it means holding grant making by foundations and expenditures by government and other public institutions to similar standards. Some even suggest that we ought to hold foundations to an even stricter standard of accountability when it comes to how they spend their funds. The National Committee for Responsive Philanthropy, for instance, publishes *Criteria for Philanthropy at Its Best*, which suggests ways foundations ought to improve their “relevance to nonprofits, the economically and socially underserved Americans and society as a whole.” These include donating half of grant dollars “to benefit lower-income communities, commu-

### Detroit: Foundations and Public Policy

Detroit faces a daunting set of challenges. Its population has shrunk by 25 percent in the last decade, city services are stretched to the limit, and its revenues are constantly in question. With unemployment above 35 percent, it faces violent crime, arson, abandoned buildings, and poor schools. In July 2013, the city declared bankruptcy.

A number of foundations have focused efforts on revitalizing Detroit. Most recently, in January 2014, a number of Detroit foundations pledged \$330 million in order to save the Detroit Institute of Arts’ collections, which had been a potential target for sale in balancing Detroit’s books.

In an opinion piece in the *Chronicle of Philanthropy*, the Hudson Institute’s Bradley Center for Philanthropy and Civic Renewal director William Schambra describes how this move not only places these foundations in the center of public policy, but also raises a number of questions:

“When nine American foundations this month pledged \$330-million to help Detroit emerge from municipal bankruptcy, they took an unprecedented plunge into the give and take of the city’s deeply contentious politics.

“The extraordinary ‘give’ is the commitment of private funds to sustain public pensions, the sort of grant making that foundations have resolutely refused to do in the past. This may come back to haunt them, with so many other American cities facing financial difficulties every bit as daunting as Detroit’s.

“The equally unusual ‘take’ is the insistence that the funds will not be forthcoming unless a broad range of private and public institutions meet certain 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.”<sup>3</sup>



nities of color and other marginalized groups,” and providing “at least 50 percent of . . . grant dollars for general operating support.”<sup>4</sup>

Others hold that foundation money is inherently private money and the notion of public accountability in that case is not applicable beyond adhering to the tax code and related laws. This point of view, well outlined in Evelyn Brody and John Tyler’s *How Public Is Private Philanthropy?*, holds that the stipulation that “exempt charities dedicate their assets to, and use them in furtherance of, charitable purposes and not for private benefit” is sufficient—and in fact that “individuals and businesses [also] benefit from tax-favored treatment. Their assets and resources do not thereby become public, and they are not thereby transformed into government entities.”<sup>5</sup>

One participant expressed his concern about the ambiguities inherent in treating philanthropic giving as though it were a public process:

*I worry a little bit that we have a public process for distributing public dollars; it’s called government, and it’s got all the transparencies that we know about. . . . It seems to me that this was created because there’s a need for a process to distribute public dollars that is not as transparent and involved in public participation as government is, and if you say . . . foundations should operate . . . just like government . . . live-stream their board meetings, be open to the Sunshine Act, and Freedom of Information laws, why have [foundations]? Why not just turn the money over to government?*

## Transparency ≠ Clarity

One way that institutions seek to demonstrate accountability is through *transparency*. The logic is that if foundations made more information available to the public, people would have more trust in their decisions and would be less prone to suspect corruption, waste, fraud, and abuse. No one taking part in these discussions denied that transparency is an important component in establishing and maintaining trust between institutions and citizens. However they saw at least two problems.

First, this approach to accountability places the burden of responsibility on the public. The public must take the initiative to seek out the information being provided. Second, making sense of the information can be difficult, especially in cases that involve large amounts of data. As one participant pointed out, citizens may see these massive data troves not as helpful but as obfuscating:

*What’s happened with the confluence of data transparency and accountability is with all good intentions. It’s very easy for institutions to provide all of that, and do nothing but obfuscate, because the other, the “to whom,” the public has no capacity, time, interest, or guidance in making sense of it.*

But participants also spoke of less benign motives for transparency. According to one participant, the intent of issuing large amounts of data can be institutional survival:

*The function of accountability was to stop government, to get government off their backs. . . . It was, “what do we need to do in order to have them not tell us what to do and to steer our dollars in a way that’s different?”*

## Mark Zuckerberg's Gifts: Flexibility vs. Transparency

In September 2010, Facebook cofounder Mark Zuckerberg appeared on *Oprah* along with then-Newark, New Jersey, mayor Cory Booker and Governor Chris Christie to announce a \$100 million gift to improve Newark schools. According to an article in the *Huffington Post*:

“The gift was presented as a way to try to improve the district, which has been plagued for years by low test scores, poor graduation rates and crumbling buildings. The district was taken over by the state in 1995 after instances of waste and mismanagement, including the spending of taxpayer money by school board members on cars and restaurant meals.”<sup>6</sup>

The gift (a challenge grant) generated some concerns: parents wanted to know how the money would be used, according to the article. In particular, the gift sparked complaints that it was a means to bolster charter schools in an area where traditional public schools were struggling.

The American Civil Liberties Union filed an Open Public Records Act request with Mayor Booker's administration for more information, which the government

denied, stating there was no relevant information to be had. The ACLU filed a lawsuit—which it won—forcing the city to release all e-mails related to the gift and its later administration.

More recently, closer to Facebook's home in Silicon Valley, Zuckerberg has pledged \$1 billion to a local community foundation, the Silicon Valley Community Foundation. This, too, is generating controversy as the nature of the gift makes it difficult for the public to determine how the money will be spent. According to the *Wall Street Journal*:

“Community foundations are popular targets [for such gifts] because they allow donors to shield the ultimate recipients of their largesse,” said Melissa Berman, an adjunct professor at Columbia University who teaches courses on philanthropic strategy.

“Using a community foundation like this gives people like Zuckerberg and his wife more privacy in their giving,” Berman said. Such groups have to say where their money goes, but not where it came from or who directed which grants go where, she said. “This allows people to give essentially in secret, and that's attractive to people in the spotlight.”<sup>7</sup>

Another added:

*The intent is to protect the institution. The question is, does that protect the institution? Does that obfuscation help or hurt? [Foundations] believe, I think with honor, that it helps the institution, and it protects them and it's justified.*

Even if well intentioned, efforts to be transparent, without also creating context for the information, can create problems, as one participant maintained:

*My personal feeling is that we are massively, unbelievably wrongheaded about metrics. . . . In the end, we need some smart person, or librarian or whoever, to take all that data and process it, and be able to develop a relationship where you can have a conversation about performance that is coherent, where you can say, “So here's the deal. We've looked at this [data], and so it does look like this school's getting a little better, but when we look at it, it's really the kids from that side of Broadway, not this side of Broadway.” To actually make sense of it. . . . The caring act of saying, “I can't just give you the data.” It's like this [the Obama] administration that tells everybody, “Look at all the data that's on our website.” I mean in the end, it's just not helpful.*

## Impact and Effectiveness

There is a growing body of thought that sees accountability as linked to actual outcomes. In other words, accountability is demonstrated by showing impact. This has given rise to a number of approaches variously called strategic (or outcome-oriented) philanthropy, collective impact, and others. Although they have subtle differences, they share many similarities. Strategic philanthropy is an approach to grant making that prizes evaluation and results.

One of the chief proponents of this approach, former William and Flora Hewlett Foundation president Paul Brest (now at Stanford University), describes it in the *Stanford Social Innovation Review*:

Outcome-oriented philanthropy is at least a century old, but the past 10 or so years have seen an upsurge in both its intensity and its extent. . . . An increasing, albeit still small, number of foundations seem to have adopted an outcome orientation.

“Outcome-oriented” is synonymous with “result-oriented,” “strategic,” and “effective.” It refers to philanthropy where donors seek to achieve clearly defined goals; where they and their grantees pursue evidence-based strategies for achieving those goals; and where both parties monitor

### Philadelphia: Jeremy Nowak and Driving Impact

Just after Thanksgiving in 2012, the William Penn Foundation, the largest foundation that focuses solely on the Philadelphia area, surprised the world of philanthropy as well as its local community by announcing that its president, Jeremy Nowak, was stepping down after less than 18 months on the job.

It is unusual for institution leaders to move on so quickly. And while the foundation’s press release said they “mutually decided that the time is right for Nowak to transition out of his current role,” it was clear to observers that the idea was not Nowak’s.

Nowak had been a controversial figure in the community, with a consulting background and a mandate to drive major reforms in a troubled municipal school system. (He was described early in his tenure as “unafraid of ruffling feathers.”) His predecessor at the William Penn Foundation told the *Notebook* that they had “brought in Nowak because the board wanted someone with a bold vision and a real ability to bring everyone to focus on a particular set of issues.”<sup>8</sup>

The bold vision, which included aggressive programs to close an achievement gap by creating more “high performing seats” in the city’s schools may have been too


much. Nowak became the focal point of public complaints as the foundation ceased giving to long-time grant recipients. For his part, Nowak maintained that only large changes would have the needed effect. In an early interview, he said:

“You shift expectations not simply by shifting policy. You shift expectations by supporting great practices, whether they’re in civil society, the public sector, or the private sector.”

“In that vein, the foundation gave a monster \$15 million grant to the Philadelphia School Partnership earlier this month. PSP’s plan is to pass that money on directly to schools that are doing well, regardless of whether they’re Catholic, charter, or managed by the Philadelphia school district.”<sup>9</sup>

The PSP plan, along with other initiatives, proved unpopular among a segment of the community that had long been working for reform in its own way.

Another local website, Philebrity.com, reported that “jubilation [was] in the air” at local nonprofits over Nowak’s departure, as a community frustrated with the changes reacted. One online commenter complained: “William Penn, like all other major granting organizations, now requires a lot more quantitative/results-driven analysis before handing over checks.”<sup>10</sup>



progress toward outcomes and assess their success in achieving them in order to make appropriate course corrections.

The idea that philanthropy should seek results, may seem so obvious as to make the modifier *outcome-oriented* superfluous. But despite the increasing belief that the work of the sector should rest on goal-oriented, evidence-based strategies, very few donors actually follow these principles.<sup>11</sup>

Collective impact, meanwhile, is a way of applying this approach on a more communitywide level. In a *Stanford Social Innovation Review* article entitled, “Collective Impact,” John Kania and Mark Kramer describe the key elements: a common agenda, shared measurement systems, mutually reinforcing activities, continuous communication, and a “backbone support organization.”<sup>12</sup>

As Brest points out, these approaches might well seem as controversial as apple pie. But they are not uniformly accepted.

A vocal critic of strategic philanthropy is William Schambra, who, in remarks delivered at the Hewlett Foundation (and reprinted in the *Nonprofit Quarterly*), says:

[The problem is] the fundamental deficiency of the science-based approach to solving human problems, which lies behind strategic philanthropy. . . . To this day, theories about the causes of human behavior multiply endlessly. We are left with many interesting and diverse schools of thought on the subject. But we have no universally accepted collection of proven findings, waiting to be plugged into our theories of change.

In fact . . . “solving problems” is itself a skewed and biased framework for approaching this question, privileging expert analytical solutions, and diminishing the unspoken, accumulated, idiosyncratic wisdom of the local and immediate community.<sup>13</sup>


Other participants in these conversations made similar points:

*There’s a rather strong strain . . . of foundations now deciding that they know what the problem is and that they know what the solution is and that they’re now going to be subcontracting [with nonprofits] to actually do the work as if they are paid employees or paid consultants.*

## Risk and Success

There is an ironic twist to the strategic view of philanthropy. Many adherents of this approach are aligned with a business approach to problem solving with entrepreneurial roots that embrace risk. Yet focusing on impact as the measure of success may tend to squeeze out innovation, as only those things that are already known to be successful tend to get funded.

John Tyler makes this point in his 2013 monograph *Transparency and Philanthropy*:



Opportunities for steadfastness in the face of public opposition and contrary popular opinion are among the most important constructive characteristics of philanthropy and its unique roles in this country, but calls for broadly increasing transparency to enhance philanthropic effectiveness risk undermining this virtue.<sup>14</sup>

Participants in these conversations echoed Tyler's point. As one quipped:

*The joke is that if you worked at a venture capital firm and you made ten bets, and one of them was a raging success, and two were medium-size successes, and seven were failures, you would get a raise, and a promotion, and a bigger office. And if you're a program officer at a foundation and made ten grants, and one was a big success, two were medium successes, and seven were failures, you'd be polishing your résumé.*

Another participant agreed:

*We're not dealing with the easy problems in philanthropy, right? So, you are throwing the Hail Mary passes here, and we should be owning the fact that you're going to have a very low hit rate when you're making these kinds of investments. If they were easy, government would do it.*

A further exchange between two participants illustrates the tension:

*You can experiment and learn things, and maybe not have a grand success but advance the field, because you've learned things, and taken risks, and tried things that other people wouldn't do.*

*Isn't that part of how we should define success in philanthropy?*

### III. Accountability: "It's about Relationships"

Research suggests that there is a gap between the institutional view of accountability and what citizens mean when they think about it. "The public's starting point on most aspects of accountability is dramatically different from that of most leaders," according to a recent Public Agenda/Kettering Foundation research report entitled, *Don't Count Us Out*. The report analyzes and catalogues these differences. Among them:

Leaders are focused on their institutions and what kinds of changes will make it function more effectively. Many are often stunningly disconnected from broad public concerns. Even when leaders are attuned to public goals, their expertise and jargon often limit their ability to work productively with and for the public.

Many people today are alert to, and often resentful of, institutional systems that seem to treat the public/customers as "cogs in the wheel," rather than as individuals. Many believe that institutions are increasingly impervious and unresponsive to individuals' questions, priorities, or problems.<sup>15</sup>

While the research underlying *Don't Count Us Out* focused on a variety of institutional leaders—not just those in the field of philanthropy—its insights are salient. The gap between the way those organizational leaders talked about accountability and the way the report says citizens do was similar to many of the themes sounded by the participants in the roundtable conversations.

From the standpoint of citizens, when they consider the matter, an institution shows accountability by demonstrating that it is in relationship to the citizens it serves. This is *relational accountability*, according to Tufts University professor Peter Levine, writing for Demos:

Most people do not want informational accountability; they want relational accountability. For example, they do not want to know the test scores, teacher salaries, and graduation rates at their local high school; they want to know the principal and have confidence in her values.<sup>16</sup>

## Accountable to Whom?

One question implicit in any concept of accountability is: “to whom”? Is a foundation accountable to the

### Bill and Melinda Gates Foundation: Solutions Invented Here

The Bill and Melinda Gates Foundation, with an endowment of \$38.3 billion, is the largest private foundation in the world. It's a leader in the strategic philanthropy movement, applying business management techniques to its giving strategies.

In 2008, the foundation announced that it would focus on improving higher education outcomes for low-income people. Its methods have sparked considerable controversy. The *Chronicle of Higher Education* (which receives funding from Gates) described what it calls the “Gates effect”:

“The foundation wants nothing less than to overhaul higher education, changing how it is delivered, financed, and regulated. To that end, Gates has poured hundreds of millions of dollars into getting more students to and through college, in an effort to lift more Americans out of poverty. . . .

“Five years into an ambitious postsecondary program that is expected to last two decades, the avalanche of Gates cash has elevated the Seattle-based foundation to a central role in the national debate about reforming college, raising questions about the extent of its influence.

“Gates’s rise occurs as an unusual consensus has formed among the Obama White House, other private foundations, state lawmakers, and a range of policy advocates, all of whom have coalesced around the goal of graduating more students, more quickly, and at a lower cost, with little discussion of the alternatives. Gates hasn’t just jumped on the bandwagon; it has worked to build that bandwagon, in ways that are not always obvious. To keep its reform goals on the national agenda, Gates has also supported news-media organizations that cover higher education.

The effect is an echo chamber of like-minded ideas, arising from research commissioned by Gates and advocated by staff members who move between the government and the foundation world.

“Higher-education analysts who aren’t on board, forced to compete with the din of Gates-financed advocacy and journalism, find themselves shut out of the conversation. Academic researchers who have spent years studying higher education see their expertise bypassed as Gates moves aggressively to develop strategies for reform.”<sup>17</sup>

One online commenter complained: “It’s not so much that the Gates Foundation has a point of view of how things should go but they act like it’s the ONLY one that matters, could work or has research to back it.”<sup>18</sup>

community receiving aid? To the donors who provide the funds? To the broader field of philanthropy? To others working in related fields (e.g., education)? To the taxpayers?

As one roundtable participant put it, *“I think that’s a way to look at this whole conversation. Accountable to whom and how?”* Like many kinds of institutions, foundations seeking a public relationship have choices. Consequently, another participant pointed out, *“It’s not always a foregone conclusion that the accountability is to the public. Sometimes the accountability is to a mission.”*

But as funders call for more mission “impact,” their actions may appear increasingly unilateral and unaccountable to their grantee organizations. One participant said:

*The only way to get work is for these organizations to turn into pretzels. The authenticity of their experience on the ground and the knowledge that they have based upon all of that, becomes for naught because the foundations have decided. And I think that’s part of the reason for the reaction—for saying, “Government, do something! Make them more accountable!” Because people feel so powerless [and want] to be able to get a different kind of relationship.*

This notion of a “different kind of relationship” between foundations and both grantees and the communities that are served was considered by participants to be at once a worthy goal (perhaps *the* goal) but difficult to achieve. What would be different?

## IV. A Relationship of Respect and Clarity

Results and good process are necessary but not sufficient. Relationships also matter. One participant summed it up: *“It’s not just relationships, and it’s not just outcomes or metrics. It’s both.”*

Another participant suggested that transparency is important in this relationship, but not the data-driven and potentially obfuscating “data dump” variety noted above. What is required, he said, is transparency about motives:

*Perhaps you want to be more transparent to grantees, because grantees are carrying out what you want to have carried out, and so that’s a partnership, and so part of that partnership is for the grantee to understand. I’m thinking, be more transparent about your goals, for the grantee to understand what you want to achieve together.*

Another participant called for more “engagement and interaction” between foundations and potential grantees, placing both sides on a different footing:

Maybe some will lose but there’s a sense that there’s a back-and-forth, a discussion, and we’re all in this and talking about it. I might be a bit annoyed I didn’t get [the grant], but at least I saw that there was an engagement and there was a respect. That, to me, is the essence of this.



Another agreed:

*It has to do with intent. It has to do with openness, and it's got to do with being willing to get feedback, and being willing to be criticized, and being willing to change. And if the mindset of people is such that the intent is to engage, then that's where accountability does become relational, where they are willing to get the feedback, and engagement, including negative. Then it's truly transparent, and it's really clear. And that's the difference between minimum required transparency, and real clarity.*

This, then, is the conversation that philanthropy must join: How can we improve our working relationship with citizens while carrying out our public mission?

One discussant crystallized the crosscurrents this way:

*On the one hand, it's very difficult to define what the accountability is. . . . On the other hand, there is a deep discontent among grant recipients, including the ones that get the money, with the way in which decisions are made and the lack of humility, engagement, discussion with what's going on.*

Grantees are not the only “public” for philanthropy, but they are perhaps the most proximate. There are others: communities, regulators, donors. Some of these same crosscurrents exist among philanthropy's relationship with those publics, too.

It was clear from these roundtable discussions that philanthropic organizations, once accountable only to their boards and donors, must now come to grips with pressures for a more considered relationship with their grantees and the communities they serve—with the need for public accountability as well as institutional accountability. If participants found no one-size-fits-all answers, they did, nevertheless, begin to define and clarify issues of transparency, impact, strategy, and mission. And they recognized that in responding to a changing world it will be useful for philanthropy to engage with these issues as a sector.

## **Questions Philanthropy Should Ask Itself**

1. What are our responsibilities as institutions with a growing public role?
2. How can we add clarity and context to transparency?
3. What is our responsibility for showing impact? How much can or should we control?
4. How can we improve our working relationship with citizens and demonstrate respect?

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## About Philanthropy for Active Civic Engagement (PACE)

Philanthropy for Active Civic Engagement, PACE, is an affinity group of the Council on Foundations and serves as a learning collaborative of foundations doing work in the fields of civic engagement, service, and democratic renewal. Eight years ago PACE was created as the next iteration of a previous affinity group, the Grantmakers Forum for Community and National Service. The Grantmakers Forum focused exclusively on the issue of service and after a strategic organizational review, the decision was made to broaden the purview of the group to include the diverse field of civic engagement and democratic reform and renewal. PACE is headquartered in Washington, DC. To learn more go to [www.pacefunders.com](http://www.pacefunders.com).

### PACE Leadership

#### President

John R. Dedrick, Kettering Foundation

#### Vice President

John M. Sirek, McCormick Foundation

#### Treasurer

David O. Egner, Hudson-Webber Foundation

#### Secretary

Kate Ahern, The Case Foundation

#### Executive Director

Christopher T. Gates

## About the Kettering Foundation

The Kettering Foundation is a nonprofit operating foundation rooted in the American tradition of cooperative research. Kettering's primary research question is, what does it take to make democracy work as it should? Kettering's research is distinctive because it is conducted from the perspective of citizens and focuses on what people can do collectively to address problems affecting their lives, their communities, and their nation. The foundation seeks to identify and address the challenges to making democracy work as it should through interrelated program areas that focus on citizens, communities, and institutions. The foundation collaborates with an extensive network of community groups, professional associations, researchers, scholars, and citizens around the world. Established in 1927 by inventor Charles F. Kettering, the foundation is a 501(c)(3) organization that does not make grants but engages in joint research with others.

### About the Author

**Brad Rourke** is a program officer at the Kettering Foundation. His work includes studies of naming and framing issues in public terms and how people make decisions and work together on shared challenges in communities. Rourke is executive editor of the National Issues Forums issue books as well as other issue books produced for public deliberation.

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Foundation*

