

Viewpoint

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The Accountability of Foundations

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Sorting through the issues in philanthropy is somewhat like eating an artichoke. At the end of it all, you have more on your plate than when you started. But, like the artichoke, the heart of philanthropy remains pure and simple: the disposition of assets for the benefit of society.

Modern philanthropy requires that foundations evolve beyond their traditional role as charitable donors or patrons of good causes. One of the central issues in this evolution is that of accountability. To what extent are foundations prepared to be accountable for what they do?

By accountable, I mean that foundations should be able to demonstrate a social benefit of their operations commensurate with their resources, within the limits of the law and their charters. Consider that the accumulation of wealth by foundations depends largely on the tax laws. If special rules had not been created, much of this wealth would be taxed away and spent by governments. Government expenditures undergo much scrutiny: by bureaucrats, committees of Parliament and Parliament itself, in addition to less systematic but equally vital examination by opposition parties, the press and interest groups. Such scrutiny may not always produce perfect results but it all pushes towards responsible use of public resources.

Foundations are required to be much less accountable for their use of their wealth. All foundations must, of course, obey the law of the land, which at best offers minimal protection against fraud and self-dealing. All must report their basic financial activities to the tax authorities and some of these data enter the public record. Aside from that, some larger foundations publish annual reports but most do not. So how is the public interest to be recognized?

If told they were unaccountable in their operations many foundations would react with puzzlement or anger and would insist that they meet all their legal obligations. But abiding by the legal rules is not enough. The flaw lies in some all-too-common granting policies.

Look at a typical Canadian foundation. It is run without professional staff. The board may hire a trust company officer to handle the paperwork, and it may meet a few times a year to sift through requests and make some grants, usually small ones under \$5000 and often under \$1000. Foundations often have a rule, implicit or explicit, that if you receive a grant, you may not apply, or are unlikely to be considered, in the following year. Typically, they spread their donations around, giving, for example, something to health care, boys' and girls' clubs, schools, service clubs, the arts, environmental and recreational groups. Though probably unacknowledged, most would include some tit-for-tat donations, i.e., giving to the local hospital campaign at the request of an old friend or business associate, with the objective of paying off or establishing a debt in respect of directors' own campaigns, perhaps for the local university or disease fund.

What is wrong with such funding policies? Those who favour them say that they still get money out to good causes and contribute to the welfare of society. They might also say that it is not the job of foundations to change society, and that the things they support are things worth supporting. And they are right in part. Except there is no public scrutiny and there is no public accountability.

It is the responsibility of a foundation to have some assurance that the money it is spending is contributing positively to society. I propose as a standard of effectiveness that foundations use their resources at least as well as government could spend them. That may not be thought to be a very high standard but we tend to be too critical of the effectiveness of government. (If you look at many of our basic programs in health and education, they are good, and look better in comparison with those in many other countries.)

A foundation cannot be sure its money is being put to good use if it does not do research before it makes grants and follow-up afterward. But are you likely to follow up a donation if you put a one-year horizon on all grants? Are you inclined to determine the effectiveness of a \$100 grant to the local Boy Scouts? Are trust company officers likely to canvass the research community to find out whether your \$2000 environmental grant overlapped with other research, and if they do, how many board members are going to read their report and reassess the grant?

If you think this is being too picky, recall the Canadian Festival of National Outrage each year when the Auditor General reports on government waste and inattentiveness to value for public money. How many foundations could meet the Auditor General's standards?

I am not proposing that government should take over for foundations, or even that government should enforce standards of philanthropic behaviour. One of the strengths of private actions in the public interest is their openness to risk. A foundation can experiment. A foundation can fail in a way that a government might fear to do even if the failure provides valuable information. Generalized bureaucratic rules tend to be conservative. Conservatism is not what foundations need.

What they need are standards to be set by the philanthropic community for its members. Just as companies or institutions may pride themselves on following principles higher than those imposed by law, so too should foundations formulate and follow principles of action, and not act as if every action were a "one-off" gift without consequences. Accountability, in short, is in part a matter of consciousness raising, and in part an admission that philanthropy is action for the public that the public has an interest in knowing about. Foundations should tell the public what they are doing. If they learn by failing, they should document their failures so others may succeed. Where they succeed, they should document this too, so others may follow.

To succeed or even to fail, of course, a foundation must have an intention. Scattergun donations neither succeed nor fail, as they have no goal. The community should expect goals or purposes, whatever they may be, of favoured members like the foundations. One can achieve more and different ends with concentrated resources than with random gifts. The community should expect value for these concentrations of money.

The clients of foundations can help. First, they can be demanding. When it goes to a foundation for funding, a client organization can offer accountability and insist it be accepted. The client can tell the foundation at the outset what it will be reporting and how often. It should let the foundation know that evaluation of effectiveness is important to both the client and the foundation. The client should communicate a frank and pithy summary of its work with the foundation, in person. The client should be in the foundation's boardroom, and the foundation should be in the client's boardroom. The client is a negotiator, not a supplicant, attempting to arrive at a deal that is good for both sides.

Like any good negotiator, the client should have a long-term perspective. The second way the client can help the foundation is, therefore, to insist

on the long term, and ask for more than one year's funding at a time. Everyone understands that situations change, that not everything works out. People with business backgrounds understand that more than most. But they also understand that without continuous planning, the chances of success are severely reduced. The client should go to the foundation for well-considered long-term funding.

Third, why waste time going to 1000 donors for \$100 each when you could go to 10 donors for \$10,000 each? The difference is that big donations create significant and intimate relationships between foundations and those they fund, so both are better served. The projects are relieved of time-consuming and frustrating fund raising, in exchange for tougher accountability (yes, the grantees are accountable too). The foundations gain a knowledge of a particular area of work and they can be more confident of the effective use of their funds.

Foundations are evolving and the stages of that evolution are not all clear. Many foundations still operate under notions of noblesse oblige, and consider that their dispensation of charity is something for which others should be grateful. This attitude is becoming less tolerable to many Canadians. For them, society has progressed beyond such ideas, and many things which were once the province of charity are now seen as basic rights. Decent shelter, healthy food, the ability to read and write, a job that pays a wage a family can live on, and an environment uncontaminated by deadly toxins are now seen to be rights as fundamental as voting, religious freedom and the freedom of association.

As foundations evolve to embrace these new ideas, they can form partnerships with their clients for which they can be proud to account to their common public.