



The Dark Side of Transparency

Private decision-making can be more effective than openness

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It is now almost impossible to read donor literature or attend charitable conferences without being bombarded by growing demands for greater openness, transparency, and self-revealing in giving. It's said that foundations won't realize their full potential, and may even fall into ineffective and self-serving ways, unless there is a transparency surge beyond existing disclosure requirements. However, in interviews I conducted for a dissertation at Oklahoma State University, "The Opacity of Private Philanthropy," both grantmakers and grantees reported several reasons why quiet, discreet foundation practices can lead to better giving.

Most foundations, interviewees said, practice a mix of open and closed deliberation and action—shifting back and forth to optimize results in different circumstances. Making decisions more privately permits foundations to make important grants that would be unlikely to be approved if they took place under a bright spotlight. Specifically: The ability to work outside of a public glare helps insulate grant decisions from political considerations. It helps protect the integrity of grant programs by shielding them from unhelpful external influences. It encourages experimental risk-taking. And it allows givers to take a much more entrepreneurial approach to grantmaking. Let's examine each of these factors in turn.

Ability to insulate grant decisions from political considerations. Whether parochial or national in scope, there are political dynamics and potential controversies within many grants. Being able to make clear decisions without fear of how outsiders might react will often bring better results. Grantees report that private foundations that have retained some privacy in their deliberations are much more likely than other funding sources to offer support based on the merits of projects rather than factors like potential reputational risk.

For example, two national nonprofits emerged repeatedly in interviews with foundation insiders: Planned Parenthood and the Boy Scouts of America.

Both have often found themselves at the center of hostile attention. Foundation executives felt that if they were to fairly consider grant proposals from controversial nonprofits like these, on their merits, some insulation from controversial publicity was necessary.

Shielding grant programs from external influence. Foundations report that elected officials, civic leaders, businesses, colleague donors, neighbors, and friends often seek to influence grant decisions. Resisting such efforts depends upon the extent to which grant decisions can be shielded from influence-peddling. Foundation trustees and executives see this as important to their ability to protect the independence and integrity of their programs, and often close ranks, and close doors, to avoid interference in grant decision-making.

Embracing risk and innovating. Grantees report that foundations that are able to keep some control over the privacy of their deliberations are more willing to experiment and tolerate project failures, in pursuit of greater overall impact. Grantees appreciate foundations that are able to embrace risk, test ideas, be intellectually honest about outcomes, and learn together with grantees through trial and error. It may be necessary to drill several dry holes in order to hit a big one, said some interviewees. Since most foundation money was originally made through a willingness to take risks, trustees want the ability to make some calculated gambles in grantmaking as well.

Encouraging an entrepreneurial approach. Study participants suggested that effective foundations often act like venture capitalists—bringing to the table not only money but intellectual resources, access to essential networks, technical assistance, legal help, aid in recruiting other investors, a spirit of activism, and an “all-in” approach that grantees appreciate. This investor-like orientation requires strategic discretion and tactical quiet at times.

These various positive outcomes argue against constant, simple-minded openness in all philanthropic deliberations. Being somewhat closed at times and in places encourages effectiveness, independence from herd

thinking, and innovation. This is not just a theory. Both foundations and grantees in the Oklahoma State study reported that private foundations take full advantage of these capacities in service of fresh, high-impact grant programs. In fact, grantees said that opportunities to work with donors in relative privacy yielded unique rewards in their ability to experiment, and to build consultative relationships founded upon genuine candor. More privacy correlates with less bureaucracy, more flexibility, and improved efficiency, according to charitable recipients.

Is there a drawback?

To top it off, these findings do not support concerns about insider entitlement and misconduct in private philanthropy. To the contrary, foundation operatives with an acute obsession for achieving significant beneficial outcomes from charitable activities were often most adamant about preserving non-public action as a philanthropic tool.

The main drawbacks from retaining some limits on transparency, this research revealed, accrue to fundraisers. Privacy limits their prospecting—gathering information on grantmakers, their organizations, and their interests. More private donors—who may lack websites, formal grant application procedures, or explicit giving criteria—are harder to solicit. Charitable fundraisers overcome this by developing relationships and deeper levels of mutual trust with more private donors.

All of this is a matter of degrees. It's worth noting that private foundations are already remarkably transparent entities. They annually disclose extensive information in publicly available tax returns, including their assets, trustees, key personnel, information regarding compensation, grant recipients, and amounts, as well as how and with whom assets are invested.

With tax returns soon to take machine-readable formats, this information will soon be subject to mass data-mining and detailed analysis and republication.

The additional transparency sought by advocates is usually in the vein of decision-making. What criteria were used in grant decisions? Why were certain grant requests approved and others denied? Who are the crucial deciders? What are their soft spots and armored points? How can outsiders exercise greater influence over the grant decision process? This is where my research suggests that greater transparency could inadvertently erode essential capacities unique to private philanthropy. It's understandable that recipients would like more details, but this should not come at the expense of foundation effectiveness.

Arguments in favor of greater transparency are sometimes based upon a presumption that private foundations are essentially public entities, since they manage tax-protected funds. But private foundations are private entities, the product of private earnings and private gifts. They don't receive public funds. And they provide society with many public benefits.

What's at stake

What if private foundations had to account to outsiders for risky gifts, political controversies arising from their grants, or failed experiments? What if outsiders could insist on fixed grant criteria? What if social pressure, state steering of monies, and cronyism were allowed to compromise the independence of the thousands of private foundations in America?

Not having to slavishly account to external stakeholders is one of the things that makes private foundations rare, uniquely precious and useful in the process of social invention, culture reform, and public problem-solving. The hard truth is that greater transparency could elevate risk aversion, lower interest in experimentation and innovation, expose grantmaking to political considerations, increase rigidity, and diminish entrepreneurialism in private foundations.



Foundation leaders report that in order to make grants to nonprofits like the Boy Scouts of America, their institutions need some measure of privacy and insulation from political considerations. (Boy Scouts of America)

It is often suggested that if foundations fail to voluntarily engage in greater transparency, they are likely to face externally imposed requirements. Our findings caution against such steps. Far too little of today's glib discourse on transparency has benefited from rigorous research on the effects of limiting outsider influence and protecting philanthropic independence. There is a need to extend and deepen understanding in this area.

Meanwhile, each private foundation should decide for itself if, when, and how becoming more transparent will improve its philanthropic results. This latest research suggests that foundation trustees and executives, guided by a genuine passion for benefiting society, are typically quite pragmatic and public-spirited in this regard.