Philanthropic Foundations: Issues For Governance In The Public Interest

Xhaouflair, Virginie, Universita de Liege; Mernier, Amelie, Universita de Liege

Third sector organizations pursue social and community goals (Ridley-Duff and Seanor, 2008). They have an explicit aim to benefit the community, initiated by a group of citizens and in which the material interests of capital investors is subject to limits (Defourny and Nyssens, 2006). Therefore, many third sector organizations choose governance mechanisms aiming at preserving the public interest (Mertens (2010)), such as a decision-making power not based on capital ownership. They also favour stakeholders’ participation to the organizational processes (Defourny and Nyssens (2010).

Philanthropic foundations are said to belong to the third sector (Moulaert and Ailenei (2005)). The European foundations sector has grown significantly over recent decades (EFC Research Task Force (2008)). Foundations are now a major source of funding for other third sector organizations. However, they strongly differ from most third sector organizations because of their governance modes. In foundations, there is no general assembly and the decision making process comes under the unique authority of the board. The foundation legal form gives its founder a high degree of freedom, even if the governance mechanisms and the role of the board can vary depending on the type of foundation.

According to Harrow (2011), the essence of philanthropy is to act for the public good or public interest but being driven by private choices. Brody and Tyler (2010) wonder ‘how public is private philanthropy’ in the United States. They underline the fact that the assets of foundations are public money and suggest that these organizations should be subjected to public assessment about their mission, operations and decision-making. However, as Frumkin (2006) argues: ‘philanthropy (…) lacks anything closely resembling democratic controls’. Our paper hence questions the capacity of the foundations governance mechanisms to guarantee that foundations are acting in the public interest.

To address this research question, we adopt a two steps methodology. The first step consists in reviewing the existing academic literature about philanthropic foundations governance practices and issues, in both European and Anglo-Saxon contexts. We also identify the specific issues related to the type of foundation (either based on the type of founder i.e. family foundation, community foundation, independent foundation, corporate foundation, etc.) or the way of acting i.e. operating versus grant-making foundations. For instance, in family foundations, the board size and composition influence the diversification of the grant-making activity (Lungeanu and Ward (2012)). In community foundations, organizational isomorphism regarding governance may hinder taking into account local philanthropy’s needs and aims (Harrow (2011)). In corporate foundations, the involvement of top management and employees of the related firm influences the strategic choices (Brown, Helland, and Smith (2006)).

The second step is an empirical focus on the Belgian case, which we explore with 20 semi-structured interviews with Belgian foundations board members,
questioned about their governance and management practices. In Belgium, most foundations are operating or mixed, while the American foundations are rather grantmaking (Anheier and Daly (2007)). The challenge of governing in the public interest is therefore increased when foundations are themselves operating projects and activities supposed to benefit the community. Furthermore, the Belgian foundations sector has the special feature of having two legal statutes for foundations: public benefit foundation and private foundation, which can also pursue public goals (estimation of one fifth of private foundation with public objectives (Marée, Gijselinckx, Loose, Rijpens, and Franchois (2008)). However, both types have similar governance requirements, whatever the nature of their mission. Data and research available regarding the Belgian foundation sector are mostly descriptive and administrative except from Gijselinckx and Develtere (2006)’s study, which is the first attempt to identify the main trends in the Belgian foundations sector. Our recent research shows that the sector is expanding: at the end of 2011, Mernier (2013) lists 488 public benefit foundations and 725 private foundations. This corresponds to a total of 4,4 public benefit foundations by inhabitant in 2011 against 3 in 2001 (Anheier (2001)). However, little is known about the foundations sector in Belgium, especially regarding governance practices. It is hence crucial to gather qualitative data about the governance practices of Belgian foundations.

In the findings, we identify different modes of governance in the Belgian foundations sector, and analyse these modes in relationship with the foundations governance issues identified in the literature review. We then question the ability of the identified governance mechanisms to preserve the public interest. We discuss the critical governance features, and suggest potential improvements allowing to better preserving community and public interest.