The Policy Paradox of Philanthropy
- Accountability Mechanisms, Legitimacy and Policy Influence

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Summary

By analyzing philanthropists as policy network actors, the paper investigates contradictory analytical indications for how their lack of accountability mechanisms may affect their ability to influence policymaking. Philanthropists’ lack of accountability mechanisms may enable them to strategically purchase legitimacy, which may increase their policy influence. Paradoxically, philanthropists’ lack of accountability mechanisms may also decrease their democratic legitimacy, which may decrease their policy influence. A model is conceptualized for testing this policy paradox of philanthropy.
Introduction

Philanthropists are once again claiming a role in the public policy process, raising questions about their influence as policy actors. Government downsizing, the growing economic gap between the rich and poor, and the celebrity status mega and celebrity donors have acquired in the public discourse, are all factors that have highlighted philanthropists’ perceived policy involvement (Eikenberry, 2006). The exceptionally large gift of Warren Buffet to the Bill and Melinda Gates foundation—making the largest foundation in the world stronger in its international aid capacity than most countries—is one conspicuous example that has sparked the debate on the role of philanthropists in policymaking (Katz, 2007). The significance of philanthropists in American public policy seems to be cyclical, from being active policy shapers in the early 20th century, at the heyday of the ‘scientific philanthropy’ launched by Carnegie and Rockefeller, through a period of decline at the peak of the mid century welfare regime, to renewed strength and significance today, at the time of governance and globalization (Fleishman, 2009; Katz, 2007; Van Til & Ross, 2001). In a European context, philanthropists are increasingly relevant in the wake of government uncertainty about roles and ambitions, coupled with a widened cultural acceptance of a shrinking state and public-private partnerships in the provision of public goods (Anheier, 2001).

In an era of global governance, the policy system is increasingly open to the influence of various private actors (Börzel, 1998; Rhodes, 2000). The governance literature has at its core the concept of the network, a polycentric societal view where policymaking is created in interactions between a mixture of public and private actors from different societal levels (Rhodes, 1996). As the state has contracted, policymaking has shifted from
the traditional market-state dichotomy into networks (Börzel, 1998). In its most general sense, a policy network may be defined as “a cluster of concepts focusing on government links with, and dependence on, other state and societal actors” (Rhodes, 2008, p. 425). The governance approach does not claim that policy networks are new, it only emphasizes that they have multiplied (Rhodes, 2000). In the networks, policies are shaped through strategic resource exchanges, bargaining, and sounding out between the policy actors (Rhodes, 2008). The policy networks define the roles of actors, set the policy agenda, and give certain policy outcomes preferred status (Rhodes, 2000). All participants in the policy network can be defined as policy actors—ranging from traditional public participants to private actors such as businesses, nonprofits, and philanthropists (Ball, 2008). Research on policy networks has hitherto concentrated on businesses and nonprofits as private policy actors, barely examining the activities of philanthropists. The recent decades’ rise of philanthropic prominence in policymaking, coupled with the emergence of new governance patterns, raises questions about the role of philanthropists in policy networks: Are philanthropists influential as policy network actors? And if so, how? Although a number of authors within philanthropy research have addressed the connection between philanthropy and public policy (See for example Colwell, 1993; Fleishman, 2009; Gallagher & Bailey, 2000; Knott & McCarthy, 2007; Leat, 2007), this body of work generally provides empirical evidence for philanthropic policy influence rather than exploring its theoretical implications. The subject of philanthropy in the context of contemporary policy network research is still understudied, and deserves more attention given the proliferation and prominence of philanthropists as policy actors in the age of governance.

The aim of this paper is to investigate how philanthropists function as policy network actors, by analyzing if and how they can influence policymaking. By contrasting the
philanthropy literature on public policy with the policy network literature, it is
demonstrated how the two literatures generate contradictory indications on if and how
philanthropists may influence public policy. The paper conceptualizes a model for testing
this paradox of philanthropic policy influence, based on factors such as resource usage
discretion, accountability mechanisms, and democratic legitimacy. The analysis is made
by utilizing the resource-focused theoretical framework of resource dependence theory
(Pfeffer & Salancik, 1978) thus assuming that resource acquisition is crucial in order to
attain power and influence in the policy network.

The first section of the paper will elaborate a definition of philanthropists in a policy
network framework. The second section will analyze how philanthropists differ from
other policy network actors. The third section will analyze the challenges that face
philanthropists as policy actors in the context of the governance discourse on
accountability and democratic legitimacy in policy networks. Subsequently, the fourth
section will discuss philanthropic policy influence, accountability and legitimacy as these
topics appear in the philanthropy literature on public policy. The paper will be concluded
with an outline of the policy paradox of philanthropy, employing it as a basis to discuss
the challenges that philanthropy represents for contemporary public policy analysis.

Section I: Philanthropists – Who Are They in a Policy Context?

Philanthropy being a multidisciplinary research topic, contributions to the definition of
philanthropists as policy actors can be sought from a variety of sources. Many definitions
of philanthropy involve the notion of philanthropy as a gift - “a one-sided exchange;
that is, there is no quid pro quo unless it is extremely remote” (Dickinson, 1962, p. 112).
The idea that philanthropy is a “unilateral transfer” (Boulding, 1962, p. 57) is in line with
researchers understanding philanthropy as an expression of altruism (Piliavin & Charng,
1990). But economists have questioned this view, claiming that there is a non-monetary reward for donations labeled *warm glow* (Andreoni, 1989). As public policy actors, philanthropists desire a reward for their gifts – policy influence - and their gifts are thus not strictly unilateral. One of the most widely used definitions of philanthropy -

“voluntary action for the public good” (Payton & Moody, 2008, p. 27) - encompasses the wish to realize an exchange through the philanthropic donation. But although this definition does demonstrate a wish to gain influence on something perceived as the public good, it does not distinguish philanthropists from other policy actors, as most non-commercial policy actors generally act in a voluntary manner to affect what they perceive as the public good.

A more elaborated definition states that philanthropy is “the voluntary use of private assets (finance, real estate, know-how and skills) for the benefit of specific public causes” (Anheier & Daly, 2004, p. 159). This definition emphasizes private resources, and thus excludes publicly funded policy actors. Still, it may also include other privately funded nonprofit entities that are dependent on fundraising for their existence, and does not serve the purpose of defining philanthropists as a specific analytical unit. The definition of philanthropy as “Donors use their wealth, which sometimes can be modest and sometimes immense, to project their values, commitments, and beliefs into the public sphere” (Frumkin, 2006b, p. 2), faces another difficulty, as it may also apply to commercially funded and motivated policy actors, such as corporate lobbyists, attempting to project their vision into the public sphere.

In order to delineate philanthropists as policy actors, a more precise definition is needed that conceptually places them apart from other policy actors. In this paper, philanthropists as policy actors are therefore defined as “private nonprofit actors, independent
in terms of resource provision, who aim to influence policymaking”. They are thereby distinguished from public foundations, fundraising nonprofits that are dependent on donations for their survival, as well as from corporate philanthropists who donate funds as a part of their business strategy.

**Section II: How Do Philanthropists Differ from Other Policy Actors?**

Policy network interactions are typically analyzed by resource dependency theory and actor-centered institutionalism (Rhodes, 2008). From a resource dependence perspective (Pfeffer & Salancik, 1978), policy actors need resources in order to be powerful and influential in the policy network. These resources can be acquired through strategic interactions and resource exchanges in a competitive environment. Unlike businesses, philanthropists do not need to generate profit, they are neither dependent on tax extraction like public agencies, nor do they need to fundraise, like other nonprofits, in order to acquire funds. In contrast to other private actors, philanthropists are able to influence policy without having to worry about the effect their competitive interaction in the policy network might have on their resource provision. Philanthropic resources are generally gathered by the philanthropist as a corporate market player and then transferred into the nonprofit sphere. Once market generated profits have become philanthropic resources, philanthropists are not dependent on any external evaluation or assessment of their philanthropic actions in order to ensure continuous resource provision. Whether a donor is successful as a philanthropist does not necessarily have an effect on the donor’s corporate achievements. Consequently, philanthropists differ from other policy actors by being independent in terms of resource provision; their resources are not generated by their actions as philanthropists. The independent resource provision of philanthropists gives them full discretion in how they employ their resources. As a
result, their resource usage discretion makes them virtually devoid of accountability mechanisms, save for purely legal aspects of their actions.

An accountability mechanism may be defined as “a relationship between an actor and a forum, in which the actor has an obligation to explain and to justify his or her conduct, the forum can pose questions and pass judgment, and the actors may face consequences” (Bovens, 2007, p. 450). A market is one type of forum that provides accountability mechanisms, as owners and customers may pass judgments on a business. Another forum is a public organization, where hierarchical superiors and voters can sanction consequences based on the organization’s actions. Also a fundraising nonprofit is dependent on its relationship with its donors and paying members. Philanthropists differ from other policy actors, both public and private, as they do not have a relationship with a forum that can pass judgment on their actions. Their resource provision is not related to the evaluation of their philanthropic actions. Philanthropists are therefore lacking the accountability mechanisms that other policy actors face (Fleishman, 2009; Frumkin, 2006b; Hess, 2005), raising questions about their legitimacy in the policy network.

Legitimacy can be defined as “a generalized perception or assumption that the actions of a entity are desirable, proper, or appropriate within some socially constructed system or norms, values, beliefs, and definitions“ (Suchman, 1995, p. 574). Policy actors need legitimacy in order to acquire strategic advantages in a competitive environment (Suchman, 1995). Accountability may be understood as a building block in claiming legitimacy in polycentric regimes (Black, 2008). In order to a legitimate, a policy actor thus also needs to be accountable. From a resource dependence perspective (Pfeffer & Salancik, 1978), accountability can be viewed as a non-monetary resource that is causally related to legitimacy and ultimately to policy influence. A strategic policy actor may wish
to demonstrate accountability in order to gain legitimacy that in turn is necessary to enable policy influence. Philanthropists seem to stand a legitimacy challenge as policy actors, as they differ from other policy actors by lacking accountability mechanisms. How does their lack of accountability mechanisms affect their ability to be influential as policy actors? The policy network literature and the philanthropy literature provide contradictory answers. The coming sections will elaborate on if and how philanthropists can be influential as policy actors, given the legitimacy challenge that is created by their lack of accountability mechanisms.

**Section III: Policy Networks - Facing Challenges of Accountability and Democratic Legitimacy**

Philanthropists are not the only entity in the policy network context deemed challenged from an accountability perspective. Policy network research is predominantly occupied with analyzing the lack of accountability and democratic legitimacy of the policy networks themselves. Policy networks challenge traditional democratic processes by creating an oligopoly in the political market place, defining roles of actors, limiting participation in the policy process, and shaping the public agenda and the desired policy outcomes (Rhodes, 2000). Policy networks can be viewed as private governments where traditional accountability demands can no longer be applied as responsibility disappears in the intricate webs of institutions involved in the network (Rhodes, 2000). Hence, one of the major topics of debate concerning policy networks is their lack of accountability, as a forum for policymaking as well as the accountability of the policy actors (Benner, Reinicke, & Witte, 2004; Black, 2008; Keohane, 2003; Papadopoulos, 2007; Sørensen & Torfing, 2005). The complex environments of policy networks are also considered to entail challenges to democratic legitimacy, which may be caused by the lack of accountability in the polycentric policymaking (Papadopoulos, 2003). Policy networks do
not correspond to traditional accountability mechanisms in established institutions, and their lack of accountability may affect their democratic legitimacy (Benner, et al., 2004).

The policy network literature further specifies the normative demands on being democratically legitimate by distinguishing between input and output legitimacy. Input legitimacy is derived from the democratic process in which policies are created - by the people, whereas output legitimacy is derived by delivering policies that the people desires - for the people (Scharpf, 2001). A policy process formally fulfilling all criteria of democratic protocol has high input legitimacy. But also a less democratically coherent process can still be highly legitimate in terms of output legitimacy, if it ultimately delivers what the people desires, regardless of how the policy was shaped. Output and input legitimacy are not mutually exclusive; they can exist simultaneously in a policy process, but they may also exist separately. Policy networks may be viewed as having low input and high output legitimacy, and some even view policy networks as having more output legitimacy than states, although this view is contested (Van Kersbergen & Van Waarden, 2004). Policy networks may gather output legitimacy by delivering what the people wants, but the way they do it is democratically disputable, and the desires of the people are a fickle thing. In order to safeguard the democratic legitimacy of the policy network in light of the uncertainty of output legitimacy, it therefore becomes imperative to maintain as much input legitimacy as possible.

One way to demonstrate input legitimacy is by displaying coherent and transparent accountability mechanisms. Traditionally, accountability in the form of checks and balances was possible to execute either through the exit option in a market situation, or through the voice option in a political context (Van Kersbergen & Van Waarden, 2004). As policy networks provide neither the exit nor the voice mechanism, it becomes
difficult for the policy actors in the network to demonstrate accountability mechanisms inside of the network. Accountability mechanisms can be both external and internal, where internal refers to accountability to principals, and external refers to accountability to the larger group of people who are affected by the policy but who are not the principals of the policy actor (Keohane, 2003). Policy actors may employ both internal and external accountability mechanisms in order to demonstrate checks and balances in their policymaking activities. In the policy network literature, accountability is usually outlined as the independent variable, and democratic legitimacy as the dependent variable, resulting from the accountability the policy network actors are able to demonstrate. As the policy network does not provide internal accountability mechanisms, each actor may depend on accountability mechanisms outside of the network in order to demonstrate accountability, thereby becoming democratically legitimate, and ultimately influential. The individual actors’ accountability mechanisms outside of the network may also contribute to the accountability and democratic legitimacy of the policy network as a whole.

Firms may demonstrate both internal and external accountability by being accountable to their owners and customers. Also nonprofits dependent on fundraising may demonstrate internal and external accountability by being accountable to their donors and paying members. Both firms and fundraising nonprofits may be described as regulated by the exit option, a market-based accountability mechanism. Public actors are internally accountable to their hierarchical superiors, as well as ultimately both internally and externally accountable to the wider public in an election format. The accountability of public actors is based on the voice mechanism. The exit and voice accountability mechanisms may help firms, fundraising nonprofits and public actors to have both internal and external accountability, even though the policy network has neither.
Philanthropists, on the other hand, stand an input legitimacy challenge by not being accountable to any specific forum, which in turn may weaken their ability to influence policies. Philanthropists are not accountable internally, as they do not have any principal. Neither are they accountable externally to the people they affect, as they are independent in terms of resource provision, and do not have to face the consequences of their philanthropic actions, unless they act in an illegal way. According to the policy network literature, philanthropists may therefore be less influential than other policy actors, as they stand an input legitimacy challenge due to their lack of accountability mechanisms.

Section IV: Philanthropists, Accountability, and Purchasable Legitimacy

The notion that philanthropists lack accountability mechanisms when compared to other policy actors is echoed throughout the philanthropy literature. Philanthropists are not considered to be accountable to anyone for how they spend their money to influence policy, and as long as they do not trespass the law they are not dependent on anyone’s evaluation of their actions (Fleishman, 2009; Frumkin, 2006a; Prewitt, 2006). There is hardly any standardization movement or quality gauging of philanthropy (Fleishman, 2009), and the only actual supervision of philanthropists is the tax standards upheld for all organizations and individuals, not directed towards the evaluation of philanthropic work specifically. But whereas the policy network literature indicates that the lack of accountability mechanisms may impair philanthropists’ ability to influence policy by harming their input legitimacy, the philanthropy literature indicates the opposite. The philanthropy literature views the lack of accountability mechanisms as an advantage. Philanthropists are considered more influential in comparison to other policy actors due to their independence from the accountability mechanisms of the marketplace and voters (Fleishman, 2009; Prewitt, 2006). In this view, accountability mechanisms are impediments to influence, as they limit the resource usage discretion of policy actors.
Being devoid of accountability mechanisms, philanthropists are thus considered to be highly influential in the policy network. This view is mirrored in the philanthropy literature; both pluralists and power structure scholars, albeit from radically different political standpoints, assign tremendous importance to philanthropists as policy actors. In the pluralist view, philanthropy is a primary driver of social change, and philanthropists have the ability to both strategize and implement policy changes. Whereas for example Fleishman (2009) stipulates that philanthropic foundations are the least accountable power institutions in America, he also states that philanthropy is a driving force for social change, starting with the creation of the first large American foundations in the early twentieth century. He cites as examples of high-impact success stories the transformation of American medical education by the Carnegie sponsored Flexner report, Rosenwald’s building of schools for rural African Americans, Carnegie’s transformation of Americans’ perceptions of race relations by commissioning Myrdal to write *An American Dilemma*, the Rockefeller initiated Green revolution, and Soros’ support for democratization and civil societies in Central and Eastern Europe. Assessing philanthropy from the ideologically opposite power structure perspective, Roelofs (2003) also describes philanthropy as a highly influential albeit harmful societal element, supporting hegemonic institutions for the production of capitalist ideology. Roelofs (2003) views philanthropists generally, and liberal foundations such as Carnegie, Rockefeller and Ford specifically, as co-opting dissenting elements in society in order to strengthen the prevailing liberal creed. Philanthropy is considered to shape elite opinion through funding research, higher education, think tanks, cultural institutions, and by transforming social movements into nonprofits in order to neutralize them. Examples of influential institutions supported, and thus by implication steered, by philanthropy include the Brookings institution, the American Enterprise Institute, the Heritage
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Foundation, the Bilderberg group, the Trilateral Commission, the Council on Foreign Relations, the World Economic Forum, the National Bureau of Economic Research, the RAND cooperation, and the Social Research Council.

Whereas the pluralist and power structure view of philanthropic policy impact describe a direct causality between philanthropic donations and policy influence, an empirically focused take on philanthropy and public policy research makes this picture more complex. For example, the $500 million Annenberg grant to the public school system, is deemed as a classical example of an unsuccessful philanthropic initiative, having not effected significant policy impact or systematic change (Hess, 2005). Greene (2005) compares contemporary American educational philanthropy to throwing buckets into the sea; $1.5 billion of private contributions a year in a $427 billion public school budget are hardly significant. But although limited in size in comparison to public budgets, philanthropy differs from public funding in its discretionary nature and can therefore potentially make a disproportionate difference (Hess, 2005), if managing to find an appropriate strategy. As philanthropists have realized that private contributions will always be dwarfed by public money, they have begun to seek strategic collaborations with key players such as legislators (Colvin, 2005), searching freely for the most appropriate use of their resources. Impact is thus not solely premised on the size of philanthropic donations relative to public budgets, but rather on philanthropists’ ability to use their resources in whichever way they find strategically appropriate, without having to account to any principal for how they act.

Like in the policy network literature, the philanthropy literature thus indicates a relationship between philanthropists’ lack of accountability mechanism and their resource usage discretion, but in the philanthropy literature this freedom has the
opposite implications. The philanthropy literature suggests that philanthropists’ resource usage discretion and lack of accountability mechanisms are assets, enabling strategic freedom in pursuing their desired policy influence. Also here, one of the ways to attain influence is by being considered legitimate as policy actors, but according to the philanthropy literature, philanthropists are able to purchase the ultimate legitimacy mix. Philanthropy researchers offer normative advice on how to increase legitimacy, viewing it as a strategic resource needed in order to maximize philanthropic efforts. Heydemann & Toepler (2006) write that philanthropic legitimacy can be categorized as either procedural or normative, where procedural legitimacy concerns the actual procedures of grant making, and normative legitimacy relates to society’s assessment of philanthropists in a broader perspective. Philanthropists that solely focus their resources on procedural legitimacy can never reach the same legitimacy levels as those who also spend their money on the increasing the normative aspects, i.e. on how society assesses their work. According to Frumkin (2006b) philanthropists can choose to draw legitimacy from a variety of sources: 1) from the government - through cooperation with governmental agencies, by funding program run by the government, and by complying with the governmental regulations 2) from nonprofit organizations supported by philanthropic donations 3) from peer consultations and approval from other prominent philanthropists 4) from the donors themselves, especially by acquiring positive attention through funding organizations that are applauded in the public discourse. In a large European comparative study, Anheier & Daly (2006) list seven categories of possible roles for philanthropists that will grant legitimacy: complementarity, substitution, preservation of traditions and cultures, redistribution, social and policy change, promotion of pluralism, and innovation. They claim that order for philanthropic foundations to maintain legitimacy in Europe in the long run, a match is needed between role performance and policy expectations. According to the philanthropy literature, legitimacy is thus a
purchasable resource, more attainable for philanthropists than for other policy actors due to their resource usage discretion. Hence, the philanthropy indicates that philanthropists’ lack of accountability mechanisms, a consequence of their resource usage discretion, gives them a disproportionate policy influence in comparison to other actors.

Section V: The Policy Paradox of Philanthropy

By analyzing philanthropists as policy network actors, it is thus possible to extract two contradictory analytical indications for how their resource usage direction and lack of accountability mechanisms may affect their ability to influence policymaking. Philanthropists’ resource usage direction and lack of accountability mechanisms may enable them to freely purchase legitimacy in the network, which may increase their policy influence. In a contradictory manner, philanthropists’ lack of accountability mechanisms may decrease their input legitimacy, which may decrease their policy influence. The conflicting indications of philanthropic policy influence are a consequence of the resource usage discretion of philanthropists, which causes their lack of accountability mechanisms. The resource dependence perspective (Pfeffer & Salancik, 1978) is a key framework for the contradictory indications, where resources, and the accountability mechanisms that ensue from their acquirement, become factors that either hinder or enhance policy influence. The philanthropy literature indicates that philanthropists are able to find the appropriate strategy to demonstrate legitimacy by employing their resources wisely. But the policy network literature implies that it is precisely their ability to freely and strategically seek to purchase legitimacy that undermines their input legitimacy. That, which makes them able and strong from a philanthropy research point of view, makes them incapacitated and illegitimate from an input legitimacy perspective. The two frameworks give incoherent, paradoxical, messages on if and how philanthropists can influence public policy.
But even though philanthropists may not be able to demonstrate input legitimacy, they may still stand a chance to acquire output legitimacy, and perhaps this is precisely what the legitimacy purchasing suggestions of philanthropy researchers is about. Philanthropists may attempt to deliver what the people wants, but they may not do it in a democratically legitimate way in terms of input legitimacy. This creates a challenge for contemporary policy analysis, as philanthropists, by virtue of their lack of accountability mechanisms, may have an extreme degree of resource usage discretion, which may allow them to be highly flexible and attuned policy actors in terms of output legitimacy. They are freer than all other actors to deliver what the people wants. But precisely the same reasons make them illegitimate as policy actors, as they are doing their policy work without any type of accountability mechanisms that can render them input legitimacy. The double-faced nature of philanthropists makes them challenging subjects of analysis in terms of their role as policy actors.

![Diagram of the policy paradox of philanthropy]

Figure 1. The policy paradox of philanthropy.
In the beginning of this paper, the questions were posed of if and how philanthropists can influence policymaking. The answer to these questions has proven to be two-fold. Philanthropists can influence policymaking by demonstrating high output legitimacy, but these demonstrations may also uncover their low input legitimacy and thereby incapacitate them as policy actors. To analyze philanthropists as policy network actors, more precise observations and classifications are therefore needed in order to investigate under which conditions their lack of accountability mechanisms may impair their ability as policy actors by decreasing their input legitimacy, and under which conditions their lack of accountability mechanisms may strengthen their ability to influence policy by demonstrating high output legitimacy. The blurred interactions in the policy networks may require a pluralistic view of accountability systems, as suggested by Benner et al. (2004), involving alternative accountability notions that may apply to philanthropists such as professional/peer accountability and public reputational accountability. In analyzing philanthropists as policy actors, this paper therefore suggests that careful attention must be paid to the additional possibilities of accountability mechanisms that philanthropists may acquire, as well as to the effect the normative environment may have on the democratic legitimacy consequences their actions gain.

References


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