

Study shows how corporations influence policy through nonprofit donations

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In 2003, the Coca-Cola Foundation announced a \$1 million donation to the American Association of Pediatric Dentistry, supposedly to "improve child dental health." Shortly after receiving the gift, the children's dental group changed its stance on sugary beverages, no longer calling them a "significant factor" in causing cavities, but instead saying the scientific evidence was "not clear."

Coincidence? A study co-authored by Berkeley Haas researchers provides the first convincing evidence that not only do nonprofits change their stances in response to corporate donations, but that [government agencies](#) change their rules alongside them.

"If it had no impact, why would corporations do it?" said study co-author Matilde Bombardini, associate professor of Business and Public Policy at the Haas School of Business. "The bigger question has been whether you have evidence showing that impact."

Published in the *Quarterly Journal of Economics*, the paper shows that corporate influence peddling through [nonprofit](#) donations is effective in influencing policy. The authors include Francesco Trebbi of Berkeley Haas, Marianne Bertrand of Chicago Booth, Raymond Fisman of Boston University, and Brad Hackinen of Western University Ivey School of Business (Canada).

Influencing rules and regulations

The thousands of government rules and regulations governing corporate behavior may seem obscure at times, but they have direct impact on people's lives, Bombardini says. "They cover the environment, highways, aviation, health—issues that are very, very close to consumers and workers."

As policies are hashed out, nonprofits often play an important role,

balancing [corporate interests](#) by speaking on behalf of citizens and the environment. But what happens when they start speaking on behalf of their corporate donors instead? The researchers scraped data for hundreds of thousands of rules, proposed rules, and comments posted by the [federal government](#) since 2003 and compared those rules with detailed data on corporate foundations grants filed with the Internal Revenue Service.

Similarities in language

They found a direct correlation between donations and the likelihood that nonprofits spoke up about a rule: A nonprofit was 76% more likely to comment on a proposed rule in the year after it received a donation from a corporation commenting on the same rule. And frequency wasn't the only thing connected to money. The researchers used [natural language](#) processing to compare comments from the donor companies and the nonprofits, and found that after a nonprofit received a donation, the language it used in its comments was significantly closer to the language used by the company.

In addition, the language the government used in describing how and why the rule changed also became more similar to the corporate line—implying that regulators weighted the comments by the nonprofit more heavily in their deliberation process. "At a minimum, regulators are paying more attention to what the firm has to say, and devoting more time towards discussing the same kinds of issues the firm was discussing in their letters," said Bombardini.

Adding transparency

While it certainly appears that companies are "buying" favorable comments to help their case, the researchers allow that it's possible they

are just funding nonprofits that already agree with them, allowing the nonprofits more resources for public advocacy. That distinction hardly matters in the outcome, however. "Either way, they are distorting the information policy makers receive," said Bombardini. "If officials are looking for signals from different players in society, and the message from the nonprofit and the firm are the same, they might weight that position more heavily, not realizing that the two are linked."

In order to counteract that distortion, the researchers propose a simple rule requiring all nonprofits to disclose any donations they receive from corporations that could be potentially affected by a rule on which they are commenting. Such a guideline wouldn't necessarily lead regulators to discount the nonprofits' points of view, but it might cause them to take it with a grain of salt, properly weighting its value. "We're not saying all of these donations are nefarious—there might be a good reason why a nonprofit adopts a certain view," said Bombardini. "We are advocating to make it all more transparent, so the public and the agencies know where the funding is coming from."

More information: Marianne Bertrand et al, Hall of Mirrors: Corporate Philanthropy and Strategic Advocacy, *The Quarterly Journal of Economics* (2021). DOI: [10.1093/qje/qjab023](https://doi.org/10.1093/qje/qjab023)

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