

## **CORPORATE FOUNDATIONS**

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### **INTRODUCTION**

In his satirical book *The Devil's Dictionary* (1911), the American author Ambrose Bierce defines “corporation” as “an ingenious device for obtaining individual profit without individual responsibility”. Bierce published this definition at a time when the American public was debating the risks of corporate monopolies. It was also a time when entrepreneurs like Andrew Carnegie were starting to address their responsibility to society by setting up foundations. Since the turn of the 20th century the business community has constantly tried to define its role toward society not only as a business actor but also as a citizen. The corporate foundation is one of the instruments that a corporation uses to take on this role in society. Such foundations are often discussed under the umbrella of Corporate Social Responsibility, Corporate Citizenship or Corporate Philanthropy. The positioning of a corporation as a citizen and not only as a market actor is increasingly seen as a management principle of modern-day business.

### **DEFINITION**

Strachwitz & Reimer (2005: 61), Schwertmann (2005: 209), and Mecking (2008: 317) agree that a key characteristic of a corporate foundation is that it is a separate legal entity set up by a business entity. In contrast to a “traditional” foundation, the corporate foundation is not established by an individual but by a for-profit organization. It often is an indication of a long-term involvement by the corporation in regard to a specific, strategic target (for example: promotion of the arts, the fight against AIDS). Such foundations in many countries have a tax-exempt status but often do not have a significant endowment but depend on funds paid by the corporation. Corporate foundations are also known in the US context as company-sponsored foundations. More recently, European studies have called them corporate social responsibility (CSR) foundations.

Fleishman (2007: 270) points out that corporate foundations are established by corporations to “signal to their stakeholders and the public at large their commitment to a high level of corporate social responsibility”. Anheier and List underline the close relationship between corporate giving programmes and corporate foundations. They point out a key difference between the two, which is the higher autonomy that a corporate foundation has as an independent legal entity from the decision makers within a company (2005: 68).

Along with the independent foundation, the operating foundation, and the community foundation, the corporate foundation is one of four foundation categories developed by the New York–based Foundation Center. As part of the greater family of foundations, corporate foundations are treated in many countries under the same legal regulations as other types of foundations. An exception to this rule is, for instance, France, where corporate foundations are regulated under a separate jurisdiction. There are several approaches to classifying types of corporate foundations, depending on the geographical area the authors are focusing on (CECP, 2008b:27; BDS, 2007).

In a European context it is crucial to point out that a corporate foundation is not the same as an industrial foundation. Thomson shows that especially in Europe, foundations can be owners of corporations. This means that such a foundation is “created to administer a large ownership stake in a particular company, very often donated to the foundation by the company’s founder” (2006: 237). In some countries, for example, Germany, such foundations can be the corporation. In other cases the foundation holds a major share of a company but is a separate legal entity with a charitable status; it may have charitable intent, and it uses a holding in a company to promote such a donor’s will.

In summary, a corporate foundation is a private foundation that derives its grant-making funds primarily from the contributions of a profit-making business and/or its employees. The

corporate foundation often maintains close ties with the donor company, but it is a separate legal organization, sometimes with its own endowment.

## **HISTORICAL BACKGROUND**

The example of the United States shows that the corporate foundation is a rather new phenomenon in the world of philanthropy. Even so, the United States had already passed a law by 1935 to allow tax deductions for corporate charitable contributions; the so-called “golden age of corporate philanthropy” started after World War II. The first major company-sponsored foundations were founded in the late 1940s and 1950s in the United States (examples: Ford Motor Company Fund, 1949; AT&T Foundation, 1953). The corporate giving programmes and corporate foundations that were set up at this time were the starting point for many corporate social responsibility programmes as they are known today. The Foundation Center documents the development of corporate foundations throughout the decades. Of the presently active corporate foundations, most are quite young: just over one-third have existed since the 1990s, while about 20% were established in the 2000s (2008c: 7).

## **KEY ISSUES**

### **Corporate Social Responsibility**

As corporate foundations are often seen as an integral part of a company’s corporate social responsibility strategy, many authors discuss the corporate foundation as part of the corporate philanthropy toolbox (for example: Lenkowsky, 2002). Often, the corporate foundation carries the name of the corporation or is established on the occasion of a corporation’s anniversary. It can be seen as a long-term commitment to a cause by a corporation. In addition, a corporate foundation, if treated as rather independent, allows the engagement of the wider public in a cause. This includes those people who may have a rather critical attitude toward the company itself. Strachwitz and Reimer point out that this is plausible in a time when foundations are seen as favourable institutions in a society. History

shows that, for instance, in the United States or France, foundations also have experienced times when they were not valued at all by the public (2005: 63).

### **Foundation or Corporation**

A key issue is the extent to which a corporation and its management influence the decisions of the foundation. Webb even considers it a key principle of a corporate foundation that company executives are also board members of the foundation (1994: 42). The downside of this observation is documented by Werbel and Carter, who showed in 2002 “that CEOs’ interests, as measured by membership in different organizations, was associated with foundation charitable giving” (1). The results of this study show the interdependence of company and corporation and underline how difficult it can be for a corporate foundation to position itself as an independent entity. There is a clear need for a transparent management of this relationship so the corporation can be an active citizen that, in the long-term, sheds positive light on the company that set it up.

### **Strategy & Impact**

Since the corporate foundation is part of such a volatile relationship and was set up by a corporation that is supposed to earn a profit for its investors, its strategy is key. This is why Porter & Kramer’s 2002 article “The Competitive Advantage of Corporate Philanthropy” has had such an influence on the strategy development of corporate foundations. They connected a corporation’s charitable involvement with new opportunities for the core business of the cooperation. Their pledge that giving “can often be the most cost-effective way – and sometimes the only way – to improve the competitive context” (2002:7) has been highly influential in the corporate responsibility community (for example, Leisinger, 2007: 322-324).

For many corporate foundations, the intensive discussion of strategic philanthropy has started a concentration and realignment of their work (for instance, The SMART Company,

09.2006: 67-68). This means that many corporate foundations have started to implement impact assessment instruments, begun to figure out their social return on investment and see evaluation as a key tool of their work. Another driving factor of this development has been the introduction of venture philanthropy as a more target-oriented form of giving (for example, Letts at al., 1997).

### **Communication**

The debate over strategic philanthropy has also been the basis for a closer look at the value corporate foundations have for the public relations activities of corporations. Strachwitz & Reimer point out that corporate foundations are not a useful tool for short-term gains for the marketing or branding of company (2005: 63). This perception is also shared by public relations experts. Nevertheless, researchers like Marquardt have developed an elaborate toolbox for the integration of foundations into the public relations strategy of a company. He sees the corporate foundation as a focused, long-term public relations instrument (2002: 28). This means that corporate foundations have to carry the burden of being able to communicate their actions, and that they should – in general – shed a positive light on the corporations that set them up.

### **INTERNATIONAL PERSPECTIVE**

Anheier documents in a comparative paper the development of the foundation sector in general in Europe. He points out that “the sheer complexity and richness of the phenomenon – historically, legally, politically as well as culturally”—makes it extremely difficult to identify a common denominator for foundations in Europe. The paper also sheds some light on the development of corporate foundations (2001: 5f., 24, 26).

Gerber provides a summary of the development of corporate foundations in Germany and shows that their origins can be traced to the turn of the 20<sup>th</sup> century (2006: 19-21). An overview of the current status quo of corporate foundations in Germany was published by the Association of German Foundations in 2007 (Bundesverband Deutscher Stiftungen, BDS). In

2006 the Charities Aid Foundation and the Cabinet Office sponsored the study “Revealing the Foundations – A guide to corporate foundations in England and Wales,” conducted by The SMART Company. This shows that, driven by interest groups, more and more countries are exploring the specific needs of corporate foundations.

An overview of corporate foundations and their history around the world is still missing, however. There are indicators that corporate foundations are thriving on all continents. Philanthropy Australia hosts a network of corporate foundations. In 2008 the ASEAN Foundation established a research program to foster a better understanding of corporate foundations in Asia and also to enhance the cooperation of such foundations. Haslam points out that corporate foundations are an intrinsic part of the “corporate social responsibility system” in Latin America (03.2004: 12), but a further interpretation of their role is still missing. Africa seems to be a key target destination for corporate foundations from all around the world but cannot refer to many corporate foundations that originate there.

## **RELEVANCE**

In 2006 there were 2,548 registered corporate foundations in the United States. This number is small in comparison to the 64,405 independent foundations there (Foundation Center, 2008c: 3). In 2006 in Germany, for instance, the number of corporate foundations was 863 (BDS, 2007: 37). Considering that Germany has around 15,449 foundations (BDS, 2008: 42), the market share of corporate foundations is not as small as in the United States. The overall numbers still underline the special niche of corporate foundations.

The list of the top 25 US foundations by giving in 2006 has only one corporate foundation. Nevertheless, corporate foundations play a role in the world of philanthropy, since their giving is considerable compared to their number: of the 42,9 billion USD given by the 72,000 US foundations, more than one-tenth (4,4 billion USD) comes from corporate foundations (Foundation Center, 2008a: unpag.). Furthermore, they have continually increased their

giving since 1990 (Foundation Center, 2008c: 2). In addition to this, corporate foundations are a lot more likely to work with professional staff. This means that they often have a greater presence in the philanthropy community and shape professional standards in the field. In addition they again and again set trends, like the discussion about strategic philanthropy or the increasing international involvement of corporations through their foundations (Committee Encouraging Corporate Philanthropy (CECP), 2008a: 14).

Corporate foundations always need to be considered as one instrument among many in a corporate social responsibility strategy. More than three-quarters of corporate giving is part of other corporate philanthropy programs, such as corporate giving, matching employee funds, corporate volunteering or in-kind contributions (Lenkowsky: 2002, 363).

## **FUTURE DIRECTIONS**

Things have changed since Ambrose Bierce defined the corporation. The corporate foundation can be seen as one way in which individuals take on responsibility within the corporate world. In addition, corporations are trying to evolve, amid all the dilemmas shown above, as corporate citizens themselves.

This does not mean that a discussion about the role of corporations and their foundations has stopped. The intensive debate on globalization, for instance, again and again questions how businesses can take on greater responsibility for humankind (Leisinger, 2007: 318).

Corporate foundations, and foundations overall, will also face questions in regard to their effectiveness and the ways of measuring their impact. This is especially true in at time where civil society organizations are asked to document their impact in new ways. Is the corporate foundation successful if it contributes to corporate targets or the wider public?

Another development in this field are the increasing number of joint funds, like the Global Fund to Fight AIDS, Tuberculosis and Malaria, or public-private partnerships like the U.N.'s

Global Compact. These show that also for corporate foundations cooperation is one way of solving global challenges like extreme poverty (for example, Leisinger, 2007: 334).

On a research level, there is a need to understand the corporate foundation and its principles a lot better all around the world. So far, the research in this field is very focused on the United States, where this form of a foundation evolved in its modern shape. Multi-national companies have introduced the idea of this corporate foundation all over the world. We need a better understanding of this global phenomenon and its regional specifics.

On a more practical level, there is a need for more professionals in this field. In the United States, the Association of Corporate Contributions Professionals and a great variety of academic institutes that also offer practical training for corporate foundation employees provide an example of an infrastructure that needs to develop all over the world.

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## **CROSS REFERENCES**

Corporate Social Responsibility

Corporate Giving

Donor, Donor Intent

Effectiveness and Efficiency

Evaluation

Foundations, Definition and History

Philanthropy and Professional Advisors

Philanthropy, Definition and History

Social Investment

(Social Impact)

Strategic Philanthropy

Venture Philanthropy

## **BIOGRAPHICAL & ORGANIZATIONAL ENTRY SUGGESTIONS**

Association of Corporate Contributions Professionals (ACCP) - <http://www.accprof.org>

Committee Encouraging Corporate Philanthropy (CECP) - [www.corporatephilanthropy.org](http://www.corporatephilanthropy.org)

London Benchmarking Group (LBG) - <http://www.lbg-online.net>