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Effective Governance of Corporate Foundations

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Information:
The paper is the result of a study on corporate foundations in Switzerland, Germany and the UK. We look at the relationship between the foundation and the founding companies. By differentiating different degrees of independence we develop four philanthropy models for corporate foundations. The report is written mostly for practitioners.

Executive Summary

The following report sums up the main findings of a study on corporate foundations.[1] The research focus is put on different governance systems and their consequences for the independent status of the foundations' management as well as the foundations' ability to increase social impact.

In the first section, we review three international standards that lay down good practices of corporate foundation governance. From these standards we extract the main variables that determine the foundation's ability to act. In the second section, the methodology chapter, we explain how we integrated the variables into the 'multiple case study design' approach followed. In the final part, we present the results from a cross-case analysis, thereby discussing critical issues that we found to have implications on the ability of corporate foundations to achieve social impact.

Our findings result in four different philanthropy models for corporate foundations. These can be described by determining a foundation's degree of independence and the closeness of its activities to the core business areas of the corporation. The report concludes that a high degree of independence allows corporate foundations to best play out the structural advantages of foundations in their organizational form. However in some core areas strong relations and support are desirable. Clear and transparent communication about the relation to the corporation besides expert knowledge on the board are factors found to positively influence the credibility of the foundation and its ability to act. A strong and positive reputation of the foundation, in turn, has positive effects on the public perception of the corporation.

[1] Due to the main target audience of this report, we refrain from scientific citations. The most important literature we drew from is cited in the last section of the paper.

Contents

1. Corporate foundations

An increasing number of corporations have set up their own foundation in recent years. In Germany, most publicly listed corporations have established at least one foundation. In the UK, the number of newly established corporate foundations has continuously risen. Possible reasons to favor a foundation over other possibilities of philanthropic action are manifold. The Association of Charitable Foundations in the UK names the following:

- Clear distinction between charitable activities and commercial business
- Regular activity and continuous reminder of the companies' generosity
- Interest of staff and shareholders to enhance the local area or the wider world
- Enhancement of companies' attraction for young graduates
- Building sense of common purpose for staff; single donations may not be noticed by staff, but a foundation is active through time
- Foundation as a connection to groups that the company may never meet
- Channeling requests for donations through the company

Creating a foundation is a powerful gesture to show that the engagement is intended to be long-term. It ensures continuity of giving and can channel the company's donations toward specific causes and, hence, allow a more strategic use. Corporate foundations are also often established when structural changes within the company happen; when a company goes public; when a firm celebrates a significant anniversary; or when honoring of a long-term director. Just like classical foundations, corporate foundations can be separated into grant-making and operational foundations. Both should be seen as ideal types. Often there is a mix of activities. Grant-makers normally fulfill their mission by giving financial support to other nonprofit organizations that carry out the operational work. Projects are selected according to overall mission of the foundation and the specific funding strategy in place. Operative foundations select their own partners without accepting external solicitations. Some carry out the work themselves, which normally implies having a number of highly skilled employees. Foundations may choose to have a slim organizational structure that works through grant applications, with relatively little additional support for selected projects or they go for a highly engaging philanthropy approach where staff members of the foundation actively work together with partner organizations. In the latter case, board members might even be involved in the foundation's programs or staff members take seats in the board of the supported organization. However, the foundation's work also depends on building strong partnerships and a notable funding of these partners. Operational foundations tend to work more long-term on specific projects than grant-makers. The vast majority of corporate foundations are established as private non-operating foundations, with a principal focus on making grants to organizations for charitable purposes. Corporations may also choose to set up private operating foundations, although this is far less common.

Even though corporate foundations have their own legal organizational form, they cannot be seen as independent due to company representatives in the governing bodies determining the flow of resources. However, to qualify for tax exemption and to classify as charity, corporate foundations have to show that they are exclusively focused on furthering their charitable purpose. German and Swiss law does not treat corporately funded foundations different to conventional foundations. In the UK though, stronger regulations are in place, which allow the Charity Commission to ensure a greater degree of independence of the foundation from the funding corporation.

Due to their nature, corporate foundations are often criticized for being an instrument for corporations to raise their public reputation and to raise profits by exploiting social causes. This applies especially when there is a strong degree of integration of the foundation in the corporate structure and when the fields of activities overlap. On the one hand, NGO watch dogs tend to have a critical eye on corporate foundations. On the other hand, corporate foundations are seen in business literature as an effective tool to create shared value. This concept sees the possibility to create both social impact and positive effects for the company value at the same time. Just like any other classical foundation, corporate foundations can have a significant positive social impact if they are governed well and staffed with the right people.

Within the scientific literature, corporate foundations have not yet received much attention. The most important governance codes have been developed by working groups from within the foundation sector or as guidelines from the government. In Germany, the Federal Association of Foundations has published principles of good governance of corporate foundations. The principles of the Swiss Foundation Code (SFC) are also applicable to corporate foundations. The Charity Commission in the UK has published a guide for corporate foundations. In the following, we discuss these three governance standards in detail as they form the basis for the subsequent analysis.

10 Basic Principles

The Federal Association of Foundations in Germany represents the interests of more than 3,800 members in Germany. It is a powerful association that sets the standards for good foundation governance and actively promotes these. Foundations are expected to sign a voluntary agreement that they comply with the standards even if not binding. The association has various working groups, of which the group for corporate foundations is headed by the CEO of the Vodafone Foundation. The group has developed 10 basic principles corporate foundations should adhere to:

In order to be able to fully exploit the advantages of the foundation as organizational form, the corporate foundation should be as independent as possible from its founding cooperation and should be allowed its own room to maneuver.

1) The financial resources of a corporate foundation should allow it to fulfill its deed as laid down in the articles of incorporation, in terms of personnel as well as in terms of available financial resources in a permanent and stable manner.
2) For ongoing operations, the financial flow of resources from the corporation should not be bound to specific projects nor be tied to special application procedures of the foundation so that the foundation can at least plan its operations in the medium term.
3) The governing bodies of the foundations should be fairly small to ensure efficient work. In addition to representatives of the corporation, external expertise and knowledge should be present in a number large enough to exercise influence on decision making.
4) To revitalize the governing bodies there should be limits on length of terms as well as possibilities for re-election.
5) A clear separation is necessary between the bodies of the foundation working on the strategic level and the influential executive staff with power over operational design and decision making. The executive staff should not be obliged to report to and be under the directive of staff members of the corporation. The staff of the foundation should not be employed by the corporation but, instead, be on the payroll of the foundation.

6) Collaboration between the foundation and the corporation should be on the level of top management of the corporation.
7) The work of the foundation should follow the rules of its own logic. Therefore, candidates with good knowledge of the foundation sector as well as the strategic field of the foundation should be considered for the top management of the foundation. However, it may be reasonable for administrative and management tasks (finance, law, project management) to access corporate resources.
8) The granting-strategies should follow entrepreneurial thinking. This should be reflected in staff decisions.
9) To support the credibility of the foundation and its activities, the freedom given to the foundation should be reflected in its own corporate design, media communication and its public relations work.

The ten principles are based on the premise that a corporate foundation is primarily an actor in the civil sector and that it should try to maximize its social impact. These principles are seen as an extension of the principles of good foundation governance that the Federal Association developed for all types of foundations.

Swiss Foundation Code

The Swiss Foundation Code (SFC) is the most extensive and comprehensive governance code for grant-making foundations in Europe. It is a self-regulatory code that has its origin in the desire of SwissFoundations, the association of grant-making foundations in Switzerland, to promote good governance practices. Following principles of good governance increases the legitimacy of foundations in the public and decreases the suspicion about foundations being tax shelters and instrumental tools for corporations to promote their business interest.

The SFC defines three overarching principles that guide the development of governance systems within foundations. Even if the SFC is recommendatory in nature, its authors see it as a necessity that foundations adhere to these principles consistently and concurrently for them to fulfill the requirements placed on modern foundation management:

1) Effective implementation of the foundation’s purpose
   A foundation is obligated to achieve its purpose, as established by its founder, in the most efficient and effective manner possible.

2) Checks and balances
   Using appropriate organizational procedures, a foundation ensures sound leadership and monitoring of that leadership in all its main operations and decisions.

3) Transparency
   In keeping with its purpose, a foundation fosters the highest degree of transparency possible regarding its principles, goals, structures and activities.

Furthermore, the SFC provides 26 recommendations for good foundation governance that are to be interpreted in the light of above principles. The recommendations are organized by the overarching topics: establishment, leadership, grant-making and finances. Each recommendation incorporates a brief guiding principle and a number of individual guidelines. All recommendations are applicable for corporate foundations. In the following, the most important aspects in relation to this study are emphasized.

Establishment (Recommendations 1-3)

In addition to the founding documents, regulations and guidelines for both the governance and the activities of the foundation should be established. These include rules for the election of the board members and their lengths of term, conflict of interest policy, whistleblower policy, and a mission statement that specifies the purpose of the foundation with a validity of at least five years. Further policies may be developed for specialized areas such as granting or investment policies.

Leadership (Recommendations 4-15)

The foundation's board is the sole guarantor of good foundation governance. This responsibility cannot be delegated. The board of directors has to set the main strategy, oversee all of the foundation's operations and ensure that the foundation is dedicated to fulfill its purpose in the most effective manner. Within the scope of its foundation work, the board does not pursue its own (or third party) interest, but always acts in the best interest of the foundation.

The leadership of the foundation should act in an entrepreneurial manner, striving to maximize the social impact of the foundation. The board should not reduce its involvement to the annual board meeting but support the leadership of the foundation through advice and expertise. This means that within the board sufficient expert knowledge should be present to be able to guide the operations of the foundation in its specific field of activity. The management should run the general operations of the foundation. The public should be informed about the principles of the foundation, its grant-making activities and procedures.

Grant-making (Recommendations 16-19)

The foundation achieves its purpose through its grant-making, mentoring and advocacy activities, which should be as efficient and effective as possible. The board of directors should attempt to avoid redundancies in the allocation of resources. It should also ensure that the foundation is perceived as a reliable and dependable partner by avoiding even the slightest occurrence of arbitrariness, unreliability, unpredictability, and self-serving or instrumental behavior in its grant-making activities. Grant-making strategies should be made public and the grant-making criteria and decisions should be comprehensible and predictable. The credibility of a grant-making foundation is also increased when the amount of grant disbursements is based on consistent annual budgets rather than on fluctuations in the capital market (or company profits). Funded projects should be monitored and supported also with respect to the foundation's non-financial resources such as social capital and networks.

Finance (Recommendations 20-26)

The board of directors is legally responsible for the foundation's financial management practices. It has to ensure a legitimate source of funding as well as guarantee a regular cash flow to the foundation. If the foundation has its own endowment, the board of directors is responsible for the formulating an investment strategy, selecting an appropriate financial advisor and overseeing the asset investment.

A Guide to Corporate Foundations

The Charity Commission is the independent regulator of all charities in England and Wales. Its mandate includes helping charities to increase effectiveness and to raise public trust and confidence. The publication "A Guide to Corporate Foundations" was developed as a follow-up of a seminar with large corporate foundations and the Charity Commission. It outlines legal requirements in the UK as well as good practice recommendations. Due to a strict policy on tax exemptions, the guide gives an overview of how corporate foundations ought to act to maximize their social impact. Numerous short case studies illustrate occasions where there could be a conflict of interest or where the foundation puts its independence at risk. The guide is a valuable resource in understanding the public perception of corporate foundations and a legislative attempt to ensure that corporate foundations are not exploited.

Adding to the two codes discussed above, the guide points to the following good practices of corporate foundation governance:

Board of Directors

The company may seek to reserve the right to appoint or at least verify any new members to the board of directors. This is legitimate and lays in the nature of a corporate foundation. However, the company must exercise this power by selecting the individuals best suited to carry out the responsibilities of trusteeship. This means that members of the board should be selected according to their ability to contribute to the success of the foundation in fulfilling its mission. Those appointed to the board by the corporation must act solely in the best interest of the foundation and not in the interest of the organization that appointed them. Of course that does not mean that board members should act against the interest of the corporation. However, the interest of the foundation should come first.

Conflicts of interest / loyalty

In line with above observation it is important to point out that conflicts of interest may have significant negative effects on the foundation. Conflicts of interest can especially arise in situations where staff members are influenced in their decision making by their employment conditions. If they are not fully employed by the foundation and have to report to a corporation manager they may be inclined to act in the interest of the corporation instead of the foundation, to gain own advantages or not jeopardize their work contract. Reporting lines should be organized in such way that the employees of the foundation are only accountable to the foundation manager and/or foundation board. Conflicts of interest have to be addressed openly. A conflict of interest policy should be in place that determines the processes to be followed when a critical situation occurs.

Visibility

Corporate foundations normally have a logo that is very similar to the corporation's. However, it should be communicated visually that the foundation is a separate entity. The public and partner organizations must be able to clearly distinguish between the corporation and the foundation. Utilizing different graphic styles and colors can be tools to strengthen the identity of the foundation. Nonetheless, the link between the foundation and the corporation should be visible and transparent. Trying to hide the connection to the company can entail high reputational risks for both organizations. If the corporation has a good reputation in the public, the foundation can benefit by utilizing the company's name in approaching partners. In the reverse case the relation must still be made apparent. Visibility also includes promoting the foundation's activities among the employees of the corporation. The foundation can help to create social awareness among staff members or engage them actively in the foundation activities.

Funding

A company that sets up a charity often acts as the corporate foundation's only source of income. A common approach is to link annual payments with company performance. Establishing a corporate foundation with an own endowment is less observable in practice, even though this can be a powerful sign for the independence of the foundation. It is legitimate for the corporation to attach conditions to the funding provided. These conditions should not limit the foundation's ability to act and cannot be tied to business interests of the corporation or force the foundation to act outside of the foundation's purpose. If the terms of conditions for the funding are not acceptable, the board of the foundation must consider rejecting the donation.

Rather than just annual payments agreed long-term commitments (3-5 years) should be preferred. If linked to company profits, an agreement over minimal payments to the foundation should be made to ensure planning security for the foundation.

Suppliers / Infrastructure

It can be beneficial for the foundation to have the same suppliers as the corporation. Suppliers in this context include services such as public relation agencies, legal counseling or providers of office material. Ultimately, it is the foundation that has to evaluate if external services are more effective for the foundation. Corporate foundations are normally hosted in the company's headquarters. Sharing office facilities as well as functional services such as IT can significantly reduce overhead costs for the foundation.

2. Good foundation governance

The three codes presented above give guidance for setting up and running well governed corporate foundations. They all emphasize that foundation governance systems need to enable the foundation to fulfill its purpose most effectively. The governance systems of foundations should be organized in such way that the foundation can act as independently as possible and is driven by its purpose only.

The Board of Directors is responsible for creating the necessary structure and ensuring sufficient resources so that the foundation can effectively fulfill its mission. In addition to representatives of the corporation, external experts give credibility to the foundation and enhance its ability to act. The board must take its oversight responsibility seriously and not restrict its engagement with the foundation to annual meetings. Foundations are often driven by their executive directors. Staff of the foundation should have enough room to maneuver, be employed by the foundation only and hired based on the professional skills needed to enhance the foundation’s mission. In terms of funding, it is necessary for the foundation to have security in planning. Long-term contracts are to be preferred over annual budget renegotiations.

Two important dimensions that are not taken up in the governance codes are, first, the relation of the foundation with the corporate social responsibility programs of the corporation and, second, the involvement of corporate staff in foundation activities. The more integrated the foundation is within the corporate structure, the more likely it is that the foundation plays an important role in the internal communication of the corporation. Conversely, more independent foundations can have a positive effect on the way the company is perceived by its own staff. In both cases the foundation needs to make sure that it keeps its own identity and room to maneuver. The foundation’s activities should add to the company’s reputation in the public as well as among its staff. If at all possible, opportunities for corporate employees to get actively involved with the foundation should be considered as something positive.

From the literature discussed so far, it has become clear that good corporate foundation governance is closely related to the degree of independence of the foundation. This does not necessarily mean that full independency is the best option. By nature of a corporate foundation there is a close relation with the funding organization. The corporation can actively support the operations of the foundation and provide more than just financial resources. In the following, we will take a closer look at different governance systems and their implications for the ability of corporate foundations to achieve high social impact.

3. Methodology

The research focus was an analysis of different governance systems of corporate foundations and their degree of independence from the funding corporation and the consequences for achieving social impact. The study is based on a multiple case study design, using holistic case studies for a better understanding of the phenomenon under observation. Following this approach, we were able to picture and map the variable relationships of corporate foundations with their funding companies.

The sampling logic of cases followed an iterative logic. For reasons of comparability and accessibility of data to the Centre for Philanthropy Studies we decided to concentrate on three European countries.

Switzerland

Switzerland has one of the highest densities of foundations per inhabitants in the world (16.3/10,000). Liberal regulations, economic and political stability as well as a culture that values private action for the public good are factors that favor the establishment of foundations. Foundations have to comply with relatively few regulations and do not have to publish information about their activities or financial statements.

Germany

Germany has the highest absolute number of foundations in Europe (around 19,000). The foundation sector is well developed. The Bundesverband Deutscher Stiftungen (Association of German Foundations) is a powerful umbrella organization that has good connections to the state. They also have a working group of corporate foundations. The legal regulations are similar to those in Switzerland, however, they tend to be more bureaucratic. Members of the Bundesverband are expected to follow rules of good foundation governance. This allows comparing the corporate foundations to self-set standards.

UK

In the UK, many different legal forms can be utilized for foundations as the term itself is not proprietary for a special type of organization. Trusts can be seen as resembling foundations in Switzerland most of all. The charitable sector in the UK is large and due to legal regulations has a high degree of transparency. All charities have to register with the Charity Commission and have to publish information about their activities, grants and financial statements. Many of the larger trusts are known to follow innovative approaches to social problems. The UK is a good example of the more Anglo-Saxon approach to philanthropy in contrast to continental Europe. We decided to include the UK for comparative reasons and to represent different philanthropy cultures.

The cases within the countries were selected based on our own knowledge about the foundation sectors, recommendations from experts and an iterative sampling logic. First, we chose two foundations with which we have close contact and which were the most relevant in terms of the research question. The good relations with the executives of these foundations allowed us to address critical questions and identify further fields of interest that we might have overseen in our initial research approach. Based on the results, we could refine the questionnaire and decide which further corporate foundations would be the most beneficial for our analysis process. Decisive selection criteria were: alignment of the foundation purpose with the core business of the corporation; different degrees of independence; the presence of a proper foundation management; a track record of successful operations; diverse funding areas as well as accessibility to sensitive information. In terms of budget we only looked at foundations that spend more than 1 million CHF per year. Following our theoretical framework, we strove to have a heterogeneous set of foundations in relation to our criteria.

From a list of twenty foundations we contacted ten of which six agreed to participate in the study. The foundations that did not want to participate were generally interested in the research question but did not want to share sensitive information. The final sample included 5 foundations from Switzerland, 2 from Germany and 1 from the UK. The total sample size of eight full cases complies with scientific standards for qualitative multiple case study designs. We included CEPS findings from past governance studies in the analysis process.

Table 1: Sample description

Foundation	Core funding areas	Spending in 2012 (approx. in CHF)	Alignment with core business
A	Education (Youth, Culture)	3.2 Mio.	Bank No
B	Reducing the risk of disaster; preparedness, pre-vention, and prediction.	1.5 Mio.	Tobacco No
C	Operational: Self-selected social problems	1.24 Mio.	Automobiles No
D	To create decent affordable housing for people in need	2.5 Mio.	Mortgage Bank Yes
E	Nutrition research	~ 2 Mio.	Food Yes
F	Operational: Focus on smallholders, productivity, and markets.	13 Mio.	Seeds/Agriculture Yes
G	Sustainable development, education & integration, and health. Post disaster relief.	6.2 Mio.	Commodities No
H	Education, Integration and Social Mobility	5.2 Mio	Communication technology No

Data gathering

Based on the codes and the review of the relevant literature we identified the key dimensions to answer our research question. These formed the basis for the questionnaire for the interviews with the executive directors of the foundations. Ahead of each interview we conducted an in-depth research of all publicly available information. The following describes the key dimensions we looked at:

History

For setting the context and understanding the current governance system in place we looked at the initial reason for the establishment of the foundation and how the organization has developed over time.

Foundation mission

We looked at the mission of the foundation, its relation to the core business of the corporation, the current impact strategy and asked for best practice examples of the foundations' projects.

Board of Directors

Variables we observed included: board constitution and membership, relation of board members to the corporation, selection logic rules and procedures, professional background of board members, presence of external members, function and selection of the board chair. We also wanted to know about the level of engagement of each board member, their accessibility for foundation staff members, their role in shaping the foundation's strategy and oversight.

Staff

We asked for the number of staff members, whether they were hired externally or from within the corporation, their responsibilities and obligations within the foundation and for the corporation, their line of reporting, terms and place of employment and the set of skills present. We also specifically looked at the relation between the executive director of the foundation and the senior management of the corporation.

Operations / Management system

Points of interest were the development and implementation of the foundation's strategy, the selection of partners, approval procedures of selected projects by the board, support of project partners, evaluation and length of funding.

Conflict of interests

We wanted to know if within the foundation's history there were conflicts of interest, how they were dealt with and if a conflict of interest policy was in place.

Flow of resources

We asked for the funding mechanism of the foundation including annual budget, whether there was a written agreement about the amount of funding, its relation to company profits, whether there was a commitment to a minimum amount per year, lengths of contracts, contractual agreements about the way funds have to be spend and about the decision making process concerning the foundation's funding.

Visibility

We looked at the difference and appearance of the foundation compared with the corporation in terms of logo, webpage and annual reports. We asked about the (dis-)advantages of being hosted in the company headquarters. Finally, we wanted to know what role the foundation plays in the internal corporate communication and whether there were opportunities for employees to engage in the foundation activities.

Final remarks

Interviewees were asked about their own perception of the strength and weaknesses of the governance system in place.

Data analysis

The data was analyzed using the software program Maxqda10. We included all information gathered to obtain a holistic picture of the sample foundations. Common themes, similarities and differences in relation to the key research question where identified and discussed among the research team. The coding process was set to identify key issues in terms of the cooperation of a corporation and its foundation as well as the respective consequences for the fulfillment of the foundation's missions.

First, we looked at each foundation independently and rated each variable according to its degree of independency on a scale of 1-4 (integrated vs. independent). In a second step, we compared the cases in pairs and then in relation to the means observed. The final outcome was discussed and finalized.

Based on our results we could develop four main philanthropy models that will be discussed below. For each model we identified foundations that best represent one approach within corporate foundation philanthropy. To showcase the results we chose a graphical representation of our results that give a clear picture of the empirical findings.

4. Results

The results show that corporate foundations share similarities in terms of the categories identified above, while considerable differences exist in the detailed configurations of the governance systems.

In our analysis, we first identified four different philanthropy models corporate foundations can follow. These are best described by the alignment of the foundation's activity with the core business of the corporation and the degree of independency from of the foundation.

Table II: Different types of corporate foundations

Relation to core business		
High	*Instrumental Philanthropy*	*Complementary Philanthropy*
Low	*Reputational Philanthropy*	*Purpose driven Philanthropy*
Independence	Low	High

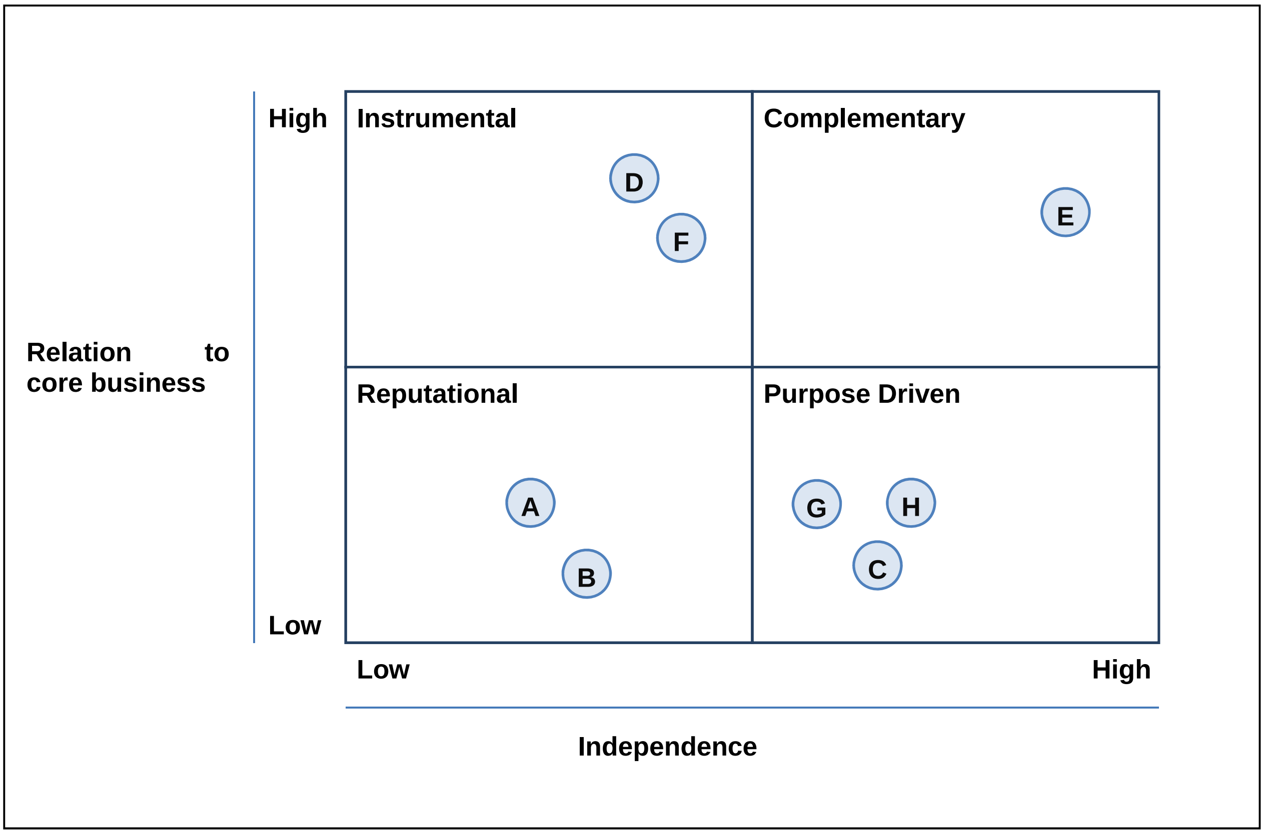
We speak of *Instrumental Philanthropy* when the relation to the core business of the corporation is high and its independence is low. The programs of the foundation have a positive effect on the public perception of the corporation and may help to increase revenues or sales of the corporation. This model raises ethical questions and even leads to legal problems if the programs are too clearly aligned with the business purpose. The foundation has to show that it is a proper entity with its own goals and objectives. Risks of this model include that the foundation may lose its tax exempt status, credibility and reputation. If carefully executed, this model may have the highest financial benefits provided that a purely economic system logic is followed. There is the potential of creating shared value. Examples include agricultural productivity programs for small farmers financed by a corporate foundation while its founding company sells agricultural supply.

When there is low or no alignment with the business activities of the corporation and a low degree of independence we can speak of *Reputational Philanthropy*. The function of these types of foundations is often better executed by internal corporate citizen or corporate philanthropy programs. This allows the corporation to clearly show its dedication and support towards certain causes. Examples include sponsoring cultural events, community development programs or corporate fundraisers.

When the relations to the core business are high and the degree of independence from the corporation is high we speak of *Complementary Philanthropy*. This model allows the foundation to create its own programs in the area in which the corporation is active, without having to seek potential benefits for the corporation. This model includes a majority of external experts on the board who ensure that programs are targeted at social needs and who monitor that the foundation is not exploited for supporting business purposes. If carefully implemented, positive effects and eventually for revenue/sales may occur when the public perceives the foundation as an honest and concerned institutions that is striving primarily to support the public good. Examples include disaster relief/prevention programs from (re-)insurance companies, capacity building grants to the homeless from mortgage banks or the support of independent research on topics that relate to the core business but are aimed to support the health of people.

The fourth type of corporate foundation is defined by its high independence from the founding company and a low or no relation to the core business of the corporation. We call this model *Purpose driven Philanthropy* as it has the highest potential to fully concentrate on the fulfillment of the foundation objective as laid down in the articles of incorporation. In this model the board is diverse and has engaged member with expert knowledge. The corporate members of the board ensure that enough resources are available and they support the foundation strategy independent of its immediate use for the corporation. The public is aware of the relation between the foundation and the founding corporation but perceives the foundation as an independent and impact driven organization. One example could be a foundation with programs in education or integration by a telecommunication company. The following graphic shows the different approaches in our sample.

Graphic I: Philanthropy models of Corporate Foundations



The models represent ideal types. The decision of a corporation on which model to follow will have consequences for the governance system. While the relation to the core business is relatively easy to identify the degree of independence is more complex. In our analysis, we developed a scheme that describes different degrees of independence by the criteria derived from the governance standards and recommendations presented above. The following table describes the characteristics for each variable in terms of the degree of independency from the corporation.

Table III: Degrees of independency of corporate foundations

	Integrated (low independency)	→	Independent
BOARD Composition	All board members come from corporation		Board members are external experts
Selection	Selected by management board of corporation		Self-cooptation
Expertise (strategy, finance, legal)	From corporate board members		Strong (external) expert knowledge
Expertise (content, stakeholder)	No experts of foundation's areas of activity		Strong (external) expert knowledge
STAFF Payroll	Staff on payroll of corporation		Staff on payroll of foundation
Working time - company vs. foundation (average)	Staff with main working time for corporation		Staff exclusively working for foundation
Reporting structure - company vs. foundation	Staff reports to corporation manager		CEO reports to foundation board / Staff to foundation CEO
Recruitment	Staff recruited from within corporation		Staff recruited externally
OPERATIONS (partners, projects) Relation to corporate operations	Aligned with core business		No connection to core business
Project selection	Approval by corporation		Approval by foundation board
Connection with staff or other CSR activities of company	Active involvement of corporation staff		No involvement of corporation staff
FUNDING Main source of funding	Annual contribution		Own endowment
Contribution based on reference value	Percentage of profits		No connection to company performance
Commitment	No written agreement on annual amounts		≥ 3 year contracts, additional funds if necessary
Funding restrictions	Strict contractual agreements about foundation's spending on funds		No restrictions
VISIBILITY Location/office company premises / externally	Foundation hosted on corporate headquarters		Independent office outside company premises
Brand / Logo	Same logo and colors with minimal changes		Distinct logo
Collaborators/Suppliers (e.g. lawyers, PR, graphic)	Provided internally or by corporation's partners		Externally contracted
Media relation	Provided by corporation		Managed independently by foundation

The two extreme cases at the opposite ends can be described as follows. In the case of fully integrated foundations, the boards are dominated by corporation employees; the top management of the corporation has leadership positions on the foundation board; the majority of staff members are on the payroll of the corporation; staff members still have superiors in the corporation to report to; funds are given to the foundation annually without any written agreement on a minimum budget; the foundation purpose is closely aligned with the core business of the corporation and the foundation plays a prominent part in the public relations of the corporation.

At the other end of the spectrum are independent foundations. Fully independent corporate foundations are very rare. The cases found were established by corporations that either no longer exist or were bought by another corporation (e.g. Gemeinnützige Hertie Foundation, Hasler Foundations, Landis + Gyr Foundation). However, the highest degree of independence can be reached when no or only a minority of corporate employees sit on the board of the foundation; staff is exclusively hired externally and paid by the foundation; no staff member has to report to company employees; the top management of the corporation does not try to influence the foundation's activities; the foundation has its own endowment or long-term funding contracts without spending restrictions; the foundation's purpose is not related to the business aim of the corporation and there are no links with the CSR department of the foundation.

Board of Directors

It is one of the central features of a corporate foundation to have members of the corporation on its board. These are often representatives of the top management. Fully integrated corporate foundation boards are dominated by corporation staff members. Fully independent corporate foundations seek to have strong expert knowledge on the board which they recruit externally. This ensures an effective system of knowledge transfer and raises the public perception of the foundation as a credible partner committed to the cause.

In our sample the boards had different configurations. A number of boards consisted of a majority of members working at the founding company. This was seen both as a strength and weakness at the same time. Positive factors included strong institutional support, high specialized business knowledge and access to resources. However, (potentially) negative factors outweighed these strengths. There was mention of attempts of the company board members to exploit the foundation for business purposes, the risks of conflicting interests, limited time and too little strategic involvement in steering the foundation, limited expert knowledge about the foundation's mission as well as proper foundation management and finally, negative effects on the public perception of the foundation.

The appointment rules of board members varied within the sample. The most professional setup included a standing nomination & compensation committee where the decisions were taken. However, this was mainly called upon to recruit external candidates. This specific foundation issued open calls for board membership. The job descriptions included specific functional skills or any necessary thematic knowledge. In all other cases externally recruited board members where specifically addressed by either the board chair or a small committee. Often personal relationships played a pivotal role in approaching potential candidates. In most cases the CEO of the corporation was also the chair of the Foundation. Board meetings, strategy developments, program organization and reporting were mainly conducted by the foundations' executives.

The degree of involvement of board members in the foundations differed considerably in the sample. Boards that were specifically staffed with external experts tended to be more actively involved in supporting the executive staff. In these cases, (external) board members received compensation for their efforts.

The independent board members helped form strategic alliances with other organizations and gave advice on strategies and opportunities to increase impact. Most executive directors emphasized the importance of independent experts on the board for the credibility, impact and thematic strength of their organizations.

Staff

The number of staff working for the corporate foundations in our sample ranged from 3 to 23, with higher staff numbers in the operational foundations. The median was 4 staff members. The more integrated corporate foundations had a higher percentage of staff members that had previously worked for the corporation. It was predominantly seen as a sign of independence and trust in the foundation's executive director when he/she was able to hire staff externally and according to the skills needed.

Not all staff members worked exclusively for the foundation. In some cases employees also held a part-time position in the funding company – but then mostly in the corporate philanthropy/citizenship sections of the company. Functional knowledge to the foundation, especially in juridical and financial matters was provided from time to time on a pro bono basis from corporate staff. Their working hours in the foundation were mostly restricted to just two days per month or even only on special occasions (contract-based).

In almost all cases the executive director of the foundation was hired externally. Only in one case was the foundation CEO a former high employee of the corporation. Compensation models for staff members were mixed. In one case, staff members of the foundation were paid by the corporation but the foundation reimbursed these costs to the company. The Chief Executives of the Foundations tended to be on the payroll of the corporation and project managers on the foundation's payroll. This model allows keeping the amounts for the foundation's overheads at a low level while still being able to ensure oversight by the foundation's chief executive.

Conflicts of loyalty of board members can arise when they are not entirely free of conflict of interest. Our interview partners described some problematic instances when board members were employees of the corporation at the same time. Sometimes, board members did not understand that in their role as a foundation board member they needed to put the interest of the foundation first. However, interviewees also mentioned that when these cases occurred other board members stepped in to criticize the approach. This of course will become more difficult when the CEO of the corporation is also the chair of the foundation. Foundation managers reported to have more difficulties with middle managers of the corporation than with members of the management boards. Middle managers tended to avoid any potential conflicts with the corporation.

Some foundation directors mentioned that they would like to receive more feedback on their work in terms of impact and fulfillment of their mission. When reporting to company directors or boards that were predominantly staffed with company employees, foundation directors felt that they did not get the professional feedback and oversight they needed to improve the foundation's social impact. There was a general feeling that in the eyes of company directors, projects needed to look nice rather than be judged with the same rigidity as business projects. Some foundation executives expressed a wish for the board to take its function of checks & balances, oversight and goal setting more seriously. This should not be seen as foundation executives asking to be more closely controlled, much rather, they wished for strong partners who would constructively challenge their work.

Management System / Operations

The strategy development of the foundations examined was in all cases initiated and executed by the foundation executive and his/her staff. In some cases external consultants were hired to facilitate the process. These were mostly university partners.

During the strategy development process the board of the foundations was occasionally consulted. There were no separate steering committees but foundation executives tended to frequently meet with foundation board members from the corporation. Program developments were generally driven by foundation staff rather than the board. In one case the foundation executive even rejected personal funding recommendations from the corporation CEO who was also the chair of the foundation board as these did not fit in the overall strategy. However, this kind of freedom and autonomy can only be reached when the corporate foundation has developed its own strategy and adheres to it.

Generally, the boards put high trust in the project decisions prepared by the foundation executive director. High approval rates do not mean that the board does not get engaged but, they much rather point towards the executive director working highly professionally. Some executives would have preferred to have more freedom in also choosing controversial projects, despite also being aware that this might not correspond to the role of corporate foundations. There was a clear understanding that none of the foundations' activities should bring any potential harm to the corporation. In one case there was even a written framework agreement that obliged the foundation to act in alignment with the interests of the corporation. In the other cases there was a clear understanding among the foundation staff that any potential project must be tested for potential negative effects it may have on the public reputation of the corporation. Foundations staff did not publish strong political statements or suggest any controversial programs or projects to the board. This was seen as a structural disadvantage, as even or especially being a corporate foundation in some cases strong statements should be made. Some foundation executives felt that they could work more effectively, if they were not restrained by an ongoing monitoring need regarding potential risks for the corporation.

Difficulties can occur with the CSR or corporate citizenship departments of the corporation when the foundation works on topics closely related to the core business of the corporation. In one case the corporate citizenship department wanted to copy the foundation's program. The foundation executive opposed it to protect the autonomy and independent identity of the foundation.

Corporate volunteering programs were viewed with skepticism. In some cases, employees of the corporation participated in programs and activities executed by the foundation. However, we did not witness any large scale or institutional corporate volunteering programs. Three foundations had tried to establish such programs but stopped them when not succeeding. One foundation had a matching program for funds raised by employees. Charity committees in various branches around the world were also actively encouraged to propose potential partners for the foundation or were invited to view the sites. Almost all foundation executives emphasized the positive effects of presenting foundation activities in the corporation's internal communication. One executive even saw it as an educational mandate of the foundation to inform corporate employees about social issues.

Flow of resources – Ability to resort to company resources

In addition to having corporate employees on the board, the main reason for corporate foundations not being considered as independent institutions lies in their funding model. In most cases corporate foundations are established with a relatively small endowment and then financed through annual payments. Very seldom corporate foundations receive a high endowment that creates enough return to finance all foundation activities. Other models include annual donations linked to company profits or periodic budget negotiations as well as (additional) money raised by employee fundraising efforts. In kind support is often given by providing office space or the ability to resort to company resources such as legal advice, human resources or support in financial management.

We found all of these models in our sample. However, only one foundation was in possession of its own considerable endowment (~10 Million EUR). As the payouts did not match the foundation’s budget needs additional payments were made. Conflicts of interest may arise when the same people that decide on the provision of funds to the foundation also decide on how this money must be spent. In terms of checks & balances these two decisions should be independent of each other.

Foundation executives mentioned that an endowment would give the foundation more credibility and freedom to act. However, given the low payouts on institutional investments in recent years, they also mentioned that having a strong corporation as a partner had its advantages in terms of financial stability. In most cases there was no formal written agreement on long-term funding of the foundations. Common models included tying foundation budgets to company profits or periodical budget negotiations (every 1 to 3 years). As most foundations in our sample were backed by strong profitable corporations, the foundation budgets can be considered as very small in relation to the companies’ revenues and profits. However, tying budget decisions to company profit can also mean that in difficult economic circumstances foundation budgets may decrease. In one case, the executive reported a drop of annual payments by 25% which forced him to shut down one of his granting areas.

The ability to resort to company resources such as legal advice, office space or human resources was generally seen as an advantage. In most cases executive staff of the foundations had good contacts to the leadership of the cooperation so that access to these resources was not a problem.

Visibility

Corporate foundations were found to take on the full or just part of the name of their founding company. Even when using similar logos and names, foundations and companies must communicate that they are two different entities. In our sample all but one foundation carried the name of the funding cooperation. The foundation was established in honor of the long-term CEO and later chairman. The foundation clearly states on its web page and public relations materials that it is funded by the corporation. The executive director also asserted that the foundation “used” the positive reputation of corporation and that it has been beneficial for them when approaching partners. In two other cases we observed the opposite. The company name or connection to the business area was regarded more controversially.

The public appearances of the foundations in our sample were all very close to their funding corporations. Relative independence was tried to achieve by using different fonts or logo colors. For most foundation executives it was very important to develop an own corporate identity. Foundation executives reported that company representatives did not mind if the public could not clearly differentiate between the corporation and the foundation. In the end, regardless of alignment with the core business, corporations at least expect positive public relation effects from their foundation’s activities.

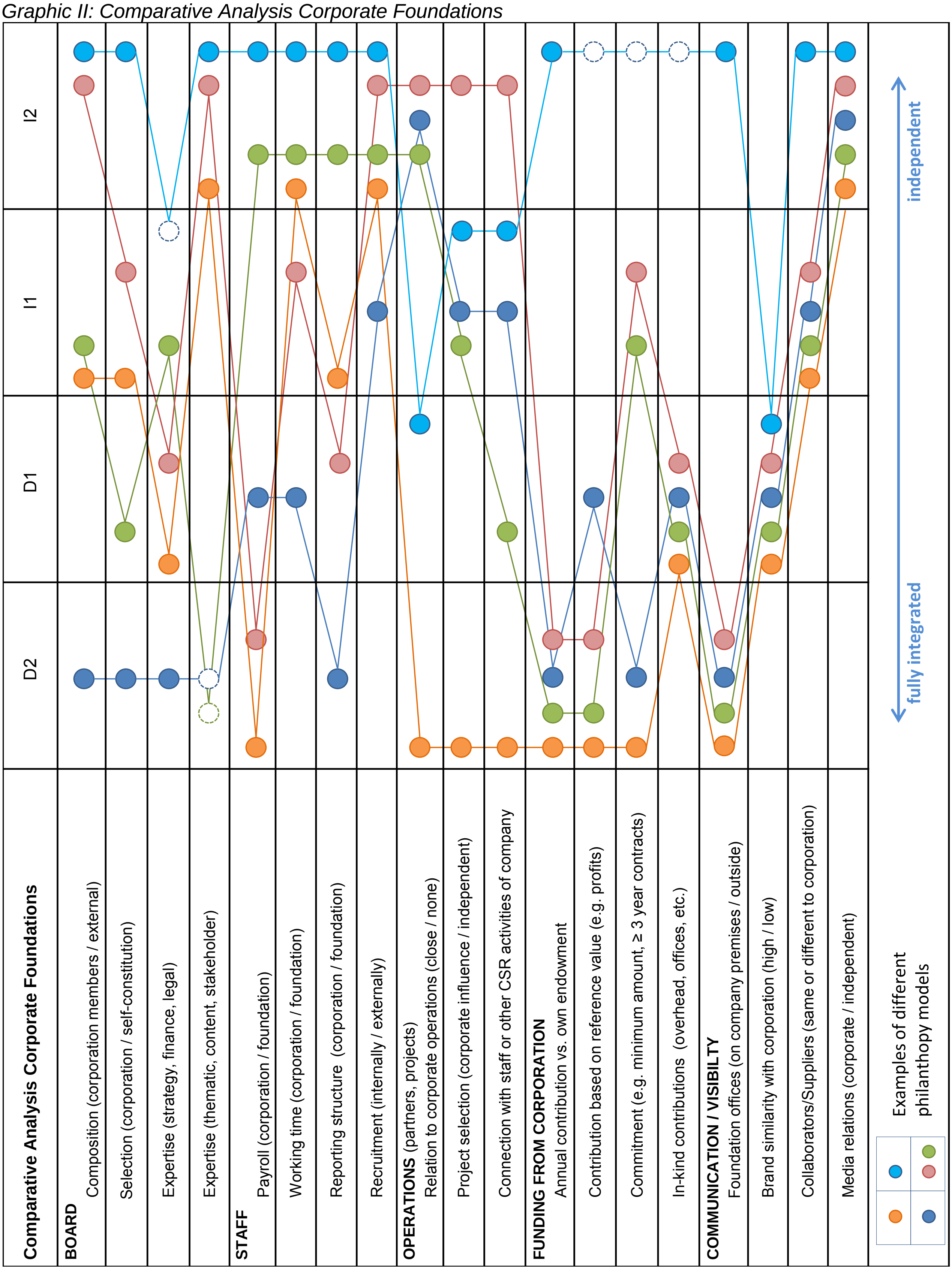
All interviewees were clear about shared office spaces and similar logos not adding to the perceived degree of independence of the foundation from the corporation, however, this was not seen as critical. At the same time, they unanimously asserted that all relations with the funding corporation should be transparent and should be communicated clearly to the public. This point was stressed. Foundation executives felt that if they were to hide any support or links with the corporation, a potential damage for the foundation would risk its reputation and ultimately its ability to act.

Even though in most cases foundations were allowed to work with company divisions such as public relations or corporate communication, the foundation executives preferred to work with external partners. This allowed the foundation to be more flexible and to react more quickly. Within the corporate hierarchy they often felt to be treated as less important. Foundation executives felt that the better way was to contract external graphic design companies and to receive in-house media and press training rather than relying on the respective corporate departments.

Models compared

From the discussion it has become apparent that corporate foundations vary in their detailed configurations of governance systems. The differences are illustrated in the graphical presentation of five foundations selected from our sample. The columns show the degree of dependency where D2 / D1 mean that the foundation is more integrated or controlled by the corporation and I1 / I2 mean that the foundation can act more independently from the corporation.

Graphic II: Comparative Analysis Corporate Foundations



5. Conclusion

The nature of the relationship between the foundation and the company strongly influences both the foundations' governance structure and its operations. The leadership of the corporation decides on which philanthropic model the foundation should follow. All types are possible and legitimate. The decision depends on the corporation's aim for the foundation.

Each model has its strengths and weaknesses. In conclusion though, it became clear that the purpose driven model was the favorite among the foundation executives. The advantages of having the possibility to work with experts on the board and to have all resources dedicated to fulfilling the foundation's mission outweighed other limitations of this model.

In all cases transparent communication about the relation of the foundation with the corporation was seen as a crucial success factor.

In terms of strategic leadership it became apparent that the executive directors of the foundation are the most important persons. They drive the foundation and strive to increase its impact. Assigned board members are often too busy with their full time professions to take their governance role seriously enough. This can lead to conflict when they breach their official role as supervisory authority. In the interest of checks & balances, the board members must dedicate sufficient time to the foundation and oversee its activities. In cases where the foundation is capable of attracting outside expertise and can tie the board membership to a specific time and skill requirement, the foundation is more likely to increase its impact – compared to cases where board members are merely chosen based on their position in the founding company.

Corporate foundations can suffer from specific structural limitations that classical foundations do not face. Strengths normally associated with foundations are the absence of members or stakeholders on the board, their ability to take risks, their independence from external resources and their bridge building capacity between different societal groups. It is these advantages that make for the foundations' special potential to address social and environmental challenges. As soon as a corporation suppresses one or many of these features, the potential of the foundation is diminished. However, full independency from the corporation is not necessarily the best option. By nature of a corporate foundation there is a close relation with the funding organization. Synergies should be utilized. Corporate foundations can unfold their greatest potential when they receive strong financial and in-kind support from the corporation; when their board provides strategic, functional and thematic expertise and guidance; when the foundation executive acts entrepreneurial and has skilled and knowledgeable staff at his/her disposition; and when the foundation can build up its own credible identity.

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