



CECP Brief on Corporate Foundations Program & Management Costs

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Corporate Foundation Trends

- Companies are aligning corporation's CSR work more with corporate Foundation; research estimates over 75% are doing so
- Why?
 - Expectations to be more strategic, business mission/asset aligned to ensure delivering shareholder value with financial & brand
 - CR, Sustainability, ESG, and other stakeholder frameworks promote a more integrated model with full supply/value chain lens to drive value
 - Companies expect faster results than waiting many years to realize
 - Corporate Foundation boards are senior leaders of company, increasingly less local and expected to be more global—loss of connection to operating communities
- Corporate Foundation is a powerful tool when deployed strategically; they have become more focused

Simplifying Strategy & Advancing Strategy Reports



Definitions:

Corporate Foundation vs. Corporate Giving Programs

Corporate or “company-sponsored” foundations are organized by for-profit businesses, usually as **private foundations**:

- Although corporate foundations are **subject to the same rules and regulations as private foundations**, their governing boards usually consist of corporate employees and frequently **do not have independent directors**
- Often the **Foundation “staff”** are corporate employees and are being **donated to the Foundation**
- Although some have endowments that provide grant funds, annual **grantmaking** is usually derived from **corporate contributions instead of endowment income**
- These Foundations frequently maintain close ties with the founding company, but it is an **independent organization**
- If there is an endowment, it is subject to those rules; there are state and federal registration and reporting requirements
- They tend to grant in fields **related to corporate activities or communities** where the corporation operates/employees reside
- **Corporate foundations can be created as public foundations**, particularly if they will be largely publicly supported.

Corporate giving programs are not **organized as foundations**; although some companies make charitable contributions through both a corporate giving program and a company-sponsored foundation:

- A **company grants directly to nonprofits** from the parent corporation funds through a program within the company itself; staff members are corporate employees acting in either a part-time or full-time capacity
- Corporate giving programs **do not have an endowment** and their **annual grant funds are related to current profits**
- They are **not subject to the same registration and reporting requirements as private foundations**.

Why:

Corporate Foundation vs. Corporation

Examples of Benefits

(NB: CECP is not a legal or tax advisor; please consult yours)

Corporate
Foundation

Corporation

Fiscal management tool to receive donations from company in highly profitable years to be spent down in less profitable years

Corporation can **contribute assets to Foundation** if beneficial (e.g., depreciated or appreciated)

Allows **associated tax deduction** to be spread over two years if more beneficial for company

Develop relationships in emerging or current markets without FCPA or similar company issues if managed correctly

Brand-building halo for company via Foundation

NGO sensitivity to accepting funds from company are lessened when working with corporate Foundation; some partners may not work with company due to optics

Ability to make **international grants directly to non-US based charities** though expenditure responsibility or equivalency determination

Foundation provides **seriousness to a company's commitment to philanthropy** to NGOs and community; perceptions improve on professionalism, governance, and external reporting

Link to brand provides reputational benefits with key stakeholders, from local to international

Provides greater flexibility when grant making as charitable grants **do not have to be to 501c3** organizations (e.g., can give to US government agencies from company for a park)

Avoids administration, financial and legal expense needs of \$X/year, including separate corporate records, including approvals, meetings, accounting, and tax filings

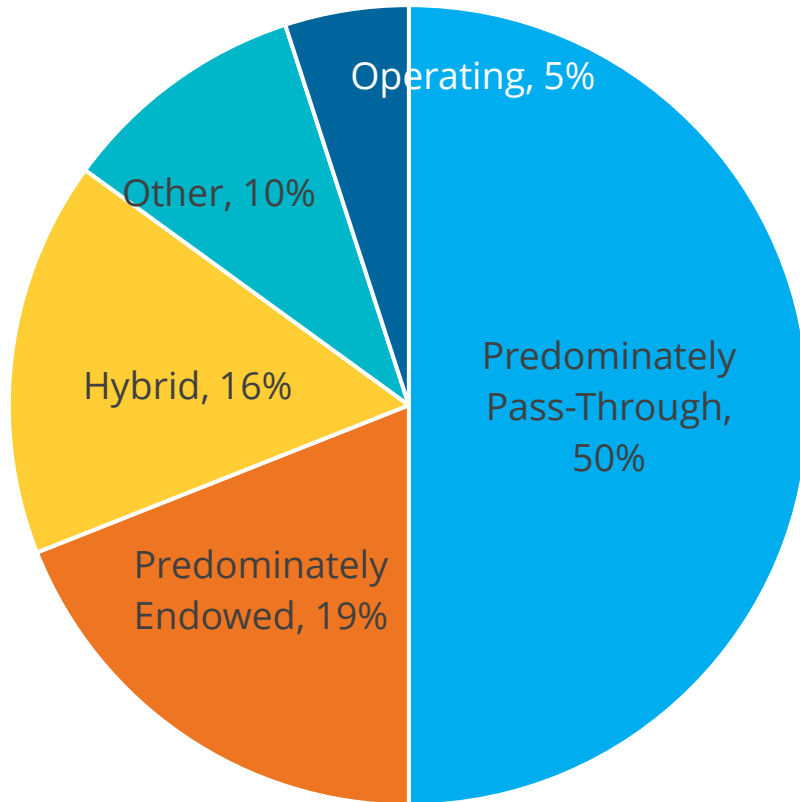
Avoids IRS expenditure responsibility administrative burden when granting to non-US charities (must refer to each country's laws)

Grants are not public in IRS Form 990-PF (and if wanted them to be, Foundation would be right choice)

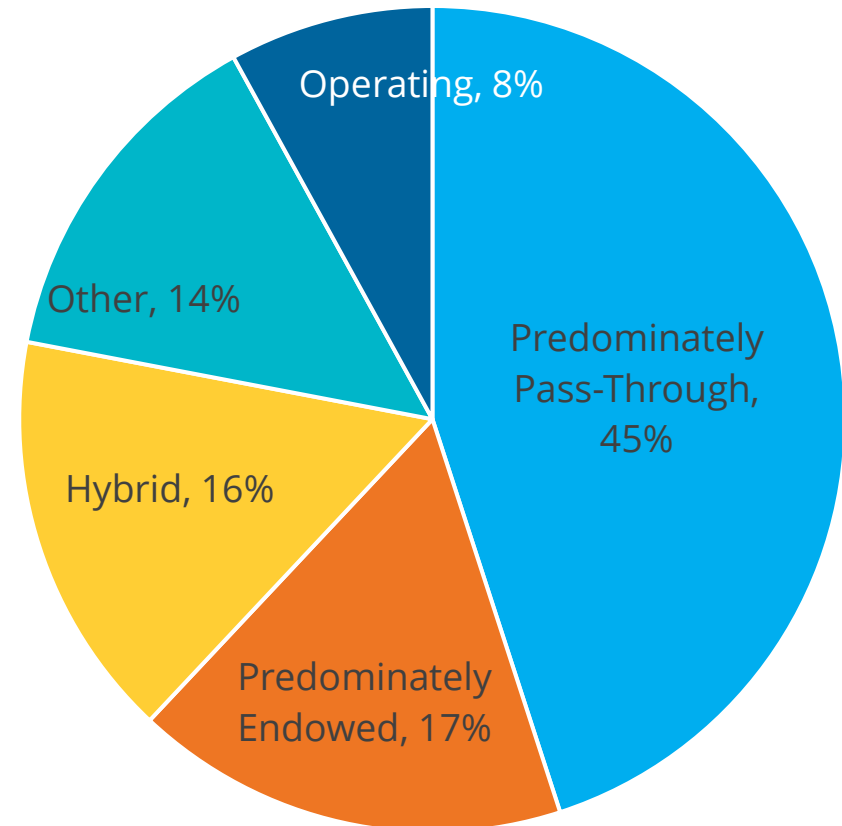
Eliminates corporate team management of self-dealing/IRS regulations and can make community investments that could benefit company and leaders; **able to accept sponsor benefits that Foundation cannot** (e.g., tickets to an event)

Corporate Foundation Types (2018 vs 2019)

Percentage of Companies by Type of Foundation,
N=161, 2018



Percentage of Companies by Type of Foundation,
N=182, 2019



A Closer Look: Foundation Types

According to [CECP's Valuation Guide](#):

Predominately Endowed:

- Have asset **reserves** (cash, stocks, bonds, etc.) that they **invest to make a return**—these returns are then used to make grants to nonprofits
- Typically **disburse 5% of the total value of assets held**, as a legal minimum
- Are **not dependent on the annual transfer of funds** from the corporation, as the endowment generates funds for grantmaking.

Predominately Pass-Through:

- **Receives funds** often in the form of cash or appreciated stock **from the company** and distributes those funds over the course of the year (either calendar or Fiscal Year) and **may be transferred from the company**
- **Do not face restrictions** on **spending down the principal** of the asset reserve it has created.

Hybrid:

- **Blending of the endowed and pass-through models**, with neither model truly dominating.
- The **reserve fund “cushion” is robust**, but nonetheless the foundation receives reliable annual funds for disbursement that must be contributed within the giving year.

A Closer Look: Operating Foundations

Operating Foundations are less common for corporations:

- 501(c)(3) organization classified by the IRS as a private foundation whose **primary purpose is to operate research, social welfare, or other programs** determined by its governing body or establishment charter.
- **Some grants** might be made, but the sum is generally small relative to the funds used for its own programs as it **functions as a nonprofit organization in its own right**. It could, but often does not, seek funding from the public.
- **Must use at least 85% of its assets** to offer charitable services or programs directly to end-recipients.
- **Example:** Pharmaceutical companies may create for their Patient Assistance Programs, which service individuals directly

Companies with Operating Foundations:

- Public Service Enterprise Group (PSEG) (Utilities)
- Ryder System, Inc. (Industrials)
- Thrivent (Financials)
- Agilent Technologies, Inc. (Health Care)
- Union Pacific Railroad (Industrials)

By Foundation Cash Giving Tiers

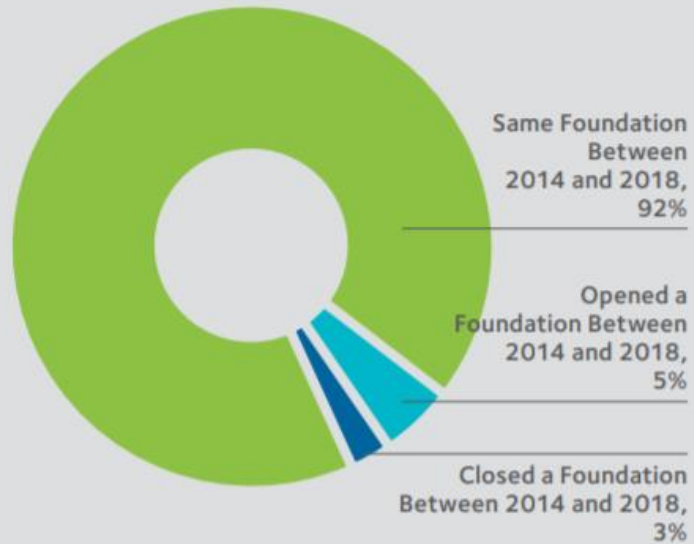
Program & Management Costs of the Foundation, as a % of Total Foundation Cash Giving, 2019 Data			
	N Size	Median	Average
All Foundation Cash Giving Tiers	35	8%	20%
Under \$5 million	11	11%	38%
\$5 to \$10 million	8	11%	19%
\$10+ to \$15 million	Sample size too small		
\$15+ to \$25 million	6	11%	10%
\$25+ to \$50 million	5	8%	7%
\$50+ to \$100 million	Sample size too small		

Program & Management Costs of the Foundation, 2019 Data			
	N Size	Median	Average
All Foundation Cash Giving Tiers	35	\$ 1,010,039	\$ 1,654,883
Under \$5 million	11	\$ 271,820	\$ 732,251
\$5 to \$10 million	8	\$ 620,658	\$ 1,425,522
\$10+ to \$15 million	Sample size too small		
\$15+ to \$25 million	6	\$ 1,622,354	\$ 1,764,752
\$25+ to \$50 million	5	\$ 2,291,867	\$ 2,436,154
\$50+ to \$100 million	Sample size too small		

Snapshot from *Giving in Numbers: 2019 Edition*

FIGURE 18

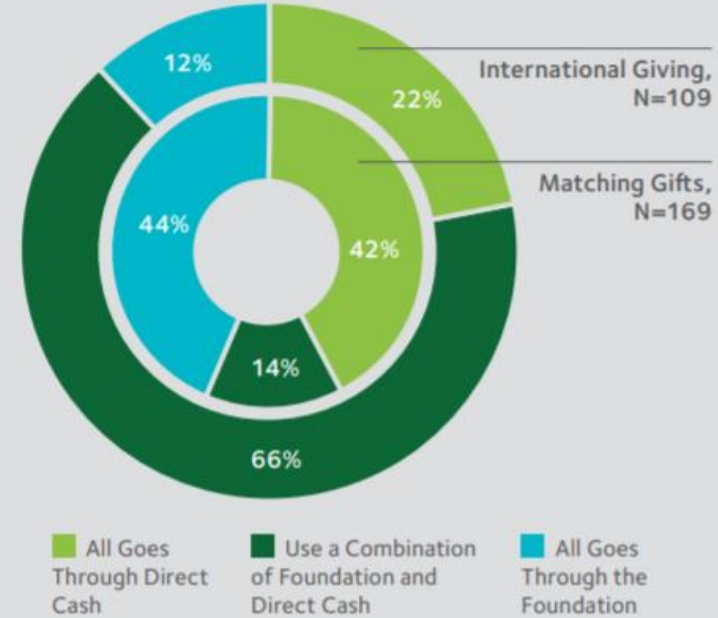
Foundation Use, Percentage of Companies,
Five-Year Matched Set, 2014-2018



N=202

FIGURE 19

Use of Foundation Cash for Matching-Gift Programs and International Giving, Percentage of Companies, 2018



N=202