



The Foundations of Business

The Growth of Corporate Foundations in England and Wales



CORPORATE CITIZENSHIP
Part of The Good Relations Group

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Executive summary

Businesses continue to tell their stakeholders that they are committed to “embedding” responsible practices into their companies. They want to avoid the accusation that corporate responsibility is a separate, bolt-on and instead present it as a core part of the organisation’s DNA.

But corporate foundations are growing in number. These distinct legal entities contribute to community causes on a company’s behalf. They are the effective ‘outsourcing’ of community contributions through an arms-length body that is technically independent.

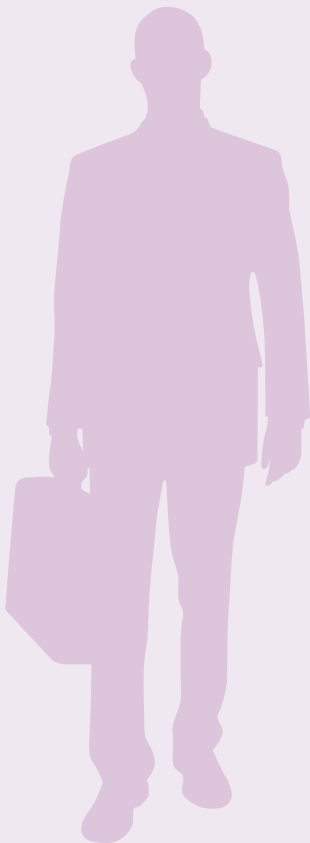
This report examines the apparent paradox. We set out to update research from 2006 and 2007 and understand if corporate foundations were still growing in number, and explain why. We used the Charity Commission database, a detailed survey of corporate foundations and in-depth interviews.

The number of foundations has indeed continued to grow – we identified 140 corporate foundations in England and Wales, including around 33 that had been established since 2006.

The financial services sector dominates the sector ranking in terms of quantity and income, but most new foundations have been set-up by a sector that did not previously feature in our studies - clothing retailers.

Despite their legally separate status, many corporate foundations are quite integrated with the founding business and leveraging the benefits that this brings. Our study found that: the giving strategy is often linked to the company; the majority provide volunteering opportunities for employees; and an overwhelming majority have some senior management involvement.

We conclude by discussing the reasons why corporate foundations continue to grow. Businesses are harnessing the opportunities for innovation, volunteering and reputation-building to ensure that corporate foundations, whilst legally separate, create value not just for society but also for the founding company



Foreword



Companies and their foundations have faced a tough environment in recent years. We've experienced the worst economic recession in living memory. The consequences of this have been felt by communities across the world which are facing increased needs such as unemployment, education and social cohesion.

Many companies, meanwhile, continue to voice strong support for responsible business practices, including playing an active role in their communities. A recent study suggests that "the integration of sustainability into core business practices" is the biggest leadership challenge facing global corporates today¹.

Stakeholders expect companies to not just talk about responsibility, but demonstrate through their actions that being good corporate citizens is part of everyday activity.

All this might lead us to expect that corporate foundations – the separate, 'outsourced' partner of the company – would be fast going out of fashion. Critics have alleged that they can be a PR-fuelled distraction from the real need to make businesses more responsible².

Our research set out to answer three key questions. Firstly, has the number of corporate foundations increased in recent years? If so, why? And finally, how has the dynamic between the founding company and the charity changed?

*The report builds on our previous research in this area. In 2006, we published **Revealing the Foundations** which, with the help of an advisory group³, defined and estimated the number of corporate foundations in England and Wales for the first time. In 2007, we published **The Changing Nature of Corporate Responsibility – what role for corporate foundations?** This study mapped out the changing relationship with corporate responsibility programmes through a series of in-depth interviews.*

Our latest report provides an update to those findings, and in particular looks at how governance structures and impact assessment frameworks are operating today, as well as some of the recent trends in income levels.

It forms part of a programme of work with corporate foundations and we hope it will contribute to a debate about the valuable role that they can play.

A handwritten signature in black ink that reads "Amanda Jordan".

Amanda Jordan OBE

Co-founding Director, Corporate Citizenship

¹State of Sustainable Business, Globescan with BSR, October 2012

²For example, see Jonathan Glennie from the Overseas Development Institute: The Charity Disparity, Poverty Matter Blog, The Guardian, 16 January 2012

³The 2006 Advisory group included representatives from The Cabinet Office, CAF, Camelot Foundation, Abbey Charitable Trust, Vodafone (UK) Foundation, Business in the Community

What do we mean by a foundation?

Corporate foundations can take many different forms; indeed, their diversity is part of what makes the sector so dynamic and intriguing.

There is no definitive definition of a corporate foundation. For this research, we have adopted the definition that we set out in our initial study from 2006. With guidance from our expert advisory group, this defined a “corporate foundation” as:

“Charities currently registered in England and Wales by the Charity Commission, whose primary income is derived in some way from a corporate source”.

Some corporate foundations retain close links with their founding company. Others are much more independent

and separate – in terms of staff, their physical location, financial resourcing and management approach.

In our original research, drawing on work by Business in the Community (2003), we put forward a framework for thinking about their different levels of operational independence.

By law, corporate foundations must be legally separate from their founding corporations. However, we posited that the degree of separation varied quite significantly in practice.

We identified two categories on a spectrum of operational structures. As part of this new study, we have asked corporate foundations to classify where on this spectrum they find themselves:

Independent foundations have trustees who are not employees of the company, staff are independent and there is minimal senior management involvement. There is typically a committed funding formula in place, meaning that the founding company donates a fixed sum each year (such as a proportion of profits). This set-up tries to ensure that the foundation can act independently. The focus of giving is not normally linked to, or guided by, the business. Volunteering opportunities for company employees are often rare.

Integrated foundations have company employees as trustees and high levels of senior management involvement; staff are seconded from the business. They typically do not have a committed funding formula, meaning that they are dependent upon contributions from the company, and this may vary from year to year. The giving strategy is typically linked to the business strategy or locality. Volunteering opportunities for company employees are a core part of the foundation’s activities.

Methodology

Our research began by updating the list of corporate foundations that we first identified in 2006. We used the Charity Commission's database to search for new corporate foundations that identifiably matched our definition. This is not an exact science: identifying a founding corporation is not always obvious, and our definition necessarily entails some grey areas. For example, football clubs that establish foundations are, according to our definition, corporate foundations as they are normally established by a trading business. Conversely, a foundation established by a successful entrepreneur acting independently from their company would fall outside of the scope of our research.

The analysis was undertaken between July and October 2012, using the latest information available on the Charity Commission website. Accounting periods vary; data referred to in this report as 2011 covers the financial year 2010-11 for some foundations.

We developed an online survey to quantitatively test a number of the emerging ideas. This was sent to all foundations for which we had an identifiable contact or email address and achieved a response rate of 18%.

Finally, we undertook a small number of in-depth interviews to explore the changing dynamics in the sector. We are grateful to Thomas Jelley from the Sodexo Foundation, David Emerson from the Association of Charitable Foundations (ACF) and the ACF network of corporation foundations, chaired by Pam Webb of Zurich Community Trust, for taking the time to contribute their thoughts.



Changing dynamics since 2006

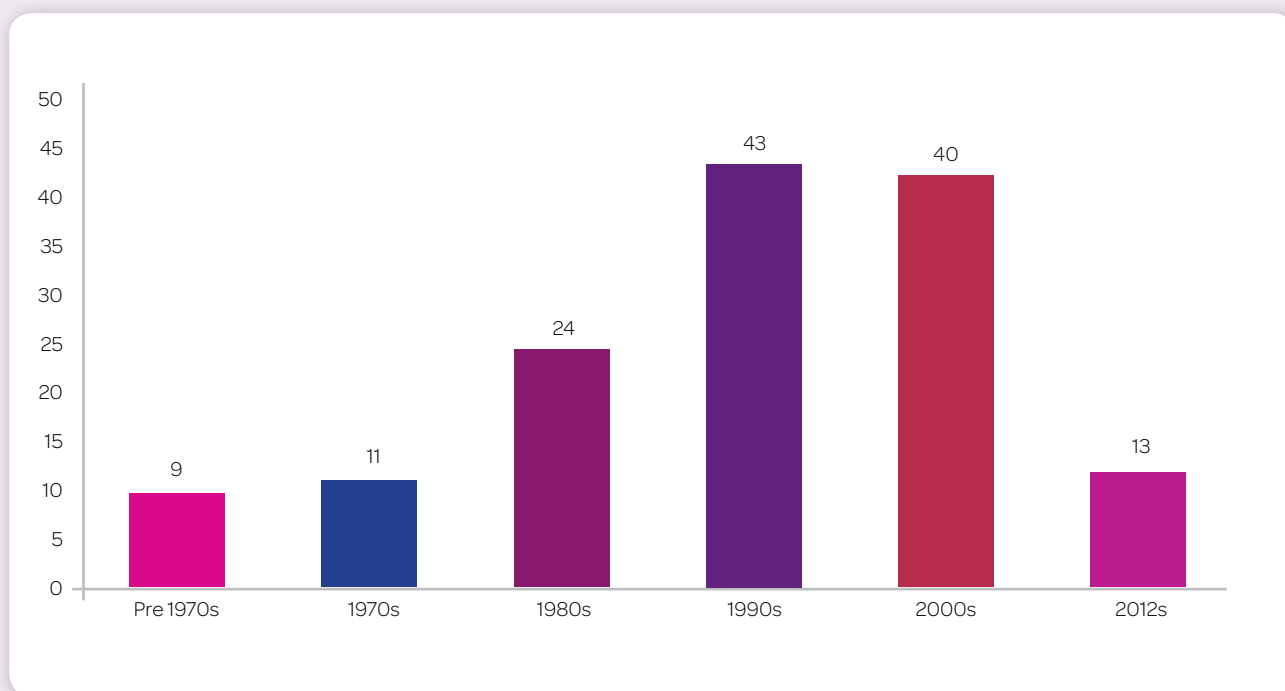
Number of foundations

Our research identified 140 corporate foundations, according to our definition, from records held by the Charity Commission in England and Wales.

This is an overall increase on the 126 that we identified in 2006. In total, we identified 33 new foundations that had been established since our original study– a strong rate of growth averaging over five per year. Two foundations which were not previously identified were added to the list.

The overall increase is consistent with our previous research. This suggested that the number had been rising steadily since the 1960s. In total, the 2000s saw around 40 new corporate foundations established. In the 2010s so far, 13 new corporate foundations have been established and registered. This rapid rate of growth, if sustained, looks set to make the 2010s one of the most intense periods of establishing corporate foundations. However, the 1990s still stands out as the period of the highest levels of set-up activity, largely due to de-mutualisations.

Figure 1: Number of corporate foundations that exist today, by decade of establishment



Our research also found that around 21 corporate foundations that existed six years ago are no longer registered today.

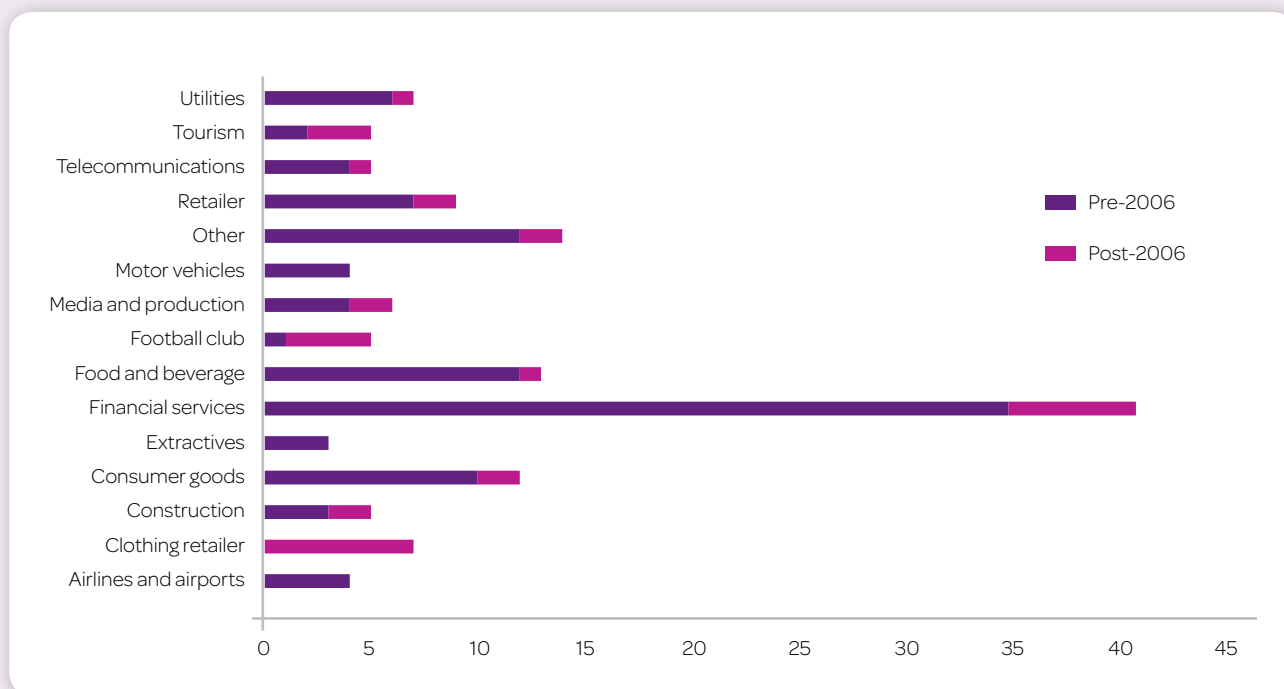
The reasons for their disappearance are wide ranging, including the merging of two separate foundations into one.

Foundations by sector

Financial services continues to be the sector with the most corporate foundations. This sector has grown in recent years. Additions include the **Credit Suisse EMEA Foundation** (established 2008) and the **Apax Foundation** (2006).

However, in terms of new foundations, financial services rank second to clothing retailers. This is a new grouping that was not prominent in our earlier research. Recent arrivals include the **Burberry Foundation** (2008); **Primark Better Lives Foundation** (2008); **White Stuff Foundation** (2010); and **Jimmy Choo Foundation** (2011).

Figure 2: Corporate Foundations by Sector



Motivations for setting up a foundation

Our survey revealed that the reasons for setting up new foundations were varied. Of those which had been established since July 2006, the reasons cited included providing more focus and structure to giving, and “promoting the values” of the company in a non-commercial environment.

From a reputation-building point of view, the strong growth in foundations from the financial services sector

is not surprising. Many companies have been rocked by high degrees of scrutiny in recent years and some may have sought to ‘give something back’ more prominently to the community through a foundation.

Conversely, clothing retailers are likely to have different motivations, three examples of which are shown in the box.

The Jimmy Choo Foundation was launched in 2011, by Tamara Mellon, in conjunction with the company's 15th Anniversary. It was established to fund and implement projects designed to empower women. The foundation works on the basis that women's empowerment has actual as well as moral benefits. It helps raise economic productivity, reduce infant mortality, improve health and nutrition and increase the chance of education for the next generation: 'Progress is achieved through women'. The agenda for empowering women through the foundation focuses on addressing abuses that afflict women globally: sex trafficking and forced prostitution; gender-based violence; maternal health; and building confidence and independence through education and economic opportunity.

White Stuff Foundation was set up in 2010 and focuses on supporting disadvantaged children and young people in local communities. It is supported by White Stuff, which has committed to giving at least 1% of its annual profits to the foundation. All White Stuff shops are partnered with their own local charity. The foundation gives regular grants

to these charities in addition to funds raised by staff and customers. It aids disadvantaged children and young people by helping them to "realise their true potential and to support their health and well-being". The foundation is currently supporting over 84 charities across the UK, two in Denmark and two in India.

The Burberry Foundation was set up by Christopher Bailey and Angela Ahrendts in 2008 as a 'philanthropic organisation dedicated to helping young people realise their dreams and potential through the power of their creativity'. The foundation is funded by donations from Burberry, its employees and customers and works through granting financial support to innovative programmes as well as developing sustainable partnerships with charitable organisations that work with young people. The foundation also provides a strategic platform for Burberry's engagement in community initiatives and builds charitable giving in regions where the majority of Burberry employees live and work. The three key components which the Burberry Foundation seeks to foster through its giving are: confidence, connection, and opportunity.

The reality is that companies have many and varied motives for setting up a foundation. For some, there are reputational benefits; for others, a more structured and independent approach to community giving is

the logical next step on their corporate responsibility journey. Often, this is linked to an anniversary, providing an enduring legacy for the foundation.

Levels of operational independence

Our survey shed new light on the current set-up of corporate foundations. We tested a series of statements to unpick where foundations find themselves on the spectrum from 'integrated' to 'independent'.

Overall, the findings indicate that most corporate foundations are relatively integrated with the founding company:

- Nearly 90% of respondents indicated that there was at least some "senior management involvement" from the company.
- Most foundations (84%) appear to have at least one trustee who is an employee of the donor company.
- Nearly three quarters (73%) of respondents indicated that some foundation staff are seconded from the business. Only one in five described this statement as "not at all accurate".
- A majority (58%) of respondents described the statement that "the giving strategy is linked to the business focus" as accurate. A third said it was "not very accurate" and only one in ten described this as "not at all accurate".

- 58% indicated that there was "a link to employee volunteering" – slightly lower than other measures of integration, but still a majority.

Overall, it appears that most corporate foundations are somewhat integrated with the founding company.

There are clear benefits that this can bring to both the foundation and the business beyond those of merely sharing management and operational resources. This interconnectedness means that the strategy of the foundation is often linked to that of the founding business, most are able to offer volunteering opportunities to company employees and senior management involvement is prominent.

Some companies now view their foundations as pools of innovation. By seeding them with the right people, ideas, resources, technologies and business acumen, these companies are seeking to improve their ability to meet societal needs in the long-term. This is an exciting opportunity which helps to further differentiate the corporate model from mainstream foundations.

Legal structure

There are two legal mechanisms for a corporate foundation – a trust, or a company limited by guarantee. Of the corporate foundations that we identified,

around a third were registered as a company limited by guarantee and the majority were by Trust Deed. This is consistent with the breakdown of our previous findings.

Sources of income

All of the foundations identified in our research receive a substantial proportion of their income from their founding companies.

However, the income spread is varied:

- Over half the foundations that participated in our survey received over 70% of their income in company donations.
- For one in five foundations, company donations made up all of their income.
- One in ten of the foundations said that they rely entirely on investments for their income.

There also appears to be a high level of variation in the formal funding arrangements. Many indicated that there was an annual promise or deed of covenant. Others indicated that the funding was more periodic in nature.

Of all the respondents to our survey, the majority (68%) said that they did not have a committed funding formula in place. Of the remainder that did, around half of these indicated that it was a fixed percentage of company profits; the others had a more flexible arrangement, such as a minimum guarantee or in-kind support.

Levels of income

We studied the latest financial figures for each corporate foundation that had been filed with the Charity Commission by July 2012. Accounting periods vary and not all charities had registered files for the latest time period. For this reason, we also analysed the data from 2010 in order to make valid comparisons with our earlier study. Averages are used for comparison as not all foundations had records available, and the total sample sizes differed.

The average income of corporate foundations appears to have fallen in recent years.

- The average recorded income fell from £1.75m in 2005 to £1.68 million in 2010.

- Although not all foundations had figures for 2011, the available data suggests a further fall in average income to £1.46 million – a 16.5% fall over six years.
- Some large players had not yet filed accounts; many that had done so did record an increase on the previous year. But others have seen dramatic falls, such as the **Northern Rock Foundation**, whose income fell from £15.17m in 2010 to £339,000 in 2011.
- Despite the average fall, **Lloyds TSB Foundation** overtook the **Vodafone Group Foundation** as the largest in our group, with an income of £25.9 million in 2011.

Expenditure and donations

Whilst income has fallen, the average amount spent by corporate foundations has risen over the same time period:

- Average expenditure has risen by around 14% from £1.42 million in 2005 to £1.62 million in 2011.
- In terms of donations, there also appears to have been an increase. The figures show a rise in the average

amount that foundations donated from £1.34 million in 2005 to £1.86 million in 2011.

- This means that totalling up all corporate foundations, the average expenditure and donations are now greater than average income. This is because a small number of larger foundations gave away more than they received in income in recent years.

Impact of the Recession

As our survey reveals, a large number of foundations are reliant on founding companies for their income. It perhaps therefore comes as no surprise that income has reduced during the tough economic environment that many companies have experienced since 2007.

Our interviewees suggested that the recession has had mixed impacts on corporate foundations. For some, the need to “do good and help others” was as acute as ever, whilst we identified elements of greater corporate control, restrictions on funding and requirements to prove impacts from others.

Man Group Charitable Trust, founded in 1978, provides one example. It gives grants to charitable organisations that help transform the lives of the disadvantaged in our

society. In recent years the Trust has had to alter its pattern of contributions, as the following extract from their 2011 annual report shows: “Man’s charitable contribution is based on the financial performance of the business. As a result of lower performance fees Man donated \$1.5 million in the period (\$3.8 million in the year ended 31 March 2011) to the Trust and charitable committees of our overseas offices”. The company also reveals that “with less funding available we narrowed our focus to support those charities working with the most excluded and disadvantaged, such as supporting the homeless or long-term unemployed into education, training or employment. The Trust built up its reserves in 2009 in order to ensure we were able to maintain a consistent level of giving and therefore donated \$3.8 million in this period to support charities when they needed it the most.”

Causes supported

Foundations continue to support a wide range of causes. Although difficult to quantify into simple categories, our research suggested that economic hardship, young people and education continue to be popular themes. These topics are consistent with broader trends in corporate

community investment, with the exception of a category of health issues that many companies also support⁴.

Around half the respondents to our survey said that “education and young people” was their primary focus.

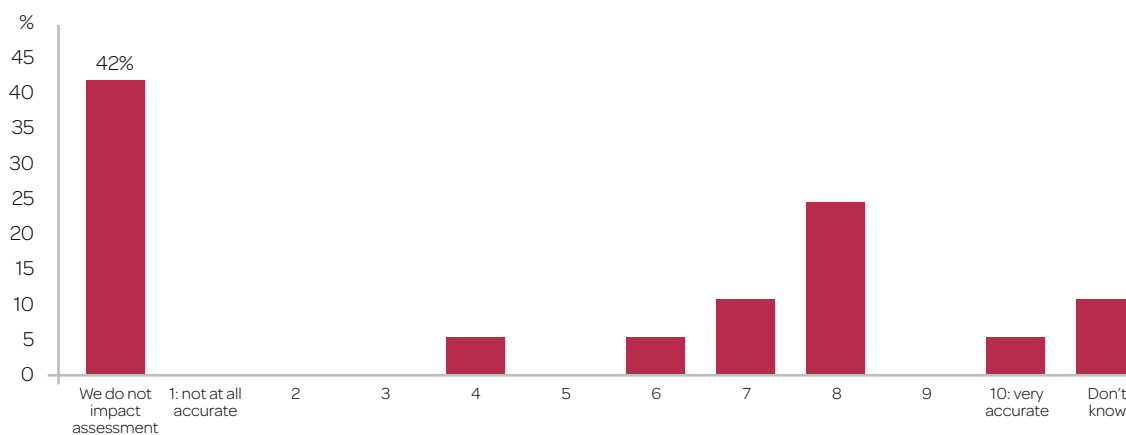
Impact assessment

Finally, we asked respondents to our survey about whether they measured the impacts that they created in any way. A startling 42% of the corporate foundations that responded stated that “we do not do impact assessment”.

This poses questions around how foundations are able to accurately judge their performance. It may be

indicative of the fact that new foundations have been set up that have not yet had time to get to grips with this challenging area. Our survey found that those foundations which were recently established were significantly more likely to indicate that they did not do impact assessment than the more established ones.

Figure 3: On a scale from 1 to 10, how accurate do you think your impact assessment is?



⁴LBG – The Global Standard for Measuring Corporate Community Investment, 2012 Annual Review

Discussion – The surprising growth

At first sight, the continued growth in corporate foundations may come as a surprise. As previously mentioned, the emphasis on embedding corporate responsibility as well as the financial pressures being placed on companies should point in the opposite direction.

Yet it is clear that corporate foundations serve a valuable function. Our interviewees, as well as our own experience of working with foundations, suggest a number of benefits.

Corporate foundations permit the founding company to 'ring fence' and protect its community contributions. They enable a degree of independence and autonomy, though as our findings reveal, real independence is rare in reality.

Increasingly, they are being harnessed as a forum for innovation to provide employees, often through volunteering, with a source of inspiration as well as personal development.

Finally, they allow the company to point to a public commitment, in the domestic market and on the world stage, to the community. Foundations have become part of a global language and as we see increased globalisation, this is undoubtedly a key driver in their development.

For these reasons, the intensely close relationship between the corporate foundation and its founding company should come as no surprise. Having provided the funding for the set-up, and with such clear benefits

available, many businesses want to retain a close working relationship.

The data shows that the average income of corporate foundations has fallen in recent years. Yet donations and total expenditure appear to be up, on average. This may reflect the fact that there is no shortage of worthy causes: the prevalence of young people and economic hardship amongst the causes supported suggests this.

But the lack of impact assessment indicates that many foundations are spending money without fully understanding what benefits they are creating.

This could be indicative of the dynamism and infancy of the sector, with new foundations not yet having set up all their processes. Alternatively, it could show a worrying lack of concern for being able to measure and report on the impacts that projects are creating.

This goes to the heart of the question of whether a foundation is simply a grant-giving body or part of a strategic approach by the company to community investment. If companies invest their time, energy and financial resources in setting up a corporate foundation, then understanding the impacts that this creates must be critical to its evaluation.

Despite the challenging times, foundations have endured and continued to grow. In the coming decade, we can expect more corporates to embark on this journey, enabling the sector to continue to play a valuable role in our society.

International comparisons

This report focuses on corporate foundations in England and Wales. However, a comparison with international foundations shows that the growth experienced in England and Wales appears typical of Europe. In addition, the close integration with founding companies is an enduring characteristic of the sector in other countries.

France

One of the most interesting features of the French experience is that corporate foundations in France fall under a well-developed legal framework, with eight different forms of foundation specified that range from 'endowment funds' to 'partnership foundations'. This is not the case in the UK where corporate foundations are not separately classified. Yet there are similarities: some of the most popular areas of action for foundations are education and social action, with 52% of foundations supporting projects for young people in France. The level of integration between foundations and their corporate partners is also similarly high, with 52% of corporate foundations stating that their main purpose is linked with the company's activity, which is deemed to be consistent with their "public interest" test. At the end of 2011, there were 450 corporate foundations in France, with around half of these created in the past five years (Research from the IMS-Entreprendre pour la Cité, 2012).

Germany

There is no clear definition of a corporate foundation in Germany. However, one study has estimated that around 450 foundations can be classified as such, in addition

to around 670 corporate foundations of saving banks (Sparkassen-Stiftungen). Nearly all major corporations that are publicly listed have established at least one corporate foundation, with a boom in the creation of corporate foundations in the last 20 years. German corporate foundations have both higher assets, and higher expenditures than other charitable foundations in the country, with 43% of corporate foundations spending more than €100,000 per year. As in France and the UK, education is a popular area of action for corporate foundations in the country (Research from the German Association of Foundations). Our own experience leads us to believe that the integrated model is not as popular in Germany where the public and company interest are not always seen as the same.

Poland

The Polish corporate foundation sector is somewhat less developed than in other parts of Europe. Estimates have suggested that there are around 117 corporate foundations, but only 89 were confirmed as active by recent research. One third of corporate foundations in Poland focus on welfare or health, with nearly the same proportion focused on education. Company members or representatives feature on the boards of corporate foundations in around 60% of cases, supporting the general trend of close links between foundations and their corporate partners. The average income of the foundations surveyed was PLN 1.25 million (approximately £250,600), somewhat lower than the income of corporate foundations in France, Germany and the UK (Research from *The Polish Donors Forum*).



Thinking of setting up a corporate foundation?

New corporate foundations have sprung to life in recent years. We know that there are many more businesses that are actively considering setting up their own foundation.

Corporate Citizenship has developed a framework to guide each stage of the process, and details the key questions that should be considered by the founding company.

If you would like more details, please get in touch:
Amanda.Jordan@corporate-citizenship.com



About Corporate Citizenship

Corporate Citizenship is one of the longest standing specialist sustainability consultancies, working with corporate clients around the world to achieve their commitments to being responsible businesses built on sustainable practices.

Founded in 1997, we're proud to be working with a huge variety of companies, large and small. Our highly experienced 30-strong team in London and New York bring practical and pragmatic solutions to often complex challenges. Faced with the big issues confronting the world

today, we passionately believe that companies are part of the solution, and we help make it happen. For further information about the report and our services, please contact:

Corporate Citizenship

5th Floor, Holborn Gate
330 High Holborn
London, WC1V 7QG
T: 020 7861 1616
www.corporate-citizenship.com
Amanda.Jordan@corporate-citizenship.com



UK office:

5th Floor, Holborn Gate
26 Southampton Buildings
London WC2A 1PQ
T: +44(0)20 7861 1616
E: mail@corporate-citizenship.com
W: www.corporate-citizenship.com

Singapore Office:

c/o StratAgile Pte Ltd
10 Anson Road #39-07
International Plaza
Singapore 079903
T: +65 6836 9098

US office:

241 Centre Street
4th Floor
New York
NY 10013
T: 1-212-226-3702

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