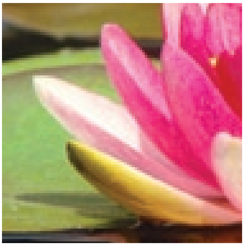
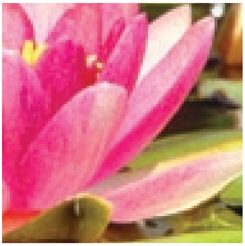
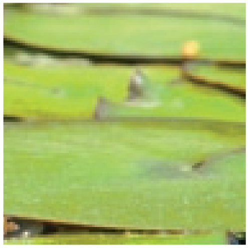
  

The changing nature of corporate responsibility – what role for corporate foundations?

A report by The SMART Company for CAF

July 2007

committed to effective giving

CAF

Contents

Foreword from CAF

CAF (Charities Aid Foundation) is passionate about increasing the value and impact of giving from both individual and corporate donors, so we continue to be very interested in understanding how and why different models of giving are being affected by trends in the wider social and economic environment.

One clear trend to have emerged in recent times is the increase in recognition of companies' wider role in social change and in response to this the increasing integration of corporate responsibility into all areas of the business. We only have to look at the recent emphasis on climate change and the environment to see an example of this.

The research published by CAF last year – Evaluating CCI in the UK – shows that corporate support for the community is mirroring this trend with more companies adopting a strategic approach to this activity, aligning it more closely with their underlying business activity. So what does this mean for corporate foundations, a model of giving which is primarily defined by independence from the company?

This report takes the Revealing the Foundations research published last year to the next level by looking more closely at the complex relationship between a company and its foundation. The findings raise a number of interesting issues.

It seems that although increasing CR is affecting corporate foundations, it may not be in the way one would expect, especially in the area of reporting and measurement. The research also demonstrates that alignment with CR strategy can be achieved without compromising statutory independence – the two aren't mutually exclusive. Clear goals and a shared understanding of the role of the foundation is the key to achieving maximum social impact.

We hope this research provides some interesting food for thought, as well as giving practical considerations for either setting up a corporate foundation or reviewing a current company/foundation relationship.

We would like to thank all those who participated in this research, including the companies, foundations, funding recipients and opinion formers, and of course our thanks to The SMART Company for undertaking the research on behalf of CAF.

Russell Prior
Executive Director, Company and International Services

Part one – Executive summary

This research report explores how changes in corporate responsibility (CR) are having an impact on the role and function of corporate foundations.

The research is based on interviews with twelve companies and their foundations; seven experts in corporate community investment; and twenty charities who have received funding either from a company or a foundation. It builds on previous research, Revealing the Foundations, undertaken by The SMART Company in 2006 and funded by CAF and the Cabinet Office.

The research focused on foundations without a fixed funding formula (ie those who receive an annual donation rather than an endowment), as these foundations are considered more likely to have closer connections with their founder company and therefore to be potentially affected by changes in corporate responsibility (CR) strategy.

Analysis of the findings revealed at least three possible answers to the question of whether CR is having an impact. For some foundations, their function as charitable grantmakers is very clear and CR is having little impact. For another group of companies, the original reason for creating the foundation no longer exists, and CR has provided the company with an opportunity to review the role of the foundation and to seek to integrate it further into the business. For a third group, CR has provided an opportunity to create a foundation for specific purpose that plays an integral role in the company's approach to social responsibility. These three groups are identified from within the research group; there are potentially other areas where CR and foundations are interacting that have not been explored in this research.

The findings emphasise the conclusions drawn in Revealing the Foundations that corporate foundations are extremely diverse in role and activity. The report suggests a move away from the traditional 'integrated/independent' distinction, and instead proposes a new framework which indicates the essentials of a corporate foundation, good practice considerations and highlights the different roles that foundations can play.

Finally the report makes some suggestions and recommendations for future research and focus.

Part two – Introduction to the research

Introduction

In October 2006, The SMART Company in conjunction with CAF and the Cabinet Office, published a ground-breaking piece of research looking at the nature and prevalence of corporate foundations in England and Wales.

Despite the continued popularity of corporate foundations as a funding model – the initial research identified at least 126 corporate foundations in operation, many set up during the last 20 years – there was little information about what these foundations do, how they operate and crucially, why companies use them as part of their giving strategy.

The first phase of the research raised many questions worthy of further consideration, but of particular interest to those involved was the issue of where foundations fit in the evolving corporate responsibility agenda. Corporate responsibility is becoming increasingly 'strategised', with an emphasis on integration into day-to-day business and a focus on identifying and addressing a company's 'material issues' – ie the main social, ethical and environmental challenges and impacts of their core business. Investment in the community still forms a key part of most corporate responsibility strategies, but the question is whether these investments and relationships are also becoming more strategic and business focused. If they are, what does this mean for corporate foundations, which span a whole range of activities from traditional small-scale, diverse grant giving to larger strategic programmes?

The purpose of this research is to explore this question in more depth, to understand what role there might be for corporate foundations in the future of company giving, and whether any changes will be needed for this funding model to continue successfully.

Research objectives

The primary aim of the research was to investigate the role of corporate foundations in the wider context of corporate responsibility (CR).

The objectives of the research were to understand:

- the changing nature of CR and its effect on corporate community investment
- how the trends of business-integrated CR and the various models of corporate foundations are affecting each other, particularly in terms of impact measurement and employee engagement
- what the implications of these might be for foundations, companies and funding recipients
- the views of recipients on the experiences, advantages and disadvantages of applying to and receiving grants from companies and corporate foundations
- the future role of corporate foundations in giving, including practical considerations of what changes might be needed in the management of corporate foundations within the wider context of CR

Methodology

The research was carried out by The SMART Company with input and guidance from CAF. It comprised a combination of desk research and a series of interviews with CR and corporate giving experts, companies, foundations and funding recipients.

Interviews with CR and giving experts (‘opinion formers’) were used to map out the context of corporate giving and the changing nature of CR, and to test perceptions on how this environment might be affecting the use of corporate foundations.

Interviews with companies and foundations were focused on the role and use of corporate foundations within the context of a company’s CR programme. For the purposes of this research, foundations were deliberately chosen with a funding formula that implies a close link with the company, eg those who receive an annual donation from the founder company or who are funded through employee fundraising.

Our purpose in this review was to understand whether and how, the corporate foundation is affected by an evolving CR strategy, and whether having a foundation might affect a company’s approach to CR.

Some foundations are funded by an endowment or a fixed pre-tax profit formula. This means that their annual income is determined and not open to negotiation with the founder company (at least in the short term). In such cases it seems less likely that changes to the company’s CR programme and priorities will have any affect on funding provided to the foundation.

The focus was therefore on those foundations who do not have a fixed formula or significant investment income, and whose funding therefore depends on the company making a conscious decision each year to continue supporting the foundation.

Perceptions of funding recipients is fundamental to understanding how and why corporate foundations are used. Is the experience of receiving funding from a foundation any different from being funded by a company directly? Is there any value for recipients, and for business-community partnerships, in the foundation model per se?

To consider this question, SMART conducted telephone interviews with 20 members of its Community Panel. This is a standing panel of community, voluntary and charitable leaders drawn from across the UK, representing a range of sectors from health and welfare to housing and social exclusion. Panel members are close to their local communities and therefore have a real understanding of where corporate giving and investment can make a difference at a local level. A mixture of small and large organisations were interviewed to get a cross-section of views on the value of corporate giving and the implications for recipients of researching, applying for and receiving funds from a foundation.

Interviews were conducted in May 2007. A full list of participating organisations is given at the end of this report.

Part three – Corporate responsibility and community investment – developments and trends

Introduction

Over the last 15 years, corporate responsibility has undoubtedly become a permanent fixture on the UK business agenda – for larger companies at least. Corporate Register[1] shows that now all of the FTSE100 report in some way on their CR activities, whether through stand alone reports, their annual reports or on websites. Previous surveys by consultancy Context[2] have also shown that reporting is growing amongst the FTSE250. Almost 25% of the UK's top 100 companies, as listed in the Sunday Times and based on Business in the Community's Corporate Responsibility Index, are FTSE250 companies, suggesting that CR is no longer just the preserve of the biggest names, but something that is becoming important across a wider corporate spectrum.

Drivers for corporate responsibility

While it is difficult to pinpoint any one reason for this surge in activity, there are a number of factors that, when combined, are widely acknowledged as having exerted a significant influence on how companies go about their business. These include:

Government attention

While the present government has not taken any steps to regulate CR or enforce social and environmental reporting, initiatives such as the introduction of a Minister with responsibility for CR, a cross-government working group, and more recently the CSR Academy, as well as the engagement of business in issues-led debate on areas such as responsible

[1] www.corporateregister.com
[2] "In Context: Global Corporate Responsibility Reporting Trends 2006" – www.econtext.co.uk

drinking and childhood obesity, have sent a message to companies that CR is part of the public policy agenda.

Investors

The ethical investment market has grown dramatically, while long-established institutions have introduced 'ethical' indices such as FSTE4Good and the Dow Jones Sustainability Index. Investors recognise that not addressing social, ethical and environmental impacts is a risk, and that the companies most likely to succeed in the long term are those who have acknowledged their impacts and implemented plans to manage them effectively.

Consumers

Consumers are not always consistent in what they say and what they do, but evidence suggests that there is a growing interest in products that are ethically produced and endorsed as such by organisations like the Soil Association and the Fairtrade Foundation.

Climate change

The growing acknowledgement of human impact on climate change has led to a greater recognition of the link between corporate activity and environmental and social change.

Changes in corporate responsibility

The seven opinion formers interviewed during this research suggested that the combination of these factors, along with the influence of the media and campaigning organisations, mean that social, ethical and environmental responsibilities are "becoming part of the DNA of business".

"Corporate responsibility has moved away from thinking about mitigating social and environmental impacts towards thinking about how do we actually do business, and how do we change our business models so we are understanding better our interaction with wide society. For leading companies, it's changing the way they operate."

Opinion former comment

With an increased focus on how companies operate rather than what they do, CR is gradually becoming more integrated into business strategy. Opinion formers comment that this is happening slowly, and still more likely to be a feature of leading companies rather than all companies, but the trend is emerging.

What does this mean for corporate community investment? Corporate community investment, or CCI, is considered to be one of the "four pillars" of the traditional CR model, along with environment, workplace and marketplace. CCI might be seen as the more outward facing or involving aspect of CR – an opportunity for a business and its employees to engage with the local community in a way which brings benefits for both parties.

Some opinion formers argue that the growth in corporate responsibility has led to a new enthusiasm for CCI, and its greater integration into business practice.

"CCI is therefore increasingly seen as part of a broader CSR strategy and is often managed within corporate CSR departments. In this way, CCI is becoming part of core business activities rather than fulfilling a marginalised philanthropic function. This new enthusiasm for CCI is manifested in:

- a rise in company charitable giving
- an increase in company charitable foundations
- a growth in membership of business associations for CCI
- a multiplying of CCI initiatives
- longer term CCI relationships
- management and governance systems for CCI
- an increase in measurement and reporting of CCI"

An evaluation of Corporate Community Investment in the UK
A research report by the International Centre for Corporate Social Responsibility, Nottingham University Business School for CAF (Charities Aid Foundation), December 2006

CCI is an area where businesses have worked together to improve practice and reporting, as demonstrated by the networks that exist such as BITC and the London Benchmarking Group. New initiatives such as BITC's Community Index, which assesses community programmes according to a range of criteria and awards annual standards to participants, and the planned Community Mark, suggest efforts are underway to improve and clarify community investment strategy.

Some opinion formers point out, however, that this is not always a consistent trend and that companies can struggle to develop a truly strategic approach to community investment. It was also suggested that with corporate responsibility strategies becoming increasingly focused on addressing ‘material issues’ and the integration of these activities into business as usual, some CCI programmes might have moved in the opposite direction and become more philanthropic.

“I’m not sure that there is a move to integrate CCI into business strategy – possibly the reverse is the case. A lot of CCI adheres to the business case, but now support is coming back for projects to be pursued purely through a desire to be philanthropic. Perhaps now, people are beginning to feel that strict adherence to the business case is not necessarily the best route, and are more willing to engage in philanthropy more for its own sake”.

“If I was honest, I think that the integration of CCI into business strategy is the one area that companies struggle with more than the others. There is probably more discretion and more uncertainty on the CCI front. You can have an organisation where the Managing Director happens to be passionate about something, either a charity or a community concept and you might find that the organisation gets dragged along whether it likes it or not, and then you get another organisation that’s hugely democratic and allows its people to say what they would like to support; then you get other organisations that try to support charities or community activities that have a resonance with their own product or their own branded proposition. I think there are the well-meaning companies and the companies that have got forward thinking policies who are more likely to have something which is defined, but I get the impression that a lot of companies are still very ad hoc in this area.”

Opinion former comments

Trends in employee involvement

One important aspect of companies' CCI programmes is the increasing focus on employee involvement. Many companies now use their CCI programmes to promote employee involvement in fundraising and volunteering, whether through purely charitable sponsored events, one-off team challenges or more sustained volunteering support.

Volunteering programmes can bring significant benefits for companies, and play an important role in efforts to recruit and retain the best people. In a 2006 survey by the CSV Make a Difference Day campaign and Barclays, 92% of the employees said that they would rather work for a company with an employee volunteering project than one that does not. Nearly half (42%) say they are less likely to leave a job where there is an employee volunteering scheme.

Companies do face a challenge though, in balancing the needs of employees not only with business priorities but also with the needs of the charities they seek to support. While volunteering might prove to be valuable for companies, research suggests that some types of volunteering do not always offer the most useful form of support. Community and voluntary organisations find cash donations followed by professional expertise as the most valuable types of support a company can provide, but are increasingly being offered help in the form of one-off team challenges and individual volunteering[3], and it is these types of involvement which particularly promote the 'softer' benefits that companies value in terms of building employee communication and teamwork skills, and boosting morale.

[3] Research conducted by The SMART Company with the London Community Panel October 2004; National Community Panel February 2005 and 2006

In seeking to integrate CCI programmes further into the business by focusing on business related causes, companies may also face difficulties in enthusing employees.

"It's more difficult to engage employees on a wide variety of issues, and if they want to get engaged in community activities that fall outside of what the company's trying to do, you've got a slightly difficult situation there".

Opinion former comment

This is particularly true if, as some research suggests, CCI is becoming decentralised and employees offered more choice about what causes to support at a local level. It may be argued that this approach is beneficial because it "encourages employees to participate because they are able to influence the choice of beneficiary and are motivated to make a difference in the community where they live."[4] At the same time, it can make it more difficult for CCI to be aligned with business focus.

Conclusions

There was a general consensus amongst the opinion formers interviewed that companies are making efforts to integrate CCI further into the business, although it was acknowledged that this is a complex area and there are many different priorities – business, employees, partners – that need to be balanced. The growth of CR reporting and the introduction of new benchmarking initiatives such as BITC's Community Index is also encouraging companies to be clearer about what causes they support, how and why. The greater focus on employee involvement also implies a potentially deeper integration of CCI activity with other corporate functions such as HR, PR and marketing.

[4] An evaluation of Corporate Community Investment in the UK – A research report by the International Centre for Corporate Social Responsibility, Nottingham University Business School for CAF (Charities Aid Foundation), December 2006

These trends suggest that CCI will become further integrated into both CR and business strategy, and as such programmes will be increasingly affected by the demand for greater accountability and better transparency in relation to a company's environmental, social and ethical impacts. It therefore seems likely that those corporate foundations which fall under the banner of a company's CCI programme will also be affected by these trends.

Part four – Corporate foundations

Introduction

While opinion formers may not agree on exactly how CR and CCI are changing, there is nonetheless an agreement that these aspects of corporate activity are changing, particularly in terms of the amount of information companies are expected to share, and the analysis they are expected to make of the affects of their activities. What do these trends then mean for corporate foundations? To answer this question, it is first important to clarify the relationship between foundation and their founder companies.

About corporate foundations

Corporate foundations are defined as charities currently registered in England and Wales by the Charity Commission, whose primary income is derived in some way from a corporate source[5].

Revealing the Foundations demonstrated that corporate foundations are very much characterised by their diversity – in what they support, how much they spend, and how they are managed.

They do however all share two characteristics. The first is their creation by companies. A foundation is set up by a company as a separate charitable body, with its own governance and financial structure. The second is their statutory independence from those companies. A foundation must be independent of its corporate founder, and its trustees must always act in the interests of the foundation, not the founding company.

Despite their separate structure, foundations and their founder companies will have various levels of engagement with each other due to certain links:

[5] Revealing the Foundations – a guide to corporate foundations in England and Wales 2006. An independent research report by The SMART Company funded by the Cabinet Office and CAF

Name

The creation of a foundation by a company usually results in the foundation bearing the company's name providing a public link between the two organisations. Of the 126 foundations identified in Revealing the Foundations, only one does not share the name of its corporate founder.

Funding

Corporate foundations are created by companies and funded in some way by them – either by an initial donation or on an ongoing basis. Foundations are required to report annually to the Charity Commission on a range of aspects including sources of income, again providing a public link between the two organisations. Some foundations are also asked to make progress reports to the company either annually or more frequently.

Trustees

According to Revealing the Foundations, most corporate foundation trustees are drawn from and appointed by the founder company.

Administration and management

Many companies give additional support to their foundations through providing office space, seconding staff and covering administration costs. For many foundations the significance of these resources is paramount as they would otherwise be unaffordable.

Employee involvement and CCI

A number of foundations are used by companies to manage all or part of their CCI and employee involvement programmes, through coordinating grants and donations, volunteering and payroll giving.

All foundations, to a greater or lesser extent[6], therefore have a relationship with the founder company. As registered charities,

[6] The BITC paper "Corporate Foundations – building a sustainable foundation for corporate giving" (2003) uses a scale of "integration" to "independence" to show how these relationships differ

all foundations must exist for public benefit and therefore naturally fall under the auspices of corporate responsibility. It would seem fair to assume that as companies are reviewing their corporate responsibility activities and attempting to align these with business priorities, it would also be healthy to review the role of a corporate foundation on a regular basis.

The next section explores this issue in more depth by discussing the research findings, and considering whether and how changes in companies' approaches to CR have had an impact on their relationship with and the function of their foundations.

Part five – Research findings – the role of corporate foundations

Introduction

Twelve companies[7] were included in the research, and interviews were conducted with either a corporate representative, a foundation representative, or both. In some cases the same person oversees the company CCI programme and the foundation. The companies and foundations were chosen according to certain criteria – primarily the existence of a flexible funding formula. In addition, the foundations selected varied in age, size, role and focus to reflect the diversity of foundations as a whole[8].

For the 12 foundations included in this study:

- the oldest foundation dates back to the 1970s while the most recent was set up in 2005
- income in the last financial year ranged from less than £100,000 to over £25m
- half of those interviewed are managed by employees of the company, while the other half directly employ staff
- five of the foundations run employee engagement activities on behalf of the company

Amongst this group, some distinct models of relationships between company and foundation were identified. These models specifically relate to the research focus on the influence of corporate responsibility and corporate foundations, and each of these models has different implications in terms of this influence. These models do not represent the only types of foundation that exist – as earlier research showed there are many different functions that corporate foundations can fulfil[9].

[7] Equating to approximately 10% of total foundations – Revealing the Foundations identified 126 corporate foundations active in England and Wales

[8, 9] See Revealing the Foundations for breakdown and analysis of funding, size and age of active corporate foundations in England and Wales, and more information on the different functions corporate foundations can fulfil

The models in this research demonstrate just some of the ways that foundations can be used by a company, and point to some new opportunities for the use of foundations within a wider CR programme.

As well as the differentiating factors, there were also some common features amongst the whole group, which will be considered before looking at the models in more detail.

Common factors in the relationships between company and foundation

Funding

All the foundations reviewed had a relationship with the founder company based on more than just income. All are funded by an annual donation from the company – most receive broadly the same amount each year but this can increase. One foundation is funded by an annual donation based on a percentage of pre-tax profits; while another is primarily funded from a donation raised by employee fundraising with contributions from clients and suppliers, while the company covers all administration costs.

Role in corporate giving

For all but two of the companies, the foundation forms only a part of their overall corporate giving, and though the foundation may sit within the same department and share resources, it will often play a distinct and separate role. For one company, the foundation is the main focus and conduit of all giving and employee involvement. For the remaining company, corporate responsibility has seen its first tangible manifestation through the foundation, and the foundation is the only structure currently in place for visible CR activity.

Governance

Consistent with earlier research, most of the foundations included in this study draw their trustees from the company, but a number have introduced or are considering the introduction of external trustees. This suggests a growing recognition of the value of the external perspective, but for some there may also be a need for better communication of the guidance that exists to support companies and foundations in this area.

"The trustees are nominated by the company. All except one are employees. We recently moved to having an independent external trustee to check on what the trust does, ensuring that it is directly aligned with the company."

"The trustees are now a mix of company directors and non-executives of whom 1 or 2 are 'external' trustees but only insofar as they are no longer company employees (but used to be) serving trustees are also company employees. We are trying to maintain the links between the company and the family charitable trusts, but still bringing in an external perspective."

"The majority [of Trustees] are from the business, but a number of foundations are recruiting external Trustees and the Group foundation is beginning that process as well so there is a mix of external and internal, but the overwhelming majority is internal Trustees."

"Over the last few years we've become more and more aware of not the need, but the correct way of doing things for a foundation as a registered charity, to have quite a marked area of independence from the founder company, so one of the measures we've brought in is to try and recruit external Trustees."

"There are 7 Trustees, one is a non-executive director, one is the group chief executive, and the rest are independent. They were all proposed, interviewed and chosen because of their

expertise, and knowledge of the issues, and also because of previous work done and contacts in the voluntary sector."

"We have talked about having an independent trustee, but at present, because we are so new, we do not feel it is appropriate for us to go down that route."

Company and foundation comments

Reporting requirements and impact measurement

Despite the funding relationship and the function of the foundation as part of the wider CR programme, reporting from foundation to company is surprisingly limited. The only legal requirement for foundations is to report to the Charity Commission and, for those who are Companies Limited by Guarantee, to Companies House. Charities are not legally required to report to their corporate funders, and it seems from the research that few companies make requests for information. Most foundations and companies interviewed meet annually, sometimes quarterly, to review and report on the foundation's activities. While for some there is a sense of needing to obtain Board approval for ongoing funding, for the majority some level of funding seems guaranteed with the annual review being more of a rubber-stamping exercise.

"No case has to be made for funding – the amount is rubber stamped by the Board. We provide a list of grants but only as a courtesy. In contrast, the community investment budget is subject to annual scrutiny as part of the departmental budget review and has tended to be cut. A full challenge and review process is carried out."

"The foundation has been receiving these donations from the company and has every expectation they will continue and it's not on the basis of having to ask for it."

Company and foundation comments

Despite what might seem to be a significant level of investment by the company, from those interviewed there seem to be few requests for reporting on long term impacts of the foundation's grantmaking activities. This suggests that while the company's internal CR and CCI programmes may be subject to greater scrutiny due to enhanced reporting, this scrutiny has not extended to foundations. Information about the foundation and its activities may be included in annual or CR reports, and the amounts donated by the company and spent by the foundation used for initiatives such as London Benchmarking Group returns, but for most this is only a small part of wider CCI reporting.

Foundations collect some information from recipients in terms of how funding is spent and how many people have been helped. The case studies included in this report suggest that changing requirements from the Charity Commission will place a greater onus on foundations to gather more detailed information about whether their funding activities are achieving their charitable objectives, and some foundations already have methodologies in place to gather this information. Feedback from recipients also indicates that foundations are more likely than companies to ask for information about how money is being spent and what effect it will have.

Foundations and the influence of corporate responsibility

So if the growth in corporate responsibility reporting and measurement does not seem to be having a significant impact on reporting requirements for foundations, are there any other ways in which corporate responsibility is influencing foundations' activities?

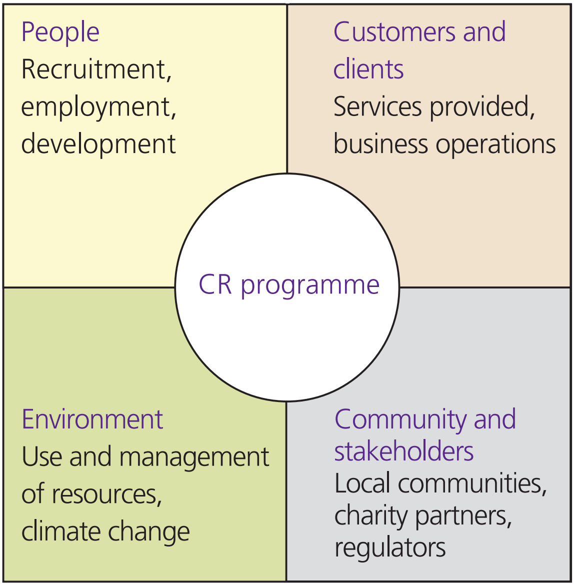
When using this perspective to review the activities of the 12 foundations, it was possible to identify three distinct models of relationship between company and foundation. These are:

- the foundation as a grantmaker or conduit for charitable giving
- the evolving foundation – defining a new purpose for the foundation
- the foundation as an opportunity – supporting the integration of CR

There are of course many other ways to interpret and classify the relationship between company and foundation; and many other models which are not considered here. When starting from the question of how CR is affecting corporate foundations, however, the examples discussed in this research have suggested that at least three possible answers exist:

- that for some foundations, CR is not having a significant effect
- that for others where the initial reason for setting up the foundation is no longer an issue, CR is providing an incentive and opportunity to review the role of the foundation and align it more closely with CR activities
- that CR offers an opportunity to think about the role of foundations in a new light, as a key part of a company's approach to social responsibility

To illustrate the nature of the relationship between the company and foundation in each group, a diagram has been used to depict a company's core stakeholders and activities. The diagram suggests that a good CR programme will encompass interactions with all of these groups.



The three models outlined below reflect different types of relationships between company and foundation, and the diagram is used to suggest where the foundation sits in relation to core business activity and the CR programme.

Model one – the foundation as grantmaker and conduit for charitable giving

For the majority of companies spoken to, foundations were set up for the straightforward purpose of channelling philanthropic and charitable donations. For some of these, there were also financial and structural reasons to create a foundation – for one, the tax benefit that came from realising unclaimed shares following demutualisation (this benefit no longer exists), and for another a wish to avoid the need for dispersal of charitable funds at the end of each tax year.

All of this group, however, now see the main purpose of the foundation as distributing charitable funds. While operating within certain criteria, these foundations tend to have a fairly broad remit, funding a range of issues from health and welfare, education to community regeneration and social care, which reflects the emphasis on their role purely as givers. Several foundations are also used to provide emergency disaster relief.

These foundations tend to have a close relationship with the company – the foundation falls under the CR or CCI banner; trustees are existing or former employees; those who manage the foundation are employees of the company; and there is no set funding formula.

Nonetheless there is a very strong view of the foundation as having a separate purpose from the main CR function of the company, and therefore no strong sense that changes to the company's CR programme will influence the foundation in any way. There is some expectation that there might be increased reporting requirements, with the company needing more information on how money is being spent, but this does not seem to be a major issue.

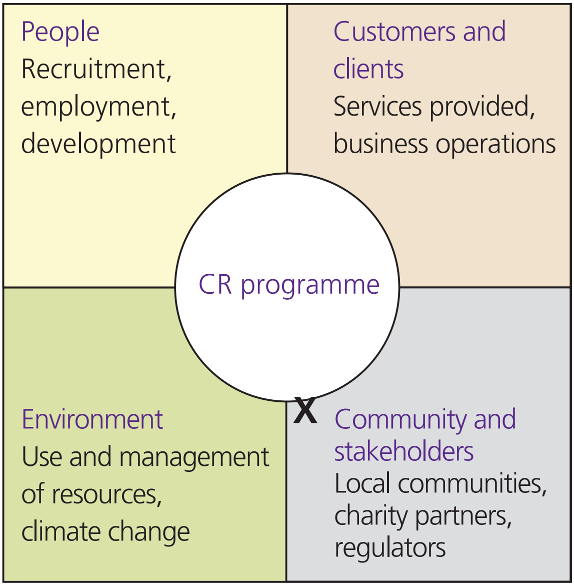
"Things like impact measurement and reporting are clearly important tools and activities that are clearly focused on corporate responsibility programmes, but foundations are established not for the benefit of a company but for the benefit of the communities in which we operate. We have a different objective and our objective is the social benefit of the many countries and communities where our company operates."

"The growth of CR hasn't had much effect on our expectations of the foundation. The pressure of reporting is overwhelmingly about the company's behaviour and not about its charitable giving. Obviously we make sure that we report on how much we spend, but the bulk of the pressure is around company behaviour, not on the foundation."

Company and foundation comments

The foundations in this group are broadly seen by both foundation and company to be "fit for purpose". This is not to say that these foundations are not evolving and developing; some may have undertaken their own detailed strategic reviews of activities and funding areas, and like many charities are constantly looking for ways to improve the effectiveness of their activities. The message from these foundations, however, is that while funding priorities and giving criteria might change, the fundamental purpose of the foundation as a giver and grantmaker is not in question. These foundations will still have a full and significant role to play in the company's overall demonstration of its commitment to social responsibility; changes in the company's CR strategy, however, are unlikely to have any impact on the foundation and none of these foundations anticipates any significant change in its relationship with its founder company and vice versa.

The only area identified where corporate responsibility is seen as having an impact for some is in the level of requests received. As organisations seeking funding become more aware of a company's charitable giving, more approaches are being made and expectations of the funds available are increasing.



In model one, the foundation (X) is one part of the company's CR programme but as a grant giver only relates to the company's support for and interaction with charitable and community groups. There is no suggestion that the foundation will become further integrated into the CR programme to any great extent.

The Abbey Charitable Trust was established in 1990, with the core purpose of 'supporting local communities and disadvantaged people, particularly in those areas where Abbey has a significant presence.' Its priority areas of support have an inherent link with the business – education and training, financial advice and community regeneration.

The trust is primarily funded by the company, which donates a sum negotiated on a yearly basis. Abbey employs two people who work full-time for the trust, and the trust can access free legal advice from the Group Legal department. The funding is divided into three parts – a third is allocated to local projects in areas where Abbey has a significant presence; a third to a new programme of three year charitable partnerships; and a third to a matched giving programme for employees.

Abbey recognises the importance of stakeholder engagement in community giving. The success of the company is dependent on the work of its employees, and this in turn provides the revenue to support the trust. In addition, Abbey is keen to make an impact at a local level and understands that it is the people who live and work in those communities who know best what support is needed. In areas where Abbey has a significant presence, the trust therefore operates through 'Community Partnership Groups' (CPGs) which are made up of current employees, retired employees and a local charity representative. It is up to the CPGs to assess how funding should be allocated within the trust's priority areas.

Explaining the rationale for using the CPGs, Alan Eagle, Manager of the Abbey Charitable Trust, explains, "We talk about 'the community', as if it is something outside the building we work in, but actually the community is already inside the building because of the people who are working here, and their children and dependants. So recognising this, we thought – shouldn't they also be part of the decision making process?

The local charity representative – who is typically from an umbrella organisation such as a community foundation or a CVS/CVO – is also important. They are in a much better position to inform the company of what the funding landscape is like in certain localities. It used to be enough to give away some money and feel good about it. Now it's a case of measuring what impact the money has, and what is being achieved through giving. To answer this, you need stakeholder engagement."

One important function and strength of the trust is in balancing the needs of the company to have a focused programme with acknowledging employees' interests. The trust operates a matched giving programme which supports staff in their fundraising efforts for any UK charity. The scheme promotes teamwork by offering a higher matching limit for team efforts.

In addition to its annual return to the Charity Commission, the trust reports regularly to Abbey and has a clear process in place for gathering information from recipients. At the start of a project, the trust requests an 'Impact Return' to be sent back, detailing the anticipated impacts, leverage of the donation, how many people will benefit, and who they are. After a year, the trust then seeks further feedback on the actual results from the donation so far. This is a key part of the trust's management and progress since it brings information to light that helps the trust to learn from mistakes and improve decision-making processes; clearly define intentions for projects funded; and benchmark against market peers to compare approaches and identify opportunities.

The Vodafone Group Foundation was established in 2002. The Group Foundation manages a series of global projects and partnerships, which include disaster response and relief in conjunction with NGOs such as Oxfam and the UN Foundation. The Group Foundation is also responsible for establishing, and distributing funds to a network of 22 local foundations, founded by Vodafone's local operating companies to invest in the communities in which Vodafone operates (20 established, Albania and Greece currently being registered). Andrew Dunnett, Director of the Vodafone Group Foundation, sees the global network of local foundations as a key part of the Vodafone Group's programme aimed at effective charitable giving. The foundations can "respond to key issues and areas of social investment in particular countries", therefore funding a broad area of activity and response across a global network. Funding decisions are placed in the hands of over 100 trustees across the foundations – the overwhelming majority of whom, are internal representatives.

The various operating companies have a strong sense of engagement and pride in their associated foundation. Most foundations are staffed by employees from various departments such as Internal Communications, the CR or PR team; however in some countries the foundation employs staff engaged in the social investment programme. Local operating companies are encouraged to 'match' their foundation's budget, and a number engage in substantial employee fundraising initiatives, as well as schemes such as payroll giving and personal sponsorship. Individual foundations may also decide to make non-financial contributions to causes. For example, the Vodafone UK Foundation runs a staff volunteering scheme to do hands-on work in the local community and donate expertise to charitable causes, particularly in the fields of marketing, website development, and mentoring.

The company encourages local foundations to support schemes that fit their particular funding objectives. The Group Foundation reports to the Plc Board once a year and trustee meetings are also held five or six times a year. All the local foundations have agreements detailing the project management and impacts of the foundation's funding. There is a strong line of reporting at a management level, with the outputs of the project a key reporting criteria of the grant agreements both for global and local projects.

Vodafone Group Foundation undertook a strategic review in 2006, and as a result of this review, new funding programmes and focus areas are currently being explored.

Model two – the evolving foundation

The second group of foundations identified in the research are evolving and changing in a different way – their purpose and function is being reappraised because one of the original reasons for creating the foundation has changed. These foundations present their founder companies with new opportunities to develop and refine their community programmes in line with a new approach to corporate responsibility. This reassessment of the function of the foundation is particularly reflected in the building society sector. In the 1990s, a number of building societies created foundations to deter 'carpet-bagging' – the practice of opening building society accounts in the anticipation (and sometimes deliberate intention to provoke) demutualisation and thus windfall shares. Building societies set up foundations to become the recipients of these windfalls, thereby removing any incentive for individuals to promote demutualisation.

While a number of building societies did demutualise, for those in operation today the 'carpet-bagging' trend seems to have passed. The original incentive for the foundation has gone, providing an opportunity to rethink strategy. At the same time, many building societies are becoming increasingly aware of the CR agenda, and the need to maintain their traditional reputation as a fundamental part of the community in the face of major CR initiatives from the high-street banks. Building societies recognise that while their mutual status remains a differentiating factor, it is not a substitute for a CR strategy[10].

Building societies therefore have a two-fold incentive to review the activities of their foundations – the removal of the foundation's original function, and the need to develop a more strategic approach to CR. Despite the original function becoming irrelevant, interviewees recognised the value of having the independent structure of the foundation – it provides a credibility to donations and allows for clearer criteria to be put upon them, thus avoiding "chairman's whim". For these societies, then, the growing focus on CR and the existing structure of the foundation offers an opportunity. This has encouraged some to undertake comprehensive strategic reviews, and the movement seems to be towards integrating the foundation more fully into the society's CCI function.

"I can see how the growth of corporate responsibility could have an impact on the foundation. When we set up there was no CR at all – it has now become much more relevant. Foundations need to find a way to become really integrated in CR instead of existing as a philanthropic 'add-on' to the business. I think the company will want to give the foundation more focus in the future, to obtain more value through being associated with issues that are more business relevant."

Foundation comment

[10] Societies in Society – an independent report on corporate social responsibility activity in the building society sector (The SMART Company 2006)

The Chelsea Charitable Foundation was set up in 2000 to combat the problem of 'carpet-bagging'. Account holders of building societies become society members with the right to vote at the AGM, and it was feared that many new members were joining with the specific purpose of pushing for demutualisation. To remove this incentive, Chelsea, along with a number of other building societies, set up a charitable foundation which would capture any windfall shares arising from demutualisation.

Gill Greenwell, Secretary of the foundation, states that the focus for funding was determined by the popular causes at the time the foundation was set up – engaging vulnerable groups in the community broadly through the main categories of children, the disabled, the elderly and the disadvantaged. These areas of focus have not changed since 2000, and neither have expectations in terms of impact measurement and reporting, which have remained minimal.

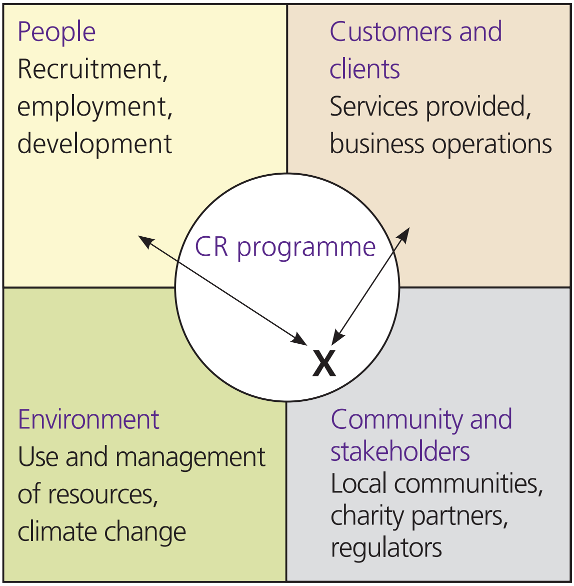
Recently, Chelsea has undergone a strategic review to redesign the focus and structure of the foundation. 'Carpet-bagging' is no longer seen to be a significant threat, so the foundation can now take on a new significance in line with the growing focus on CR as a business priority. The business aims to define the foundation clearly within the CR agenda, identify key stakeholders and their needs, and to bring clearer focus for the foundation's activities.

Jeremy Hicks, Head of Communications at Chelsea Building Society, recognises the importance of independence from the business in giving credibility to a donation, but believes that there is more scope for meaningful activity for the foundation as an effectively integrated component of the society's

CR programme. The review also includes plans to engage employees through the foundation, which Gill Greenwell advocates as a good opportunity to also introduce match-funding, which "can help focus activities and create a good synergy between foundations and CSR activity".

To further promote integration into the business, the foundation is increasingly seeking ways to engage members and the Board of Directors. To promote participation in AGMs, the society makes a charitable donation on behalf of every member who votes and these donations are channelled through the foundation. Members are asked to indicate which charity sector they would like the donation to go towards, and these nominations are considered by the Board and foundation trustees in a meeting immediately following the AGM. The total donation per charity sector is then given to projects chosen by the foundation trustees, and the outcome reported on the foundation's and Chelsea's CSR websites.

Although in this research, the model of evolving foundations has been applied to building societies, there will be other companies and foundations for whom this model will also be relevant. In Revealing the Foundations, it was noted that especially for older foundations, the original reason for creation has been lost or forgotten over time. As with all charities, it is appropriate from time to time to question and review a foundation's function and purpose, and to consider whether it could be playing a different or more effective role. The model demonstrated by some of the building societies shows how reviewing the business's CR approach can also provide an opportunity to rethink the role of a foundation, and possibly seek to align the two more closely.



In model two, the function of the foundation (X) is under review because its original raison d'être has disappeared. These foundations are still mostly focused on charitable giving, but the opportunity for reappraisal means that some companies are seeking to integrate the foundation more deeply into the overall CR programme and consideration is given to how the foundation can also be used to engage other stakeholders including customers and employees.

Model three – the foundation as an opportunity

The third group of companies identified in the research are using foundations as an integral part of their CR programme, focusing on specific issues pertinent to their business.

Revealing the Foundations showed that using a foundation structure can offer the following benefits:

- they can help to provide a structure and focus for corporate giving; this can be particularly useful where the company wants to address a specific social need or challenge, or "kick-start" a new initiative
- they can provide a company with a more credible way of engaging with the voluntary sector; this is useful where the company wants to support social investment and intervention, and provide core funding over a sustained period rather than just making one off charitable donations
- they can provide a focus and identity for employee involvement, and take the administrative burden of coordination away from the company
- they can offer a legitimate and less risky way of supporting difficult and unpopular social issues

The case studies in this section demonstrate how these distinct features of foundations can be used to maximum advantage. As corporate responsibility becomes more focused on the "material issues" of a company, foundations can actually provide a valuable mechanism for addressing some of these issues in a credible way. The case studies in this section show how companies can confidently align a foundation with business priorities whilst making the most of the foundation's separate structure.

The Sodexho Foundation was set up in 2005, to channel charitable contributions more effectively on behalf of the company. Previously, contributions had been made separately by the various trading subsidiaries. The foundation manages donations of money and volunteer time, supporting causes relevant to the food and facilities management services company through their 'STOP Hunger' programme. The programme aims to combat poor nutrition in the local communities and to provide a central focus for the company's community related activities. To achieve these aims, the foundation works closely with national charities, including FareShare, with whom they currently have a three-year funding partnership. In addition, the foundation supports smaller organisations across the UK that fit the funding criteria.

Tim Lucas, CR Manager at Sodexho, believes that having a foundation properly aligned with the business adds value by bringing the company's expertise and skills to the community as well as providing financial donations. Communication vehicles such as the intranet, employee magazines and email newsletters, play a key role in the Sodexho Foundation's existence, keeping employees updated on progress and involving them as the foundation makes progress through their efforts. Managers receive information packs on the foundation so that they can involve their teams, and staff can also volunteer as 'Charity Champions' responsible for managing the money raised by their department and encouraging employee involvement and participation.

Consisting of four members of Sodexho's executive team, the trustees meet quarterly and decisions are made in the best interests of the foundation. Tim Lucas points out that all senior executives within the company attend the foundation's annual fundraising dinner and their presence is representative of the company's overall commitment.

The Waitrose Foundation was founded in 2005, and is a core element of the company's community involvement strategy, helping improve the welfare of farm workers in South Africa. The foundation is funded through a partnership between Waitrose, its fruit importers, exporters and local farm owners in South Africa. A percentage of the sale price of the farmers' produce (originally just citrus, but this has already been extended to include mangoes, grapes, stone fruit and avocados), is donated by Waitrose and its partners to the foundation, which is registered as a charity in South Africa. These funds – more than £600,000 in 2006/07 – are then invested in social welfare programmes to improve the lives of farm workers and their families.

The choice of South Africa to launch the foundation is particularly poignant because of the current socio-political context. The government has decreed that by 2014, 30% of farmland should be owned and managed by black farm-workers. As part of the John Lewis Partnership, Waitrose is fully committed to shared ownership and the work of the Foundation brings this commitment and expertise to a region where it is really needed. In addition, the partnership approach ensures fair pricing for products, and encourages suppliers to trade with the company for longer.

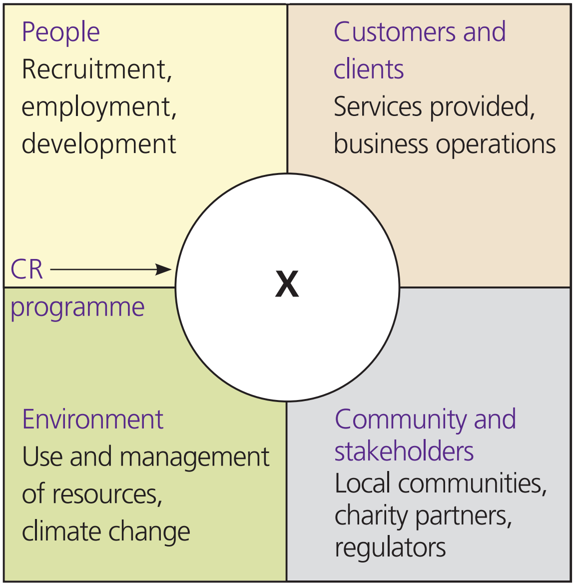
As Nick Monger-Godfrey, Head of CSR for Waitrose, says; 'as the largest co-owned company in the UK, we believe there are clear business benefits of co-ownership and democratic business management and we are keen to promote this approach to our suppliers. South Africa is no exception and in fact presents a real opportunity. Local economic empowerment policies will facilitate the transfer of land ownership from white to black farmers over the next few decades and business co-ownership models are increasingly being considered and implemented by the farming community'.

The foundation aims to improve welfare through three key stages. The money directed into the fund is allocated to causes identified by committees of farm workers, firstly in areas of 'upliftment'. These include projects to improve aspects like health, childcare and education. Following a period of upliftment, usually between one and five years, trust funds will be made available to support land acquisition and to help black farmers to develop their farming and management skills. The final stage involves the eventual handover of ownership of the Foundation's land/business to the black co-operatives. In effect, this brings about a stable, structured system for the transition of white to black ownership for farmland and helps share best practice.

The foundation has 12 trustees, two of whom are from Waitrose. The foundation has a close relationship with Waitrose, and works with the business not only to communicate and share the good work of the foundation, but also to understand where things are working well and where things can improve. It is also looking at other opportunities for further integration into the business, including offering employees the opportunity to get involved in Foundation projects through John Lewis' Golden Jubilee Trust, which offers employees up to six months paid leave per year to work for a charity.

For these companies, the selection of projects for foundation support reflect core business priorities and concerns. The Sodexho Foundation's STOP Hunger programme reflects core business as a food and facilities management services company. The Waitrose Foundation works to improve the welfare of South African farm workers who are integral to the company's supply chain, and also works to anticipate potential business impacts that the changing political structure of South Africa might have in the future. The James Dyson Foundation is another example of how a foundation's activities can dovetail with business priorities – the foundation's flagship project, the Dyson School for Design Innovation, promotes the development of design engineering skills, a key resource for the future success of the business.

In these ways, this group of foundations are truly reflective not only of their founder companies' CR commitments, but of the company philosophy, culture and business priorities. In this group, CR is not having an impact on the focus and priorities of the foundation, as seems to be the case with the second, evolving group. Rather, the foundation exists as an expression of the company as a socially responsible business, and plays a key role in the company addressing its material impacts and social concerns.



In model three, the foundation (X) has become an integral part of the company's CR programme and offers an opportunity to engage with all stakeholder groups including communities, employees, customers and business partners. In its addressing of 'material issues', the foundation also becomes an important part of the company's response to CR opinion formers and regulators.

Conclusions

The research shows that in some cases, there is a relationship between corporate responsibility and the role and function of foundations. For some companies, such as those in the second group, CR and business circumstances are providing an opportunity to rethink the role of the foundation and consider its closer integration into a wider CI strategy. For the third group, the foundation acts as a manifestation of the company's commitment to responsible business practice.

"The growth of CSR has had an impact on foundations. The media spotlight has led to increased action from companies in terms of charitable giving. Foundations would not be such an increasing part of companies if not for the pressure on companies to be responsible."

"I do think the growth of CR will increase the expectations of the company with regard to the Foundation. CCI is becoming a higher level issue and as a result, there will probably be a bigger focus on funding... I think that it's possible that companies will be looking at a wider range of investments, which will lead to an impact on foundations."

Company and foundation comments

It is not the case, however, that CR is having an impact on all foundations. For those in the first group, the foundation plays an important role in the company's overall CR and CI programmes because it acts as a conduit for charitable giving and grantmaking. These foundations however are well established, and are considered by both company and foundation to be "fit for purpose" in terms of how they operate (though the foundation may be reviewing its investment strategy).

Because these foundations have a distinct role as grantmakers, it is not anticipated that changes to the company's CR approach will have any impact on the foundation. This is because changes in CR are expected to be about its deeper integration into the business and its focus on material issues; changes which will not have implications for the company's charitable giving strategy.

These differences serve to underline the fact that despite the commonalities between corporate foundations, there are even greater differences particularly in the way that the role of a foundation is understood. For both the first and third groups identified in our research, there is a clear understanding of the role of the foundation and though these are very different, both approaches are working well for the companies. For the second group, the role of the foundation is in question and an opportunity exists for a new approach. These three groups only reflect a small number of foundations – there are also many other models and approaches that exist.

These findings serve to emphasise the need for a clearer understanding of the nature and role of foundations. The 'integration-independence' definition does not capture the complexity of foundations and the relationships they have with their founder companies. Nor does it help to clarify that while foundations exist as completely separate structures, they can also be completely aligned in their purpose with the company's CR and business strategy. The recommendations made in this report underline the importance of fully understanding the legal and regulatory frameworks within which foundations operate, while at the same time appreciating the role that foundations can play in a corporate responsibility programme. What is vital, whether in setting up a new foundation or reviewing an existing one, is understanding what the foundation's role should be, and what structures and resources are needed to make it work.

Part six – The role of foundations – recipients' views

Introduction

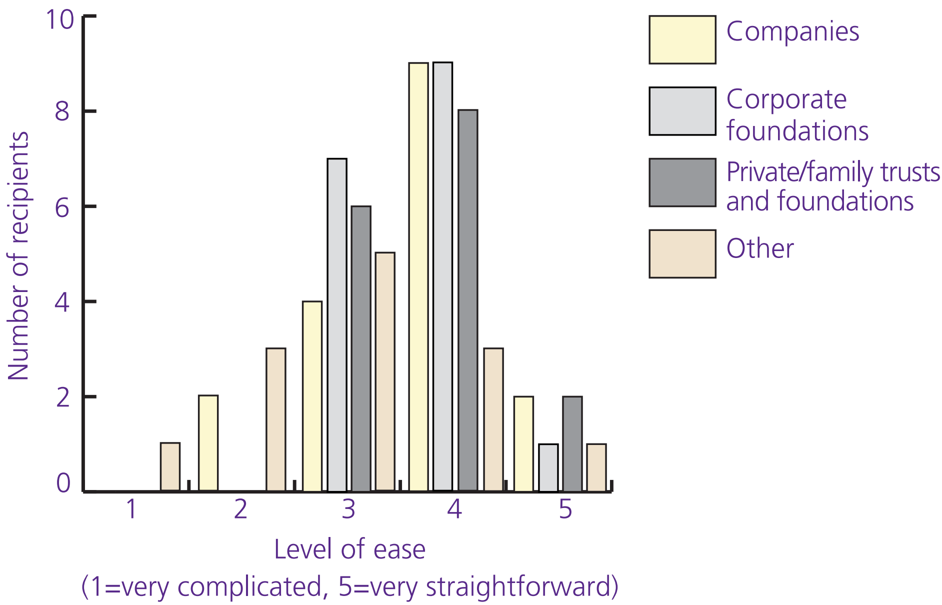
A key aspect of understanding the role and value of corporate foundations is the experience of recipients of foundation and corporate funding. In order to explore this, representatives from 20 charities and community organisations were interviewed. The participants were asked whether there was any benefit in receiving funding from a foundation; how the experience of being funded by a company or a corporate foundation differed, and if so how; and whether there is any value for recipients in the foundation model. The interview findings highlighted a number of key themes.

Accessing information on the funders

Companies and corporate foundations were a commonly considered funding source. In terms of how easy the relevant information about the funder / funding opportunities was to access, recipients had found that criteria and focus are increasingly being publicised by companies and corporate foundations as their funding is required to fit within a broader CR framework or objectives. In line with this trend, it was becoming easier to identify the relevant person to speak to.

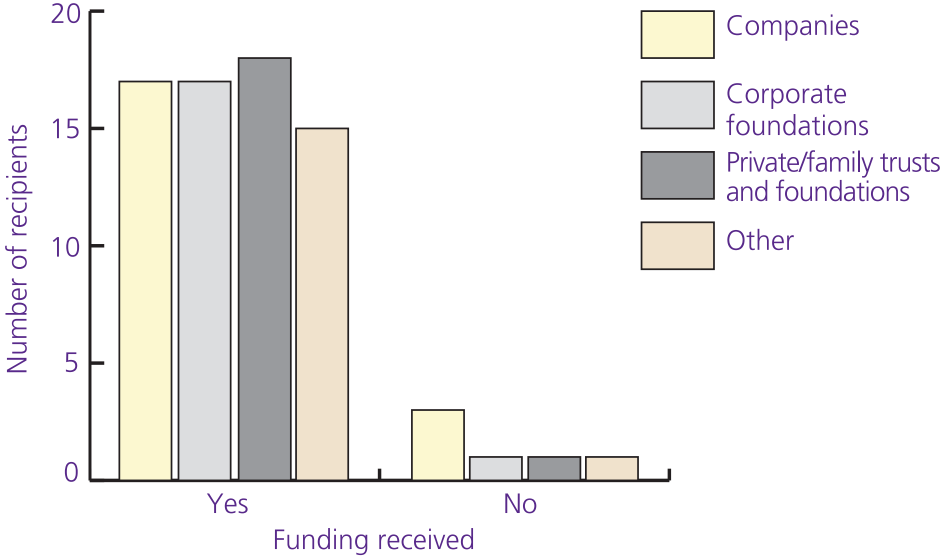
One difference noted in the experience of recipients between companies and corporate foundations was that the latter can often only be contacted at Director level, making initial contact more challenging. However, others felt that it was easier to access information on corporate foundations as they are "geared up to give money away." Stricter governance requirements for corporate foundations were also felt to result in more easily accessible information, whereas there is not the same legal requirement for companies and, as a result, information can often be out of date.

Ease of application procedure



Graph shows how easy recipients (total 20) find it to make an application for funding to different funding sources.

Number of recipients funded by each type of donor



Graph shows how many recipients (total 20) have received funding from each type of donor.

Working together

For those that had worked with a corporate foundation, a number commented that they tended to be more approachable than companies. It was felt that corporate foundations were more likely to want to meet and "get to know you as a charity, and are interested in what you do."

Some recipients had found that what the funder wanted to get out of the relationship also differed between companies and corporate foundations, with more of a focus being placed by the company on publicity. While corporate foundations did still have priorities to be met, recipients had found that companies look to build commercial relationships whereas foundations look to build philanthropic ones.

Experience of working with corporate foundations had found they tend to be run as ‘trusts’ rather than ‘company initiatives’, so working with the companies’ broader functions (eg PR / marketing) is not as important.

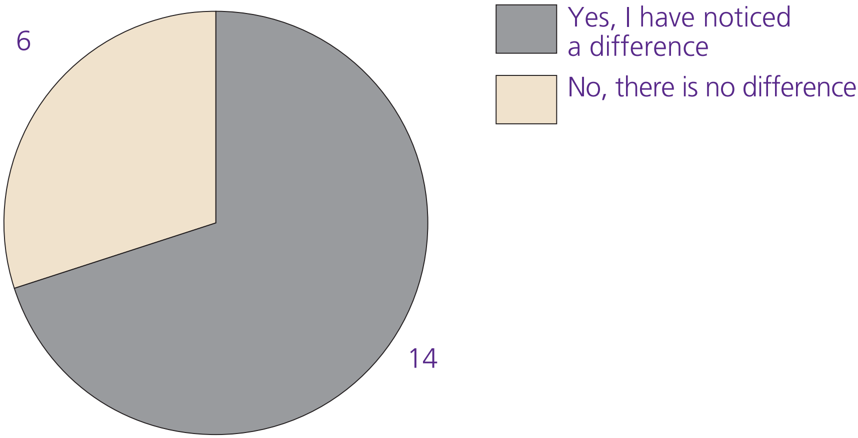
Reporting requirements

In terms of reporting requirements, recipients found that corporate foundations tend to have higher expectations of reporting than companies. Feedback and reporting to foundations was a more rigorous process than reporting to companies, who are “more distant, preferring a hands off approach”. Recipients, however, also recognised the benefit of more stringent reporting in keeping projects on track, demonstrating that the reporting is relevant and useful rather than being a tick-box exercise. Some recipients found that companies were more focused on facts and figures, which didn’t leave room for discussion on softer benefits. However these requirements, as with the relationship itself, differed greatly across partners.

Funding availability

A majority of the recipients said that they had noticed changes in funding availability from companies over the last five years. A reduction in the level of statutory funding available has meant more people pitching for the available money. Some felt that companies were being more cautious, operating shorter funding periods; however, others had found that more companies are embarking on long term partnerships as their CR strategy develops. The events of 9/11 and the tsunami were felt to have impacted the way in which funding was being directed; however, this was felt to be levelling out.

Number of recipients noting a difference in availability of funding from companies in the last five years



Conclusions

Although some differences were noted, it was clear that the experience of applying for support from, and working with, companies and corporate foundations varied greatly between funders. This variation was reinforced by the sense that many recipients were unsure of whether to approach corporate foundations as a company or trust.

Non-financial support – specifically volunteering, pro bono support and gifts in kind – was highlighted by a number of the recipients as a real benefit of working with companies. Developing partnership agreements which included volunteering meant that the company was directly involved and therefore interested. The general affiliation with a company was also felt to be valuable.

Part seven – Discussion and conclusions

Introduction

The main objectives of this research were to explore whether changes in corporate responsibility are having any affect on the use and function of corporate foundations, and whether in light of the changing CR context, any changes might be needed in the future management of corporate foundations.

The first phase of this research, as published in the report Revealing the Foundations, suggested that foundations remain a popular means by which companies can manage aspects of their charitable giving programmes. This new research emphasises that point, and what is particularly striking is that the relationships between companies and their foundations have remained comparatively stable, despite the transformations occurring within the wider fields of CR and CCI. Even when the foundation is questioning its own investment strategy, or the company is questioning the role that the foundation should play in its CR programme, there does not appear to be significant questioning of whether the foundation should exist or be funded at all. Indeed two of the companies covered in this study have set up their foundations very recently, suggesting that companies do still view foundations as having a positive role to play. Although the feedback from recipients was positive regarding funding from both companies and foundations, there were some areas where foundations were viewed preferentially, suggesting that this model is also popular with those who benefit from foundation funding.

This is not to say that the role of and attitudes towards foundations is not changing. It is clear that in some cases CR is having an affect either on existing foundations, or on decisions to use a foundation model. This section examines the role that foundations are now playing in CR programmes; considers some of those changes and pinpoint where change might have been expected but is not visible; and raises some questions for future discussion. The report also seeks to make some recommendations regarding the future working relationships of companies and their foundations.

The evolving CR agenda – what role for foundations?

Revealing the Foundations suggested a number of reasons why companies use foundations as part of their charitable giving strategy, and these reasons were reiterated in this new research. Foundations provide a clear, transparent structure, supported by the additional credibility of meeting the legislative and reporting requirements of the Charity Commission. They also help to ring fence and manage a budget more effectively.

> *"I think [giving through the foundation] gives a certain degree of confidence that donations are being made in an appropriate manner to appropriate organisations rather than individual directors deciding on pet charities. It provides a level of external comfort that there are appropriate procedures and decisions being made. It's easy if it's part of another department or another unit, for that money to be changed or reduced or amended in some way, whereas it's harder to make amendments to a ring-fenced donation."*
>
> *Company comment*

For all but two of the companies interviewed, the foundation was one part of a much wider CR and CI programme. The foundation's role in CR is to provide a distinct focus and management structure for a particular area, usually grantmaking. Despite being part of the CR programme and often sharing staff and resources, it was also clear that most foundations are viewed very much as separate entities with their own discrete objectives. It is this separation that seems to have protected foundations – and their budgets – from the more rigorous scrutiny that has been directed at some company-owned CR and CI programmes.

In cases where the foundation has been in operation for some time, its existence is almost taken for granted as an established part of the wider CR programme, and not something that is either open to or worthy of questioning. Foundations seem to be accepted for what they are and the role they play, and there is no significant analysis beyond that.

"The foundation serves a purpose in terms of us making ring-fenced donations to community groups, so that is the ultimate purpose of the foundation, to provide a route for funding, rather than the foundation being required to do anything over and above funding charitable projects.

It is just one facet of a community investment programme. I don't think it's any smaller or any larger than that. It's a component part, and it's entirely appropriate for it to be a part, but I don't think that there is any further integration that needs to go on, or any further direction that needs to be given from the company. I think the level of integration that exists now is entirely appropriate and if you take it any further, or take it to another step then you're looking at taking a foundation out and having just some centralised investment programme. I think there are benefits of having a foundation set up, but only in as much as it being part of a full programme."

Company comment

As it seems highly likely that there will always be a role for corporate charitable giving, it also seems reasonable to assume that regardless of changes in CR, there will be a group of foundations that will continue to play the straightforward role of conduits for grant making. The important lesson here is that there needs to be clarity around the foundation's purpose. The role of grantmaker seems to suit the foundation model – it provides a distinct focus and structure, makes budget management more transparent and takes an administrative burden away from the company. These features offer advantages over an in-house corporate programme, but expectations from the company, foundation and wider stakeholders need to be managed, and communication on the purpose of the foundation needs to be clear.

CR reporting – what impacts for foundations?

This acknowledgement that some foundations have a role that is not heavily affected by changes in CR is reflected in the findings on reporting between foundation and company, and recipient and foundation. CR reporting has grown dramatically in recent years and there is a growing emphasis on the use of "key performance indicators" to identify and measure material issues and impacts. There are also a number of initiatives including the London Benchmarking Group and the new BITC Community Index that focus on CI programmes, the inputs and investments that are made and the resulting outcomes.

The research suggests that these increased demands for corporate information do not seem to be passed on to corporate foundations. Foundations are providing their companies with annual or biannual updates on activities and progress, but the longer term impacts of the investments made by the foundation do not seem to be interrogated. Some of the foundations interviewed do need to provide information on level of income and spending to be included in annual reports and LBG returns, but again the perceived 'separateness' of the foundation can mean that even this information is not requested.

"The Trust doesn't report beyond its Charity Commission requirements and we are not part of the company's CR report as we are considered a separate organisation – we have separate bank account and assets."

Foundation comment

While companies might not be passing on demands for more rigorous reporting to foundations, it does seem that some foundations are trying to evaluate more clearly the effects of their investments, and in some cases this is having an effect on how they manage their future funding strategy.

"At the end of the first campaign, we evaluated on a subjective basis where we felt we had made a difference and we talked to the charities and the trustees decided that we made the most difference with [one particular charity], so we re-evaluated and decided to focus our support with them on a 3 year partnership."

Company comment

From the research it is evident that for some foundations, the need to gather data on the results of their investments is being driven not by requests from their companies, but from the Charity Commission.

"We send a 'feedback return' guessing impacts when they are first provided with the donation, and then after a year we send it again and ask for actual data.

You can identify the trends and the stories behind the trends from this extended data. When you get qualitative data as well, people may be more optimistic, so we have to interpret the story from this knowledge. Impact is incredibly hard to capture. You can at best, say that you are part of something that improves – not the sole cause of the improvement. You can also say what you have learned from the experience. We learn more from failure than we do from success. Reasons for success can be vague, but people will know exactly why something went wrong.

Under new Charity Commission rules, it is no longer charitable to just give money away, since there is nothing to show for a donation in terms of intention. You have to state intention and how well we are performing against the intentions. We use this information to help show Charity Commission the intentions of a project – you have to show how many people you helped and the objectives and purposes of the charity. The data also enables us to benchmark against our peers as well to see how we are doing, what we should be doing, and how we compare."

Foundation comment

According to recipients, foundations are more likely to have higher reporting expectations than companies are – and this rigour is welcomed as it helps recipient organisations understand better their own impacts and effectiveness.

"On the foundation side, there may be more stringent reporting requirements from us (usually quarterly), which I think is a good thing because it keeps the project on track. For other sources of funding we can normally get away with informing them of progress once a year."

Recipient comment

It would seem that with increased expectations from the Charity Commission, and willingness from recipients, impact measurement is likely to become more important for foundations in the future. One recommendation arising from this research, then, must be a suggestion that companies and their foundations work more closely on sharing learnings and tools in this area.

How CR is changing the role of foundations

While the traditional model of a foundation as a channel for charitable giving persists in many companies, the shift toward more strategic CR and CCI in some companies has transformed others' recognition of how foundations can be used. Corporate responsibility increasingly demands a consideration of the 'material issues' of a business – in other words the fundamental social, ethical and environmental impacts that occur as a direct result of the company's core operations. With a huge investor interest, CR is also about anticipating and managing social, ethical and environmental risks that may have an impact on the long term success of the business.

Addressing core business issues

For leading companies, these issues and risks need to be addressed through all aspects of their CR programme, including community investment. The examples highlighted as our third model – Dyson, Waitrose and Sodexho – demonstrate how a foundation can be used in a strategic way to achieve this. The basic benefits of the foundation structure are reflected here – the clear legislative framework, focus for activity and budget management – but these examples demonstrate a different way of maximising these benefits for the company.

These companies have confidence in the legislative framework that supports foundations, and understand how the strength that this framework brings can add credibility to a foundation-led, business focused programme of social responsibility. As with the foundations who act as grantmaking bodies, what these foundations also demonstrate is that there is no 'right' function for a foundation – what is important is identifying what that function is.

Diversifying resources

Another trend in corporate responsibility has been the recognition that companies can support the voluntary and community sector in ways beyond simple cash donations. While charities may still welcome cash donations as the best form of support, they also recognise the benefit of receiving support in kind and particularly the input of professional expertise.

"We are increasing our approaches to companies and corporate foundations for funding which in the past has largely been an untapped area for us. We value the relationships with companies and foundations also for the areas of expertise that can be brought in, particularly in the areas of marketing and HR."

"Our relationships with companies offer benefits such as expertise. For example, if we are running a health campaign then we may share target audiences, and the company can help with marketing and communications support, or we can work with their agencies."

Recipient comments

This type of additional expertise does not only exist in companies, but also in corporate foundations. Although foundations operate independently, they often share staff and resources with the corporate CR department, and the same person may be overseeing the foundation and the CR programme. It is therefore unsurprising that foundations will be increasingly aware of the different ways in which support can be given and of the growing appreciation of charitable organisations for support beyond cash donations.

> *"The way in which companies get involved in local community activities has changed very much and is moving away from the pure philanthropic charitable giving, towards much more charitable engagement, particularly employee engagement and particularly more strategic partnerships and relationships. That's where our foundation is... it's not just about giving money to local people, it's about providing a mechanism for real strategic relationships to make our business sustainable and their lives sustainable moving forward and I think that's been a real shift in the work of foundations in recent years. I can also see a change in types of resources that will be needed in the foundation in order to really make a social difference locally because it's not just about philanthropic giving, it's about a more strategic time."*
>
> *Company comment*

As suggested in Revealing the Foundations, foundations are also a valuable source of expertise whether on the workings of the voluntary sector or on specific social issues. Foundations such as Northern Rock and Nationwide point to this expertise as the reason why they can support challenging programmes addressing issues of social exclusion and domestic violence more effectively than an in-house corporate programme could. Their status as registered charities and part of the voluntary sector also helps them to forge links with other voluntary organisations, sharing learning and expertise.

"The main aspect of our work at the moment is education. Through going in to universities and schools and doing workshops and lectures, the foundation wants to encourage real, exciting, hands-on engineering.

The foundation also creates some resources to be used in schools. These are available through the web. We often work with teachers too – to find out what they actually need and want. One of our teacher packs for example, was developed in line with the GCSE D&T curriculum."

Foundation comment

A foundation structure may therefore be useful to the company who through its CR programme, wants to focus on a specific social issue that requires specialist knowledge and partnership working with organisations in other sectors. One area to explore in the future might be around whether companies should be working more closely with their foundations on stakeholder engagement and on understanding how the company's operations can impact and address key social issues.

Conclusions

This research has addressed some key questions about the interplay between corporate responsibility and corporate foundations – and has also raised many more. The findings have emphasised the point that all foundations are very different. Their effectiveness can only be judged against their own measures of success, and what is clear is that these measures will vary enormously from foundation to foundation. What this research has helped to identify, however, is a new framework (overleaf) which indicates the essentials of a corporate foundation, good practice considerations and indicates the different roles that foundations can play.

Corporate foundation essentials
Compliance with Charity Commission, understanding of legal framework, independence of trustees

Good practice
Clear objectives and funding criteria, monitoring of funding outcomes, at least one external trustee, positive relationship with company based on mutual understanding and clear communication

Foundation options
(can play one, some or all of these roles – or others)

Grantmaker	Part of strategic CR programme	Coordination of employee involvement	Kick-start funder of new projects	Voluntary sector specialist

Rather than trying to define foundations on a scale of "integration" to "independence" – something which is becoming increasingly challenging as the role of foundations evolves – it may also be helpful to expand on the basic definition of foundations by spelling out some key learnings gathered from this and previous research.

Corporate foundations…

- are funded in some way by a corporate source
- are legally separate entities from these corporate funders
- are governed by trustees who always act within the interests of the foundation, regardless of their other responsibilities and roles
- will always have some kind of relationship with their corporate funder
- will practice activities which have differing levels of alignment with the corporate funder's business and CR priorities
- may be used effectively as anything from grantmakers to fundamental elements of a business-led CR programme, without compromising their separateness

The question of whether changes in CR are affecting foundations was posed – and the answer must be that yes they are, but maybe not in the ways that were expected. From the research there is little suggestion that the growing rigor and refinement of CR reporting is having any impact on requests directed from companies towards their foundations. It is also evident from the research that regardless of changes in corporate strategy, some foundations will continue to exist as unchallenged conduits for corporate giving, and will continue to serve this purpose well.

However, the changing CR environment is affecting how companies perceive the benefit of foundations, and some are recognising the opportunity of using the foundation structure within a strategic CR framework. It is difficult at this point to know if these findings signify a new trend – wider research would need to be conducted. What is most important for companies that are reviewing their existing foundations, or considering establishing new ones, is to be fully aware of the implications of a foundation as a separate legal structure, and of the opportunities that exist in using foundations as part of a wider programme.

Part eight – Recommendations and questions for the future

The intention of this research was not only to address some key research objectives, but also to uncover some new questions and challenges for the future. Key areas that are worthy of further discussion and consideration are:

Impact measurement and reporting

Could companies and their foundations work more closely together to address the challenge of impact measurement and evaluation? Would stricter requirements from companies help to drive improvements in foundations' practices, or should more effective drivers come from the Charity Commission?

Sharing expertise

Many foundations possess a wealth of expertise on specific social issues and the workings of the voluntary sector, and companies are more in touch with best business practice developments. Could companies work more closely with their foundations to help with their own stakeholder engagement activities, and could companies be more proactive in providing foundations and their recipients with non-financial support? Could sharing this expertise help both parties to develop more innovative programmes?

Business integration

Companies might recognise the relevance of their business to some intractable social issues, but can be wary of getting involved either because they do not think they have the expertise, appropriate contacts or because they might provoke cynicism. As demonstrated by some of the case studies in this report, it is possible for companies to use a foundation model to address challenging social issues that could present significant business risks. The unique features of the foundation – separate structure, inbuilt expertise, transparency – brings credibility and weight to these activities. Is one future role of foundations in bridging the gap between company and society so that companies can make a real difference to key social issues?

Governance

Is the guidance on governance, particularly trustees, clear enough, and is it being communicated in the most accessible way? More foundations are thinking about the use of external trustees, but some foundations seem to be uncertain or wary about their role – could companies be more supportive in this area, and could the Charity Commission offer clearer guidance?

Regulatory framework

Does the existing regulatory framework help or hinder foundations? Proposed changes to the dual reporting requirements will be an improvement, but is there more that could be done to support the specific requirements of corporate foundations and relieve some of the administrative burden?

In addition to these questions, the following key recommendations are made:

Whether reviewing the role of an existing foundation, or considering creating a new one, companies should be fully aware that foundations are legally defined entities and subject to a specific legislative framework. Specialist legal advice should always be sought.

Rather than focusing on how ‘integrated’ or ‘independent’ foundations are, more attention should be directed towards understanding the complexities of foundations and the relationships that exist between them and their corporate funders. Efforts should be made to further define the essential baseline elements of foundation activities; to identify and promote best practice activities; and to encourage both companies and foundations to think more creatively about the opportunities that exist for involving foundations in CR programmes.

Existing efforts to promote mutual learning between foundations should be sustained, supported and promoted.

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Opinion formers

Nick Aldridge, Chief Executive, Missionfish UK (formally Director of Strategy and Communications at ACEVO)
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Companies and foundations

Abbey and the Abbey Charitable Trust
Accenture and the Accenture Foundation
Boots and the Boots Charitable Trust
The Britannia Foundation
Cadbury Schweppes and the Cadbury Schweppes Foundation
The Chelsea Building Society and the Chelsea Charitable Foundation
Dyson and the James Dyson Foundation
IBM Corporation and the IBM Foundation
Sainsbury's and the Sainsbury's Charitable Trust
Sodexho and the Sodexho Foundation
Vodafone Group and the Vodafone Group Foundation
Waitrose and the Waitrose Foundation

Recipients

Acorn Children's Hospice
Asylum Aid
BEAT
Bridge Project
The British Lung Foundation
Children with Aids Charity
Community Links
Community Matters
Community Services Volunteers
Compaid Trust
Crisis
The Cystic Fibrosis Trust
Diabetes UK NI
Directions Plus
Focus
Great Ormond Street Hospital Children's Charity
Hamlet Centre
KPC Youth
London City YMCA
Sense
Tommy's the Baby Charity

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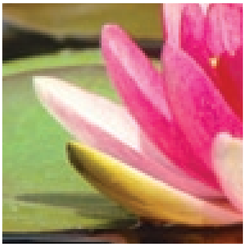

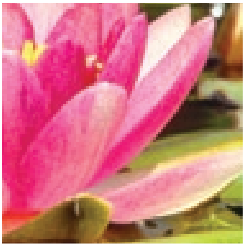

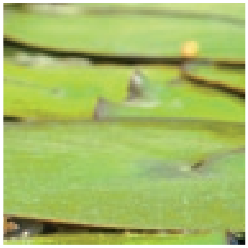

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