

UNIVERSITÄT
HEIDELBERG



CSI

Centrum für soziale Investitionen und Innovationen
Centre for Social Investment

MAX PLANCK INSTITUTE FOR
COMPARATIVE AND INTERNATIONAL
PRIVATE LAW

MAX-PLANCK-GESELLSCHAFT

***Feasibility Study on a European
Foundation Statute
2008***

Annex H

Types of Foundations

Types of Foundations: General Remarks

The UN Handbook distinguishes only between two types of foundations, grant-making and operating. However, in the European context, a more elaborate, diversified terminology suggests itself based on the diversity of foundations forms across Member States. Specifically:

1. Grant-making foundations

Grant-making foundations are endowed organizations that primarily engage in grant-making for specified purposes. Examples include the Leverhulme Trust in Britain, the Volkswagen Foundation in Germany, the Van Leer Foundation in the Netherlands, or the Carlsberg Foundation in Denmark. In the US, they are the most common form of foundation; however in Europe, the operating foundation is more prominent.

The grant-making foundation emerged prominently in the early 20th century in the US (e.g., Carnegie Foundation, Rockefeller Foundation, Ford Foundation etc) as a mode of disbursing money for dedicated purposes and is based on the distinction between charity and philanthropy: Charity, the original foundation model, was in many ways well suited to the social and political context of the 19th century. With inadequate provision by non-profits and government, foundations provided services to those unable to care for themselves. As governments increasingly began to provide some services for some groups, foundations adapted the service approach to provide services complementary to those of government or to fill gaps in statutory provision. Philanthropy as an approach is different from charity in its emphasis on dealing with causes rather than symptoms of problems. Again, the rise of the philanthropic foundation was a product of its time. In early to mid 20th century, belief in the power of a ‘scientific approach’ was riding high, as was the notion of social engineering. Social, medical, economic problems could all be solved once their causes were understood and ‘scientific’ solutions applied.

2. Operating foundation

Operating Foundation are foundations that do not (at least primarily) make grants to other institutions. Rather than relying on third parties (grantees), operating foundations pursue their missions through their own activities. There are principally two different types of operating foundations, depending on the nature of the foundation’s assets. Some operating foundations are established with financial **endowments** or other income-producing assets and utilize proceeds from these assets to support self-administered programs, projects and other activities. The German Bertelsmann Foundation and the US Russell Sage Foundation are examples of such operating foundations.

Particularly in Europe, the principal assets of the second type of operating foundations are non-monetary, such as art collections or individual institutions. These institutional operating foundations include many private museums, hospitals and nursing homes, some private universities and research institutes. The French Institut Pasteur and the US Barnes Foundation are among these types of operating foundations.

Historically, the institutional operating foundation is the original foundation form. Plato's Academy in Athens and the Library of Alexandria are cited frequently as early examples in antiquity, and the medieval hospital foundation dominated in Continental Europe until modernity. Similarly, *al wakf*, the Islamic endowment, still tends to support institutions such as mosques and *madradas* (religious schools) and is the functional equivalent to operating foundations in the Judeo-Christian tradition.

In some European countries, such as France and Italy, the foundation community is still largely comprised of operating rather than grant-making foundations. In others, like Germany, operating foundations make up a significant part of the foundation sector and even some of the largest grant-making foundations, such as the Robert Bosch Foundation have some element of the operating foundation in them. In the USA, by contrast, the focus is almost exclusively on grant-making foundations. In contrast to European understandings, many true operating foundations—including internationally prominent private universities such as Stanford, Johns Hopkins and Chicago—are typically not considered to be part of the foundation sector, not least because tax regulations exclude them from the technical definition of foundations.

3. *Other types of foundations*

Corporate Foundations, also known as company-sponsored foundations, are an independent legal entity established by its parent for-profit company. It is governed by a board that may include members of the corporation board or contributions committee, other staff members, and members of the community. The corporate foundation is a vehicle for promoting corporate citizenship or corporate philanthropy.

As separate legal entities, corporate foundations typically operate under the same regulations as private foundations. In terms of grant-making and operations, there are very few differences between corporate giving programs and the activities of corporate foundations. The main difference, however, is the locus of decision-making and operations: corporate giving programs are typically administered through the company's corporate affairs or public relations office, whereas corporate foundations tend to have more autonomy from the corporate boardroom.

Corporate foundations often do not have significant assets of their own, but depend on the funds paid in by the corporation, and sometimes by its founder and its employees as well. In order to protect their foundations from the swings of the business cycle, many corporations adopt the pay-in and pay-out system. When profits are higher, the company donates to the foundation (pays in) more than the foundation gives to its community (pays out), and vice versa if earnings are lower. This system helps make corporate philanthropy more stable.

Community Foundations The idea and practice of a community foundation was limited primarily to North America until the 1980s. Since then the concept has spread to other parts of the world, including Europe, thanks in large part to the efforts of major US grant-making foundations to establish community foundations outside of the USA.

Community foundations have two main characteristics that distinguish them from other foundations. One of these is the function of making grants for the local community or geographic area, from which the name is derived. The other distinguishing feature is a structure that entails clusters of smaller funds, sometimes named for the individual donors as well as a variety of other instruments that facilitate giving within the community. More

specifically, a community foundation is an independent organization operating in a given geographic area which, over time, builds up an endowment contributed from many donors, provides services to those donors, makes grants and undertakes community leadership activities to address a wide variety of current and long-term needs in its service area.

Fundraising Foundations are seen in contrast with a foundation that operates on the basis of income derived from its assets. In general, a fundraising foundation takes the legal form of a foundation, but is created without substantial assets. Its success, therefore, depends on its agenda, its communication strategy, and the reputation of the personalities representing the foundation. One advantage of a fundraising foundation is its strong link to the general public due to the need to raise money or other resources on a continuous basis. In a way, a fundraising foundation transforms ideas, social capital, individual reputation, or media access into money. More generally, community foundations could be seen as a form of a fundraising foundation.

Of course, other forms exist, and many foundations are mixed types, i.e., engage in grant-making, initiate their own projects, and operate their own institutions, but in most cases one area of fund disbursement or use may well dominate. We will now concentrate on two foundation forms that straddle the borders between private and public purpose on the one hand, and non-profit vs. for-profit status on the other. Both forms are permissible in some Member States, and are not allowed in the US.