

CHAPTER HIGHLIGHTS

THE STATE OF NONPROFIT AMERICA

LESTER M. SALAMON *editor*

Chapter 11 Highlights **FOUNDATIONS AND** **CORPORATE PHILANTHROPY**

Leslie Lenkowsky

Brookings Institution Press
Washington, D.C.

Published in collaboration with the Aspen Institute

FOUNDATIONS AND CORPORATE PHILANTHROPY *

By Leslie Lenkowsky

The type of charitable foundations established during America's manufacturing era continues to dominate the field of institutional philanthropy. But in this chapter, Leslie Lenkowsky cites forces that are producing a new style of institutional philanthropy characterized by more direct involvement on the part of donors.

This analysis is part of a broader assessment of *The State of Nonprofit America* coordinated by Dr. Lester M. Salamon of the Johns Hopkins University and published by the Brookings Institution Press in collaboration with the Aspen Institute.

Institutional philanthropy includes foundations, corporate giving programs, charity federations such as the United Way, and the recently created donor-advised gift funds. What they all have in common is some sort of intermediary function between donors and charities. Beyond that they differ in key ways. For example, institutional foundations have a tendency to fund particular programs as opposed to providing general support, while corporate programs and charity federations have been less programmatic in their focus and more likely to renew their gifts regularly.

The original foundations conceived by captains of industry such as John D. Rockefeller and Alfred P. Sloan sought to bring expertise and professionalism to the field of philanthropy. The foundations that followed their model offered donors proficiency in identifying trustworthy charities and high-priority needs, as well as economies of scale and economies of time.

But the traditional model is coming under increasing criticism from a new generation of philanthropists who amassed their wealth during the 1980s and '90s. Many of these philanthropists view the existing style as top-heavy and mired in bureaucracy.

Others claim that foundations are not doing enough with their money. Although they're required to distribute 5 percent of their assets annually, 17 of the 20 largest independent foundations gave less than that amount to charity in 1995 because the law allows them to include administrative costs and a special tax on their investment earnings in their reported payout amount. The new generation of philanthropists believes the payout rate should be significantly higher than 5 percent, even if it means spending down a foundation's endowment. Indeed, part of the new thinking is that foundations should seek to be responsive to contemporary problems rather than try to maintain their assets permanently for future ones.

Today's philanthropists largely favor a philanthropic model that mirrors the new style of corporate enterprise from which they derived their wealth. It includes a simpler, streamlined organizational structure; long-term investment in charities as opposed to occasional grants to their programs; direct involvement of donors with recipient organizations; foundation leaders with a background in business; and an emphasis on obtaining a demonstrable social "return" on philanthropic "investments."

Private foundations, federations, and corporate foundations are showing the influence of these attitudes. For instance, community foundations, according to Lenkowsky, are beginning to look more like holding companies for contributions than organizations whose expert advice is needed to improve the effectiveness of donations. Meanwhile, corporate giving has become more closely aligned with corporate business strategies.

These new attitudes toward philanthropic giving have not only spawned a new type of foundation. They have also given rise to successful new kinds of giving that are part institutional, part personal. For example, donor-advised funds managed by for-profit financial service companies represent one of the fastest growing areas of philanthropy. A large part of their appeal is that they allow contributors to determine where their money goes without much involvement of professional staff.

Conversion foundations represent another important new style of institutional philanthropy. They are created from the sale of a publicly supported non-profit, such as a hospital, to a for-profit company. The proceeds from the sale create endowments that provide grants and services. Although they didn't appear until the early 1980s, there are now 120 conversion foundations, with endowments totaling more than \$15 billion.

Although Lenkowsky concludes that institutional philanthropy will not disappear, he contends that the changes underway will continue transforming its nature. In the process, he predicts, some beneficial features, such as the ability of an institution to do what a donor acting individually could not, may be lost, but others, such as the personal engagement of the donor, will be gained.

* Adapted from "Foundations and Corporate Philanthropy" by Leslie Lenkowsky in Lester M. Salamon, editor. *The State of Nonprofit America*. Washington: The Brookings Institutions Press, 2002. Published in cooperation with the Aspen Institute.

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Chapter highlights are from “Foundations and Corporate Philanthropy” by Leslie Lenkowsky, a chapter in *The State of Nonprofit America*, edited by Lester M. Salamon and published by the Brookings Institution Press in collaboration with the Aspen Institute.

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