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Handbook on Corporate Foundations

Corporate and Civil Society Perspectives

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Chapter 1
Introduction

Lonneke Roza, Steffen Bethmann, Lucas Meijs, and Georg von Schnurbein

Abstract In the introduction, we set the context of this book on corporate foundations by discussing perspectives on corporate philanthropy and subsequently define how we view corporate foundations. Furthermore, we further elaborate on the role of understanding hybridity, and we outline the structure of the book.

Keywords Corporate foundations · Comparative · Hybridity · Definitions

The academic interest in charitable foundations recently gained more attention in literature, albeit reactive following a global rise of philanthropy and the strong growth of foundations in many countries (Leat 2016; Anheier 2018). However, the idea of leveraging corporate resources to form a charitable foundation (i.e., a corporate foundation) has been contested until today and only recently, corporate philanthropy became more visible (Harrow 2013). Corporate philanthropy—in line with the general definition of philanthropy—includes voluntary financial contributions, in-kind donations and donating time (i.e., corporate volunteering and corporate giving) to social and charitable causes (Gautier and Pache 2015; Liket and Simaens 2015; Porter and Kramer 2006). While some companies organize their corporate philanthropy in-house, others set up a corporate foundation to formalize their corporate philanthropy with a long-term commitment.

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From the broader perspective of corporate philanthropy, both from business and nonprofit literature, one can find arguments for and against corporate involvement in philanthropic action. In business literature, it is questioned if managers should direct money to societal causes and, in doing so, limit shareholder profits (Friedman 1970). To counter this, scholars have built the business case of corporate philanthropy (for an overview, see Liket and Simaens 2015). An alternative perspective argues that companies should act as corporate citizens, which stems more from a moral appeal (Gadberg and Fombrun 2006). In the nonprofit literature, some dispute the influence of companies in the nonprofit sector (Nickel and Eikenberry 2009), whereas others put the emphasis on the valuable contributions companies can add to social projects in both financial resources and nonfinancial resources such as volunteers or other resources of the company (Roza et al. 2017).

Even though we are building a better understanding of corporate philanthropy, we so far have neglected the role of corporate foundations as an intermediary organization that facilitates corporate giving in this emerging field. In the universe of nonprofit organizations, the galaxy of charitable foundations is not in the core of both practical appearance and scientific analysis. However, in the galaxy of charitable foundations, corporate foundations are a constellation even at the outer limits. Henceforth, the available literature on this type of foundation is extremely limited, while this form of institutional philanthropy is increasingly applied in practice. Consequently, corporate foundations are considered complex phenomena where many stakeholders are involved which are less explicit in traditional foundations, such as corporate employees, corporate leadership and shareholders (Renz et al. Chap. 2). Hence, corporate foundations have a unique relationship with a market actor: the founding company.

Indeed, corporate foundations are often linked to the founding company through their name, funding, trustees, administration, and potential employee involvement (Westhues and Einwiller 2006). As these foundations are growing in number (Herlin and Pedersen 2013), size, and importance (Rey-García et al. 2012), they are becoming increasingly visible in the philanthropic sector. Corporate foundations are specific in many ways. They are positioned between the business sector and the civil society and have commonalities with both sectors. In contrast to grant-making foundations, they usually have no endowment, but receive annual contributions by one dominant donor: the parent company (Petrovits 2006). The founder is a legal entity that can pursue constant influence on all areas of the corporate foundation: governance, asset management, grant-giving, communication, who to employ and so forth (Bethman and von Schnurbein, Chap. 3). At the same time, corporate foundations oftentimes are structured in a framework of foundations, albeit heavily influenced by the legal and fiscal arrangements, and traditions in (corporate) philanthropy in their context. Due to these contextual factors, the commonalities of corporate foundations on a global level are limited. As such, a thorough debate on the role of corporate foundations as a form of institutionalized philanthropy and its working is needed.

To better understand corporate philanthropy in all its aspects, we need to study through which paths corporate philanthropic efforts are being channeled, including that of corporate foundations. This discussion needs to deal with very basic questions while using current theoretical perspectives to better understand this construct including: What is the role of corporate foundations in our society, and in different societal contexts? What are governance structures and how are these affected by the parent company and the hybrid nature of corporate foundations? How are stakeholders involved and how are they affected? And, how do nonprofit organizations as the ultimate beneficiary of corporate foundations make sense of their collaborations with corporate foundations? These and other questions will be addressed in the following chapters.

In the next sections, we set the context of this book on corporate foundations by discussing perspectives on corporate philanthropy and subsequently corporate foundations, the conceptual framework in the light of hybridity, and the outline of the book.

1.1 The Corporate Philanthropy Context

1.1.1 Philanthropy as a Result of Economic Activities

The history of philanthropy is closely connected with economic action. Generally, philanthropy is based on values and an expression of pity and interest in other people not closely connected to the benevolent (Payton and Moody 2008). Next to this value-driven perspective, philanthropy entails a transaction of resources without a valuable return. Hence, economic success and abundance are preconditions for a significant role of philanthropy beyond pure altruism (Adloff 2010). Many well-known philanthropists were successful businessmen prior to their social engagement. Especially in the nineteenth century in the United States, industrialization created a new category of individuals that accumulated great wealth. Meyer Guggenheim or Andrew Carnegie developed within a lifetime from poor immigrants to the wealthiest persons of their time. Others, such as John D. Rockefeller or W. K. Kellogg, came from the middle class and some such as John P. Morgan already grew up well situated. In Europe, Joseph Rowntree, Maurice de Hirsch, or Robert Bosch were also successful businessmen who dedicated large parts of their fortune to social causes (von Schnurbein 2015). However, all these men have in common that their philanthropic actions, were an individual action clearly separated from their companies. In fact, donations by companies were banned by law in the United States until the 1950s (Sharfman 1994). With the development of corporate philanthropy, it became institutionalized. Ever since, the debate turns around the question of whose benefit corporate philanthropy is—the company, the society, or both (Aakhus and Bzdak 2012)?

1.1.2 Various Perspectives on Corporate Philanthropy

The primary aim and ultimate right to exist for companies is to make profits (Friedman 1970). In that sense, corporate philanthropy has to adhere a clear business case that leads to a better performance. As philanthropy is about giving without a direct commercial benefit, the search for a business case is not self-evident (Campbell and Slack 2007). Nevertheless, literature and practice search for a business explanation of the existence of corporate philanthropy.

The theoretical debate on the question if companies should be involved in philanthropic causes is dominated by two diverging perspectives. The first, critical, perspective is based on agency theory. It follows the assumption that philanthropy never can be decided by an institution, but only by individuals. Hence, Friedman (1970) argued that corporate philanthropy reduces the profits for the shareholders and is conducted by the managers based on their own priorities. Other researcher backed this perspective, emphasizing that the reputational enhancement a manager might gain from philanthropic activities of the company is more important than the public purpose (Buchholtz et al. 1999; Galaskiewicz 1997; Werbel and Carter 2002).

The second, supporting, perspective emphasizes the positive influence of corporate philanthropy on firm performance. Although studies are inconclusive on the potential of corporate philanthropy to increase the company's profits (Gautier and Pache 2015), it can have a positive influence through goodwill, the positive image, and an improved reputation (e.g. Liket and Simaens, 2015). These effects influence various stakeholder groups, for example, investors, employees, suppliers, or customers (Choi and Wang 2007). Operationalized as corporate social performance (CSP), several studies have measured a positive relationship with corporate financial performance (Orlitzky et al. 2003; Margolis et al. 2007). Other researchers emphasize the value of CSP to enhance strategic reassessment and process improvement (Ribstein 2005) or they attribute an insurance aspect to CSP due to good reputation (Fombrun et al. 2000; Klein and Davar 2003; Peloza 2005). In an assessment of the literature on the relationship of CSP and corporate financial performance, Wood (2010) criticizes the schismatic diverge into believers and unbelievers of the relationship, which still exists today.

From a more conceptual point of view, corporate philanthropy is mostly dealt with as part of corporate social responsibility (Burlingame and Young 1996; von Schnurbein et al. 2016). In its seminal work on the corporate social responsibility (CSR) pyramid, Carroll (1979) put philanthropic responsibility on top of economic, legal, and ethical responsibilities of the firm. Economic responsibilities refer to the firm's role in society, and thus the business as a producer of goods and services. The legal responsibilities refer to the compliance with laws and regulations at all levels. Carroll's description of ethical responsibilities was, in this model, already quite clear: He states that, after the fulfilment of the economic and legal responsibilities, "there are additional behaviors and activities that are not necessarily codified into law but nevertheless are expected of business by society's members" (Carroll 1979: 500). However, he gave no clear-cut definition of discretionary responsibilities (later on classified as 'philanthropic'). He rather stated that these 'expectations' actually could not be classified as responsibilities, since the decision to pursue them or not is "at a business's discretion" (Carroll 1979: 500). While economic and legal responsibilities are categorized as required, ethical responsibility is expected, and philanthropy is desired (Carroll and Shabana 2010). It seems that throughout the growing debate on CSR, corporate philanthropy always played a minor role of interest (von Schnurbein et al. 2016). In recent years, the notion of strategic corporate philanthropy has overcome this ignorance (Gautier and Pache 2015). Especially, the shared value approach has changed the perception of corporate philanthropy. Shared value follows the performance-enhancement paradigm and states that businesses can do both: Doing well by doing good (Karnani 2011). Porter and Kramer (2002) develop a system based on the value chain approach that should lead to a competitive advantage through corporate philanthropy. Their major statement is that companies have to focus on the core business in philanthropy as well in order to use their best competencies for social purposes. However, Aakhus and Bzdak (2012) argue that the shared value approach ranks business interests over social interests and, thus, is limited in solving social problems.

In civil society and philanthropy literature, the relationship between businesses, state institutions, and nonprofits is of major interest as it affects the independence and catalytic strength of the nonprofits (Nickel and Eikenberry 2009). Fundamentally, the question is posed, for what purpose a for-profit company engages in charitable activities? Gan (2006) argues that corporate philanthropy is after all a compromise between firm goals and public purpose. As Harrow (2013: 236) follows, "[t]his approach then offers the setting of organization, policy and even values compromises as the stage upon which corporate philanthropy activities are played out." Many studies contest corporate philanthropy as a problem-solving concept for public purposes, highlighting the inherent trade-offs (Tesler and Malone 2008). For instance, Al-Tabbaa et al. (2013) argue that nonprofits have to become more proactive in cross-sector collaborations in order to increase the scale and sustainability of the corporate donations. At the same time, the marketization of philanthropy is questioned, because it reduces the transformative power of philanthropy (Nickel and Eikenberry 2009). In addition, nonprofit representatives tend to overestimate the return of corporate partners (Cho and Kelly 2013), leading to a mismatch between expectations and reality. It might be that corporate philanthropy is made bigger than it actually is. This might be due to the fact that corporate giving is perceived in a similar vein as giving by foundations—as core activity. Rather, corporate giving is actually at the periphery for corporates. More trade-offs seem to come into play when including nonfinancial resources in corporate philanthropy (Haski-Leventhal, Chap. 12). Analyzing corporate volunteering, Roza et al. (2017) highlight the challenges nonprofit organizations face when dealing with corporate philanthropy actions. In addition, beneficiaries' interests get too little consideration in corporate volunteering settings (Samuel et al. 2016).

The above shows that the purpose and justification of corporate philanthropy are not straightforward. From both the business and the civil society perspectives, corporate philanthropy is applauded and contested—albeit for different reasons. For instance, some scholars doubt that corporations can do good by themselves. For them, the managers do good with the money of the shareholders without having their permission. From a civil society perspective, corporate philanthropy entails an inherent goal conflict between business aims and public benefit (Hvenmark & von Essen, Chap. 13). However, the proponents of strategic philanthropy emphasize the win–win situation if businesses give access to their knowledge and resources for public purposes by developing their core business. In the same light, civil society researchers see the advantage for nonprofits to benefit from the collaboration with the more business-like corporate foundations. Thus, we have to ask if corporate philanthropy is in fact a hybrid organization, combining the best from business and civil society logic, or if it is closer to a boundary spanner, offering joint activities between business and civil society. And, to what extend do corporate foundations play a role in this?

1.2 Defining a Corporate Foundation

Defining a charitable foundation is no easy task as there exist many different understandings and traditions (Anheier and Daly 2006). Generally, the literature differentiates various types of foundations: private independent foundations, corporate and company-sponsored foundations, shareholder foundations, community foundations, public foundations, and operating foundations (Frumkin 2006, Toepler 1999). The complexity of delineating corporate foundations from other foundations is illustrated by a few large foundations in Germany: First, Volkswagen Foundation. Although the name suggests a typical corporate foundation, it is seen as a state-sponsored foundation, as the endowment of the foundation was funded by the privatization of state-owned stocks (Toepler 1999). The Robert Bosch Foundation is a shareholder foundation with charitable activities. And, the "Gemeinnützige Hertie-Stiftung" [Charitable Hertie Foundation] was once a shareholding foundation of the Hertie department stores without voting rights or any influence on the management. Today, the Hertie department stores do not exist anymore and the Charitable Hertie Foundation is an independent foundation (despite its company name).

While various interpretations exist of what a corporate foundation may be, we define a corporate foundation as an independent legal entity for a public benefit purpose without any direct commercial benefits that is set up, funded, and controlled by a for-profit entity. We hold three criteria as essential for corporate foundations. First, a corporate foundation is a separate legal entity. In some countries, a foundation is a specific legal form; in others, the identification depends on the taxation of activities. Despite the legal differences, a corporate foundation has to be legally distinct from the parent company. This ensures also that the establishment of a corporate foundation is a voluntary act and not bound to any public regulation. Second, a corporate foundation aims for a public benefit purpose. In the periphery of an enterprise, different types of foundations may exist, for example, pension funds, stakeholder foundation, private purpose trusts, and so on. For a corporate foundation, it is essential that its purpose is for the good of the greater public. There might be some alignment with the core business of the parent company, but the foundation's activities should not lead to a direct commercial benefit of the company. Again, there may be differences in what is legally defined as public benefit purpose, based on national law. But this criterion enables us to draw a clear line on the reason for existence of a corporate foundation. Hence, a corporate foundation exists primarily out of an understanding of corporate responsibility and incorporates a genuine interest in the greater society that goes beyond profit. Here, it is differentiated from an internal philanthropic department by the idea of being a separate legal entity. It is also different from a sponsoring department as the company's goals are not leading anymore but the goals and mission of this separate entity (e.g. the philanthropic mission) are leading in their decision-making processes. In terms of operations, a corporate foundation might execute its mission either through grant-making, venture philanthropy, or operating own projects. As we learned in the development of this book, different traditions and norms have an influence. For example, in Latin America, corporate foundations are more operative (Rey-Garcia et al., Chap. 9). In Europe, there are corporate foundations using venture philanthropy principles, while in the US, the typical corporate foundation is grant-making (Tremblay-Boire, Chap. 6).

Third, a corporate foundation is set up, funded, and, to a large extent if not totally, controlled by a for-profit entity. This maybe the most important difference to other types of foundations, as Anheier (2001) and others emphasize the independence of foundations as a selective criterion. We expect corporate foundations to have an ongoing relationship with their parent company. As we focus on the foundation as an object of interest, we do not make any differentiation concerning the for-profit entity. The ongoing relationship between a foundation and its parent company is bound on the two legal entities and not on individuals (as in the case of family foundations). For instance, if the company gets sold, the foundation is part of the bargain. As corporate foundations usually are funded by annual donations and not an initial large endowment, the company continuously preserves a dominant influence on the foundation. As a consequence, the companies' management has a major influence on the foundation. So coming back to the above examples: The Volkswagen Foundation never was a corporate foundation and the Hertie Stiftung ceased to be one when the company went out of business. Even though both have historical links with corporations, they cannot be considered to be corporate foundations today.

Additionally, we delineate a corporate foundation from an individual or family foundation set up by the company owner from his own wealth and from a so-called "shareholder foundation". In both cases, the control over the foundations is not limited to the company, other interest groups (especially owners) may execute an influence on the foundation. However, we will address the specific type of "shareholder foundation"—holding a significant number of the shares of a company—in this volume separately as these foundations often support public purposes although they are not obliged to (Bothello et al., Chap. 4).

By applying a broad definition and a set of criteria, we offer the contributors to this volume enough room for differentiation and specific variations that they study. As such, each chapter will clarify what are the extensions or restrictions of this definition in the specific context and institutional setting.

1.3 Hybridity at Its Core

We approach the mere existence of corporate foundations[1] as hybrid entities in which institutional logics coexist (see for a review on institutional logics Lounsbury and Boxenbaum 2013). Initially developed for analyzing the behavior of individuals, institutional logics are defined as "the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality" (Thornton and Ocasio 1999: 804). Translated to the study of organizations, institutional logics serve for a better understanding on competing models and hybrid manifestations dealing with conflating institutional sectors and increasing means of organizations, such as bureaucracy or regulation. For instance, DiMaggio and Powell (1991) emphasize processes of imitation and alignment in organizational fields as a result of coercion, insecurity, and norms. Community, market, or state can be key institutional orders that define the self-concept of organizations (Thornton et al. 2012).

In literature, the combination of at least two different institutional logics is referred to as hybridity (Billis 2010). In search for solutions to the increased complexity of social problems, balancing different norms and needs through hybrid structures offers several advantages. Hybrid structures facilitate the inclusion of constituents from different sectors—state, market, individuals, or nonprofits (Evers 2005). Additionally, hybridity promises to combine advantages of different logics to a better result, for instance, the mix of market and social aims in impact investing (Emerson 2003). Finally, research on hybridity offers better understanding of mission alignment. Several studies have emphasized the existence of combined or rivaling aims within nonprofit organizations (Minkoff 2002; Joldersma and Winter 2002; Skelcher and Smith 2014). In respect to philanthropy, Salamon (2014) highlights the new frontiers of philanthropy as more diverse, more entrepreneurial, more global, and more collaborative. As a consequence, philanthropic action has to take into consideration expectations of other actors more broadly. Smith (2016) gives an oversight on the variety of new instruments for philanthropy following the trend of hybridity. Especially in the US and the UK—but also in other countries—donor-advised funds (DAFs) are used as an alternative to establish a private foundation. The advantage of a DAF over a foundation for the donor is that it leaves more flexibility in terms of grant distribution, reporting obligations, and public information (Harrow et al. 2016). Another recent trend is that philanthropic action is closer connected to financial investing including concepts such as venture capital, impact investing, and blended finance structures. The overarching idea is to create leverage through multiple uses of the resources available for charity (Salamon 2014). With the announcement of the Chan Zuckerberg Initiative, this development even went beyond the traditional borders of legal charitable status, as Mark Zuckerberg tunnels his philanthropic engagement through a limited liability company (LLC). In con-

[1] As a preliminary remark we assume that corporate foundations are there for a good reason. Thus, we do not aim to question their existence, rather we aim to explain their functioning.

trast to a private foundation, an LLC offers the donor more control at the cost of fewer tax advantages (Worth 2018).

For Smith (2016), corporate foundations are a very typical hybrid structure because ‘these foundations often need to manage different logics such as a market logic tied to the strategic direction of the company and the needs of the community or citizenry, broadly defined’ (p. 328). In the realm of this book, we investigate the shifts or conflicts between these two logics, address contestations and integrate different perspectives on corporate foundations.

Corporate foundations operate between business interests and societal purpose. As a consequence, the modes of operation can be very different, depending on the dominant logic and the primary orientation of action. Motivation for creation of corporate foundations is based on both business and civil society logic. The dominant logic defines the self-concept of the corporate foundation as either part of the company or part of the civil society. Which one dominates depends on legal requirements, organizational factors of parent companies, structure of ownership, and so forth. Subsequently, the corporate foundation might also shift from a more business-like approach to a civil society approach. Reasons for a shift may be changes in the company’s business model, new regulations, or a new field of activity of the corporate foundation. One can also think of potential conflicts between the two logics. Business and social aims are not always aligned and—depending on the power distribution on the foundation’s board—program decisions may follow either business or social purposes, first. The classic ‘What is good for the business is good for society’ is not satisfying anymore (Aakhus and Bzdak 2012), nor it is vice versa. At the same time, companies are more urged to taking their philanthropic activities to general accepted topics and fields. In the following chapters, the influence of institutional logics on corporate foundations will be analyzed based on geographical differences, patterns of governance and management, as well as different stakeholder perspectives.

1.4 Outline of the Book

The primary aim of this volume is to deliver a holistic analysis of the current state-of-the-art on corporate foundations. For that reason, we include different perspectives on and use a hybrid concept of corporate foundations.

First, we further explore the different logics that explain the existence and utility of corporate foundations. Corporate foundations are complex organizations as they are the proverbial example of a cross-sector hybrid organization that includes competing and complicating logics from both market and civil society (Billis 2010). They have the legal form of a civil society organization, but oftentimes include the logic of a for-profit organization due to their closeness to their founder (Bethmann and von Schnurbein 2015). As a consequence, corporate foundations can be seen as complex governance structures in which corporate and public benefit logics are combined. There are four chapters covering governance of corporate foundations:

The first chapter explains the governance challenges of corporate foundations, the second one relates to the (in)dependence of corporate foundations, the third looks at the benefits and challenges of choosing the governance structure of a collective corporate foundation, and the fourth one looks at various logics in play when choosing a particular governance structure, that is, a shareholder foundation.

Second, we address different levels of understanding: regional or country level, institutional context, and organizational level. We cover five regions or countries to give an overview of the global state of corporate foundations. While the United States and Europe share a longer tradition and a broader application of corporate foundations, they are rather new to Latin America, Russia, and China. The institutional context serves as a starting point to discuss different logics and perceptions of corporate foundations. Additionally, we analyze the corporate foundation at the organizational level. Looking further into the organizational processes of corporate foundations, we analyze governance, operations, and impact as major aspects of organizational performance. More precisely, we look at components of corporate foundations, divided into board, staff, operations, funding, and communication.

Third, we analyze the connection between the corporate foundation and its stakeholders. We discuss which role corporate foundations may play in stimulating (corporate) volunteering and social capital, what impact corporate foundations may have on beneficiaries, the role of corporate foundations as political actors in a welfare state and finally how nonprofits make sense of their collaboration with companies.

Thus, this book explores the corporate foundations in the galaxy of institutionalized philanthropy. It contributes to the current body of literature by describing, analyzing, and exploring various potentially unique aspects of corporate foundations, such as the role in the philanthropic sector, governance, the complex relationship with the company, and as a means for collective action.

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Part I
Governance and Management

Chapter 2
Challenges in Corporate Foundation Governance

David Renz, Lonneke Roza, and Frans-Joseph Simons

Abstract This chapter focuses on the challenges experienced by those who govern corporate foundations. Based on three key theoretical perspectives (agency theory, resource dependency theory, and institutional theory) and insights drawn from interviews and informal conversations with leaders and decision-makers in more than a dozen corporate foundations in the United States and the Netherlands, we offer a theory-based framework in which the most common governance conditions and dynamics are identified. The framework defines three questions posing key challenges, based on 11 correlated tensions in hybrid organizations: (1) Why do corporate foundations exist and to what end? (2) Who really governs a corporate foundation and with what orientation? (3) To whom are corporate foundations accountable and for what? The chapter demonstrates that, although corporate foundations are subject to multiple and divergent logics posing tensions and challenges, the dynamics experienced vary by the type of corporation and are not always considered as problematic, relative to the way they are experienced as problematic by other types of hybrids (e.g., social entrepreneurs). Notwithstanding that there is always a tango between the corporate foundation and both community and corporate stakeholders.

Keywords Corporate foundations · Governance · Comparative · Challenges · Hybrid organizations

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2.1 Introduction

Corporate foundations exist and function at the very intersection of the nonprofit and for-profit worlds and, therefore, their governance must navigate the complexities posed by this intersection. Corporate Foundations are an eminent example of hybrid organizations that exemplify the blurring of sector boundaries (e.g., Billis 2010; Weisbrod 1998), since these types of foundations straddle the boundaries of and tend to exhibit certain characteristics of both commercial and philanthropic organizations. Their founding is grounded in the domain of business and commerce, with all of this sector's expectations for private benefit and private wealth creation, yet their explicit mission and practices are (by the laws of most nations) mandated to deliver social benefits that will serve the interests and needs of communities and civil society.

Corporate foundation governance is especially interesting to study as it epitomizes the complexity and conflicts of an organization that exhibits the characteristics and conditions of a hybrid. While there is some debate in the literature on what constitutes a hybrid organization, we adopt the perspective shared by most scholars and practitioners that "hybrid organizations contain mixed sectoral, legal, structural, and/or mission-related elements" (Smith 2010: 220). Corporate foundations usually articulate missions of social benefit and impact, yet they also exhibit characteristics identified with commercial or for-profit business practices and interests. This necessarily includes the implications of single-funder or single-donor resource dependence, as a business allocates certain of its resources (financial and nonfinancial resources) to a corporate foundation—as its agent—and this usually is linked to both corporate and philanthropic strategy (Kania et al. 2014; Gautier et al. 2013). Many facets of their design and operation must blend to reflect the imperatives of different sectors, with a commensurate mix of seemingly inconsistent expectations and logics, and all the aspects that need consideration from those who govern corporate foundations.

Therefore, this chapter focuses on the challenges experienced by those who govern corporate foundations—including those who serve as members of the foundation's governing board as well as top foundation executives. It is our aim to contribute both theoretically and practically by explaining the context and articulating the challenges for the governance of corporate foundations, linking to the governance literature of for-profits, nonprofits, and hybrid organizations, and sharing preliminary insights from an ongoing study.

This chapter discusses the challenges of corporate foundations that typically become manifest as corporate foundation leaders engage in the actual process of governing their foundations. To gain more insight into how governance theory would apply to corporate foundations, we had informal conversations and conducted formal semi-structured interviews with more than a dozen US and Dutch corporate foundations on the board composition, relationship with the founding firm, relationship between corporate foundation executives and their boards and decision-making processes. Drawing on insights obtained through these observations and interviews, we first identify the most common conditions and dynamics experienced by these leaders as they engage in the process of governance, and consider how and why these dynamics pose significant challenges. In the subsequent section, we explore the implications of these insights from the perspectives of three key theoreties (agency theory, resource dependence theory, and institutional theory) to offer a more nuanced understanding of the dynamics associated with the governance of these hybrid organizations. Based on both governance dynamics and theoretical insights, we present a basic framework to classify the tensions experienced by those who govern corporate foundations. We conclude the chapter with suggestions for future research that can help inform theory and practice with regard to the effective governance of these unique types of hybrid organizations.

2.2 Who Are Involved in Corporate Foundations' Governance?

As governance is a broad umbrella term, it is important that we articulate our definition of governance. We build on the definition advanced by Cornforth (2014: 5): Governance comprises "the systems and processes concerned with ensuring the overall direction, control and accountability of an organization." As such, the work of governance includes setting strategic direction and goals, making policy and strategy decisions, overseeing and monitoring organizational performance, and ensuring overall accountability (Renz 2004). We also consider it essential to highlight the distinction between "board" and "governance," although they typically overlap. Governance is a function, whereas a board is a structure (Renz and Andersson 2014). In this chapter, we discuss both boards and executives as we examine the challenges of foundation governance.

Understanding who are key stakeholders of corporate foundations is fundamental to understanding these organizations' governance, as all organizations exist and operate within a web of stakeholders. Central to the existence and identity of any corporate foundation is the related company. The corporate foundation is a separate legal entity, yet its existence is caused by and its work is to varying degrees controlled by the corporate entity. While it exists for the benefit of the greater society and its work is separate from generating direct commercial benefit to the corporation, the foundation's existence also grows out of (and often is a manifestation of) a corporation's orientation toward its corporate responsibility and/or its philanthropy.

This orientation will vary with regard to many factors, including its industry, how it was founded, its history, age, and size (Kotler and Lee 2005). Its perspective will serve as the grounding for the corporation's views on the work of its corporate foundation and how it is to link with what corporate leaders consider to be an appropriate and desirable relationship with its various stakeholders and constituents. As Zadek (2004) explains, a corporation's motivation for and orientation toward its engagement with society may be as narrow as acting in compliance with demands of legal authorities or as broad as being a proactive civic leader in the community. A dominant but contested view on corporate philanthropy is strategic corporate philanthropy and shared value creation as argued by Porter and Kramer (2006). They encourage corporations to pursue a more self-centered "strategic orientation" toward philanthropy, wherein the corporation pursues strategies that achieve mutually beneficial outcomes for both the company and society. However, this orientation assumes that corporate interests do not collide with societal interest, as well as ignores the wider role that companies (may want to) play in the development of society because it uses the single lens of instrumentality toward corporate philanthropy (Crane et al. 2014).

Despite this academic debate on strategic corporate philanthropy, we also observe corporate leaders using their philanthropic orientation (either instrumental or more morally inclined) as the basis for determining the corporate foundation's mission. The board members of the parent corporation may include major stockholders or their representatives. However, they are also likely to include people with a closer connection to the corporation—especially likely, the highest ranking of the corporation's top executives. These parent corporation board member characteristics typically have a significant bearing on their expectations of the corporate foundation and what it will achieve (see Marquis and Lee 2013).

In addition, Masulis and Reza (2015) found that the choice and level of corporate giving in corporations that have relatively weak corporate governance was highly associated with the CEO's personal preferences and ties to charities—not to some grand level of corporate philosophy or strategy. Marquis and Lee (2013: 487) report that this relatively high level of senior management influence exists even in cases wherein the corporations have relatively large separate corporate foundations (i.e., large with regard to size of the foundation's assets and, notably, the number of staff employed by the foundation itself, separate from the corporation). Therefore, at a fundamental level, the main orientation of corporate leadership (corporate, shared value, or truly societal) is very likely to have significant impact on the governance of the corporate foundation.

While overtly linked to the parent corporation, the foundation—which is at the core of what we seek to understand—also has its own story on its founding and mission. The origin of a corporate foundation oftentimes influences the policy, the connectedness with the founding company, and/or the decision-making processes on the means that are allocated for public benefit. For instance, the Dutch Rabobank, a cooperative bank first founded by Dutch farmers and horticulturists in the late nineteenth century, founded the Rabobank Foundation in 1972. Nowadays the bank has broadened its scope significantly to consumers and other business sectors. But the foundation is still very active in supporting agricultural businesses, albeit now in developing countries. Moreover, the foundation uses an impact investment approach to achieve its social mission, which is very much related to the bank's business methods.

By definition, the governing board of the corporate foundation is a central actor in the foundation's governance. There is no comprehensive research on which to make a determination but, based on our observations of US and Dutch corporate foundations, it appears most common that senior executives of the corporation (and especially the CEO) are likely to occupy an important (sometimes even the majority or all) seat(s) on the corporate foundation's governing board. In some countries, like the Netherlands, law does not allow founders to have a majority in the corporate foundation board (voting power) if these foundations have public benefit status (including tax exempt status). Despite being the minority in those cases, company representatives are strongly accounted for in decision-making processes in boards of corporate foundations. Some even choose not to have an official public benefit status, because the company wants to retain the control over the foundation. From a risk-management perspective, it is not surprising that many companies feel they must safeguard themselves against threats to their reputation. This could be an concern if the board were being governed truly independently.

Another important actor to consider in the governance process is the foundation's executive leadership. It may be comprised of one or more people and be solely employed for and engaged in the work of the foundation, or actually be employed by the corporation and their time assigned or "donated" to the foundation. It is obvious that there will be a significant blurring of identity and allegiance if the foundation's top executive is a direct employee of the corporation. Indeed, in many corporate foundations in the US and the Netherlands, employees are not at all under the control of the foundation or its board. Instead, the people doing the work in the foundation are in fact employees of the parent corporation, which establishes their terms of employment and standards for performance. At its most extreme, this kind of role combination or allocation structure will ensure that the governance and strategic direction of the foundation will be well synchronized with (if not entirely dominated by) the agenda of the corporation. Even if the corporation has some interest in separating its governance and strategic direction from that of the foundation, it is inevitable that there will be some tendency on the part of the foundation chief executive to link the foundation's interests with those of the corporation. And in many cases, this role alignment will be an explicit tactic intended to assure that the work of the foundation does not stray too far from the interests of the corporation. At the same time, corporate foundations' leadership is also influenced by its directors' social embeddedness. Several researchers report evidence that the degree to which the members of a corporate foundation board are embedded in networks and relationships with external actors (i.e., those who are outside the corporation and the foundation) will have significant influence on their philanthropic practices and preferences (e.g., Useem 1984; Galaskiewicz 1997).

The list of actors that could influence the governance process of a corporate foundation does not end with the corporation, its executive leadership, and boards. The community—including state authorities, specialized organizations like trade unions, nonprofits, and civil society—is an important stakeholder in regard to which corporations are supposed to perform responsibly (Pesqueux and Damak-Ayadi 2005). Fairly little has been written on the role of community as a stakeholder, and systematic ambiguity in the notion of "community" has recently begun to be explored (Freeman et al. 2001; Phillips et al. 2003). What we observe is a shift from