

FOUNDATION STRUCTURE IS VERY INEFFICIENT: ALAN CANTOR

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*With philanthropy becoming a hot topic of discussion in the turbulent times we currently live in due to the COVID-19 pandemic, one of the most influential voices in the non-profit world and prolific writer, US-based **Alan Cantor, Principal at Alan Cantor Consulting**, shares his views with R M Consulting on foundations, corporate giving, and cause marketing.*

Q. What is your view on the rising trend of large business groups contributing a significant portion of their earmarked social responsibility funds to foundations they control considering it may be argued that doing so ensures the money is spend more efficiently than if it was to be given to non-profits over which the donor corporate may not have a similar hold?

Ans. This is a big problem, not only for corporate giving, but for donations from high-net-worth individuals. When companies and individuals donate to foundations, it allows them to keep practical control – but it does nothing in the short-term to ameliorate the social and environmental problems the world is facing. One of the drivers, clearly, is that the donors retain practical control: they get credit for being charitable, without actually giving away the money. The other driver is the array of financial incentives for those involved with the foundations. The lawyer who draws up the foundation documents gets a fee. The accountant who files tax returns every year gets a fee. Most importantly, the investment managers get a fee. Often, the foundation trustees (sometimes, family members) get paid an honorarium. And, of course, for the larger foundations, there are staff who receive salaries. It's in the financial interest of all of these individuals serving the donor to keep the funds invested in the foundation, growing, while distributing the least to charity that they can by law. These are perverse incentives that keep the foundations from actually serving a charitable purpose. At the very least, the foundation structure is very inefficient.

Q. Given the current challenging economic environment, how high is the likelihood of companies turning social responsibility initiatives into 'marketing with a social spin'?

Ans. Corporations here in the United States have been using their charitable efforts to enhance their marketing for years, even in good economic times. One of the most pernicious forms of this is "cause-related marketing." In these cases, corporations put the logo of a charity on one of their products – laundry detergent, say – and promise to make a donation to that organization every time the public buys a box of that detergent. Usually, the company doesn't specify how much it's giving, so it may only be 1% or less of the purchase price. Cause-related marketing certainly helps sell a lot of detergent, as consumers feel a certain sense of social responsibility when they make their purchase. It's an incentive for them, a feel-good moment – but it's usually duplicitous on the part of the corporation.

More generally, corporations try to cleanse their image through their charitable giving. A company may be a major polluter, but then it makes a very public grant to an organization that works on remediating the very environmental damage that the corporation itself may have caused. Or the corporation gives to fight cancer, when its own products are causing cancer.

I can't speak for the rest of the world, but here in the States, more and more of the corporate money flowing to NGOs is coming from the marketing departments, not from any sort of charitable committee. This is amplifying the self-serving tendencies of corporate philanthropy.

Q. In these times of reset, what are the changes that you expect taking place in the corporate philanthropy segment apart from a possible drop in the number of donors?

Ans. It's hard for me to judge. I will say that in the U.S., corporate giving accounts for only 5 percent of all charitable contributions, so a drop in giving (which is probable) will not matter all that much. Most people are surprised that corporate giving is such a small part of philanthropy. Because of the power of corporate marketing, businesses generally get an outsize amount of recognition for their gifts. Most people think that corporate giving is much larger than it actually is, because companies are so good at publicizing their own good deeds.