



Fundraising Foundations: What Are They, & How Are Nonprofits Using Them?

A groundbreaking study sheds light on the nonprofit world's best-kept secret.

BY EUGENE H. FRAM

Nonprofits that have established—or want to establish—their own fundraising foundations have little information to help them. Although thousands of such nonprofit offsprings exist, virtually nothing is known about why they succeed or fail.

The author searched the literature and turned up just one article on the topic, written for a Canadian publication in the mid-1990s. In the article, the writer referred to connected nonprofit organizations with funding responsibilities as “parallel foundations.”¹ For example, a nonprofit hospital that sets up a foundation to solicit funds and conduct fundraising events is creating a parallel foundation. These foundations are distinct from subsidiary corporations operated by nonprofit organizations, often for profit-making purposes, such as Salvation Army retail stores.

To develop much-needed information on these foundations, the author conducted a field study in the Rochester and Buffalo, New York, metropolitan regions. A total of 47 parallel foundations were identified

in these two regions, and personnel in 26 of the organizations agreed to be interviewed.² The interviews were designed to answer four important questions:

Question I:
What are the characteristics of parallel foundations?

The study included foundations for a variety of nonprofit parent organizations—hospitals, universities, nursing homes, human service agencies, and one trade association. Nearly half (12 of 26) were established since 1990, indicating a recent and growing interest in this organizational format. The oldest was created in 1955.

The median (middle) foundation in the study had the following profile: \$1 million to \$5 million in assets and annual allocations of \$400,000 to \$500,000 to the parent nonprofit. On average, allocations to the parent nonprofit amounted to less than 2% of the parent’s operating budget. Five organizations made allocations amounting to more than 4% of the parent’s operating budget, with two of these five providing support of 15% and 25%. The remaining seven paral-

lel foundations allocated nearly all their funds to parent capital expenditures or special programs.

The majority (18 of 26) had five or fewer full-time personnel. The largest professional staffs (six and eight-person staffs were the biggest reported) were employed by higher-education institutions.

The data show a strong 10-year trend for establishing parallel foundations, with most providing only modest support for parent operating budgets. Many of these foundations (about one-quarter) earmarked all their allocations for capital expenditures and special programs.

Question II:
Why are parallel foundations developed?

The only article in the literature lists nine reasons why a nonprofit might establish a parallel foundation.³ In the field study, interviewees were asked to respond to each of the nine reasons. Their replies follow. The numbers in parentheses show how many agreed with the statements.

Reason 1: The parent nonprofit wants a different group to manage its private funds to keep them separate from government funds. (16)

Nonprofit World • Volume 20, Number 5 September/October 2002
Published by the Society for Nonprofit Organizations
5820 Canton Center Road, Suite 165, Canton, Michigan 48187
734-451-3582 • www.snpo.org



Nearly all the public institutions in the study were concerned that funds raised through the parent organization would be viewed as earned income, which would result in decreased funding from public sources. New York State law, for example, prohibits public colleges from combining government funds with monies generated through outside fundraising. In addition, one public university indicated it couldn't directly accept gifts greater than \$25,000, an unusual restraint that was perhaps placed by a local governing board. Thus, for these institutions, separate organizations were needed to deal with outside funds. Also, state regulations restrict the way funds can be invested, and having a separate foundation provides more latitude for investment risk.

Respondents from health-care organizations stressed that, for them, parallel foundations are virtually a requirement. Otherwise, any money raised by the parent organization from outside sources would result in a decrease in Medicaid reimbursements. An added benefit is that parallel foundations let donors target their gifts to specific causes.

Reason 2: The parallel foundation is an affirmation to donors that the nonprofit will have longevity. (12)

Of the dozen respondents who agreed with this statement, three said longevity was a minor reason for establishing their foundations. A fourth said that longevity was not initially a reason, but the concept later became a part of the foundation's philosophy and a benefit described to donors. A fifth respondent identified his parallel foundation as the "new kid on the block," and said staff members use its existence to assure donors the foundation and its parent are here for the long term. Others reported that parallel foundations have the following benefits:

- **They give a sense of security to donors** hesitant to give to a small organization.
- **They provide a way** to recruit larger donors.
- **They help the parent institution** gain recognition as a "sacred cow" in the community.
- **They develop respect for the parent** because it has established a separate entity to manage its funds.
- **They serve to symbolize** that the organization is legitimate.

Reason 3: Members of the parent board don't view fundraising as a priority. (12)

Almost half of respondents said they established parallel foundations because the parent board was unable to raise funds, based on two scenarios. In the first, "Given the stringent regulations of the health-care unit,

board members were busy bringing everything up to code." In the second, "According to their charter, board members aren't allowed to do fundraising."

Reason 4: The nonprofit wants to launch a capital campaign, and the foundation can recruit volunteers experienced in developing capital funds and assets. (11)

Almost half of respondents said special skills were needed for capital campaigns or special projects. They concluded that the foundation format was essential to recruiting professionals with the fundraising expertise required. In two cases, local chapters were asked by their national group to establish parallel foundations because such foundations can more easily promote community involvement. In another case, a nonprofit

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wanted to establish a planned-giving campaign and needed a foundation to attract a planned-giving professional.

Reason 5: Assets of the non-profit can be protected if a legal suit is brought against the parent organization. (11)

Isolating parent assets from legal suits is a major reason to create parallel foundations for nine of the 11

respondents. The other two indicated that legal suits weren't a great concern but that the foundation provides a welcome safety feature.

Reason 6: Board members don't have the time or expertise to raise and manage funds. (10)

In nine of the 10 situations, board time was a core motivation for forming parallel foundations. A typical

response was that board members of the parent were too busy running the organization to deal with fundraising.

Reason 7: The foundation board can manage financial resources better than the parent board. (9)

There was no equivocation from the nine respondents about this issue. One commented, "The only job of the foundation is to raise and manage funds. Such a focused job allows them to manage assets more efficiently than the parent."

Reason 8: The parent nonprofit is capable of raising operating funds but not capital or endowment funds. (8)

Nearly one-third said using a parallel foundation to focus on capital and endowment dollars was a major motivating factor. In all eight cases, the foundation was established after the parent board had some experience with raising operational funds.

Reason 9: Miscellaneous. (3)

One organization said it established a foundation so that it could hire fundraising specialists at higher salaries than it paid employees in the parent nonprofit. Another reason cited by respondents is flexibility in being able to conduct fundraising events.

Main Reasons to Start a Parallel Foundation

In summary, it appears from interviewees' responses that parallel foundations are developed when:

- **Privately donated funds and public funds** can't be commingled.
- **There is a community perception** that the parent nonprofit organization might not be stable over a long period.
- **Parent board members are unable or unwilling** to be involved with fundraising.



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The foundation provides a welcome safety feature.

- **The parent nonprofit needs to raise** capital or special program funds.
- **Assets may need to be protected** from legal suits.
- **Funds must be more effectively used** or managed.

Question III:
What challenges do parallel foundations face?

1. Recruiting board members is the most pervasive challenge facing parallel foundations. Sixteen of 26 interviewees listed it as their top challenge. Their main concern is to achieve a diverse board. Diversity means more than race, age, and gender, interviewees noted. Diversity also means having board members with the right mix of contacts, wealth, wisdom, and fundraising skills.

One parallel foundation pointed out that its parent's bylaws make recruiting foundation board members difficult. Any new member has to be approved by a majority of both boards. Also, any increase in the foundation board's size requires an increase in the size of the parent board.

2. The second major challenge is that foundation board decisions may not be congruent with those of the parent board. This problem was reported by half of the 26 respondents. Their comments, paraphrased below, show that conflict between a parent and its offspring develops in myriad ways:

- **The foundation board feels** the parent board doesn't spend funds wisely.
- **Because volunteers on both boards** try to avoid conflict, fast-

talking "bullies" control how money is spent, which may not be the best way to use the funds.

- **The boards disagree** on whether to emphasize short-term spending or long-term asset growth.
- **Some of the foundation's fundraising events** may be considered too "low brow" by the parent board.
- **The parent organization pays the foundation staff.** When the foundation needs more staff, the parent won't provide funds to hire additional personnel. Issues involving physical space allocations can also lead to conflict.
- **Foundation employees have trouble understanding** how their efforts benefit the parent organization because they aren't involved in governing the parent.
- **Seven of the 16 respondents** said they face challenges in translating decisions from the parent organization to the foundation. In larger organizations (such as health-care systems), foundation staff may have trouble deciding the level at which decisions should be made. One foundation head noted that she sometimes had to serve as a "filter to ensure the credibility of the donors." For example, the parent sometimes placed pharmaceutical donations in a doctor's account, which she considered an abuse of the donors' intent.

3. A third challenge, a dozen respondents said, is to keep up morale for both parallel board members and staff personnel. Several concerns were cited. One respondent observed that foundation board members seek "fame and glory," but she can't implement every project

individuals want. She called it a "struggle" to keep everyone happy.

Respondents also noted that for foundation board members to be effective fundraisers they must be integrated into the operations of a campaign. If that doesn't happen, and it can be difficult to make it happen, board members' motivation declines. In some cases their parent organizations decide how foundation money will be spent without seeking parallel board advice. Such scenarios lead to poor board morale.

At times, several interviewees commented, staff personnel can feel overworked and underappreciated. Foundation managers faced with this issue said they found job rotation could be helpful in improving sagging motivation.

4. A fourth challenge is foundation accounting procedures. It was mentioned by 10 of the 26 respondents. The biggest concern was keeping abreast of changing regulations, especially FASB (Financial Accounting Standards Board) rules that foundations must follow. One foundation head reported that the changing regulations contribute to day-to-day hassles she considers part of her job. However, another respondent hired a full-time officer to deal with all financial issues.

5. A fifth challenge is that communication between the two boards is not always good. Often, no one is responsible for improving communication, even though there is usually overlap in board personnel between the groups.

Question IV:
What are the future challenges?

According to respondents, there are three major challenges for parallel foundations in the future:



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Know Why People Give

Consider holding a focus group to discover why people give to your organization. Get some donors together, perhaps over a simple lunch. Ask, "Why do you give to our organization?" and capture the answers you get. You're sure to discover a few things you didn't know. See "How to Conduct Focus Groups," *Nonprofit World*, Vol. 17, No. 5 (734-451-3582, www.snpo.org).

Dear Donor

When sending direct-mail letters, seek out a famous well-known person to write the letter or supply a quote. Or think of people in your area who would enhance the credibility of the pieces you send out. For more ideas, see *Fundraising for Dummies*, IDG Books, Foster City, California, www.idgbooks.com.

1. The most important future challenge is raising money and finding new donors. Some said they may have exhausted their donor lists. One respondent commented, "There are always more projects needing money than can be funded."

2. The second future challenge is to develop public awareness of the parent and the foundation. One health-care foundation head noted, for example, that the public needs to realize that health insurance doesn't pay for everything.

3. The third future challenge is the faltering economy. Not only will a weak economy make it harder to raise money, but it will increase competition for existing dollars.

Meeting these three challenges requires both marketing and advocacy. One person observed that "baby boomers" (those born from 1946-1964) don't appreciate the need to donate to charitable causes. Consequently, there is a strong need

for more public relations, community education, and relationship building.

One Final Question: Is it time to create your own parallel foundation?

This study uncovered aspects of parallel foundations that should lead nonprofit boards to examine their organizations' operations. There are good reasons for funding foundations to exist, and many nonprofits could benefit from such an arrangement. The study suggests that interest in parallel foundations is growing for two reasons:

- **Nonprofits want a separate organization to act as custodian** for long-term endowment dollars.
- **Nonprofits find parallel foundations useful in raising money** for capital and other special programs.

If these concerns are paramount in your organization, it's time to consider a parallel foundation. It may be your best solution. ■

Footnotes

¹See Allan Arlett, "Parallel Foundations—Too Many, Too Trendy and Too Hasty," *The Canadian Fundraiser*, November 27, 1996.

²Rochester is well known for charitable giving with a 1999 per capita United Way record of \$45.41, second only to the national leader, Wilmington, Delaware. Buffalo's per capita donation figure is \$19.60. Most of those interviewed were executive directors of parallel foundations or board chairs. The other participants were executive directors of parent nonprofits who also sit on the boards of the corresponding fundraising foundations.

³Arlett, op cit.

Resources

Alford, Jimmie, *Resource Development Videotape*.

Knowlton, Lisa Wyatt, "What Makes Foundations Different?", *Nonprofit World*, Vol. 14, No. 3.

Muehrcke, Jill, *Fundraising and Resource Development, Leadership Series*.

These resources are available from the Society's Resource Center, www.snpo.org.

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