



Foundations in Germany

Summary and Policy Recommendations

CSI

Centrum für soziale Investitionen und Innovationen
Centre for Social Investment



Hertie School
of Governance



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Summary and Policy Recommendations

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The Project

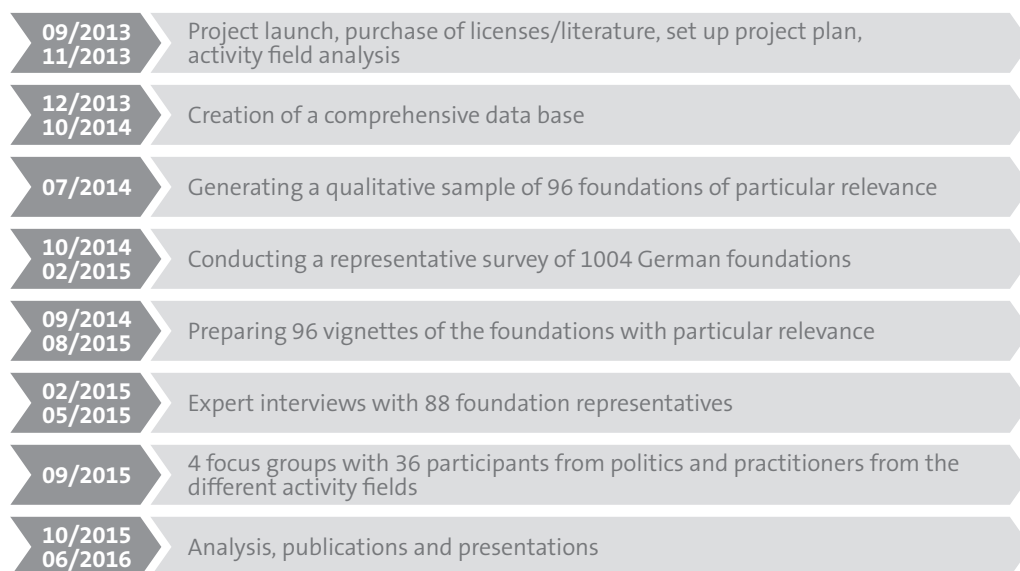
Despite considerable growth and increasing public awareness, the German foundation sector has not been studied systematically. To compensate for this glaring gap in our understanding of the role, positioning and contributions of foundations in Germany, a joint project of the Hertie School of Governance and the Centre for Social Investment of the University of Heidelberg, led by Helmut K. Anheier, investigated a number of central questions: What are the objectives of foundations, and what roles do they see for themselves? How do they position themselves with regard to the state, market and civil society? What are their comparative advantages and disadvantages, and how do they benefit society? Finally, what are the implications for foundations and policymakers?

Definition of the concept of ‘foundation’

Foundations or ‘*Stiftungen bürgerlichen Rechts*’ are regulated in §§ 80 of the German Civil Code. However, the Code neither addresses the internal governance of foundations nor clearly delineates foundations from other forms. Instead, the law states three necessary conditions for establishing a foundation: (i) specification of the purposes in the statutes; (ii) availability of assets to provide for a sustained fulfillment of set purposes, and (iii) the identity of a legal representative for foundation transactions. The public utility or tax-exempt status of foundations is regulated in §52 of the tax code (*Abgabenordnung*).

Importantly, this rather minimalist legal definition deviates from the common understanding of the concept of a foundation, which also includes limited liability companies for public purposes or trusts without legal personality. Therefore, a broader sociological definition defines foundations as formal organizations that are (i) asset-based (ii) private, (iii) self-governing, (iv) non-profit distributing, (v) serving a public purpose and (vi) have the self-understanding of being a foundation.

In answering these questions, the project collected and analyzed a wide range of quantitative (survey research, available statistics) and qualitative data (expert interviews, case studies, focus groups), and did so for foundations as a whole as well as in specific activity fields: education, higher education, social services and arts and culture. The project progressed through the following stages:



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Please note:

- The quantitative data reported here are from 2013/14; qualitative data are from 2015.
- The data presented in this report are still partially preliminary. Final results will be published in a series of publications as of summer 2016.

Brief Profile of German Foundations

The German foundation sector has developed considerably over the course of the last three decades. Looking at the figures at least, the founding rates of the last decades clearly suggest how much the German foundation sector is a product of the present and not of the past: as of 2014, seven out of ten (71%) of the nearly 19,000 foundations have been founded since 1990, the year of the reunification, and every second foundation (54%) since the turn of the millennium.

Key Facts:

- 55% of the foundations have social services as their main purpose, 37% education, 34% arts and culture and 19% higher education.
- Many foundations pursue several purposes, with the combination of education and social services as the most prominent.
- 52% of the foundations in Germany are grant-making, 24% are operating, and 25% are mixed.
- 71% of the foundations had annual budgets of less than 100,000 Euro, and 29% had more.
- 75% of the foundations operate at the local level, 16% regionally, 23% countrywide and 25% both in Germany and internationally.
- 31% of the foundations have paid employees, with 8% more than 10.
- 89% of the foundations have volunteers, with 17% more than 10.

What foundations do – and how

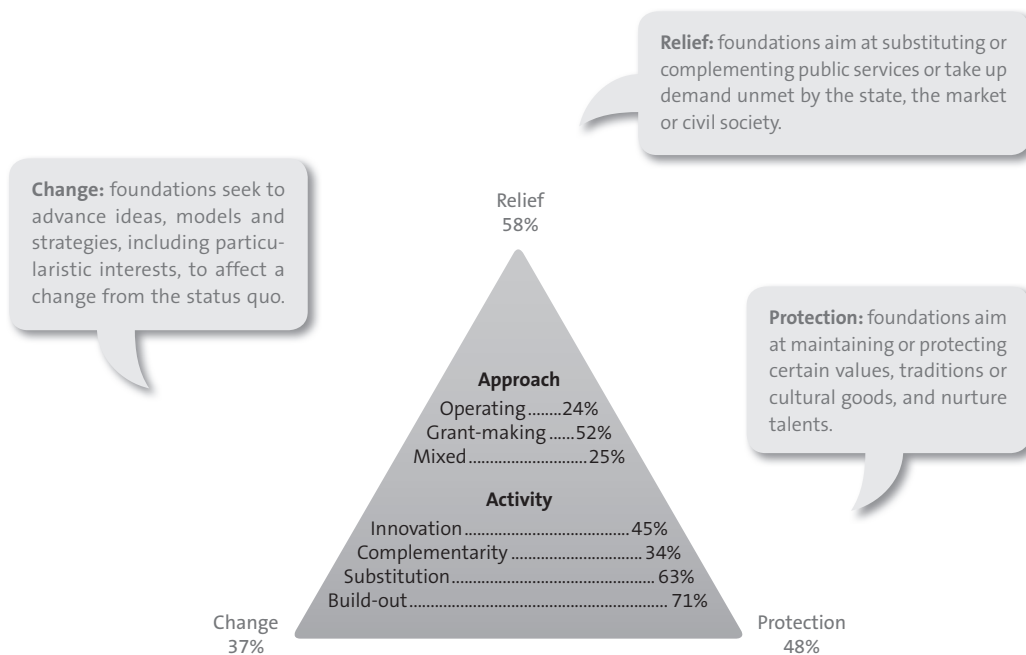


Figure 1: The foundation triangle

- 58% of the foundations aim at providing relief. It is the most frequent aim of foundations, followed by protection with 48% and change with 37%. In other words, two-thirds of German foundations pursue essentially conventional charitable goals.
- Building and maintaining capacities for or on behalf of different organizations is one the most important roles (71%).
- Nearly every second foundation (45%) sees its role as enabling and advancing innovation.
- About one-third (34%) perform a complementary (“to support state action”) and 63% substitutive (“to take on what the state can no longer do”) role relative to the state.

How do foundations position themselves?

- Every second foundation (50%) considers the state and public agencies as important for its activities. In other words, half of the German foundation sector works relatively independently of public agencies.
- By contrast, 26% of the foundations consider corporations and business associations as important in that regard – an indication of their relative independence from the market.

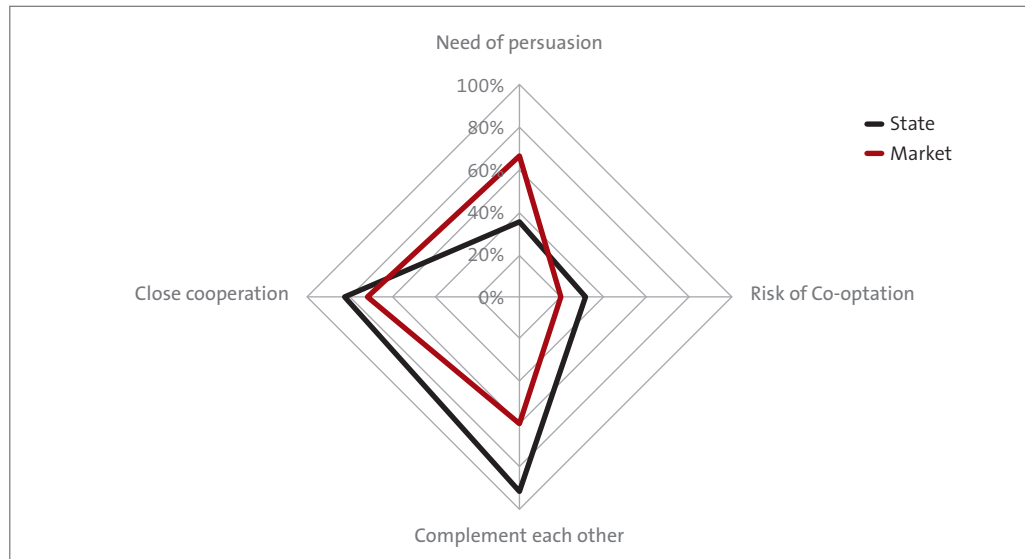


Figure 2: Quality of relationship with state and market actors

Foundations considering the state as important for their work assess the relationship as complementary (92%); they also consider the collaboration as close and cooperative (92%). Conversely, every third foundation (36%) feels the need to convince public agencies as to the benefit of working together, or sees itself at risk of being co-opted (30%).

Foundations considering business firms and associations as important for their work view the relationship as close and cooperative (73%), although nearly as many feel that potential partners require convincing (67%), and one fifth (20%) sees the risk of co-optation.

Types of Foundations

Foundations are far from homogeneous. There are different organizational and legal forms as well as purposes and ways of operating. What is more, foundations vary in the size of their endowments and annual budgets. Table 1 combines two essential distinctions: grant-making versus operating and mixed foundations; and two size categories for of annual budgets, yielding four foundation types.

In assessing the roles and positions of foundation types, it is important to relate them to both the total number of foundations and their total annual expenditures of about 13.1 billion euros. As Table 1 shows, the larger grant-making foundations, the professional philanthropists, make up 10 percent of the sector and 22% of total expenditures. However, when considering grant-making foundations only, with their total annual budget of €3.1 billion, they account for 90 percent of total grant-making expenditure. The larger operating and mixed foundations are essentially service-providers and account for 19% of the sector, but contribute the majority of all financial resources (75%). The smaller operating and mixed foundations are largely niche providers and present 29 percent of all foundations while accounting for only 1% of total expenditures. Finally, the combined budget of the small grant-makers, the engagement foundations, make up just 2% of the total, yet they represent 4 out of 10 foundations.

N=952 (100%)	Small foundations (Budget < 100,000,- EUR)	Large foundations (Budget ≥ 100,000,- EUR)
Operating and mixed foundations	Niche providers (29%) 1% of total expenditures	Services providers (19%) 75% of total expenditures
Grant-making foundations	Engagement foundations (42%) 2% of total expenditures	Professional philanthropists (10%) 22% of total expenditures
	676 (71%)	276 (29%)

Table 1: Foundation types by size and approach

Operating foundations can be divided into two groups (see Table 2). The first consists of relatively large social enterprises, such as the von Bodelschwingschen Stiftungen Bethel, which has revenues of over 1 billion euros (Annual Report 2014/2015: 9) and provides a wide range of welfare services that are financed largely by third-party payment as part of the public welfare system. They often have more than a million euros in annual budgets at their disposal (42%). A little bit more than half of these foundations were founded after 1991 (56%). On average, about the same amount of paid employees (67), as well as volunteers (71) work in the foundations. Service providers place almost equal importance on the three goals:-relief (54%), protection (53%) and change (50%). The activity pattern is mainly innovative (70%) and they are directed at build-out (62%). Half of them perceive themselves in a substitutive role (51%), and one third (41%) complementary to state action.

The second group, the niche providers, are mostly run by volunteers and concentrate more on the gaps in public welfare provision. One example of such a niche provider is the Alfred und Toni Dahlweid Stiftung in Potsdam. With annual budgets of 41,000 euros, the foundation runs a small recreation centre for the elderly in Potsdam, offering Yoga courses. Niche providers are predominantly young establishments, founded after 1991 (82%). On average, they have 0.5 paid employees and 13 volunteers. These foundations most frequently aim at protection (59%), closely followed by relief provision (56%). Less often do they pursue change (36%). They see themselves clearly in a substitutive role (69%), engage in capacity building (68%) and consider themselves innovative (47%). Less pronounced is complementarity (33%). In other words, niche providers respond to specialized demand.

The small grant-makers are labelled engagement foundations to signal the pronounced role of volunteer boards. Nearly entirely volunteer-run, such foundations engage mainly at the local level and support different causes with relatively small amounts of money. For instance the 'Ellen Schad-Stiftung' in Frankfurt am Main supports the local branch of the German Deaf Association. Engagement foundations are mainly young and founded after 1991 (77%). They work mostly without paid staff and have

five volunteers on average. They primarily provide relief (64%) and less frequently protection (44%) and change (31%). They see their role in capacity building (77%) and substitution (65%). Their activity pattern is less often complementary (33%) or geared towards innovation (32%).

The larger grant-making foundations also have volunteers, but operate with paid staff to provide direct or indirect financial support to grant recipients. The *Kulturstiftungen des Bundes und der Länder* come close to a modern understanding of professional philanthropy. Foundations of this type were founded mainly after 1991 (68%). These kinds of foundations have 5 paid employees and 13 volunteers on average. They mainly aim at relief (55%), and less so at change (38%) and protection (34%). Their activities are mostly geared towards capacity building (74%) and substitution (60%), followed by innovation (52%). Rarely do foundations of this kind perceive themselves as complementary to state provision (33%).

Aims	Whole sector	Niche providers	Engagement foundations	Service providers	Professional philanthropists
Relief	58%	56%	64%	54%	55%
Change	37%	36%	31%	50%	38%
Protection	48%	59%	44%	53%	34%
Roles					
Innovation	45%	47%	32%	70%	52%
Substitution	63%	69%	65%	51%	60%
Complementarity	34%	33%	33%	41%	33%
Capacity Building	71%	68%	77%	62%	74%

■ Significantly higher than total ■ Significantly lower than total

Table 2: Foundation type, aims, activities and approach

Initial Assessment

The unique characteristic of foundations compared with other organizational forms is their dual independence: on the one hand, they are relatively independent from market considerations and, on the other hand, they are relatively independent from political expectations. Foundations enjoy a high degree of independence from competitive constraints, including expectations that third parties in politics, public administration or civil society may have. This independence rests to a considerable degree on the fact that foundations have their own assets.

However, the dual independence of foundations is both their greatest strength and weakness. Foundations are particularly effective if they make use of the freedoms resulting from their independence. This is the case with regard to the following functions:

Social entrepreneur

Foundations can identify and respond to needs or problems that for whatever reason are beyond the reach or interest of market firms, government agencies, and existing non-profit organizations.

Example: Initially, the Freudenberg Foundation focussed on the integration of people with mental disorders into the professional life and sought to increase the number of so called integration enterprises. Now, the foundation supports the dissemination of effective income opportunities for people with more general mental disorders.

Institution builder

Foundations act as institution builders and identify coalitions of individuals and organizations capable of action; they can offer financial resources as well as knowledge and insights to help new entities become self-sustaining.

Example: At the National MINT Forum (Mathematics, Informatics, Natural Sciences, Technology), numerous big foundations meet partners from business, higher education and education administration to coordinate common measures to support education in the MINT areas.

Bridge builder

Foundations can form coalitions as independent brokers in order to find common solutions to social and other problems. They can overcome institutional borders and open up new possibilities.

Example: The Expert Council of German Foundations on Integration and Migration describes itself as an independent, interdisciplinary expert council that develops policy recommendations for integration and migration and makes information available to the public.

Risk absorber

Foundations invest where there is great uncertainty and returns are doubtful; foundations can be especially well placed to support new ventures in research, scholarship, writing and the arts, as well as in vital questions that have not yet entered the mainstream.

Example: A music festival receives funding from a foundation as a loan loss guarantee in case the income from ticket sales is not enough to cover costs.

It is possible to derive four essential weaknesses arising from the dual independence of foundations that can affect the effectiveness and efficiency of their activities.

Insufficiency

Foundations are ineffective when lacking the resources needed to meet their goals. This disadvantage becomes acute when the foundation fails to recognize its own limitations.

Example: A foundation seeks to fight the causes of hunger in developing countries, but – due to limited resources – is only able to provide funds for relief in a limited number of disaster areas.

Particularism

Foundations disproportionately favour one group of beneficiaries based on value preferences.

Example: A foundation offers extracurricular activities for students with a migration background from particular regions and now living in a specific catchment area. However, they do not include other students with learning disabilities from the same area.

Amateurism

Amateurism describes the decision-making by (often well-meaning) foundation boards that possess only a cursory understanding of the fields and issues they address.

Example: A foundation donates a building, e.g. an opera house, a monument, or a museum, without a proper evaluation of local needs and longer-term costs implications, thereby provoking local resistance.

Paternalism

Paternalism describes the substitution of a foundation's judgment for that of its beneficiaries – in particular the attitude that the foundation knows what is good for those it seeks to support.

Example: A foundation issues recommendations on integration and migrations without including or considering expert opinions.

Comparative Strengths and Weaknesses of Foundations

The extent to which the various strengths and weaknesses are present in a particular foundation depends on various factors such as the complexity of the field, the degree of politicization or the extent of structural underfunding. It is not possible to assign certain strengths and weaknesses to one specific foundation type alone. Rather, it is about different potentials and tendencies that come into play to a greater or lesser extent depending on the respective foundation's representatives.

Niche providers

Despite the smaller size of niche providers, they can have social entrepreneurial potential. They mostly see themselves in a substitutive role (69%). However, they are often dependent on other income sources and thus have limited capacity to invest in riskier ventures (52%).

The weakness of this foundation type is limited resources, which invites a tendency towards insufficiency and amateurism. Three out of every four niche providers (74%) complain about too few resources and state more frequently (13%) that their aims are very hard to reach. Having "the right strategy" is seldom given as an important criterion for success (29%).

Lastly, there is a tendency towards paternalism and particularism: More often, niche providers have to convince others actors like the state (45%) and businesses (76%), schools (45%), and higher education institutions (33%) or cultural organizations (25%) of their aims. Every third niche provider regards themselves as not being transparent enough – one indicator of paternalism.

Service providers

Service providers are institution builders (40%) and approach this process strategically (89%). On the one hand, seven out of ten foundations (70%) say that they want to find solutions to problems and foster innovation. On the other hand, more often than others, they perceive themselves as bureaucratic (11%) and as too dependent on others (32%). However, their diversified revenue structure can help: more often, they have their financial resources from earned income (51%), state contributions (40%) as well as from large donors (43%).

Service providers perceive themselves frequently as bridge builders: They want to arbitrate between different positions (43%) and play an intermediary role bringing actors together (61%).

The weaknesses of this type of foundation are paternalism and particularism: Every second foundation (51%) that considers the state important for their work also indicates that they have to convince the state of their work. They also very much agree that they need to convince higher education institutions (27%), schools (40%) as well as cultural organizations (28%). Every third foundation perceives itself as not transparent.

Engagement foundations

Engagement foundations also have potential as social entrepreneurs: they can disburse funding flexibly. Over two-thirds (70%) indicate that they give funding where particularly needed. Three out of four engagement foundations (77%) see themselves as institution builders, albeit on a small scale.

The potential weaknesses of engagement foundations are insufficiency and amateurism. Two thirds of them (69%) have insufficient resources and more than one in ten foundations (14%) view their goals as unreachable. Nine out of ten foundations (88%) have no paid staff members. Only 22% indicate the right strategy is a factor for success.

Professional philanthropists

The large majority has the potential to be risk absorbers, and indicate dependence on other actors least often (10%) – be it the state or business interests.

The particular strength of such foundations is in strategic institution building: Three out of four professional philanthropists fund already-existing organizations (74%) and four out of five have a strategy and follow it (82%). In this context, a certain tendency towards paternalism comes into effect since every third foundation perceives itself as not being transparent enough or sufficiently open to the public.

Activity Fields

Just as the roles and positions of a foundation mirror particular organizational characteristics, foundations are also shaped by the overall framework of activity fields. Specifically:

- The field of primary and secondary education (especially the school system) is characterized in Germany by the dominance of the state as financier, operator, and supervisor of schools. Since the mid-1990s, propelled by the PISA evaluations, changes are taking place, and the German school system is moving towards output-governance, with responsibilities shifting to municipalities and schools. This has opened up a potential for foundations to intervene, transitioning from being solely supporters to becoming partners on a local, regional, or even national level.
- In higher education, foundations are part of a complex and underfunded system with high political relevance. This field is strongly shaped by the federal level as well as principle of self-administration of universities, with most Länder being financially too weak to maintain an internationally competitive university infrastructure. However, major changes are under way in this field. With no sustainable financing concept in place so far, universities are turning to a variety of actors such as the German Research Association (DFG), the federal government, the European Union, industry, ministries and also foundations for funding. This constellation implies that foundations need to make sure to be not just one of several funders but a partner for reforms.
- A unique feature of the field of social services in Germany is the subsidiarity principle, which can be traced back to the charitable role of the churches: independent welfare organizations offer social services that are reimbursed by the state. But this private-public-partnership is starting to open up, and foundations now face increased competition from profit-oriented actors. Providing social services in highly regulated social care markets creates tensions between the tax benefits foundations receive on the one hand and their limited access to capital markets on the other.
- The cultural field is characterised by a great diversity of public and private actors operating and supporting cultural institutions. However, when compared internationally, the state still has an important role in the provision and financing of the cultural landscape in Germany. At the same time, the slow withdrawal of the state in this field seems likely, and important developments like digitalization and the creative economy are inviting new ways of producing and consuming the arts. In this highly dynamic environment of scarce resources, strategic financing models can enable foundations to have high visibility and impact as bridge-builders.

Goals	Total	Primary/Secondary Education	Higher Education	Social Services	Arts and Culture
Relief	58%	64%	45%	80%	44%
Change	37%	45%	39%	45%	30%
Protection	48%	53%	58%	40%	86%
Approaches					
Grant-Making	52%	48%	50%	57%	42%
Mixed	25%	30%	25%	22%	24%
Operating	24%	22%	25%	21%	34%
Roles					
Innovation	45%	53%	64%	46%	38%
Substitution	63%	67%	59%	68%	58%
Complementarity	34%	38%	31%	32%	36%
Capacity Building	71%	68%	67%	74%	75%

■ Significantly higher than total ■ Significantly lower than total

Table 3: Goals, roles and approaches of foundation actions in the four activity fields

- Higher education foundations prefer preservation. They have no significant preference for political or social change, but see their role more often in fostering innovation.
- The same is valid for cultural foundations, which pursue change even less often than the average for other kinds of foundations. It is unusual for those foundations to compensate for public funding, and they engage more often in capacity building.
- Social service foundations emphasize relief over protection, and often seek social change. They are more often grant-makers, stepping into public financing gaps, and taking up the role of capacity builder more often than the average foundation.
- Education foundations have the highest diversity, with an above-average preference for all three goals – protection, change, and relief. More often than other foundations, they are simultaneously both grant-making and operating, and identify with the role of innovator and complementary partner to the state more often than the average foundation.

Foundations strongly define their work through the other institutions, as Table 4 shows. For the field of education, the partnership with schools and other educational institutions is essential, in research it is universities and research institutions, and in arts and culture it is cultural institutions. Interestingly, partnering with a welfare organization is not constitutive for the field of social services, a field that generally shows the weakest ties to others. What is more, schools and educational institutions are more important than the state in all fields. Half of German foundations have no working relationship with public agencies, and for two-thirds, business firms are unimportant for their activities – a pattern that could be interpreted as a sign of foundations being a relatively independent segment of civil society.

Positioning	Total	Primary/Secondary Education	Higher Education	Social Services	Arts and Culture
State	50%	54%	52%	46%	56%
Economy	26%	36%	31%	23%	30%
Schools/Educational Institutions	59%	85%	65%	57%	69%
Universities/Research Institutions	38%	48%	83%	23%	41%
Welfare Organizations	38%	37%	26%	58%	32%
Cultural Institutions	43%	50%	53%	35%	84%

■ Significantly higher than total ■ Significantly lower than total

Table 4: Activity fields and foundation positioning ("Is this institution important for your work?")

Conclusion and Recommendations

Foundations fit well into the institutional arrangement of today's society in Germany and they certainly contribute to the pluralism of actors. This pattern has prevailed in the respective activity fields and can certainly lead to tensions since foundations – irrespective of the most cooperative relationship to the state – follow their own agendas that do not necessarily match those of the state or other actors. Foundations often appear as part of important, but nevertheless slowly progressing reforms:

- In the policy field of primary and secondary education, they have become an important actor for encouraging innovations and change. However, by themselves they are unable to achieve any impact in view of the fundamental reforms needed in the face of challenges such as the future of the teaching profession, growing leadership problems at schools, the lacking governance capacity of state authorities as well as the capacity of the primary and secondary education system to respond to demographic changes;
- In higher education, a highly complex and structurally underfunded system, foundations could do more than just fund the mainstream. They could show a higher risk affinity and initiate as well as accompany reform processes. They could also take on a protective role, be it safeguarding the achievements of the excellence initiative or investing in career opportunities for junior researchers.
- In the field of social services, particularly in the context of the New Subsidiarity, foundations are part of a more pluralist set of institutions as a result of a reformed welfare state, and find themselves in a gradual process of adjustment. The self-perception of niche providers as some kind of “fire brigade” could be better connected and integrated, particularly on local levels.
- In the field of arts and culture, foundations are an integral part of the cooperative cultural federalism, especially at the level of municipalities. Nonetheless, in the context of chronic budgetary pressures, foundations face the challenge of how to reconcile the structural tensions between complementary and substitutive roles, and between the preservation of the old, and the support of the new.

Foundations appear to be simultaneously a stabilizing and a modernizing factor, as part of the “system”, but due to their dual autonomy, somehow also an outsider. Foundations, as possibly the most independent institutions of modern society constituted through their own assets, become important not primarily because of their financial capacity, but rather due to their specific positioning. This allows them to fulfil certain roles and undertake certain tasks – and to work simultaneously or sequentially in ways that are cooperative or critical, protecting or reforming, interfering or supporting, defensive or offensive.

It is the high formal and content-related versatility that emerges from this dual independence: foundations offer degrees of freedom to a German society that is highly institutionalized and regulated and exactly therefore in need of a “free actor” that is concurrently inside and outside of a respective field and can assume different roles and positioning. The impact of individual foundations has less to do with their efficiency and effectiveness, although this is desirable and to be expected, and more to do with the institutional effect they create by offering alternative goals, ways and means to society.

The renaissance of the foundation in Germany is also an indicator of a society in which a “public good” or “being in the public interest” is less and less based on a broad public consensus. While, for example, higher education, research and culture were considered mostly public goods up until the 1990s, and were understood and treated as such by political parties and budgetary policy (which in the end led to institutionalized underfunding), this has now fundamentally changed, after an initially slow start. Where Germany had political consensus regarding the supply and demand of public goods, there are now increasingly diverse notions of the role of the state in the provision and financing of goods and services. Demand has become more heterogeneous and the state sees itself confronted with the difficult task of combining private and public interests in times of strained public budgets. Here, foundations can make positive contributions and do so indeed.

However, foundations also face many challenges and are dealing with the complex task of adjusting their roles and positioning in a changing society. Challenges and recommendations are best formulated for specific types and fields rather than for the entire foundation sector, even though there is a need for greater transparency and emphasis on sustainability:

- Niche providers need to find definable niches to realize their dual independence. These niches need to be served sustainably and they also need to be effectively connected to service providers as part of the broader system in the social welfare sector.
- Service providers are confronted with the challenge of using their dual independence in meaningful ways in the highly regulated quasi-markets for social services, in order to distinguish themselves more clearly from the host of suppliers that are largely subsidized by public funds.
- Engagement foundations need to become aware of their limitations in size. Yet as the most independent actor in civil society, they also need to get involved at the local level, and do so in a decidedly realistic manner with regards to their potential impact.
- On the basis of a sustainable and feasible strategy, professional philanthropists need to ensure greater transparency, stakeholder involvement and the sustainability of initiated projects, all tasks requiring a more strategic approach.

A weakness of the German policy debate about foundations continues to be the relative absence of more strategic and future-oriented perspectives. Reforms over the last decades have been rather limited in scope, being more concerned with technicalities than the “bigger picture”, and have been surprisingly void of aspiration given the potential offered by a fast-growing set of philanthropic institutions. Importantly, the differentiation of foundations into rather distinct types (grant-making vs. operating; larger vs. smaller foundations) has not informed debates, with the result that the current one-size-fits-all policy stance seems increasingly at odds with prevailing realities.

In our view, there are three distinct policy debates to be had regarding German foundations. They point to different challenges and their implications suggest different ways forward:

- The case of engagement foundations essentially concerns civil society and civic engagement; it is about the motivations, commitments and resources of current and potential founders seeking to contribute smaller fortunes to some or other public purpose. They are mostly upper-middle class, “small-time” philanthropists by background, and see value in contributing to the well-being of local communities, special groups and causes. It is only secondarily a debate about the efficiency and effectiveness of independent assets and primarily a debate about a specific form of civic action.
- The debate about professional philanthropists is different: here it centres around realizing the potential of dual independence in the context of typically larger entities with more resources and greater capacity, be they public agencies, other non-profit organizations or even businesses. Strategic management, effectiveness and efficiency matter, as do performance. In other words, the objectives of a policy debate over larger grant-makers are about the ability of independent organizations with limited resources to achieve the most they can in terms of providing relief, offering protection and facilitating change.
- The case of operating foundations, both large and small, is different again. In essence, they use their assets to provide a service to others and in ways that nearly always require user fees and public funds. They face growing competition as market-like principles are taking hold, especially in the field of social services but also in health care and continuing education. Here, too, the policy debate is about efficiency, effectiveness and performance. However, it has less to do with an emphasis on finding strategic entry points or leverage, and more to do with the ability to maintain, and even defend, the effective dual independence of foundations while also facing competitive pressures. In other words, operating foundations have to prove that their foundation status matters.

Recommendations

Smaller Foundations

...For founders – consider alternatives to starting foundations. Not every asset or large financial commitment needs to result in a foundation!

Limited term foundation

Since 2013 the establishment of a limited term foundation is now legally regulated through § 80 (2) of the German (BGB), although this type of foundation is not treated equally to other foundations in the tax law. In contrast to conventional foundations, the endowment is not used to ensure its continued existence. These foundations do not finance themselves through investment dividends but instead through capital stock, which is invested for ten years at least. It is also possible to combine preservative and consumptive assets within one foundation to achieve greater flexibility and eventually sustainability, especially through further endowment contributions.

Trustee model

Generally speaking, the trusteeship model places the fiscal responsibility on the shoulders of other institutions (schools, universities and hospitals), municipalities, or financial intermediaries (savings banks, Stifterverband, German Stiftungstreuhand AG). The strength of this type of foundation lies in its significantly lower administration costs.

Resource pooling

The idea behind resource pooling is to obtain enough capital for a foundation and then decide collectively on its use. The best-known model is the community foundation, which combines a variety of single stocks and which is supplied by endowment contributions and donations. The individual founders can bring together other dependent foundations under one roof and thereby create clearly defined aims. Finally, informal giving circles are another way of pooling where several donors bring in financial assets and collectively decide on how to use them.

...For foundation boards – foundations offer a range of possibilities to act entrepreneurially and creatively. Solely administrating assets in order to maintain endowments seems untenable.

Restructuring of assets

In order to increase returns, foundations can, given acceptable risk tolerance, restructure assets to more high-yielding investments like stocks and real estate.

Mission investing

The foundation's capital is invested in order for the foundation to achieve its goals through asset investment (e.g. green energy for environmental foundations and textile businesses with high social standards).

Cooperation

Collaboration with partner organizations can facilitate higher social impact with the same amount of funds. ... or operative collaboration to bring about added value. For example one foundation focuses on the organization of an event and another one works on the respective content.

...With regards to policy – especially at municipal levels – more provocative and innovative proposals are needed.

Initial capital

State authorities can decide whether the “sustainable fulfilment of the foundation’s goal” (§80 (2) BGB) is guaranteed or not given the size of the endowment. The Lower Saxon foundation supervisory authority, for example, increased the minimal budget for a foundation’s establishment to 50,000 € (previously it was 25,000 €) due to the financial crisis and its aftermath. From an administrative and economic point of view, it does indeed seem advisable to establish autonomous foundations if they have a minimum asset level, and offer alternative forms for smaller fortunes that can be more efficient and collectively more effective. Minimum amounts to explore by policy analysis could be 100,000, 250,000, 500,000 and 1,000,000 € respectively.

More flexibility to enable restructuring

A current *Bund-Länder* task force on reforming foundation law explores various options, including:

- Ease of making amendments to foundation statutes during a donor’s life time
- Facilitating foundation mergers
- Options for establishing time-limited foundations
- Changes to financial supervision by tax and other state authorities to lighten administrative burden

With the German 2013 reform, the required timeframe for the allocation of resources was extended from two to three years. Additionally, handling of reserve funds has greater flexibility: foundations can supply returns on investments in the first four years after their establishment. In the current low-interest phase, regulatory authorities seem more open to a higher share of stocks in asset portfolios regarding asset investments. Hence mission investing could be enhanced as well. Generally, the principle of asset preservation should no longer be perceived as paramount.

Creating local or regional intermediaries

Municipalities and counties can create intermediary structures for foundations, for example, by establishing the position of a foundation representative; other examples are the education fund of the city Lübeck or the administration of foundations in Hannover. In such cases, the municipalities coordinate the potential activities of smaller foundations.

Larger Foundations

... For founders– weigh the advantages and disadvantages of the foundation in the context of its respective field of action; encourage more transparency.

Founders should think about their target group to amplify philanthropic strengths and as a corrective for weaknesses in foundation governance and management. Multi-stakeholder governance entices foundations to come out of their “comfort zone” and enables them to avoid supporting particularistic interests with disproportionate funds.

...For foundation boards and management – they should pro-actively develop a culture that separates itself from overly complex oversight and performance criteria on the one hand and informal, amateurish leadership or management on the other.

Strategic Philanthropy

Personal social relations often motivate philanthropy, as do preferences for certain causes, regions or recipients. Yet in strategic philanthropy, foundations should set concrete goals in advance and plausibly explain how they want to achieve these goals with concrete means. This can lead to the introduction of concepts such as the ‘theory of change’ approach and differing outcome models. These should become a fixed aspect of foundations’ boards and management.

Only one third of foundation representatives were familiar with the term strategic philanthropy, with only 60% of those trying to implement it. In other words, only one in every five German foundations utilises the instruments of strategic philanthropy. The size of a foundation is important here: 44% of foundations with annual budgets of 100,000 euros or more have heard of the term, compared to only 27% of the smaller foundations. Among the larger foundations familiar with the concept, 72% are trying to implement it, whereas only 55% of the smaller foundations do the same.

Evaluation

Measuring outcomes cannot solve social problems. It is however an important element in the learning process for foundations and the organizations they work with. Foundations have to evaluate their work more thoroughly and independently and be more open for critique. This can be achieved through internal measures and accompanied by external assessment. It is important that outcome measurements for the foundation sector become part of the project cycle and be tailored towards learning and improvement. Only as a secondary step should they serve as an indicator of individual performance. However, as with the concept of strategic philanthropy, only a minority of foundations are conducting systematic outcome assessments.

Innovation Management

While many foundations can justify their creative ambition with an innovation paradigm, not all of them can live up to their promise. For instance foundations in higher education are in fact rarely as willing to take risks as their publications and marketing materials promise. It seems that too often foundations use other foundations or grant-making institutions as a point of reference and employ the same experts for the selection of especially “innovative” projects. Nevertheless, unconventional and risky grant giving could introduce a comparative advantage for foundations. Large foundations therefore need to make use of professional innovation management to create the conditions that will live up to their aspirations.

Focusing

Data prove that decisions to provide grants for certain topics or projects often arise ad hoc from suggestions by the foundations’ governing bodies. This can lead to overblown and incoherent project portfolios and can run counter to strategic understanding. Foundations should try to develop coherent project concepts with a clear focus. Follow-up projects should be based on this agenda and leave open the option of a buffer in order to be able to react to special situations.

...With regards to policy – Policymakers should more pro-actively put forward innovative suggestions. The reforms to the foundation sector from the last legislative term were improvements to the status quo, but they were not forward-looking reforms.

Modernization of asset management

The large German foundations generally exhibit a professional asset management. They are often-times unaffected by low interest rates as the majority of their income stems from large donations of individuals or companies, or they have self-generated profits at their disposal. Frequently, professional asset management teams act rather conservatively. Through a greater commitment to mission investing or at least the adjustment of asset investments to comply with ethical standards (e.g. no

corporate loans from arms groups), one could achieve far greater impacts compared to solely relying on the annual budget.

Transparency

About one third of the foundations interviewed acknowledge a lack of transparency. They seem to be aware that accountability to the tax authority, which is anyway protected by tax secrecy, is insufficient grounds for transparency according a civic understanding of social engagement and philanthropy. Many of the larger foundations in particular have started revealing more information voluntarily. This voluntary commitment to greater transparency and accountability is appreciated. As long as foundations can decide freely which data and information they publish, the chances for a more transparent foundation sector remain limited. Either a quick and far-reaching change in the culture of the foundations' governing bodies is necessary in order to counteract the lack of transparency, or some form of a legal minimum requirement might well be considered.

Nationwide foundation registry and modern information centre

The various foundation registries should be merged into one nationwide, standardized registry in order to provide access to data for researchers and the public. One precondition for this is a consistent structure of regional foundation registries. Ideally, a central institution could make this data available. The data is currently reported to the tax authority or foundation supervisory authority. It is not clear why the transparency provisions for private companies (company register) are stricter than for charitable foundations. Clearly, foundations can and should do more to inform the wider public, and in ways that go beyond glossy brochures and a celebration of their good work.

Regional differentiation

The described regional differentiation of the foundation landscape is currently not reflected in the policies of key stakeholders. The Association of German Foundations could concentrate on the larger grant-making foundations that operate beyond local areas. It may be appropriate to establish regional foundation associations for smaller foundations that cooperate at the federal level under the umbrella of the Association of German Foundations. Good examples of this include the local and national foundation network within the "Lernen vor Ort" framework, a foundation network in Westfalen-Lippe, and the office of the local foundations in Münster as well as the foundation initiative Hannover.

Functional differentiation

Finally, given the growth and diversity of the German foundation sector, it may well be time to consider separating the role of the Federal Association as an advocacy body from its research and informational functions – similar to the division of labour between the Council of Foundations and the Foundation Center in the US.

Publications forthcoming:

- Anheier, H. K.; Förster, S.; Mangold, J.; Striebing, C.: *Stiftungen in Deutschland. Eine Verortung*. forthcoming end of 2016, Springer VS, Wiesbaden.
- Anheier, H. K.; Förster, S.; Mangold, J.; Striebing, C. (eds.): *Stiftungen in Deutschland. Wirkungsfelder*. forthcoming end of 2016, Springer VS, Wiesbaden.
- Anheier, H. K.; Förster, S.; Mangold, J.; Striebing, C. (eds.): *Stiftungen in Deutschland. Portäts und Themen*. Expected by the middle of 2017, Springer VS, Wiesbaden.
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Ansprechpartner:

Regine Kreitz

Head of Communications

Hertie School of Governance GmbH

Friedrichstraße 180 | 10117 Berlin

Germany

Tel.: +49 (0)30 - 25 92 19-113

Mobil: +49 (0)151 - 16 14 79 08

Fax: +49 (0)30 - 25 92 19-444

kreitz@hertie-school.org

www.hertie-school.org

Principal investigator:

Helmut K. Anheier

Contributors:

Clemens Striebing, Sarah Förster, Janina Mangold

Coordination:

Franziska Pfeifer

Broschur design:

Christian Mathis | stickfish productions

Cover design:

Emilia Birlo

Editors:

Hertie School of Governance GmbH

Quartier 110 | Friedrichstraße 180

10117 Berlin | Germany

www.hertie-school.org

Centre for Social Investment (CSI)

Ruprecht-Karls-Universität Heidelberg

Bergheimer Straße 58 | 69115 Heidelberg

www.csi.uni-heidelberg.de

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