

## FINANCE & OPERATIONS

# Affiliated foundations can be key assets for trade groups

*One revitalized foundation tripled its revenues while meeting critical industry need; good legal advice is essential*

By William Ehart

When Scott Melville became CEO of the Consumer Healthcare Products Association (CHPA) in 2010, he inherited a relatively inactive foundation. He questioned whether its mission was consistent with that of the association.



Melville

The CHPA Educational Foundation, as it was then known, reported \$670,000 in revenue in 2010, compared to \$23 million for CHPA itself.

“It seems like there are a lot of trade associations, and we had one as well, where you have somewhat dormant foundations, or foundations where it’s unclear why you have one or how aligned they are,” he told CEO Update.

“I asked the question, What are we trying to accomplish with our foundation?” Melville said. “And is the foundation the best way to accomplish that?”

CHPA hired a consultant, who helped the association identify the foundation’s focus.

What is now called the Health in Hand Foundation reported more than \$2 million in revenue in its 2024 tax disclosure, the latest available. And it plays a key role in advancing a health products industry imperative: Educating consumers about the safe use of over-the-counter medicines, supplements and devices.

“We confirmed that promoting the safe use of our products was an important, continuing mission for the industry to pursue,” Melville said.

“But we could have done that kind of education through the trade association. We asked why we were going through the rigmarole of having a separate legal entity with a different structure. We concluded that having a distinct legal entity whose mission

is philanthropic, under the tax law, gives us credibility. It makes organizations feel more comfortable about partnering with us than they otherwise would.”

Individuals, companies, medical societies, other foundations, and government agencies like the Food and Drug Administration (FDA) and the Centers for Disease Control and Prevention (CDC) would be leery of working with an industry group whose main purpose is lobbying, he said.

“We confirmed that, we did interviews,” Melville said. “So, working through the foundation gives us more of a ‘white hat,’ and it opens up sources of income.”

Industry groups like CHPA are organized under Section 501(c)(6) of the Internal Revenue Code. Foundations are organized under Section 501(c)(3).

### New personnel for a new structure

Melville restructured the foundation a few years after he arrived, changing its bylaws to make it more accountable to the association,

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creating a new board of directors distinct from CHPA's, and putting a full-time executive director in charge.

"Originally the CHPA executive committee was the board of the foundation, and they were too busy doing other things," he said. The foundation's new board is composed of marketing and public affairs executives at member companies.

The executive director of the Health in Hand Foundation is now Mary Leonard. She said the foundation's work has successfully advanced safe use of health-related products.



Leonard

"Up and Away and Out of Sight" is a partnership it has with organizations including the FDA, the CDC, the American Academy of Pediatrics, the American Academy of Family Physicians, the American Pharmacists Association and America's Poison Centers.

"Through Up and Away, in collaboration with the CDC, we have seen a 51% decline in emergency room visits by young children due to accidental ingestion," Leonard said.

Melville said the Health in Hand Foundation is a key asset for CHPA, but trade association executives thinking about starting or continuing foundations should be deliberate.

"Make sure you understand what you're trying to accomplish with the foundation and whether the foundation is the best way to accomplish it," he advised.

"If you don't have a foundation, think long and hard about it, because it is not an insignificant endeavor to create a new organization. There are compliance issues, there are legal risk issues, there are misalignment issues. So, tread carefully, but when done right, a foundation can be an incredibly effective asset and something that can complement the trade association," Melville said.

CHPA's experience is an example of how a charitable purpose can also serve industry

interests. Misuse of members' products can be deadly — and lead to news headlines that may confuse consumers. AstraZeneca, CVS Health and Procter & Gamble are a few of the association's members.

### Outreach to schools

When the Plastics Industry Association, a 501(c)(6) trade group that goes by PLASTICS, acquired the Society of Plastics Engineers (SPE), which is a 501(c)(3) association, both had foundations.

PLASTICS's foundation, called the Future of Plastics Foundation, was dormant, said CEO Matt Seaholm, reporting just \$2,500 in revenue in 2024. SPE, meanwhile, has the SPE Foundation. As a 501(c)(3) itself, SPE ran the SPE Foundation as a division, not as a separate entity.

Seaholm and his staff and board are discussing what the combined association's foundation will look like, what it will do, and what it will be called. Workforce development is a key industry need, Seaholm said, so the foundation will continue the SPE Foundation's educational outreach, like offering scholarships and encouraging elementary and high school students to take STEM courses.

That's because schools are more likely to want to work with a foundation than a trade association whose main function is lobbying, Seaholm said. Training for people already in the workforce, on the other hand, will likely stay with the association.

"There's an across-the-board commitment to the foundation being an important part of advancing our mission and a big part of our future," Seaholm told CEO Update. "Part of that is based on what SPE already has. So, as we put it together, a lot of it is just structuring the actual bylaws of it, the governance of it, and then establishing its true mission."

The PLASTICS board will vote on the proposal this month.

### Foundations serve the public

Nonprofit attorney Jeff Tenenbaum of Tenenbaum Law Group said that while there can be legal pitfalls to a 501(c)(6) trade group

running a related 501(c)(3) foundation, there are many benefits.

"If I was a CEO of a (c)(6) association, there's absolutely no question that I would set up a (c)(3) related foundation if we didn't already have one," he said. That's because a 501(c)(3) can receive charitable contributions, bequests and grants.

"An association would be foolhardy to not form a (c)(3) foundation to take advantage of at least some of those benefits. And it's not that burdensome to set up and operate," Tenenbaum said. He has a primer on the topic on his firm's website titled "Related Foundations: Is Your Association Avoiding the Legal Pitfalls and Maximizing Its Opportunities?"

Research produced by a foundation must be publicly available, Tenenbaum said. The same goes for any educational opportunities the foundation may offer. "A (c)(3), by definition, has to have primarily a public benefit and a public purpose to it," he said.

### Research is a good objective

Some reasons for a trade group to establish a foundation are better than others, said consultant Jay Younger of McKinley Advisors, which was acquired in March by association management company Smithbucklin.

"The best examples of affiliated foundations are those that do a few things," he told CEO Update. "First is they have a bona fide case for philanthropic support, a mission that stands on its own. Second, they address a critical industry issue or need. And the third piece is deliverables — does the foundation produce something of value?" The foundations doing this well tend to be focused on industry research, he said.

"Without those three necessary ingredients, if you're trying to just move money around (such as putting association assets into a foundation), it can create administrative complexity and you are probably better off keeping things within the (c)(6)," Younger said.

McKinley Advisors is working with several groups considering creating foundations, he said. "In the quest for revenue streams that are durable, meaningful and mission-aligned, it can be a really good move." ■