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A THINK AND DO TANK FOR CORPORATE SOCIAL RESPONSIBILITY

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CORPORATE SOCIAL RESPONSIBILITY:

*Workable Models for Corporate Philanthropy and
Corporate Foundations -- International Examples*

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A Satell Institute CSR Research Report for Business Leaders

INTRODUCTION

The underpinnings of Corporate Social Responsibility (CSR) in businesses are manifold and range from instrumental motives (such as increasing profit) to non-instrumental motives (such as enhancing societal well-being) based on what the corporation perceives as its responsibility to society. Furthermore, businesses may carry out their CSR practices either by themselves or with the help of partners (Austin & Seitanidi, 2012). The framing of corporations' CSR goals is significant in determining the nature and implementation of their CSR. This research investigates CSR in the Dutch context, undertaken by corporations via the creation of foundations and the ensuing practices.

The scholarship on CSR is rich and has grown considerably. It comprises many theoretical advances and methodologies. Overall, this literature delineates practices of CSR that are internal to the corporation (for example, those which enhance the well-being of its employees) and those that are external (for example, those which enhance the well-being of society). As more scholars focus on CSR, definitional debates on CSR abound, and the very name has undergone change, ranging from Corporate Responsibility to Corporate Citizenship (Carroll, 2016). For brevity and ease, I will refer to all these practices as CSR in this paper; it is a catch-all term describing ancillary practices that are distinct from the core profit-maximizing business of the corporation. For example, it includes (but is not limited to) improving workplace safety and working conditions for employees, environmental sustainability, greening of the buildings, disaster relief, philanthropic outreach to local and global communities both in time of employees as well as money and/or products, and making companies carbon-neutral.

Due to globalization and natural trends of isomorphism, companies are reinventing what is proffered as CSR to suit the context. This is particularly true for multinational corporations and other companies that are in one geography but whose owners (and or shareholders) represent another geography. In addition, more business schools teach courses related to CSR than ever before. Recent research verifies the increasing number of courses in business schools related to CSR activities with a concomitant profusion in academic literature and popular books on CSR (Jamali & Abdallah, 2015). Indeed, a recent search on Google Scholar for academic scholarship on CSR resulted in about 2,670,000 results! Hence, as companies hire graduates of these business schools, new dimensions of CSR are being imagined and implemented. Furthermore, with increasing trends to online and international education, students from different countries exchange ideas on current CSR practices, thus cross-pollinating CSR across curriculums and in practice.



The last six decades have seen a meteoric rise in companies practicing CSR, and the demand comes in large part from governments that demand their larger corporations to either put a percentage of their profits towards CSR (India), specify what counts as CSR (India), or ask certain companies report publicly on their CSR behaviors (e.g. Canada, U.K.) (Albareda et al., 2008).

In addition to these external pressures, corporations face a strong demand for CSR internally from their stakeholders, namely employees and shareholders. Companies now openly use CSR as a recruiting instrument to attract and retain talent. Several studies show that potential employees want to work at a company with a good reputation and are willing to take a wage cut to do so (Frank & Smith, 2016). Investors are also interested in companies that are listed as socially responsible, indicating the value to the bottom line of undertaking CSR activities. A report by Ernst and Young (2013) noted that CSR is now a specialized function in many corporations with strategic decisions being made on resource allocations for CSR as necessary for increasing shareholder and societal value, in terms of branding and public goodwill.

These efforts of CSR by corporations, given the demand from its external and internal stakeholders (shareholders, investors, employees, government and society at large), are construed of these two broad categories with no clear distinction on the stakeholder. For example, employees and shareholders alike may demand both external and internal CSR practices. External CSR, the focus of this paper, is often referred to as corporate philanthropy. The emphasis on corporate philanthropy is of particular importance, as it can create a form of moral capital among its stakeholders and communities. This, in turn, provides stakeholders with a reputational protection which contributes to cooperate and shareholder wealth (Godfrey, 2005).

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CORPORATE PHILANTHROPY

External CSR includes many forms of corporate philanthropy. These range from simply writing checks out to good causes to engaging employees in social initiatives in the community. Traditionally, many corporations used to meet their social obligations by writing checks worth about 1% or 2% of pre-tax profits to causes that the CEO deemed worthy. However, this type of philanthropy has gone out of favor and is criticized as a way of transferring the firm's money to support the CEO's favorite charitable causes.

Check writing is also considered to be an arm's-length philanthropy, and today companies prefer to be more directly engaged in its philanthropic initiatives, thereby ensuring the reputational advantage on the ground. Its employees, for example, want to be actively involved in their philanthropic outreach, both in the choice and delivery; they often wear corporate logos on their clothing as they go about doing their good deeds, broadcasting their corporate connection and support.

Corporate philanthropy can also be more strategic in that philanthropic efforts can promote an activity or a cause that has some connection to the firm's business or mission. Indeed, as Milton Friedman pointed out in his famous article, "The Social Responsibility of Business is to Increase its Profits" (Friedman, 1970) and in his book *Capitalism and Freedom* (1962), the only social issues of concern to the corporation should be those that positively impact the corporation's bottom line.

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Nevertheless, to simultaneously promote social well-being and meet the corporations' self-interest by philanthropic undertakings can be challenging. For, if philanthropy is to serve two masters, there is potential for a conflict of interest, thereby diminishing either profits or the goodwill anticipated. Benevolence is almost always demeaned when philanthropy is perceived as serving the corporation's goals of branding or increasing shareholder value.

One way that corporations choose to avoid this conflict is to outsource their philanthropic efforts. This can happen, for example, by partnering with nonprofits whose business is promoting the social good.



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However, partnering with existing nonprofits is not always easy and it has high transaction costs. It requires hard work and good planning to find the right partner and then continuous negotiating on how the nonprofit uses the corporation’s resources in a way that would not diminish the company’s reputation (Austin & Seitanidi, 2012), and vice versa. Furthermore, partnering with only one nonprofit may not be enough to fulfill the different philanthropic initiatives that the corporation wishes to undertake, but having multiple partners increases both the burden on the corporation and its spending on transaction costs.

Even if nonprofits are identified, forming the partnerships can be fraught with tensions if all partners do not perceive their arrangements as a win-win situation. While corporations may bring resources to the table, they want to ensure they are viewed, at best, as contributing to society and at the least, as not having their reputations tarnished along the way. Nonprofits, on the other hand, may welcome the financial support and other resources that businesses may offer them without deviating from their stated mission and goals; they see themselves bringing local knowledge to the table and as such as full actors in the partnership. Nor do they want to have their reputations stained if the corporation was found to be guilty of unsavory business practices. If it is the one-who-pays-the-piper calls the tune, both partners often want to take on the role of calling the tune. If this role is not handled with care, honesty, accountability, and transparency, the partnership often results in failure. When business-nonprofit partnerships become tense and fail to deliver on their promises, then both parties suffer financial and reputational loss (Austin & Seitanidi, 2012).

To avoid some of the potential risks and maintain some control of the outcome, albeit at arms-length, corporations frequently start their own philanthropic Corporate Foundation (CF) – a nonprofit through which the corporation channels its philanthropy. The parent corporation funds its CF either on an annual basis or with an endowment, and holds one or more seats on the board of the CF. This ensures that the parent corporation maintains representation, input, and knowledge on what transpires. Such a CF model is frequently used in Europe, particularly in the Netherlands.



CORPORATE FOUNDATIONS (CFS)

A corporate foundation is a private foundation deriving its funds primarily from the contributions of the parent founding corporation. It is a separate, legal organization, sometimes with its own endowment, and it is subject to the same rules and regulations as other private foundations. The goal of CFs is to fulfill the parent corporations' goals of "...social value creation and serve as an 'antenna' or 'sensor' for societal needs and expectations" (Westhues & Einwiller, 2006, p. 144).

According to Billis(2010) CFs are good examples of organizations that are at the intersection of sector boundaries: for-profit and nonprofit. Situating themselves at this intersection gives rise to a hybrid organization that on one hand, receives its funding almost entirely from profit-making corporations, but on the other hand, is legally a nonprofit, which must follow the rules and regulations governing nonprofits. For example, like typical nonprofit organizations, CFs have to be organized for the public good and be subject to a non-distribution constraint on its surplus. As such, CFs are complex because as a legacy from their parent corporation, they are faced with a market logic while at the same time legally obligated to pursue and promote the public good. They are what Rathgeb-Smith (2010) describes as having "mixed sectoral, legal, structural, and/or mission-related elements" (p. 220).

"CFs are legally and practically independent organizations."

The formal and legal structural links between the CF and the parent corporation are established through the board of the CF. These boards often include the parent corporations' current CEO or past CEOs (often seen as the first step to retirement) as well as former or current members of the corporate board. The CF's board members are often intimately related to the corporation and thus are effective channels of communication between the CF and the parent corporation. CF board members are responsible for policy decisions, which heavily influence the design and practices of the CFs, and these in turn are open to be manipulated by the parent corporation both directly and indirectly through funding decisions (Westhues & Einwiller, 2006).

CFs are legally and practically independent organizations. They hire their own professional staff who are trained in both grant-making and operating philanthropic or social impact initiatives (Anheier, 2003). However, the parent corporation, often being the single donor, can make strategic donations that can monitor and control the benefits and risks of the CF's activities. In doing so, the parent corporation safeguards its reputational interests (Pedrini & Minciullo, 2011).



A parent corporation operating in the market logic often advocates for increasing its CF's effectiveness and impact (Herman & Renz, 2008). Hence, managers of CFs have a “dual” objective of meeting its philanthropic mission while respecting the parent corporation's interests. This requires integrating the two logics: the market and nonprofit logics, making a CF a complex organization to manage.

On one hand, it must generate both legitimacy and added-value for the parent corporation. On the other hand, it must generate legitimacy for itself and added-value for society (Roza et al., 2016). CFs have, without a doubt, helped their parent corporations by giving it legitimacy through the CFs' focus on philanthropic activities (Anheir, 2001), particularly with frequent “image spillovers.” Interestingly, the name of the corporation is almost always of the CF's name, and thus regardless of the CF's independency, the parent corporation and CF are linked in an open and transparent way (Westhues & Einwiller, 2006).

CFs can take on many roles in pursuing a social mission. In Europe CFs are engaged in grant-making (e.g. Van Leer Foundation in the Netherlands) or initiating their own projects (e.g. Fondation Pasteur in France), or both (Robert Bosch Foundation in Germany) ¹ (Anheir, 2000). Large CFs, argues Anheir (2001), provide a counterbalance to hegemonic predispositions of the state in Europe.

Given the complex nature of the relationship between a CF and its parent corporation, the work undertaken by many CFs is often well-harmonized with that of the funding corporation with bidirectional resource flows between them. The parent firm benefits from CF's activities (reputational gains) and insights (boundary spanning) whereas the CF benefits from monetary and other in-kind or knowledge-based resources (Pedrini & Minciullo, 2011). The resource relationship between the founding corporation and the CF, however, is not free of potential conflicts of interest when their agendas do not align despite the legal and structural independence of CFs as well as their sole existence to pursue public-benefit purposes (Westhues & Einwiller, 2006).

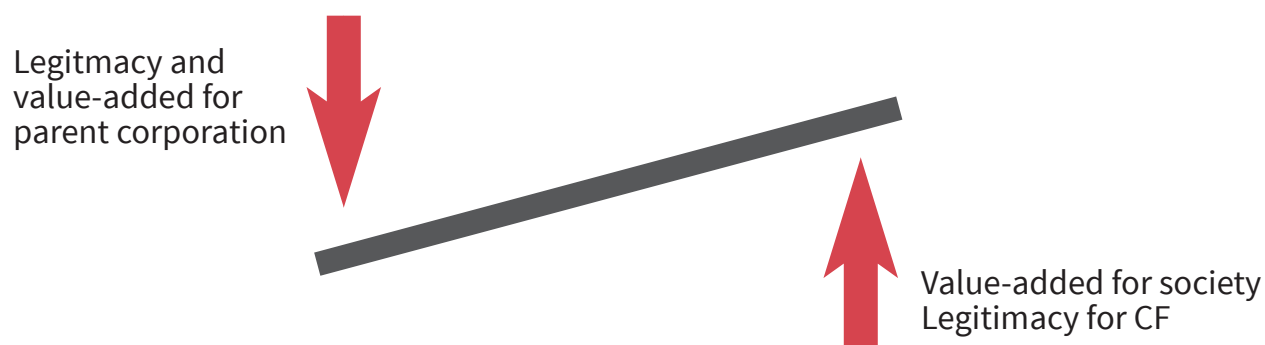
Due to the close relationships between CFs and their funding corporations, CFs have been found to exhibit many features and practices that are more closely related to the for-profit sector in their daily management and governance (Roza et al., 2016).



This is not surprising, given that CFs are reliant on a for-profit for its resources and have board members who are from the for-profit world. CFs, despite their legal independence, remain as agents of their parent corporations since they are fully dependent on their parent firms for resources to carry out social and philanthropic missions linked to their single-funder's interests (Kania, Kramer, & Russell, 2014; Gautier & Pache, 2013).

CFs report to their funders, as do most nonprofits receiving large sums of money from any one donor. In reporting to their donors, CFs are highly influenced by business cultures and end up embracing market logics and value orientations. Furthermore, they undertake planning, budgeting, and evaluation exercises common in the for-profit world (Hwang & Powell, 2009). By engaging in these competing logics, many aspects of the CFs operations and structures blend in closely with the parent corporations such as practices associated with accountability management and governance (Roza et al., 2012).

Organizational survival has implications for CFs who confront competing market and non-market logics coupled with heavy reliance on a single donor. This tension puts CFs at risk of mission drift if the donor sees a particular niche that is not part of the CFs original mission but rather advantageous to the founding corporation. Mission drift often results in CFs losing their legitimacy, especially when CFs are perceived as the long arm of the donor corporation existing to promote the corporations' interest. The following illustration (please see figure 1) sums up these tensions.



NETHERLANDS : OUTSOURCING CORPORATE PHILANTHROPY

In the Netherlands, the Dutch CF is often referred to as a *Stichting*, and has existed for a very long time. A *Stichting*, or Foundation (used interchangeably by the Dutch when writing in English), is a legal entity established under law in the Netherlands. Often, as elsewhere, they are closely associated to their founding corporations. However, unlike CFs elsewhere, the purpose of the *Stichting* varies considerably; it depends entirely on the purpose of its founding.



A *Stichting* can have several layers of governing bodies if specified in its formation such as a supervisory board, which can stipulate how board members are appointed or dismissed. Interestingly, *Stichting* can be formed to do a number of disparate things, and it does not have to have any charitable status or public good social mission. It can simply exist as a way to do the following: control assets while not having legal ownership or trade sanctions, circumvent inheritance taxes or trade sanctions, acquire and dispose of assets, grant security, or provide guarantees. More recently it has been a convenient hedge against successfully preventing hostile takeovers². However, like a nonprofit, it does not have shareholders or owners that can take the surplus generated. Other similarities include that the *Stichting* is governed by a board as prescribed by law and is exempt from taxes. The only exception to the latter is that if the *Stichting* performs any commercial for-profit activities within its stated purpose when founded, then it is subject to corporate income tax.

Stichtings can be formed for the purpose of undertaking charitable activities and as such may receive a designation of: Algemeen Nut Beogende Instellingen (ANBI)³. For such a designation, the *Stichting* must apply to the Dutch tax authorities. The ANBI designations, rather similar to the U.S. 501(c)(3) designation, affords the *Stichting* the following:

- Any gifts donated to the charitable institution are deductible for Dutch income and corporate income tax purposes.
- Any gifts donated to the charitable institution, or made by the charitable institution, are not subject to Dutch gift tax.
- Any inheritance received by the charitable institution is not subject to Dutch inheritance tax.
- The charitable institution is not subject to Dutch corporate income tax on any income it realizes.

While the Dutch *Stichtings* have close relations with their founding corporation, affording them flexibility in handling assets, the relationship that is most controversial is its role as an anti-takeover device. Indeed, as reported by Eumedion, 63.6% of the publicly listed companies have a CF serving as a would-be anti-takeover stratagem (Eumedion: Evaluatie van het AvA-seizoen 2014). Although not the focus of this paper, *Stichtings* as anti-takeover devices may explain the proliferation of *Stichtings* among Dutch corporations, and as such, *Stichtings* hold voting shares that are instrumental in diluting the voting power of ordinary shareholders (WSJ, 2015).

³http://www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/zakelijk/bijzondere_regelingen/goeoe_doelen/algemeen_nut_beogende_instellingen/



An example is Mylan, a generic drug manufacturer. Mylan avoided a hostile takeover by using its *Stichting*. The *Stichting* exercised a call option allowing it to buy 50% of Mylan's total issued and outstanding capital, giving it temporary control of half the company. Then it successfully fended off a takeover bid by Israeli rival Teva (Escritt, 2015). Using similar tactics, the *Stichting* of the largest Dutch telecoms KPN successfully blocked a takeover bid. Thus, although *Stichtings* are founded by corporations with missions of public benefit and social impact, they are useful to their corporate parents for fending off hostile takeovers.

Few *Stichtings* are independently endowed; they get their revenue from an investment portfolio which is unrelated to the corporation's annual giving. In the Netherlands, the majority of *Stichtings* are funded yearly by their parent corporation out of their profits and are managed by a small professional staff. The board members of the *Stichtings* and the staff are firmly integrated with the corporation, reporting to them and proposing new ideas for funding. In addition, as discussed earlier, there are non-monetary resource flows in both directions; *Stichtings* have access to the corporation employees as volunteers and for their know-how, and corporations receive knowledge about the local communities in which they carry out business and their clients.

In terms of governance, few *Stichtings* have a dependent board of directors not connected to the parent corporations or a mission entirely unrelated to the parent corporations. *Stichtings* often have current or retired employees of the parent corporations on their boards, who ensure that the *Stichtings*' actions align with the "good" of society while also building on the parent corporations' products and services, using its know-how and resources - all the while enhancing the corporations' welfare. The primary goal of the *Stichtings* who have received the ANBI status in the Dutch context remains serving the philanthropic goals as outlined by the parent organization.

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DUTCH CFS

The phenomenon of *Stichtings* (with or without the ANBI charitable status) in the Dutch context lays a path for the involvement of corporations in the Dutch society and in the rest of the world. The reach of the CF depends on the reach of the parent company, whether it is a domestic or a multinational corporation.



As elsewhere, Dutch CFs that rely on their annual revenues from the parent for-profit companies have experienced a push for efficiency and effectiveness. Not surprisingly, the parent company's business logic underpins their CF, making the CF managed less like nonprofits and more like for-profits. At the end of the day it is the shareholders of the sponsoring corporation who bear the costs. This influences the ways CFs choose to enhance the public good, how they are managed, their style of communications, and even the more mundane functions of human resource management, planning, and budgeting.

For example, Dutch CFs for multinational corporations that are large and visible have made it a point to fund those services and goods that are related to the business products and services of their parent corporations, like Unilever CF, for example, which operates globally as does its parent company. This indicates clearly that while the mission of the CF may include generating public good, it is undertaken with a perspective of enhancing the business value-added to the parent company, aligning the products or services of the founding corporation with that of the CF.

On one hand, being aligned closely with the parent corporation is an ongoing constraint on how the CF responds to societal problems. On the other hand, it can be impactful and efficient to have access to the know-how and resources of the parent corporation in addressing societal problems. It is only reasonable to expect that if the founding corporation is in the field of health services, then its CF will serve the common good in the field of health and not an unrelated field. Such alignment can maximize the CF's impact on the common good, increase its impact and scalability as it profits from the resources, networks, and the hands-on-help from the corporate employees. Furthermore, many ancillary services are often taken over by the parent company, and can be provided at low cost or free to the CF such as the professional development of its staff, legal counseling, insurance matters, and transportation logistics.

“Such alignment can maximize the CF’s impact on the common good, increase its impact and scalability as it profits from the resources, networks, and the hands-on-help from

EXAMPLES OF STICHTINGS (CFS) IN NETHERLANDS

UNILEVER Foundation: Specializing in the production of household products, Unilever is one of the larger global Dutch corporations with €52.7 billion turnover in 2016.



Unilever started its global CF, **UNILEVER Foundation**, in 2012 with a goal to improve the quality of life across the world for over a billion people via the promotion of hygiene, sanitation, access to clean drinking water, basic nutrition, and enhancing self-esteem⁴.

While not registered as an ANBI Stichting, the UNILEVER Foundation acts very similar to a ANBI Stichting, except that its financial statements are not publicly available. Nevertheless, as a multinational, Unilever does have a Corporate Foundation that is listed in the USA, which, as a typical nonprofit, registers with the IRS and is subject to disclose its 990-tax data.

Unilever CF's focus on sanitation, food, and clean water is closely related to the Unilever's founding business. It started out as a soap company in Victorian England with the invention of Sunlight Soap, a novel product that helped popularize cleanliness and hygiene. Unilever has grown to include various products including those related to food and drink, home care, personal care and water purification. Hence, and not surprisingly, the focus of the Unilever's CF is closely related to its many business product lines.

As Unilever is a large company with global reach and scale, the activities of its CF are correspondingly wide-reaching and multinational with goals to advance long-term scalable projects that make a systemic difference worldwide. To be able to do this, Unilever Foundation partners directly with five leading global nonprofit organizations. These organizations, listed below, assist Unilever's CF to meet its mission, and scale up its reach to meet its worldwide goals.

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Some of the major nonprofits that Unilever CF partners with are: Oxfam, for the empowerment of individuals and the delivery of good nutrition and safe drinking water; PSI, for interventions focused on hand washing, clean drinking water, and sanitation; Save the Children, for access to health services, vaccines, and nutrition schemes; UNICEF, for improved sanitation and hygiene practices; and the World Food Program, for better nutrition, health, and livelihoods in Bangladesh and Indonesia⁴.

⁴<https://www.unilever.com/news/Press-releases/2012/12-01-27-Unilever-launches-Global-Foundation.html>



Unilever CF works with other nonprofit and public-sector organizations internationally, and gives in-kind and monetary donations as well as expertise and employee support to help with projects that further the CF's mission.

According to Paul Polman, the CEO of Unilever, Unilever's global CF had created partnerships with leading global nonprofits in order to meet the following goals:

1. Connecting with consumers about social issues through brands they know and trust.
2. Advocating for policies designed to address some of today's global health challenges.
3. Providing critical resources in response to emergencies and ongoing community needs.
4. Supporting programs in communities where the consumers live and work.
5. Identifying new ways to engage their employees in important social issues.

Unilever's CF also supports programs and "commercial initiatives that are contributing to our business growth and simultaneously improving people's lives." As seen in these goals⁵, there is a direct connection with Unilever products, services, know-how (employees), and geographies, which is underscored by the following words in their list of goals: "contributing to our business growth," "through brands," "in communities where we live and work," and "engage our employees."

In the case of Unilever's employee engagement, the report (Unilever, 2013) indicates that employee engagement with philanthropic activities took place in 100 countries, participating in activities such as "team-oriented and individual initiatives for food drives, fundraisers, and volunteer support at youth centers and schools" (p. 13).

VEBEGO: Another example of a Stichting in the Netherlands is the Vebego Foundation. Unlike Unilever a large publicly traded company, Vebego has the ANGBI status, and is a rather small, family-owned company. Vebego, founded in 1943, provides personnel, healthcare management, and facility and management services including sheltered employment. Its services include a wide array of cleaning services and products as well as other personnel and payroll services.

⁵ Unilever United States Foundation lists the 12 members of its board on its IRS 990 PF tax declaration in 2015. A Google search revealed that each of the listed 12 board members have held (or currently hold) senior positions at Unilever (2015, 990 2015-136122117-0d25f0bd-F.pdf). It does not list, for 2015 any disbursements, and under assets, it lists \$1 million worth of silver teapots, although the previous years from 2010-2014 list distributions ranging from \$1.75 - \$3.4 million.



Nearly 100 different companies are part of Vebego. With 35,000 employees, the corporation operates only in a few countries such as Netherlands, Germany, Belgium, and Switzerland as opposed to Unilever. Although much smaller in size than Unilever, Vebego's revenues just exceed 100 million euros. Vebego, like Unilever, is the sole funder of its CF. Like Unilever's CF, Vebego's CF clearly retains the name of its parent company. In this there is no direct connection between Vebego's profitmaking ventures and the philanthropic efforts made in faraway countries.

The goals of Vebego's CF are clearly stated as to aid disadvantaged people who need high levels of support, and this support is not limited to any one geography. Vebego's CF has ongoing projects outside the corporations' European operations in countries such as Sri Lanka, Morocco, South Africa and Ghana. In Sri Lanka, it has built a home for elderly people and a home for disabled women, which fits in with Vebego's focus on healthcare. Meanwhile, in South Africa, Vebego's CF supports an agricultural project and has begun to build classrooms and kitchens for schools. In Ghana, it has built a Vocational Training Centre for street girls, training them to become hair stylists or seamstresses.

Although the Vebego Foundation was founded in 2005⁶, its companies had been involved in philanthropic efforts well before 2005. This was a direct influence of the owners, the Goedmakers family, whose values and actions prompted many initiatives to support and assist individuals who had fewer opportunities. Consequently, through the family's private values, the Vebego Group of companies were already sponsoring social initiatives and donating to charities. Mr. Goedmakers Sr. had for a long time wanted to fundamentally institute philanthropic structure within the company, and when the tsunami occurred in Southeast Asia in 2004, the idea of establishing a CF came into fruition since Vebego employees could contribute to mitigating the problems that arose in the aftermath of the natural disaster. Over time Vebego's CF has professionalized and improved its activities and operations. Currently Vebego has aspirations for the future to involve Vebego employees to join in the activities of its CF.

“The goals of Vebego's CF are clearly stated as to aid disadvantaged people who need high levels of support, and this support is not limited to any one geography.”

⁶ Vebego Board Members: Suzanne Goedmakers - chairman (Family member, Project manager); Annette van Waning - secretary & director (CSR Manager at Vebego); Ferry van den Boomen - treasurer. (Business Controller Corporate); Michel Möller - member (Facility management); Rita Brouwer - member (Manager Kenniscentrum at Alpheios); T. Goedmakers Sr. - advisor (Founder)



STICHTING INGKA FOUNDATION

IKEA, a household name, is a global furniture company founded in Sweden in 1948. Many of IKEA's stores and factories are owned by INGKA, a holding company that in turn is controlled by the Stichting INGKA Foundation in the Netherlands. Founded in 1982, IKEA's CF⁷, Stichting INGKA Foundation, focused solely on architecture and interior design. It faced heavy criticism as being one of the wealthiest foundations but also one of the most stingy. The overall set-up of Stichting INGKA Foundation “minimizes tax and disclosure, handsomely rewards the founding Kamprad family, and makes IKEA immune to a takeover” (Economist, 1982). In face of this, Stichting INGKA Foundation has raised its annual payout and increased its undertakings, expanding its charter to promote child rights and education. Its current mission statement reads: “To create substantial and lasting change by funding holistic, long-term programmes in developing countries that address children’s fundamental needs: home, health, education and a sustainable family income,” and is focused primarily in developing countries.

As of 2012, Stichting INGKA Foundation provided UNICEF with educational toys and stationery from IKEA for their early childhood development (ECD) kits that were sent out in response to disasters. Depending on the need, these kits could reach 1.2 million children, giving them a kid-friendly learning environment to help them cope with life in a camp. Stichting INGKA Foundation is the fifth-wealthiest charitable foundation by endowment (\$12.7 billion USD), and it spent 155 million euros via its foundation in 2016.

In particular, it gave away 141 million euros in 2015 to those nonprofits they have designated as their program partners; these numbers were 129 million euros and 120 million euros respectively⁸ (2016 Disclosure ANBI details for Stichting IKEA Foundation, 2017). Stichting INGKA Foundation has partnered with over 60 nonprofits around the world ranging from well-known charities such as Habitat for Humanity to lesser known ones, such as We Mean Business.

⁷ INGKA Board Members: At the end of 2016, the board consisted of the five members: Göran Grosskopf (chairman, also served as Chairman of the Supervisory Board at IKEA AB); Jonas Kamprad (son of IKEA founder, Member of Supervisory Board of INGKA Holding B.V. and IKEA AB.); Peter Kamprad (son of IKEA founder, Director of IKEA GreenTech AB, former Chairman of the firm); Johan Kuylenstierna (Policy Director at Stockholm Environment Institute (SEI)); Sten Palmquist (Inter IKEA Holding B.V. the holding company of Inter IKEA Systems B.V)

⁸ 2016 Disclosure ANBI details for Stichting IKEA Foundation
<https://www.ikeafoundation.org/about-us-ikeafoundation/related-documents/>



It awards grants based on their needs assessments to accomplish Stichting INGKA Foundation's stated mission, which was expanded to support children in the developing world. Although Stichting INGKA Foundation currently does have the charitable foundation status, it is not recognized as an ANBI foundation due to changes in the Dutch tax laws despite the fact that between the years of 2008 and 2010, it had this status. However, it still provides an anti-takeover protection scheme for IKEA.

RABOBANK ANBI STICHTING: THE RABOBANK FOUNDATION

The **Rabobank Foundation**⁹ is sponsored by its parent corporation, Rabobank, which is a Dutch multinational company headquartered in Utrecht, Netherlands whose core business is banking and financial services. Rabobank specializes in providing financial services to the food and agricultural industry. The company was formed with the merger of two banking cooperatives: Coöperatieve Centrale Raiffeisen Bank and Coöperatieve Centrale Boerenleenbank. Prior to the merger, both banks had their own Stichtings, which were also merged to form the Rabobank Foundation in 1974. These Stichtings used to provide aid locally and internationally, particularly in poor rural areas where Dutch emigrants lived or where Dutch missionaries were active. In 2002 the foundation's name was changed to Rabobank Foundation, which focuses primarily on development aid worldwide.

Rabobank was founded as a banking cooperative by farmers who faced loans at higher than average rates since they were considered a credit risk. Providing loans at fair interest rates to help farmers became the *modus operandi*, and this continues to be the way the foundation offers support to the food and agricultural industry worldwide: not perform outright charity but rather promotes the concept that "self-reliance was the way to achieve lasting change for the better. That ideal is reflected in the work of the Foundation."

⁹ Rabobank board members: Pim Mol managing director of foundation (Worked at Rabobank since 2007, Board: Wim Bens Managing director Rabobank Tilburg en omstreken; Jules Coenen, Managing director Rabobank Weerterland and Cranendonck; Berry Marttin, Executive board member Rabobank Netherlands; Ankie Wijnen, Chairman of the Supervisory Board Rabobank Peelland Zuid, and Robert Zaal, Member of the Supervisory Board Rabobank Waterland en omstreken



Rabobank Foundation currently supports 290 projects in 23 different countries and has allocated over 26 million euros worldwide. Within Netherlands, the Rabobank Foundation supports social enterprise, promotes financial self-reliance, assists children growing up in poverty, and offers sports programs for the handicapped. Internationally, the foundation targets issues related to agriculture, particularly to small-scale farmers. It gets its funds from local branches of the Rabobank, each of whom contributes a part of its profits to the Foundation. These donations are increased by the headquarters to a level equal to 0.5 percent of the group's profits.

Interestingly, clients and employees of Rabobank are also invited to contribute to charitable projects in matching programs. For example, employees at Rabobank have created their own fund, The Rabo Foundation Employee Fund (Rabo Foundation Medewerkersfonds). Retired and current employees can choose to donate €4 a month to the employee fund and Rabobank matches their donation. Employees can nominate projects to support, both local and international projects to a maximum of €45,000. The fund also receives donations during special fundraising drives organized by employees or on other occasions when employees are celebrating work anniversaries or birthdays. In 2016, according to its annual report¹⁰ it received €11,070,000 from Rabobank (central and local) and another €706,846 from Rabobank employees, and €2,298,780 income on its investments and loans. Of the €14,075,626 it had raised in revenue, €7,599,950 was disbursed for its projects, while the rest was used for loans (€1,186,825) and other expenditures (€2,650,448).

Unilever, Vebego Ingka and Rabobank provide examples of different types of Stichtings in the Dutch context. While CSR departments continue to exist among Dutch firms, these CFs provide an insight into the different ways the Dutch corporations have chosen to use their Stichtings to outsource their philanthropic efforts.

Because the Dutch law does not require the CFs to have charitable status (ANBI status), many Dutch firms have formed CFs for purposes other than corporate philanthropy and often use their CSR departments to satisfy their need for a philanthropic image. A high percentage of CFs were created to protect assets, lessen the tax burden and prevent hostile take-overs.

¹⁰ Rabobank Foundation Annual Report 2016,
<https://www.rabobank.com/en/about-rabobank/insociety/rabobank-foundation/about-rabobank-foundation/media-and-publications/publications.html>



Most boards of the CFs (see footnotes for each case) are closely linked to the parent corporation: present or past employees, family members, etc. Unilever CF is the exception in that fewer board members are closely linked with the parent corporation. Until recently IKEA's foundation solely existed as a tax haven, warehousing its assets and asset protection for the owner and family, even though after recent media attention, it moved to be more generous in its philanthropic efforts.

At the end of the day, are CFs a better vehicle in promoting corporate philanthropy? Regardless of the variety of other uses that CFs can be put to use for under the Dutch law, a question of interest to those studying CSR is: Are the philanthropic efforts outsourced to CFs different from those undertaken by CSR departments based within the corporation? Who better to ask than the recipients of the philanthropy? The next section presents findings based on a study of nonprofit leaders who interacted with CFs and CSR departments with funding requests.

“CFs were found to be more transparent in their mission and their goals including objectives.”

CSR DEPARTMENTS OR CFS: IS THERE A DIFFERENCE?

Are corporations' CSR efforts undertaken by its internal departments and/or employees' efforts perceived differently than that of their CFs' philanthropic efforts? Many CFs and CSR departments of corporations partner with Dutch nonprofits. How do nonprofits that are impacted, directly (as partners) or indirectly (as recipients of grants), view the differences? This is a question studied by Swen (2017). Swen asked leaders of Dutch nonprofits about their perceptions of CFs' philanthropic efforts and that of CSR efforts undertaken directly by corporations. Her findings suggest several differences perceived by the leaders of Dutch nonprofits:

CFs were found to be more transparent in their mission and their goals including objectives. This is a result of the Dutch law, which requires CFs to publish their mission, objectives, and regulations, making it easier for nonprofits to know if their goals align with the CF and whether to approach them for assistance. In contrast, corporations' CSR undertakings are less transparent, and there exists uncertainty on what will be supported in which time period and when support will be forthcoming.

Furthermore, corporations' CSR departments often require some reciprocal obligations from the nonprofit.



The findings show that CFs are generally more philanthropic. Furthermore, nonprofit leaders find it is easier to approach a CF instead of a corporation's CSR department because a CF has a published schedule of times when nonprofits can submit grant requests. However, some nonprofit leaders also noted that when partnering with a CF there exists a power imbalance and thus CFs were not desirable as partners.

On the other hand, a majority of nonprofit leaders reported that CFs were perceived as legally independent with no commercial interests, which made it easier for nonprofits to partner with them. Nonprofit leaders viewed CFs' objectives to be better aligned with those of nonprofits as compared to corporations' CSR departments, where for-profit interests encumbered the common social goal. In addition, nonprofit leaders found CFs are less dependent on the parent corporation's commercial success or annual budgets than the CSR department, especially if they are funded by an endowment or have multi-year funding contracts with the parent corporation. This increased the likelihood of nonprofits having longer-term relations with CFs than with CSR departments.

Finally, nonprofit leaders found that the employees of CFs have a superior understanding on the issues and dynamics facing nonprofits than corporate employees in CSR departments. Furthermore, CFs, because they work in the philanthropic arena, were seen to be a bridging organization for the corporations' employees who may want to engage as donors or volunteers in their community or elsewhere.

“CFs, because they work in the philanthropic arena, were seen to be a bridging organization for the corporations' employees who may want to engage as donors or volunteers in their community or elsewhere.”

CONCLUSION

This paper examined CFs in the Netherlands and their engagement in philanthropy on behalf of their parent corporations and sole funders. While CSR departments perform corporate philanthropy, the formation of CFs allow corporates to distance themselves from their philanthropy by outsourcing to a legally independent organization. However, CFs are without a doubt linked closely to the parent company in many ways.

First it has the name of the parent company in its own name; second, the CF relies on the parent company for its funds; third, board members of the CF are closely linked to the parent company;



and fourth, the CF must also publicly disclose its finances and operations unlike its parent company (unless it is held publicly) or the CSR department run by the parent company. These four differences make CFs attractive to nonprofits as partners and grant makers.

With close ties to the parent company through boards, it can be argued that CFs have their parent company's interest in mind. This is particularly true for two reasons: the principal (and often the single) donor is the parent company that calls the shots in deciding the mission and goals of the CF. Second, many CFs are staffed on their governing board by the parent corporation's current or retired employees, which leads to increasingly indistinct boundaries between the foundation and the parent corporation company. However, because of CFs' legally independent structures, their activities may be judged to be more neutral and objective than if the corporation committed to practice philanthropy directly, which could be seen as self-serving. Not surprisingly, CFs are often regarded by parent corporations' firms as substantial instruments with which to exploit benefits related to CSR (Porter & Kramer, 2011). In addition, the stated reason for the creation of CFs is often that corporations use them for communication and image purposes (Toepler, 1996; Strachwitz, 1994), and indeed CFs are shown to have a positive impact on the credibility and image of the corporation in Germany (Marquardt, 2001).

For most corporations, the most inexpensive way is to make donations directly to a charity. There are few transaction costs involved and the corporation maintains full control of the funds until transferred to a charity. This makes good sense for smaller corporations who make ad hoc charitable donations. However, CFs are the more reasonable option for larger corporations who either 1) wish to make ongoing, long-term charitable donations as part of their CSR program and whose CSR activities are mandated by regulators or investors, or 2) wish to profit from the marketing and branding benefits (CFs generally carry the name of the parent corporation or its owners). CFs prevent ad hoc and encourages the corporation to develop more sustainable and strategic philanthropic programs. In the Netherlands, the corporate foundation not only provides such benefits but also acts as a vehicle that can hold the assets of a company through complicated processes, which can successfully prevent hostile takeovers.

In summation, under existing Dutch laws, while the CF allows the corporation to have a large control as the single main donor to the CF, it is expensive, time consuming and can be risky if not carefully managed. Furthermore, because the Dutch law allows CFs to hold shares in the parent company, CFs function to also reduce the risks of hostile takeovers, lessen tax burdens and protect assets. Thus, CFs perform other important and significant non-charitable functions to their parent company, which explains the proliferation of CFs in Netherlands.



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