

CRACOW UNIVERSITY OF ECONOMICS
Department of Economics and Organization of Enterprises
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**CONTEMPORARY ECONOMIES
IN THE FACE OF NEW CHALLENGES**

ECONOMIC, SOCIAL AND LEGAL ASPECTS

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GLOBAL AND REGIONAL DETERMINANTS FOR ENGAGING CORPORATE FOUNDATIONS IN COMPANY RESTRUCTURING

Summary

The article describes changes in the environment to which companies must adapt in order to maintain or improve their competitive position. Performing activities within the field of social involvement such as creating corporate foundations brings forth many benefits that can be grouped into following categories: benefits associated with the company's image; benefits stemming from good relationships with the stakeholders; benefits associated with employee's morale and motivation; and customer loyalty that directly translates into financial benefits.

Therefore, the author proposes that corporate foundations due to their wide array of positive effects generated to their founders, may be used in the processes of company restructuring in general and especially in growth and marketing restructuring processes, that implement the idea of corporate social involvement.

Introduction

In recent years the processes of globalization have helped in the spreading of crisis situations caused by regional and local market problems. These problems were derived from huge changes in surrounding conditions, in the way these conditions influence companies and in the complexity of the surrounding environment. It has made the companies more dependent on their environment.

Technological progress has shortened the technology life-cycle which has led to the shortening of the product life-cycle. Frequent changes in technology have diminished the scale effect in a growing number of sectors¹ and forced the companies to search for new sources of competitive advantage.

¹ M. Błaszczyk, *Wpływ zmian warunków otoczenia na zachowania konkurencyjne przedsiębiorstw, W: Strategie rozwoju współczesnych przedsiębiorstw. Materiały pokonferencyjne*, red. K. Poznańska, SGH w Warszawie, Warszawa 2001, s.84.

Another phenomenon, that has provoked changes in the way firms function is the progress in communication and information exchange. It changed the attitude towards time and space. Changes in information technologies have eliminated geographical obstacles and decreased the costs of running the company. Citizens have gained direct access to knowledge resources and a knowledge society was born. Knowledge itself is the company's most significant success factor and if absorbed and used by the employees becomes its intellectual capital.

Another factor, that influenced the way companies function and the processes by which they compete is the social capital understood as the company's relationships with its broadly perceived environment (all stakeholders groups) and the company's image and reputation within that environment.

Additionally, the new era consumer has arrived, whose consumption is less about quantity and more about quality of life. This type of consumer collects various forms of intangible consumption that guarantee such experiences like education, culture or tourism².

Therefore a need was born for counteracting the threats and adapting to approaching changes through actions like: engaging the processes of restructuring which improve the effectiveness and ability to compete on global and local markets. "Restructuring should be somewhat an answer to signals coming from the environment and should consist of an individual, active battle for one's own strategic position on the market, a battle that would provide competitiveness towards other market partners and lead to specific economical benefits."³

The author believes, that corporate foundations, as a tool for implementing corporate social involvement strategy, may be used in various types of restructuring processes. Therefore the article's aim is to present the determinants for engaging corporate foundations into the processes of company restructuring leading to the implementation of corporate involvement and to the benefits stemming from it. The determinants presented are based on studies of literature and the author's own research.

Global, regional and local determinants for engaging corporate foundations in restructuring processes aimed at implementing the idea of corporate community involvement

Corporate foundations are a separate entity, established and financed by the company and aimed at performing socially useful activities. They seem to be the most mature form of all corporate social activities. They enjoy a stable and independent financing source that enables them to develop longterm community involvement programs. That's what makes them an important source of support for social initiatives.

When a company decides to create a corporate foundations it is a manifestation of the company's more strategic approach to social activity, giving it an institutional framework and making it independent from the company⁴.

Every running company enters the surrounding society, uses the regions infrastructure, introduces new technologies and hires employees thus exerting influence on the environment, regardless of the company's awareness of it.

There is also the opposite, the local society exerts influence on the company at every stage of development. The education level influences the staff quality, other entities in the region become cooperating partners or suppliers. The local society legitimizes the company by accepting its presence and acquiring its products.

² D. Kielczewski, *Konsumpcja a perspektywy trwałego i zrównoważonego rozwoju*, Wyd. UwB, Białystok 2004, s.92.

³ D.Kowalczyk-Jakubowska, A. Malewicz, *Restrukturyzacja jako technika ratowania i rozwoju przedsiębiorstwa*, Instytut Organizacji i Zarządzania w Przemysle, "Orgmasz", Warszawa 1992, s. 10 - 11.

⁴ *Fundacje korporacyjne w Polsce – raport z badań*, Projekt CEENERGI Polska, 2009, www.forumdarczynow.pl.

Therefore the best solution is to "create a sense of common interest between the company and local people. The locals must understand that business should be profitable in order to keep going, and the company has to understand that its goal is to serve the needs of local people as good as possible"⁵.

Because companies often become the cause of the so called negative externalities like pollution, unethical practices towards employees, using morally suspicious technologies, devastating natural resources etc., they should take responsibility for their actions. Both the international and local community expect socially responsible actions from companies and that companies will become agents of social changes.

Therefore people - external stakeholders are focusing on companies, just like previously clients have been focusing on issues of quality, service and price and are beginning to raise the level of expected standards. They don't want to simply give clearance for the financial results. They also want to hold the companies accountable for social results⁶.

Each company's basic mission is to participate in the social development, to provide welfare to the people, to achieve profit, a part of which should be directed to social needs and development of the country, to act in harmony with the society and people⁷. Companies have to manifest, that they deserve trust from the society.

Understanding the role of stakeholders in the company's life should lead to an increased interest in social actions.

And it does so, for over two decades in the US and around the world, many corporations engage in actions that exert positive changes in the society, improve the social welfare in a local and global dimension in such areas as: health, natural environment, economical growth or social activity⁸. These actions are called Corporate Community Involvement CCI (or Corporate Community Investment).

According to the World Economic Forum definition, CCI is the input that the company provides to the society as if it was its citizen through activities, social investments, charity programs and involvement in public reforms. It embraces various forms of activity but always within the framework of company's participation in resolving social problems regardless of the program or tools used, bringing benefits to the society and the company alike⁹.

Very often it is done through corporate foundations established by companies. Creating a corporate foundation involves a series of strategic decisions in the areas of company growth, organizational change, managerial change, capital restructuring, all of which could be associated with radical restructuring processes¹⁰.

The determinants of corporate community involvement stem from the conviction that it will lead to: profit increase, better employee motivation and more customer loyalty¹¹. These determinants have an ethical and a psychological background (doing the society a favor), as well as the company's own

⁵ D.Bollier, *Mierzyć wyżej. Historie 25 firm, które osiągnęły sukces, łącząc skuteczne zarządzanie z realizacją misji społecznych*, Business Press, Warszawa 1999, s.61.

⁶ G.Parston w: *The organization of the Future*, F.Hesselbein, M.Goldsmith and R. Beckhard, San Francisco, Jossey-Bass Inc., January 1997.

⁷ *Zarządzanie z pasją, czyli rozmowy z Konosuke Matsushita*, Wyd. Forum, Poznań 2004, s. 45.

⁸ R.J.Bies, J.M.Bartunek, T.L.Fort, M.N.Zald, *Corporations As Social Change agents: Individual, Interpersonal, Institutional, And Environmental Dynamics*, Academy of Management Review 2007, Vol. 32, No. 3, 788-793.

⁹ P.Łukasiuk, *Spoleczne zaangażowanie (CCI) a spoleczna odpowiedzialność biznesu (CSR). Narzędzia CCI*, www.corporategiving.pl.

¹⁰ "Restructuring is a radical change in at least one out of three organizational dimensions, that is: actions, capital structure or internal organization. The aim of this change is to reinstate internal and (or) external balance to the company", Z.Sapieższka, *Restrukturyzacja przedsiębiorstwa. Szanse i ograniczenia*, Wydawnictwo Naukowe PWN, Warszawa 1997, s. 30.

¹¹ A.Millie, J.Jacobson, *Employee and the Special constabulary : a Review for the Foundation*, The Police Foundation, 2001, s.6.

interests and business benefits (providing new tools in the fight against competition)¹². A socially involved attitude realized through the corporate foundations may positively influence the way the company is perceived by its environment and lead to positive outcomes in the long run.

Research shows that there is a strong correlation between social activity expenditures and increased customer satisfaction which leads to increase in sales and profits¹³.

In the year 2002 as many as 345 000 British citizens have bought a product or a service, with a social donation included in the price¹⁴. Research performed by Business in The Community Research International LTD shows that currently more than half of consumers decide to buy a product linked to a social goal¹⁵.

Other research in the USA shows that 2/3 of respondents lay more trust in companies that conduct social activities and could switch their preferred brand to a brand associated with a good cause if other factors remained the same¹⁶.

Corporate community involvement is also a non-financial motivational tool for motivating employees. Various research on this subject shows that among others: voluntary service within the framework of community programs gives the employees a chance to develop their skills and they become more loyal towards their company, more willingly recommend their employer to others and are more devoted to their work¹⁷.

Companies must adapt to the above described changes in their environment if they want to maintain or improve their competitive positions. Performing activities within the field of social involvement such as creating corporate foundations brings forth many benefits that can be grouped into following categories: benefits associated with the company's image; benefits stemming from good relationships with the stakeholders; benefits associated with employee's morale and motivation; and customer loyalty that directly translates into financial benefits. In the author's opinion corporate foundations due to their wide array of positive effects generated to their founders, may be used in the processes of company restructuring in general and especially in growth and marketing restructuring processes.

Therefore, if the proces of restructuring is "triggered by internal and external signals crucial to the company's development and aimed towards competitiveness"¹⁸, the above described determinants imply that these processes should be used also for the implementation of corporate community involvement ideas.

Corporate foundations in Poland - the foundation's perspective, research results

The results presented in this and the next section are part of a research project entitled: "The corporate foundation as a tool for achieving corporate social goals". It was based on 50 interviews among 72

¹² A.M.Golewska-Stafiej, *Wstęp, czyli o czym jest ta książka*, W: *PR a społeczne zaangażowanie biznesu, czyli jak budować relacje z grupami ważnymi dla firmy i realnie zmieniać świat na lepsze*, red. A.M.Golewska-Stafiej, Fundacja Komunikacji Społecznej, Warszawa 2004, s.11.

¹³ L.Baruch, Ch.Petrovits, S.Radhakrishnan, *Is doing good for you? How corporate charitable contributions enhance revenue growth*, *Strategic Management Journal*, 31: 182-200 (2010).

¹⁴ <http://www.ipsos-mori.com/>

¹⁵ Komuda I.: „Causa Related Marketing to pozytywne działanie na rynku”, *Magazyn Odpowiedzialnego Biznesu*, nr1, 2002, p.25

¹⁶ Cone/Roper Cause Related Trends Report: *Evolution of Cause Branding*, Cone Inc., Boston 1999.

¹⁷ U.Gołaszewska-Kaczan, *Zaangażowanie społeczne przedsiębiorstwa*, Białystok 2009, s.136-139.

¹⁸ red. S. Lachiewicz, A. Zakrzewska - Bielawska, *Restrukturyzacja organizacji i zasobów kadrowych przedsiębiorstwa*, Oficyna Ekonomiczna, Kraków 2005, s. 16.

identified and active corporate foundations in Poland and 27 interviews with the companies that founded them. Research was conducted in May and June of 2012.

Polish corporate foundations are relatively young. Merely 6 of the surveyed foundations were established prior to the year 1991. The rest would be created in the subsequent years, at a pace of few entities per year.

In the opinion of the surveyed foundations, the main causes for which they were established by the companies are the following: implementation of corporate community involvement strategy; an attempt to organize corporate social activities; an initiative of PR or marketing departments, as well as a response to a social need or employee initiative.

In 33 out of 50 surveyed cases, the foundation's name was convergent with the name of the mother company. This situation, according to 25 respondents, is beneficial because it improves the company's image and manifests its social involvement.

The foundations operate in the following areas: providing assistance to people in difficult life conditions; education; healthcare; sport; tourism; leisure; counteracting unemployment; ecology; international actions; local communities; humanitarian aid; national identity and tradition; public safety; protection of human rights and culture.

The actions take form of: financial aid; targeted funds; material assistance; social campaigns; funding scholarships; providing free services.

A vast majority of the surveyed foundations operate throughout the whole country (35 entities), two foundations operate on an international scale; and the rest operate on a regional and local scale.

The most commonly chosen decisive criteria for undertaking the right actions within a specific area where: scale of the social problem; convergence with the socially involved company's goals; expected results; employees needs; social perception of the action's beneficiaries and the level innovation. Only two foundations pointed to the criterium of convergence with the foundation's mission and goals. It seems that in this matter the top priority are the company's interests and possibility to operate on a larger scale.

In order to decide on entering a specific project, the foundations use the following sources of information: dialogue with stakeholders; preferences of mother company; experts' opinions; statistical data analysis and foundation's employees' opinions.

These projects are very often undertaken in cooperation with public institutions, other non-profit organizations and commercial entities.

The main source of funding for the researched foundations are donations from the mother company, donations from private persons and other companies; public and EU funds; 1% tax deductions and the so called payroll (monthly donations from company employees).

The recipients are: individual persons; public institutions; non-profit organizations; commercial entities.

The foundations create a merit based and financial report (in 49 out of 50 cases) and publish it on their website, share it in their premises or deliver it to proper institutions i.e. Ministry of Health, Ministry of Work and Social Policies; Tax Office; and others. The yearly report is treated mainly as a legal duty, but also as a tool for promoting and communicating the foundation's actions.

In 40 out of 50 cases employees of the mother companies engage in the foundation's activities or take office in the foundation's structure.

Foundations also identify important stakeholder groups and distinguish the opinion leaders in each group. They communicate with the leaders in order to improve the quality and verify the ongoing activities as well as to plan new ones. It is also a way to promote the both the foundation and its beneficiary.

33 foundations bear a name convergent with the mother company and 18 of them perceive it as being beneficial. The benefits consist of better recognition, receiving more trust, being more prestigious, receiving help from company employees and putting emphasis on professionalism.

In light of the above data, I believe that corporate foundations in our country are becoming an important group of entities, being the outcome of thoughtful corporate involvement into solving our country's problems. These entities allow for the construction of longterm strategies, careful choice of partners, acquisition of additional funding sources, better use of available tax deductions and favorable legal regulations.

Furthermore, the perspective of corporate foundations is longterm, they are financially independent from the company's interests and thus from its financial situation. Therefore they can experiment and discover new or less popular areas of interest. They can be innovative, future oriented, entrepreneurial and active without risking too much. They are endowed with a higher degree of social trust due to their non-commercial nature. Therefore they can undertake a higher risk than commercial entities in order to provide high quality services in the selected fields. They can become a significant partner for local governments in solving social problems or investing in the regions's development.

Corporate foundations in Poland - the founding company's perspective, research results

Most of the researched foundations (39) were established by large companies (above 250 employees). Founding companies operate in the following sectors: finance, consulting, media-publishing, medical, construction and telecommunications. Such a broad spectrum of sectors seems to confirm other research findings. Other authors stated that undertaking social goals is positively related with consumer satisfaction and income increase in sectors with a higher consumer awareness (like individual services or financial).

Foundations play an important role in the company's operations, being part of the corporate community involvement strategy they systematize the company's social activities, achieve marketing and public relations goals, integrate the employees around company-significant goals and areas of interest and build a socially responsible employer image.

The surveyed companies declared the following reasons for which the foundations were established:

- moral duty and perceived obligation of providing help,
- building social trust towards the company and the brand,
- responding to social expectancies,
- building the company's image and brand,
- transparency and an attempt to organize social activities and separate them from business activities.

Through their foundations, researched companies achieve the following goals:

- responsibility taken on by the company due to its corporate social responsibility strategy,
- building positive company image in the society,
- corporate community involvement related to the foundation's mission.

Companies that established corporate foundations have declared a strong connection with the foundation through employee and management team's involvement in its operations; through funding the foundation's operations; through engaging internal departments in servicing the foundation's operations; and through a platform of knowledge exchange.

Many of the surveyed companies obtain information from the foundations regarding dialogue with the stockholders. That information is later used to create strategies and programs of social involvement, building relationships with clients, stakeholders and opinion leaders as well as to build corporate image and report on social activities. It is also used to identify the needs of the environment in which the foundation is operating and adapt foundation's projects to them. The companies also achieve public relations and image goals by informing the clients and media about corporate activities performed by the foundation. To make it possible, they mutually adapt visual identification systems and align the

foundation's name with the company's brand, as well as make use of internet and employees personal contacts.

In 25 out of 27 surveyed cases the company identified many benefits from owning a foundation. Below are the most popular responses:

- „the foundation serves as an umbrella for charity activities of the firm, an expression of a thought through idea of community involvement; a systematization of the firm's social activities and a guarantee of their effectiveness in order to better and more effectively help local communities, the foundation is an instrument for implementing strategic programs of corporate community involvement”,
- „a marketing strong point - an advantage over competition that doesn't care for the natural environment”,
- „building the image of a company that cares for the local community”,
- „improves the company's image; testifies about the company's social responsibility; supports the CSR goals of the company's strategy”,
- „through the development of education, healthcare, culture and sport, we invest in our society's growth which translates into our current and future employees”,
- „above all benefits regarding the firm's image, building company credibility, building relationships with the local community”,
- „systematization of the firm's pro-social activities, corporate transparency”.

The majority of surveyed companies measure the effects of foundation's activity using:

- quantitative indicators regarding social problem solving i.e. quantity of beneficiaries,
- qualitative indicators regarding social problem solving,
- number and quota of donations granted,
- number of press articles,
- indicators regarding the company's image.

Overall the companies notice only advantages in having a foundation (25 out of 27 cases), merely 4 respondents pointed to threats such as longterm financial commitments that are required for guaranteeing the foundation's stability. Another possible threat to the firm's image could be the lack of coherence between the firm's and foundation's activities or the lack of transparency or responsibility for its partners and beneficiaries in case of project failure.

Reassuring, it must be highlighted that the form of corporate community involvement has to respond to the local conditions and most of all to the needs, attitudes and expectations of the local community or society. Building a reputation of responsibility and sensitivity to the needs of local community is becoming a significant challenge, what might very well serve this purpose is creating clearly positive connotations through communicating the community involvement of the firm. One of the methods to do this in a systematic and effective manner is creating a separate legal entity - a corporate foundation - and handing it the responsibility for the firm's social activity.

Conclusion

Although profit remains the principal goal for economic activity, it is not difficult to notice that through various activities companies influence their environment, implying social changes. This way companies not only minimize their negative externalities, but create social value added and contribute to economic growth which favors their expansion. Creating a corporate foundation is becoming an important tool used by polish companies to implement corporate community involvement strategies and bring real advantages to many social groups and to the mother company.

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