

The Corporate Strategy of Philanthropy

Corporate Donations in Hungary
Studies

Edited by
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THE CORPORATE STRATEGY OF PHILANTHROPY

**CORPORATE DONATIONS IN HUNGARY
STUDIES**

ENGLISH SUMMARY

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of the original studies

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Introduction

This is a brief summary of a collection of studies¹ on corporate donations and corporate social responsibility written and published in Hungarian. The central concern of these studies was corporate funding for nonprofit organizations (foundations, associations, advocacy organizations, nonprofit companies). However, the authors of the studies used several different approaches and research methods. Some of them relied on the international literature and on the results of former Hungarian research projects; others carried out their own research, prepared case studies, interviewed prominent entrepreneurs, and carried out a representative survey on corporate donations. As a result, the book covers many aspects of the phenomenon. It gives an overview of the theories and models of corporate philanthropy, describes its size, structure and actual forms and explores its motivational background.

The studies throw light on a range of important questions of corporate social responsibility and corporate donations:

- *How has the idea of corporate social responsibility developed over the last couple of decades? What are the most important models of corporate philanthropy? Which part of the foreign experience can be useful in Hungary in the period of transition? What are the local traditions of corporate giving in Hungary?*
- *How widespread is corporate support for the civil sector in Hungary? Do donations come from a wide or narrow section of the business world, from big or small companies, based in Budapest or elsewhere, in towns or villages, owned domestically or by foreigners? What distinguishes companies that give and those that do not? How big are the differences amongst them? Is there a chance that non-donors might become donors?*
- *How do companies make their donations? What are the major forms of corporate support for the nonprofit sector? Which of these forms are the most widespread and most successful?*
- *What goals, values and motivations influence companies? How and why have newly emerging private entrepreneurs become donors? What are the origins of their social responsibility? How does their life history and social environment influence their charitable behavior?*

¹ The Table of contents of the original studies is attached to this summary.

- *How close and how civilized are relations between potential donors and organizations seeking funding?*

The authors hope that the answers to these questions, and the practical conclusions that may be drawn from them, will help companies and nonprofit institutions seeking their support to develop more mutually aware and productive relationships.

Traditions, models, changes

The phenomenon of corporate donations is as old as private firms themselves. However, its concept, rationale and forms have changed a lot throughout its history: from the charitable activities of guilds, to the EU Green Paper on corporate social responsibility. The sequence of different terms (corporate giving, corporate philanthropy, corporate community involvement, corporate community investment, corporate social performance, corporate social responsibility, corporate citizenship) clearly indicate the direction of these changes.

An excellent overview of the shifts of paradigm is given by Burlingame, who identifies four different models of corporate engagement in social affairs.

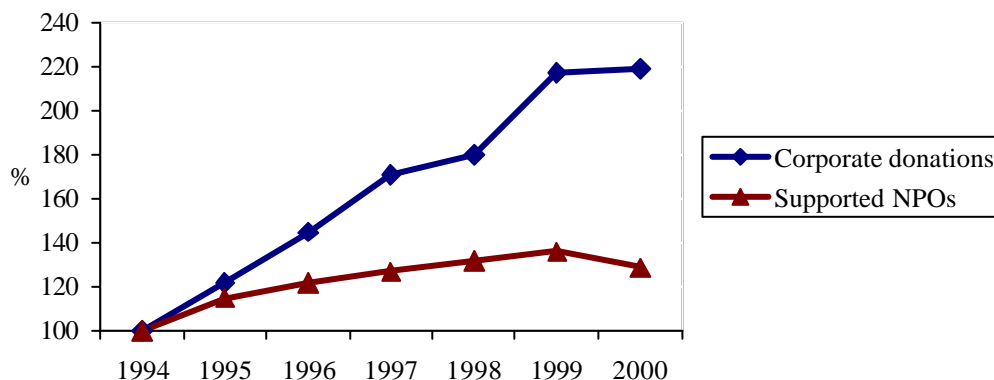
- *The neoclassical/corporate productivity model* is based on the principle that the major aim of a company is to generate profit. Consequently, corporate donations must also serve the “enlightened self-interest” of the donors. By investing in the improvement of public image, in the education of future employees or in technological research, the very objective of these donations is always the long-run profitability of the company.
- *The political model* is focused on corporate power. This power and influence can be increased through donations to nonprofit organizations in order to build relationships and coalitions with them as an alternative to the growth of government.
- *The ethical/altruistic model* states that companies have a social responsibility thus they are supposed to directly address social problems and financially contribute to the actions taken by nonprofit organizations.
- *The stakeholder model* posits that “a firm is a complex entity with many constituent groups – managers, shareholders, customers, suppliers, community groups, and so on, which hold

certain claims on the company. The company therefore is drawn in many different directions – political, financial and social.’²

One of the basic questions both the Hungarian nonprofit and business communities have to face, is which of these models should influence the development of corporate philanthropy in our transition economy; whether a combination of the new approaches mainly represented by foreign investors and the traditions rooted in local history, can result in a sustainable business/nonprofit cooperation.

Corporate philanthropy has a long *tradition* in Hungary, which was not broken in the communist era. For state-run companies it was almost obligatory to develop some form of corporate welfare policy. They had to put part of their profit into a “welfare fund”, which then financed corporate welfare services. Several companies had their own nurseries, kindergartens, recreation homes, sports facilities, clubs, libraries and cultural centers (called “culture houses”); most of them regularly supported their old age pensioners and employees in need. This tradition of having a corporate welfare policy did not completely vanish after the advent of privatization. Many firms converted their “welfare funds” into foundations, several corporate welfare institutions were also donated to these foundations before or during the privatization process. These kinds of donations were extremely beneficial for the early development of foundations and accounted for an unusually high share of corporate donations. This share has somewhat decreased since then, but both the amount of donations and the number of supported nonprofit organizations have increased significantly. One quarter of Hungarian NPOs receive some part of their income from corporate donors.

Changes in the amount of corporate donations and the number of supported nonprofit organizations between 1994 and 2000



Sources: Nonprofit szervezetek Magyarországon (Nonprofit organizations in Hungary) Annual volumes, Central Statistical Office, Budapest

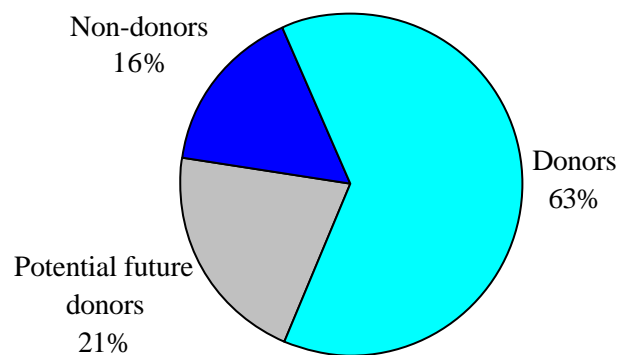
² Burlingame, Dwight F. (2001): Corporate philanthropy’s future, In: Third Sector Policy at the Crossroads, edited by Helmut K. Anheier and Jeremy Kendall, Routledge, London and New York, pp. 93-94.

Against this background, it is especially important to learn about the philanthropic behavior of Hungarian companies, their motivations and their attitudes toward the new approaches to corporate social responsibility.

Companies' willingness to donate

In 2003, *nearly two thirds of Hungarian companies declared themselves to be donors.*³ 16 percent said that they do not and definitely would not support nonprofit organizations. One fifth of companies, which did not make any donations, indicated that they might do so in some form in the future.

Distribution of companies by propensity to donate, 2003



The highest rate of support for nonprofit organizations – nearly four fifths – was among large companies (those with a turnover in excess of 1 billion forints). Considerably less active in their support were small companies (turnover under 20 million forints), of whom only 56 percent made donations and nearly a fifth also ruled out any giving in the future.

A much higher proportion of companies operating in villages than those in towns, especially Budapest, give support to nonprofit organizations. The explanation is obvious. Living together with the local community tends to engender a kind of local identity and sense of responsibility. Relationships are no doubt

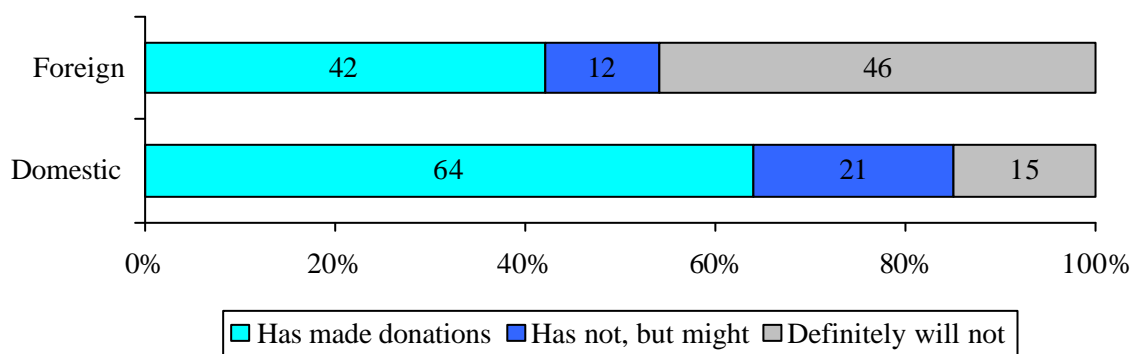
³ All the 2003 figures come from a representative interview survey of 1405 corporations. Companies were classified as *donors* if they said they had provided, without compensation, funding and/or support in-kind to a nonprofit organization in 2003. The companies studied were all “independent legal persons”, i.e. companies limited by shares, limited companies, cooperatives, etc. The word “companies” as used in the summary of empirical findings always refers to such entities.

stronger, NPOs and their leaders are probably better known and the use of donations is easier to check than in larger settlements. Managers of local companies often have personal or family connections to school foundations and recreational and cultural associations. It is almost inevitable that they become involved in village development foundations, associations supporting village tourism, neighborhood watch associations and other civil initiatives set up to take advantage of widening grant opportunities, all of which have proliferated in recent years. Commercial interest is often attached to support for the latter. Essentially the opposite is true in large cities, where economic and social roles tend to be separated, relationships are looser and funding activity is, therefore, much less personally-based.

Somewhat similarly, both the in-depth interviews and the empirical results refute the belief that foreign companies are better donors than their Hungarian counterparts. There is a widespread public prejudice, implicit or declared, that the predatory capitalism predominating in Hungary does not predispose the country's new entrepreneurial community towards charity. The sense of community, solidarity and responsibility expressed via donations, is an attitude more usually attributed to foreign enterprises, which – having developed in the less troubled conditions of wealthier economies – are more able to adopt a donor culture.

Our research topples both of these assumptions at a stroke. Domestic businesses have a fifty percent higher rate of donation than foreign businesses. Furthermore, nearly half of the latter would not even consider any charitable donations. This total rejection rate is only 15 percent among Hungarian-owned companies.

Propensity to donate among domestic and foreign-owned companies, 2003



The explanation is probably very simple. The public view is influenced by the highly-publicized, stylish, targeted sponsorship activity of a few multinational companies giving large sums. However, the view

naturally extends to a large number of foreign companies without the apparatus to assess requests, check up on use or assess the impact of projects. Remoteness, lack of socio-cultural affinities, distrust and language difficulties all play a part in foreign business people's disinclination to be charitable in Hungary. In fact, some local managers harbor a resentment towards their foreign proprietors' attitude. Many seem to feel a constant frustration that they are rigidly instructed to reject any request by local NPOs for support of their activities or operations. They suggest that some foreign businesses have not yet integrated into the Hungarian social environment and prefer to act as privileged foreigners rather than responsible members of society.

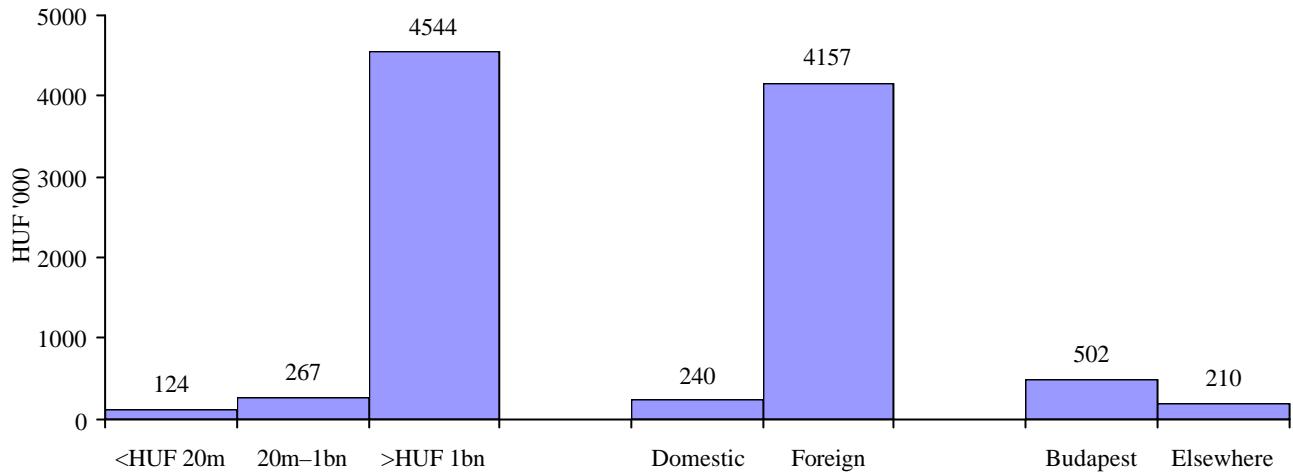
The effect of this on public opinion is currently counterbalanced by news of large foreign companies making large donations. From a financial point of view, the big sums involved in the latter easily make up for the deficiency. Another element of this "counterbalance" is the inventive and innovative character of the charitable actions of multinational firms reflected in our case studies describing "best practice".

To summarize, *corporate donors are more likely to be*

- *large than small;*
- *domestically owned than foreign owned;*
- *based outside Budapest.*

The relative number of donor companies is in inverse proportion to the amounts they give. More specifically, large companies making up some 3 percent of all donors were responsible for nearly 45 percent of donations in 2003. Foreign donors, only two and a half percent of the total, accounted for 29 percent of the money donated, and Budapest-based companies, 41 percent by number, accounted for 62 percent.

Average funding per donor company by size, ownership and geographical location, 2003



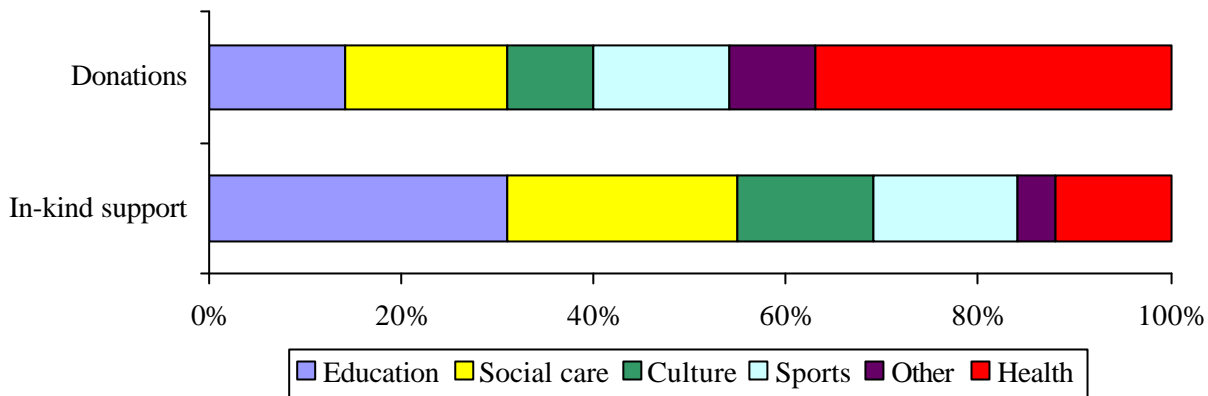
For organizations seeking corporate support, this means they should take into account all three criteria when drawing up their fund-raising strategy. Where there are a lot of companies and propensity to donate is high, it will certainly be easier to find a donor, but these donors are those who give relatively small sums. Chances of finding favor among the small number of “big but difficult catches” are lower, but success means a big improvement in the beneficiary organization’s financial situation.

Another important research finding for fund-raisers is that the number of beneficiaries does not rise in proportion to the amounts disbursed. The number of beneficiaries per donor company was highest among large companies, but was no more than eight. This is only twice the average of four found among the smallest companies.

Fields and forms of corporate donations

Companies provided a total of HUF 31.6 billion to nonprofit organizations in 2003. Of this, nearly 12 billion went to health care. Financial support was also high for nonprofit organizations operating in the fields of social care, education, sports/recreation, and culture. Most benefits in-kind, with some interesting differences in proportion, were also concentrated on these areas.

Composition of the amount of donations and the number of NPOs receiving in-kind support by fields of activities, 2003



Over half of the companies which made no donations in 2003 indicated not only their intention to support nonprofit organizations in the future, but also the target group and area of activity to which they would be most willing to direct their donations. Over 40 percent identified helping children (predominantly sick children), as a cause to which they would be likely to make a financial sacrifice. Another quarter identified health and social care (mostly health), as the area they would support in the future.

These indications show a striking parallel, between the priorities of donors and non-donors and also with how the assignable one percent of personal income tax is distributed among different categories. It seems that the *owners, executives and managers of companies do not think of donation policy in terms of their company's interests, but as "private individuals"*. Our interviews with top entrepreneurs also show that they react in the same way to requests for both personal and corporate donations. This implies that their company's first steps towards becoming a donor follow the patterns of traditional charity. Nonprofit organizations in a good position to win support from them are probably those working in the traditional fields of philanthropy and could be more successful if their requests highlight work among children.

The *forms of corporate support* are varied. As our case studies⁴ have pointed out, besides the dominant financial support, companies may also:

- offer services,
- raise the profile of the supported nonprofit organizations,
- give their own or purchased products to donees,
- offer awards and fellowships,

⁴ The subjects of the case studies were as follows: AEGON Magyarország Általános Biztosító Rt., Akció Reklámügynökség Kft., Alcoa – Kőfém Kft., Amerikai Kereskedelmi Kamara (AmCham), Domet Rt., GE Hungary Rt., Kürt Computer Rendszerház Rt., L'OREAL Magyarország Kft., Magyar Business Leaders Fórum (MBLF), MALÉV Rt., Matáv Rt., McCann–Erickson Budapest Kft., Phillip Morris Kft., Raiffeisen Bank Rt., SIEMENS Nemzeti Vállalat, Vodafone Magyarország Rt.

- organize voluntary work among their employees,
- facilitate the collection of donations among their employees,
- facilitate the collection of donations among their clients,
- offer cause-related marketing,
- urge their partners to become donors.

These kinds of support are at least as important as and may be even more efficient than financial donations. First, the overwhelming majority of companies offering in-kind donations develop closer relations with the supported organizations, become more involved in their work and most frequently also give money. Second, the donor companies' assistance in solicitation is likely to enlarge the overall amount of donations and to strengthen corporate social responsibility.

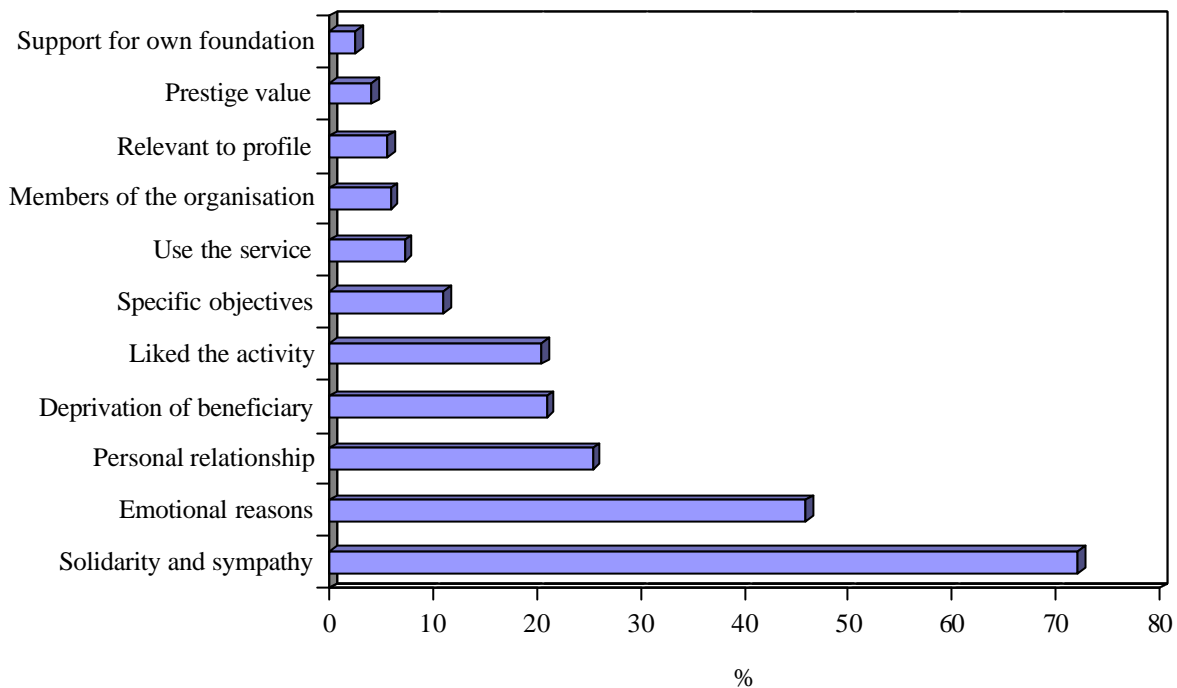
Companies' and their owners' attitudes and motivations

It can be regarded as encouraging that 62 percent of non-donor companies cited financial reasons (market stagnation, falling orders, impending insolvency, etc.) for not giving. Another 6 percent each cited temporary reasons (capital projects, reorganization, etc.) and the lack of any approach for support from an NPO in 2003. Eight percent said that although the company did not support NPOs directly, it made other kinds of charitable contributions. (These "other kinds" usually meant that proprietors, managers and/or employees made donations as private individuals.)

About ten percent of companies rejected requests for support on principle, nine percent simply rejecting the idea of charity, and one percent claiming that it is the job of the state to relieve social problems. The reason often carried a strong emotional charge. However, we came across very few examples of the selfishness and insensitivity commonly attributed to new enterprises. Even those who angrily rejected the idea of charitable donations, in large part turned out to be people carrying old sores and struggling with day-to-day problems. Their form of expression shows that they cannot always easily square with their conscience their rejection of requests from those in need.

It is also remarkable that entrepreneurs and managers mentioning the responsibility of the state do not always reject the idea of donating. Many companies, which did make donations, also noted how unfortunate and shameful it is that there is so much need for charity and that the state does not provide enough funds to cover its basic social duties. For NPOs seeking funds, this means that it may not be impossible to win over companies that oppose charitable donations on principle.

Number of companies mentioning different reasons for donating as a percentage of all donors, 2003



According to the results of our interviews and empirical survey, *social responsibility is the single most important motive for corporate donations in Hungary*. The motive mentioned more often than any other – given by nearly four fifths of respondents – was solidarity with, and sympathy for, those in need. Emotional reasons took second place, mentioned by more than half the respondents. A quarter of donors had some personal contact with the nonprofit organizations, which received corporate donations. Clearly, interests were involved here to a certain extent, but there was also a strong emotional background in some cases. A fifth of the interview subjects mentioned the deprivation of the beneficiary organization or the wish to resolve a desperate situation (such as school closure). A similar proportion said that the decision-maker simply liked the activity of the NPO or one of its projects or events.

Rational considerations, at least in the judgment of the respondents, played an extremely small part in making donations. It is particularly interesting how few companies attach any importance to sponsoring prestige events or prominent institutions. It would take specifically targeted, in-depth-interview research to reveal whether corporate interests are really so little involved in decisions on charitable donations, or whether some kind of “decent reticence” prevents people from admitting the economic considerations behind charitable acts.

For the success of fund-raising campaigns, this question needs to be answered, so that fund-raisers can find the right words and the right tone in composing and submitting their applications to potential backers.

Relations between donor companies and supported organizations

Paradoxically, there is *a gap between the companies' general opinion on nonprofit organizations and their actual reactions to NPOs' requests.*

As revealed by our interviews, there is widespread complaint, confusion and distrust regarding the nonprofit organizations themselves, their fundraising methods and uncivilized conduct. It is especially important to note that donor companies do not seem to have a much better opinion of nonprofit organizations and their fund-raising campaigns than non-donors. The spontaneously given critical comments are a warning that fund-raising in Hungary has probably reached a turning point, or at least it cannot be long before the potential for extensive growth runs out and there is a need for radical qualitative changes. There is no point in increasingly professional fund-raising campaigns if:

- the trustworthiness and credibility of those requesting support cannot be guaranteed,
- ethical norms for fundraising are not established, and
- regulatory, organizational and infrastructural resources to enforce them are not available.

It will be essential to remedy these issues if the nonprofit sector is to rely on the support of corporate donors in future. Nearly a fifth of companies that did not give in 2003 mentioned, in various ways, that their willingness to donate would be greatly influenced by the transparency of the potential beneficiary's financial affairs and the trackability of how the amount donated was utilized. To sum up, success in increasing corporate donations calls for more than an improvement in fund-raising strategy and technique.

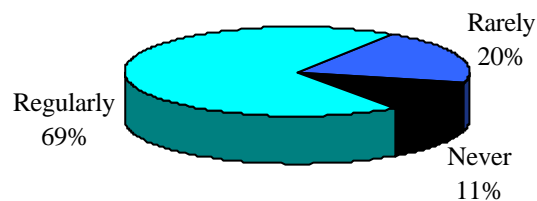
On the other hand, the launch of professional fund-raising has proved to be unexpectedly successful. The majority of companies made their donations to organizations, which had contacted them without any previous acquaintance – by letter, personally, or by telephone. Over half of donor companies (including those operating in small towns and villages), made donations to unknown organizations enquiring from outside their hometown or village, often only by telephone. It is rather puzzling that such impersonal methods could have become accepted and successful so quickly among businessmen who are normally better known for their caution and mistrust and who do not seem to have a high opinion of nonprofit organizations.

It must be borne in mind that initial trust can easily be squandered. NPOs should make serious efforts to make things clear and help corporate donors to orient themselves in the nonprofit world.

Some NPOs have already made constructive efforts to stabilize contacts with corporate donors. They succeeded in involving representatives of 10 percent of companies in the work of their governing bodies. Some 70 percent of donor companies had received invitations to their beneficiary organizations' events.

However, donors were not satisfied with the expressions of thanks and feedback they got from the NPOs. Their criticisms should serve as a warning, as should the numbers on the chart below.

Frequency of feedback and thanks, 2003



Just under 70 percent of donor companies receive regular feedback from the recipients. One fifth of recipients rarely express their thanks for the assistance, and 11 percent never. Although these proportions are much better than we found in our survey of public donations ten years ago, in themselves they are dispiriting. It is difficult to develop a culture of donation when the culture of giving thanks is lacking.

Summary and conclusions

From a practical point of view, the main results of our studies and their conclusions may be summed up as follows:

- A large part (nearly two thirds) of Hungarian enterprises turn out to be willing to donate or give assistance in-kind to the civil sector.
- Donation decisions depend mainly on the principle of solidarity or on emotion. Companies only rarely apply objective criteria, with due consideration of the company's interests, in weighing up applicants' reputations and the quality of their projects.

- Each company's donation policy is decided and under the almost sole influence of the top executive. Even within large companies, the selection of nonprofit organizations for assistance is determined by managers' personal preferences.
- Corporate decision-makers' motivations show a very close relationship to those of private donors. There are very few signs that their values differ much from those of the average person, or that they place any greater importance on rational behavior or adherence to formal requirements than private donors do.
- Companies' priorities regarding donation do not bear a close relationship to their business activities.
- Raising prestige is in second-to-last place among motivations for giving.
- Companies give to local causes (within the town or local region where they are based), more frequently in smaller towns and villages. Integration into the local community is a perceptible factor raising the propensity to donate.
- Joint effort is needed by all parties involved (civil, business and state), if the good intentions that indisputably exist are to come together and create more effective and intensive cooperation between sectors.

A finding that may have particular implications is that *the ethical model apparently dominates the current approach to corporate social responsibility*. Corporate donation is fundamentally driven by a sense of solidarity and companies' philanthropic strategy remains basically within the confines of traditional charity. Progress in other fields (such as human rights, culture, community development, etc.), demands more than perfection of fund-raising techniques; there is a need for a change of attitude. A sustained increase in corporate support for civil society issues is only likely if businesses acknowledge the importance of this dimension of socio-economic development and recognize its implications for their own interests and responsibilities. The best way of engendering and fostering this new attitude would be to replace occasional cash-seeking campaigns with a conscious, professional fund-raising strategy based on collaboration with those involved and *to build up sustained contacts between companies and civil society organizations based on mutual esteem*.

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