

# Corporate Philanthropy as a Source of Competitive Advantage

Mateusz Rak

**Abstract**—Objective: The paper aims to present various sources of competitive advantage which may occur when an enterprise strategically applies its concept of corporate philanthropy. Methodology: The review of the literature and available reports on the research regarding corporate philanthropy. Results: Strategic philanthropy is a positive phenomenon. Unfortunately, enterprises in Poland do not see all positive sides of such activities yet. Three kinds of corporate philanthropy may be described. They are to fulfil a social duty, improve the company reputation and gain a competitive edge. Practical implications: Showing enterprises the advantages of taking philanthropic actions, in particular, a large role of strategic philanthropy in gaining a competitive edge in the market as well as how to avoid negative consequences of corporate philanthropy. The paper presents corporate philanthropy on a few layers: as a CSR element, actions generating values in products, actions improving a corporate image in the market, altruist actions of employees.

**Keywords**—Corporate philanthropy, corporate social responsibility, corporate foundations, CSR.

## I. INTRODUCTION

CONTEMPORARY fast-paced development of markets assigns companies with new tasks of gaining a competitive edge. One of them is putting a value on the offer by enhancing its functional attractiveness (in terms of its usefulness) and non-functional attractiveness (influencing the quality of ownership). When characterizing this problem Ph. Kotler [5] emphasised that „nowadays intelligent companies do not sell products but packages of benefits” comprising:

- lower prices,
- reduction of purchase and usage costs,
- additional benefits.

The three ways of enhancing attractiveness of an offer are to satisfy consumers' satisfaction and may be a source of economic benefits for companies. They also correspond to the concept of Corporate Social Responsibility (CSR), which aims to provide consumers with additional values resulting from adopting the social orientation by companies. However, its effectiveness and efficiency depend on the change to management and the way stakeholders are informed about corporate social activities. The offer used to target customers solely. Nowadays, all stakeholders must be informed about social benefits the company generates. The CSR concept assumes designing strategies and communications in order to

not only create a positive social image of a company and its products but also to transform stakeholders into conscious and loyal emissaries of their products and missions.

The paper aims to present various sources of a competitive edge which may occur when an enterprise strategically adopts its concept of corporate philanthropy.

## II. PHILANTHROPY AS AN ELEMENT OF CSR

Corporate philanthropy is one of the elements of social responsibility. According to A. B. Carroll's concept, societies expect it but do not require it.

To illustrate how philanthropy is perceived in the CSR concept, one has to refer to standards set by independent organizations. In Poland ISO 26000 [4] norm from 2010 is to regulate CSR as a whole. It has been designed as a collection of standards enabling companies to evaluate adoption of the CSR concept. This norm defines CSR principles in main areas of social responsibility, namely [13],

1. corporate governance (managing a company in an ethical and transparent way),
2. human rights (respecting company objectives: citizen's right, political, economic, social and cultural rights).
3. work relations (company relations with associates and its own employees).
4. protection of natural environment (preventing environmental degradation, a balanced usage of resources, mitigating consequences of climatic changes, protection and regeneration of natural resources).
5. fair market practices (ethical company's behaviour towards other organizations with which the company initiates business and social relations to eliminate bad practices and give a good example.
6. relations with consumers (compliance transparency and integrity rules with respect of existing and potential customers).
7. social involvement and development (active part in solving social problems by providing assistance to social organizations in need or members of the society).

Philanthropic activities constitute a dominant task in the seventh area i.e. “social involvement and development” where company's activities are defined in detail in respect of:

- involvement into development of a community,
- education and culture,
- creating new jobs and development of skills,
- development and an access to technology,
- generating wealth and income,
- health,
- social investments.

M. Rak is with the WSB University in Wrocław, Wrocław, Poland (e-mail: mateusz.rak@wsb.wroclaw.pl).

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Social development-oriented activities of companies indicated in ISO 26000 norm reveal possibilities of philanthropic activities pursued as one-time actions or systematic assistance provided together with governmental and social organisations where corporate philanthropy is situated. The significance of companies' participation in social development was confirmed and accepted in the latest definition of CSR included in the strategy of adopting and disseminating the CSR concept for 2011-2014 [14] where the European Commission defined CSR as [14]:

*„... the responsibility of enterprises for their impacts on society”. Respect for applicable legislation, and for collective agreements between social partners, is a prerequisite for meeting that responsibility. To fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of:*

- *maximising the creation of shared value for their owners/shareholders and for their other stakeholders and society at large;*
- *identifying, preventing and mitigating their possible adverse impacts.”*

The quoted definition indicates an important role of philanthropy in the CSR concept as “mechanisms integrating social and environmental issues” originate from philanthropy.

While defining corporate philanthropy it is worth to refer to the entry in the Polish dictionary. The term is explained as „providing selfless assistance to those in need” [17]. This description prevents enterprises from taking the role of a philanthropist because according to the CSR pyramid, enterprises must generate a profit as conditioned by the society. Therefore, the author thinks that a better definition is provided by Anglo-Saxon countries. The term is explained as „the practice of giving money and time for the purposes of providing other people with better lives” [12]. The definition

suggested by Britannica [11] also includes behaviour for the sake of other purposes than improving lives of other people. Thanks to such definition, other terms have been coined i.e. corporate philanthropy. It denotes philanthropic activities of enterprises aiming to generate benefits (profits) as well as corporate disinterested help. Anglo-Saxon countries differentiate selfless philanthropy from the philanthropy pursued for purposes of generating other benefits [6] (see Table I).

### III. RESULTS OF CORPORATE PHILANTHROPY

These terms became popular and philanthropy was associated with not only people but also with enterprises in the mid-20<sup>th</sup> century. A boom of philanthropic activities was triggered at the turn of centuries. This strategy was called strategic philanthropy which aims to coordinate actions in order to generate an additional benefit for a donor. In 2002, Porter and Kramer [6] identified three independent philanthropic action groups (see Table II) which can be applied in strategic philanthropy.

The authors of [6] say that most often enterprises take actions treating philanthropy as a social obligation and to improve the reputation of the company. According to their research, only a small percent of enterprises decides to take philanthropic actions in order to build a competitive advantage. This kind of strategic philanthropy may be followed by enterprises in various forms [18]. Examples are presented by Table III.

TABLE I  
FEATURES OF STRATEGIC AND OPERATIONAL PHILANTHROPY

Feature	Operational philanthropy	Strategic philanthropy of an enterprise
<b>action</b>	helping, providing assistance	helping, providing assistance
<b>Planning actions</b>	One time or short-term	Long-term
<b>Target group</b>	Each person or a group from the society	Designated people or groups of people who are important stakeholders for an enterprise or are significant to important stakeholders of the company
<b>Results for the society</b>	Improving the quality of life	Improving the quality of life
<b>Results for a donor-enterprise</b>	none	Various positive results (material or non-material)
<b>Expenditure on actions</b>	Little or big	big
<b>Calculation a return on investment</b>	none	There are many methods of calculating results for the society and the enterprise

TABLE II  
FEATURES OF THREE KINDS OF PHILANTHROPIC ACTIONS

Type of an action	Social responsibility	Good reputation of a company	Building a competitive advantage
objective	According to the concept of a good corporate citizen helping a community that corporate actions influence	Positive attitude of the community, customers towards the company	building a competitive advantage
Main stakeholder	Local community	Customers, investors	customers
impact	local	international	national

TABLE III  
KINDS OF CORPORATE PHILANTHROPIC ACTIVITIES

Kinds of corporate philanthropic activities	explanation
Money donations	Incidental and „ad hoc”, financial and tangible support of social actions taken by civic organisations to counteract consequences of emergencies (e.g. natural disasters, wars, accidents, environment contaminations) where people or the natural environment suffered.
Creating grant programmes	Initiating and supporting (financially and tangibly) long-term programmes carried out by social organisations aiming to solve social problems (e.g. „Water for Sudan”, helping the excluded, supporting community centres etc.)
Creating scholarship programmes	Promoting the need of acquiring knowledge and activating the youth through scholarships enabling the neglected youth to continue to study.
Donations of products	Donating products to support various programmes and actions taken by non-profit organisations (e.g. giving clothes and food, cleaning agents to shelters for the homeless, Food Banks etc.)
Transferring know-how	Providing free of charge assistance to social organisations through unpaid consultations, training and arrangement of internships for pupils and students.
Offering services	Rendering free of charge services to non-profit organisations and people in need (e.g. free of charge printing information materials for organisations, providing transport services, enabling the youth (the elderly) to attend theatrical performance, concerts).
Giving access to company rooms and distribution channels	Lending company rooms to non-profit organisations or people in need (flats) or giving non-profit organisations access to distribution/logistic channels (e.g. collection of food in stores, sales of products whose profits go to non-profit organisations (sales of „Mleczny start” in Biedronka stores, giving „Water for Sudan” access to Cisowianka distribution channels), lending rooms for purposes of training run by non-profit organisations)
Lending company equipment	Letting non-profit organisation use company equipment and cars (e.g. lending cars for the purposes of actions taken by an external organisations, lending computer/multimedia equipment to programmes and actions of non-profit organisations etc.)

The activities presented above are examples of applying corporate philanthropy by companies. The results of the research carried out in Poland in 2011 [13] called „The evaluation of implementation of CSR” indicate that 70% of companies within two years (2010-2011) provided financial support. Whereas, the term CSR is known to only 31% of representatives of companies in Poland out of which only 26% in micro companies and 36% in small companies. The concept of CSR is known in 70% big companies and 50% medium ones. This confirms that the adoption and development of the CSR concept is dominant in big and medium companies. It must result from the scale of their actions, participation of foreign capital and from their awareness and the need of striving to strengthen their competitive position by providing consumers with above average values. These values include not only material features of the products but also social ones. Corporate philanthropy has a big share in those values.

According to the research conducted by Porter and Kramer in 2002 [6], the most important values companies obtain thanks to philanthropy are as follows:

- improvement of the quality of life in the society leads to a better performance of employees in the company
- increasing awareness of the society leads to a growth in the demand for company products
- improvement of the atmosphere in managing an enterprise (reduction of corruption, a positive attitude of the society towards running a business, improvement of protection of intellectual property etc.)
- enhancing competitiveness of companies from the near business environment in order to reduce costs of activities and increase productivity of a company

These effects may be noticed in enterprises operating in the Polish market:

- An example is provided by KGHM [3] which within its scope of activities built and equipped a hospital. This made good employees stay and join the company.
- Orange [1] a telecommunication company conducts extensive training for kids and the elderly in surfing the

internet. This may lead to the increase the number of customers or a more positive brand image.

- Enterprises in Poland united into Lewiatan Confederation [2] in order to lobby in favour of changes in the Polish legislature helping enterprises to develop in Poland.
- Żywiec Group S.A. dealing with the production and distribution of beer in Poland since 2008 convinces its suppliers to apply CSR [9] principles. This led to creating new jobs and improvement of the quality of services and products of suppliers.

#### IV. IMITATIONS OF CORPORATE PHILANTHROPY

Despite numerous advantages of philanthropy in Poland only few companies resort to strategic philanthropy. One of the reasons is the fear of enterprises against other companies using the effects worked out by philanthropists. Nevertheless, the research conducted by Porter and Kramer [6] in 2002 proves that:

- Philanthropic activities build a competitive edge only in the area of donor's activities. A philanthropist does not lose the majority of its benefits.
- Enterprises implementing philanthropy into their strategies most often cooperate with other enterprises and non-profit organisations. Therefore, there is no risk of being used as all enterprises take part in activities and their results (An example is provided by Mleczny Start action taken by Maspex Wadowice, Lubela and Biedronka. The two first companies are the biggest competitors in the Polish market. The action aims to reduce the problem of children's malnutrition and educate children about healthy eating [19]),
- An enterprise leading in philanthropic activities will also benefit most (PZU insurance company allocates the biggest share of its revenue to philanthropic actions as compared to other insurance companies in Poland. It results in the positive change to the company image in views of customers)

- Enterprises may adjust their philanthropic activities to benefit from their specific market segment. Thanks to that only the philanthropist may use all effects (NSN operating in Wrocław supports students who are interested in ICT. This makes more and more students become interested in this subject. The majority of students graduating from ICT studies starts work in NSN).

Positive effects that are generated by philanthropy may be diminished by the impact of a public opinion (of customers, employees, shareholders). On the basis of her work and of other researchers, Keith Diener [15] established the existence of 5 paradoxes regarding the public opinion (see Table IV).

TABLE IV  
PARADOX OF PHILANTHROPIC EFFECT

Paradox	Definition
Motivation for pursuing philanthropy	Consumers think that an enterprise takes philanthropic actions for its own benefit
Opinion about actions	Regardless of the fact whether an enterprise takes philanthropic actions or not, it will be criticized by the public opinion
Informing about actions	Consumers do not like when an enterprise publicizes its philanthropic actions and when it does not do it is also badly perceived
Stakeholders	Stakeholders of an enterprise (employees, shareholders, customers) do not affect philanthropic actions undertaken and that is why they do not identify with them
Donation	Positive effects of philanthropy occur in the long-term. Over that period the organisation the enterprise cooperates with cannot be changed.

The above paradoxes pose difficulties in pursuing corporate strategic philanthropy. The first three ones are caused by the fact that consumers have no confidence in non-standard actions taken by companies. The Polish research [16] shows that 73% of Poles think that companies spend more money on promotion of social actions rather than actions themselves. Reasons for initiating social actions are also critically perceived as 75% of Poles think they are undertaken only for promotion purposes and additional 15% consider them as a duty of the company (compensating for damage caused to the natural and social environment). Only 9% of respondents believe that actions related to CSR are undertaken by companies because of their good will. It means that these paradoxes also exist in Poland. They cannot be easily eliminated as an attitude towards corporate philanthropy of the entire society should be changed as in 2013 [10] 74% of Poles gave money for various social causes.

The paradox of stakeholders exists as philanthropic actions are conducted on the basis of the existing CSR strategy. Employees and shareholders cannot initiate actions they really care about in an enterprise. They must do it on their own account. This paradox has been resolved in ING Bank Foundation (Based on the research of one's own. The interview conducted with ING employees in June 2014 in Wrocław). Bank employees may independently initiate cooperation with any social organization or take part in actions sponsored by Bank ING (ING employees may devote one day per year to work with a selected non-profit organization as

part of their employment). The Bank sponsors and takes actions in line with a long-term CSR strategy of the Bank. This approach diminishes significantly the paradox of not identifying with corporate philanthropy.

The paradox of donation: One has to wait for results of philanthropic actions the same as for the results of CSR for a long time. Philanthropic actions involve cooperating with various organisations which help to achieve assumed goals. Such cooperation is required as enterprises are not familiar with solving various social problems so they have to ask specialist organisations for help. The biggest disadvantage is the lack of full control over a cooperating organisation [7]. Negative consequences of this paradox may be diminished when an enterprise merges with a non-profit organization or creates one [8].

## V CONCLUSION

Corporate philanthropy which is considered as an element of a corporate strategy may generate benefits which translate into gaining a competitive edge. However, to enhance results one must resolve paradoxes of corporate philanthropy. The research carried out by the author shows that the paradoxes are resolved most easily by establishing a non-profit organisation which as an independent organization (controlled by an enterprise) supported by the enterprise and through such organization will undertake philanthropic actions.

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**Mateusz Rak** is assistant at the WSB University in Wrocław in Poland and the supervisor of Management and Marketing Students Scientific Association. In June 2009 he received master degree in Management and Marketing. He has completed postgraduate studies Modern Marketing, Manager of R & D projects and participated in numerous trainings and abroad internships. He is a PhD candidate at the Wrocław University of Economics and is preparing his doctoral thesis Corporate foundations in the implementation of corporate strategies. He is also a head of a research project on “Competitiveness commercial and charitable enterprises in the management” granted by the National Science Centre in Poland (DEC-2013/11 / N / HS4 / 02439). The project has been implemented at the Wrocław School of Banking in 2014-2016. Mateusz Rak is also an author of 18 scientific papers in area of Corporate Social Responsibility.