

# **Cuddly Capitalism:**

## **Creating Philanthropic Value by Foundation Owned Business**

“It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own interest”

(Adam Smith, 1776)

From the late 1990s the global economic boom brought about new interpretations of the relation between business and philanthropy, fuelling debates on effective giving and impact investment in order to mitigate side effects of neo-liberal “cut-throat capitalism” and foster blended value creation (Emerson, 2003). After the financial crisis even more emphasis has been put on demands for socially responsible business models of this kind ((Bishop & Green, 2008; Porter & Kramer, 2011).

Strict legal distinctions between philanthropic and business purposes, however, hamper innovative experiments at the institutional level. Only a few political systems in northern Europe allow the creation of blended value organizations. Denmark is the extreme case, holding an unofficial world record of 256 multi-purpose foundations per 100,000 inhabitants, 1.300 of them *Foundation owned Businesses* (FoBs), e.g. Carlsberg, LEGO, Novo Nordisk, Maersk, and VELUX.

Based on longitudinal data on input, output, outcome, and impact the paper argues that blended value driven capitalism, by critics termed “cuddly” (Acemoglu, Robinson & Verdier, 2012), is actually quite efficient both in terms of business and philanthropy. Consequently, Danish cases may inspire other European players in their quest for more effective giving and impact investment. On this backdrop challenges to empirical valuation analyses in a broader European context is sketched.

*Key words: Corporate philanthropy, Economics of philanthropy, Impact, outcomes and outputs of philanthropy, Legal and fiscal issues in philanthropy*

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## 1. Introduction

Research on private giving is a marginal field in social sciences. Few studies on philanthropy and gift giving that actually have been published primarily take a historical and qualitative approach. In addition to these thick descriptions and historically informed case studies, three quantitative oriented areas of Danish research deserve mention:

First, comprehensive quantitative studies on voluntary work have been undertaken the last 10 years, originally as part of the international research project *The Johns Hopkins Comparative Nonprofit Sector Project* (see for example Fridberg & Henriksen, 2014 and Koch-Nielsen et. al., 2006). Voluntary work can be perceived as philanthropy insofar as it intended to the benefit for others than oneself, for example by giving time or care instead of giving money. Furthermore, in the most recent study of voluntary work, a survey-based chapter on individual giving of money was included (Taxhjelm, 2014).

Secondly, charities and philanthropic foundations are subject to considerable attention from think tanks, consultancies and charity associations. Most importantly, ISOBRO, the Danish Fundraising Association has published analyses on the development in funding of their member organizations (see for example ISOBRO & Deloitte, 2014), while a yearly publication from the Danish consultancy Kraft & Partners deals with key developments and tendencies in the industry of foundations, focusing e.g. on taxation, evaluation and transparency.

Finally, in 2013 the CBS Center for Civil Society Studies was established in order to advance Danish research on civil society activities. The centre focuses on philanthropic contributions from foundations owned business (FoBs), predominantly from quantitative and historical perspectives (see Lund & Meyer, 2011, Lund, 2015, and Lund & Berg, 2015).

**Table 1.** Estimated minimum giving in Denmark in one fiscal year (2013-data).

	Million €	Percentage
Individuals	862	37
<i>In vivo</i>	795	
<i>Bequests</i>	67	
Corporations	-	-
Foundations	1.200+	52
Charity lotteries	244+	11
<i>State-controlled charity lotteries</i>	234	
<i>Non-state-controlled charity lotteries</i>	10	
Total	2.306+	100

Table 1 sums up what we know about the amounts given by individuals, corporations, grant-giving foundations, and charity lotteries in Denmark: Foundations are clearly the outstanding contributor. It must be noted, however, that we have not included giving through membership organizations. In a Danish context this renders a notable bias in the area of religion, since 75 % of the Danes are members of the national church (*Folkekirken*), financed by a special (membership only) church tax generating €771 mill. in the fiscal year 2013 (Denmarks Statistik, 2013). We have no data documenting giving to congregation churches outside *Folkekirken*. This task would, indeed, be a demanding, but a relevant one to be addressed in future research.

To complete the picture, we also need more information of non-monetary giving. Fortunately a comprehensive research program is in progress documenting the value of voluntary work and other non-monetary civil society contributions (Boje et al., 2014). 38 % of the population aged 16 years or more volunteers (Fridberg, 2014b: 34). In average, these people spend 16 hours a month on voluntary work (Fridberg, 2014b: 43). Not all voluntary work can be perceived as strictly philanthropic, however. Accordingly, we need more research on motives (Habermann, 2001, and Henriksen, 2014: 121-122). Based on these insights it must be emphasized that in order to get a comprehensive account of giving, money donations must be combined with estimates of gift giving in terms of time.

## **2. Giving in Denmark**

Approximately 1000 organizations in Denmark have been authorized in accordance with the *tax assessment act* (Skatteministeriet, 2014) to receive donations from individual givers, who thus qualify for tax deductions corresponding to a maximum yearly amount donated of app. €2000. The organizations report donations to the tax authorities, and the individuals' due tax is reduced accordingly. Consequently, the tax authorities have accurate data on giving by individuals, but unfortunately it has not been possible to gain access to the data.

Therefore we will have to consult other sources of data to shed light on giving by individuals in vivo. In a recently published comprehensive quantitative study of voluntary work in Denmark, a chapter on individual giving of money was included (Taxhjelm, 2014). Data was collected through a phone-based survey (CATI) where a representative sample of Danes aged 16 to 85 were contacted with a response rate of 67 % to follow (Fridberg, 2014a: 23-24). In the study, data from 2012 is compared to similar data from 2004, which was collected as part of the international research project *The Johns Hopkins Comparative Nonprofit Sector Project* (see Koch-Nielsen et. al., 2006). In the 2012-survey, method, definitions and response categories have been adopted in order to maintain comparability with the 2004-survey and other research

projects following the guidelines from *The Johns Hopkins Comparative Nonprofit Sector Project*.

While almost half of the Danes aged 16 years or more donate to health and international activities, the mean amount donated in these two areas are relatively small. In the case of religion the tendency is opposite, since only 5 % donate to religion, but with a mean amount donated of € 540. It must be noted that although the total mean amount donated is €267, app. 75 % of the giving individuals give less than €208. This is due to the fact that most Danes give relatively small amounts of money, while few Danes give very large amounts of money.

Health and international activities are the primary purposes of giving followed by sports and religion. The social area, culture, environment and education are minor fields of giving. Since there are no other data sources available it is difficult to assess the accurateness of the data presented above. As already described data has been collected and analyzed in accordance with generally accepted methodological principles, which gives us no reason to doubt the quality of data. However, individuals might tend to overestimate their giving for charity when answering a survey. Consequently, the total amount given by individuals in vivo might be somewhat lower than the €795 mill. reported in table 2.

Not much data on individual giving for charity by bequest are publicly available. We do not know the mean amount given by bequest nor the number of individuals, which have given by bequest. However, ISOBRO, the Danish Fundraising Association, has examined the funding of their member organizations, including some data about the amounts given by bequest to their member organizations (ISOBRO & Deloitte, 2014). The findings are based on a survey, which was sent to the member organizations. ISOBRO estimates that the survey is representative and that the total income of the organizations that responded is equivalent to app. 75% of the total income of organizations which have been authorized to receive donations in accordance with the *tax assessment act* section 8a as described above. In order to get a more accurate account of the real amounts given, the amounts shown in the table 3 have been multiplied from 75% to 100%.

Health/disability organizations and international aid organizations receive the biggest amounts from charitable bequests, although it must be noted that the total amount received from charitable bequests are relatively small compared to giving by individuals in vivo. On the other hand, the actual amount given by bequest might be somewhat larger, since giving to charity organizations, which have not been authorized to receive donations, is not included in the data presented above. Consequently, the €67 mill. should be regarded as a minimum of non-family giving by bequest.

Charity lotteries can only be provided with license from the Danish Gambling Authority. Associations, organizations, committees or institutions can apply for a temporary license that needs to be renewed by reapplication every time a lottery is to take place. Culture and sports is the primary area of giving by charity lotteries. For a number of reasons, the total amount given

by charity lotteries might be somewhat bigger than the €234 mill. reported in the table. First, the estimated €10 mill. given by national charity lotteries should be added, second, the two smallest of the permanently licensed lotteries are not included, and third, the local associational lotteries are not included. Consequently, €244 mill. should be regarded as a minimum of giving by charity lotteries. However, it is our assessment that the correct amount is not very far above the reported, since some of the giving by temporary local charity lotteries might already have been reported as individual giving. People might perceive it as more charity than lottery when participating in the local lotteries, thereby reporting their money spend on charity lotteries as just charity, when answering the surveys mentioned in section 2.1 on giving by individuals.

Danish business corporations are able to get yearly tax deduction corresponding to up to 15 % of their taxable income. As is the case with individual giving these rules creates the basis of quite accurate data on giving by corporations, but unfortunately it is not possible to access the data. This leaves us with no quantitative data on giving by corporations. We neither know the total or the mean amount donated by corporations nor the proportion of corporations donating for charity. The following section therefore contains more qualitative reflections, which might be helpful in future efforts of collecting quantitative data.

Vallentin (2013) examines in what ways Corporate Social Responsibility (CSR) can be perceived as philanthropy. Philanthropy is one type of CSR characterized by corporations giving for charity. Vallentin argues that Danish corporations during the last years have increased their attention towards communicating and highlighting their responsible actions. Philanthropy then is a very suitable way of communicating social responsibility.

Providing data on giving by corporations is complicated by the fact that corporations not only give money, but also give time, products or services for charity. For example *corporate volunteering* is a kind of corporate philanthropy which has become more common in Denmark, making it possible for employees to do voluntary work during working hours (Vallentin, 2013: 21).

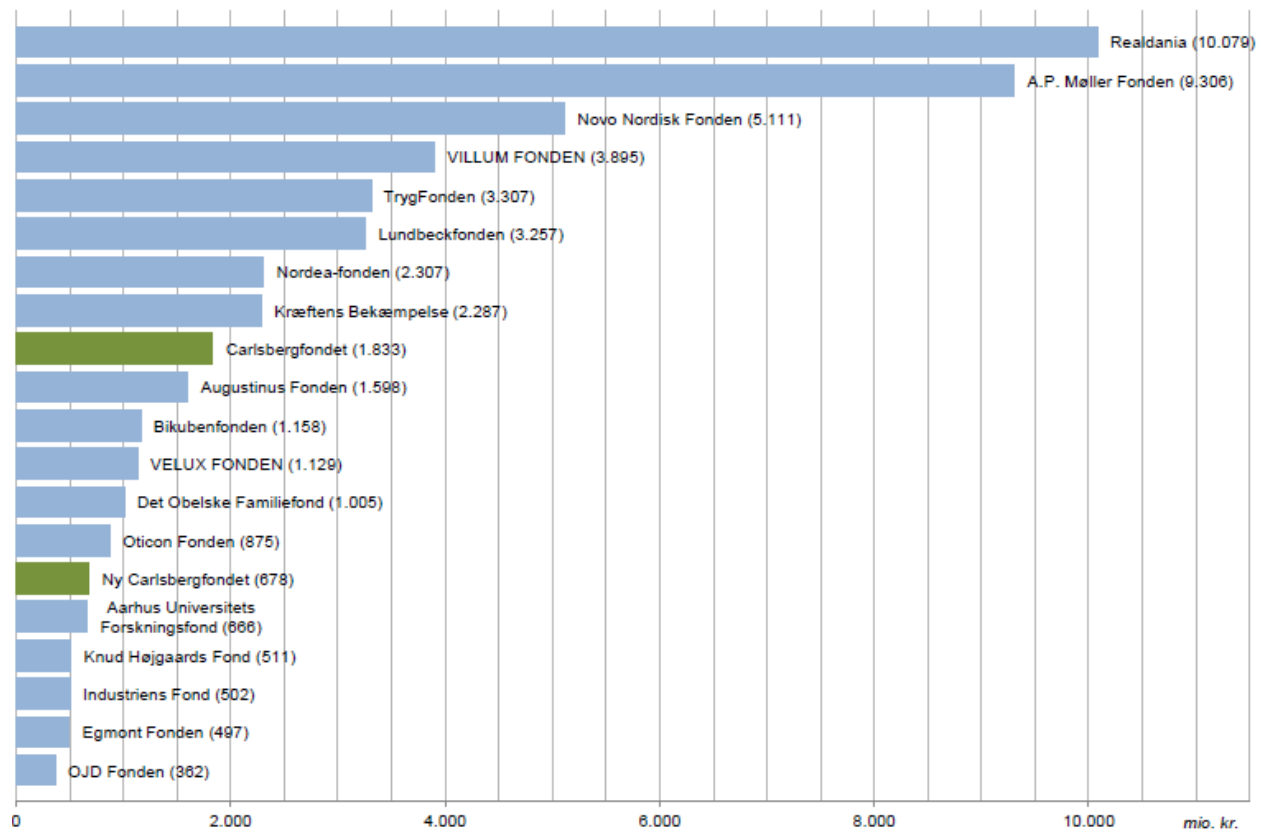
Furthermore, some Danish companies donate products or services instead of money. And it gets even more complicated to estimate corporate giving in Denmark when taking into consideration that a large proportion of major Danish corporations are so-called Foundation owned Businesses (FoBs). This rather special model of ownership in the private sector has formerly generated tax privileges, competitive advantages and prevented foreign takeovers of corporations. As we shall see in section 3, the FoBs are obliged by self-imposed stages to donate considerable amounts of money for worthy causes. This peculiar way of giving must be taken into consideration, when examining giving by non-foundation owned corporations in Denmark.

### 3. Giving by foundations

According to the European Foundation Center, Denmark hold an international record: 256 foundations per 100.000 inhabitants. Next in line is Switzerland at 158, Sweden at 125 and Finland at 48. The Danish landscape of philanthropy consists of many small foundations donating limited amounts of money. We estimate a population of at least 14.000 self-governed entities, including 1.350 so-called Foundation owned Businesses (FoBs).

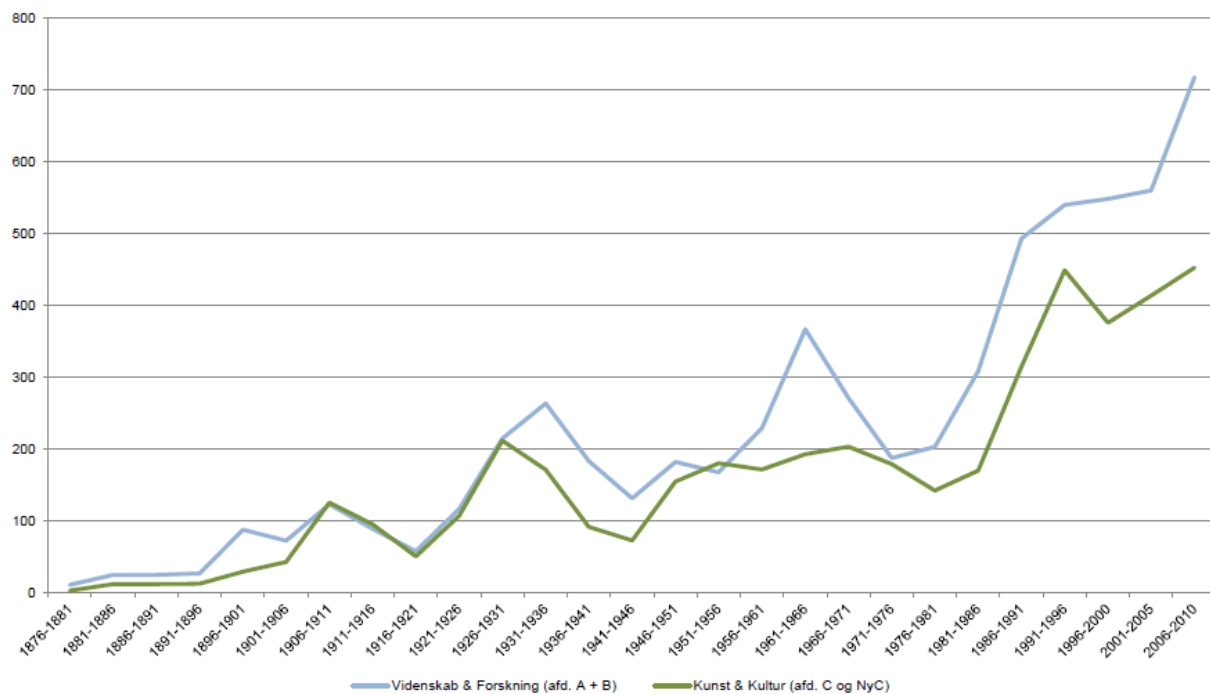
These FoBs have a total equity of roughly €57 bn., of which more than half relates to the top-100 largest companies. If we look at the philanthropic activities, some corporate funds have no such activities at all, and among the rest of them, annual distributions with philanthropic aims vary from 0.4% to 10% of capital assets. On average, they distribute about 2% of their accumulated wealth (Lund & Meyer, 2011).

The top-20 list of Danish foundations contains multinational corporations such as the brewing corporation Carlsberg, the pharmaceutical corporations Novo Nordisk and Lundbeck and the shipping corporations A.P. Møller-Mærsk and Lauritzen. has distributed 6.6 b€for philanthropic purposes. Taken together the top-20 foundations have donated 6.6 b€for philanthropic purposes over the last ten years (Lund, 2015)..



The two primary areas of giving by FoBs are arts and sciences (Lund & Berg, 2015: 8), and Fejerskov & Rasmussen (2014: 16-17), identify a growing trend in the way Danish foundations are engaging internationally. Having traditionally mainly supported Danish organizations working abroad, more Danish foundations today are working directly with international actors and organizations in developing countries, although the majority of foundation support is still given to activities in Denmark and selected countries where the FoBs do business.

Ongoing research at the CBS Center for Civil Society Studies documents historical trends in this giving behaviour. Translated into 2010-value a steady increase in input can be detected. In term on impact, however, the early years before the development of the universal welfare state of the 1960s may be regarded as relatively more significant both in terms of social, cultural, educational and scientific output and outcomes. These developments can be traced back to the third quarter of the 19<sup>th</sup> century when the Carlsberg Foundations were established as the very first, perpetual and successful FoBs of the world.



All in all, the Carlsberg Foundations has contributed 2b€ to philanthropy over a period of 135 years. It would be very interesting to compare developments like this to similar contributions by foundations in other European countries

## 4. Comparative Challenges

Giving behavior by Foundation owned Businesses (FoBs) may be regarded as an area in which Denmark is an extreme case, with an unusually large number of high spending players (Lund, 2015). None the less, we believe it to be an interesting topic for future studies to compare FoBs with other forms of corporate giving across Europe – including Business initiated Foundations (BiFs). Both types of business organizations may create blended value (Emerson, 2003), i.e. mixing commercial and philanthropic bottom lines, but significant differences between BiFs and FoBs in giving behavior are to be expected.

It is, however, unfortunate that the relatively few quantitative studies available on philanthropy lack standardized approaches for valuating gift giving. The different data sources are built on a diversity of definitions, a variety of categories and different methodologies, which all together weakens the comparability in terms of input, output, outcome and impact. Future standardization effort should not, however, be done at the expense of the more qualitative and historical approaches to philanthropy, which, as described in the introduction, has led to valuable insights into the peculiar traditions of gift giving by private citizens, lotteries, corporations, and last but not least: Foundation owned Businesses.

Research based knowledge on different types of giving differs greatly, e.g. we know quite a bit about giving by individuals, but next to nothing about giving by corporations, and far too little about lotteries – including valid estimates of transaction costs. When it comes to giving by individuals we are in better shape. Survey-based data gives us an account of giving by individuals in vivo, which, despite of being of good methodological quality, might be overestimated due to self-reporting. Data on the funding of fundraising organizations provides a minimum amount of giving by bequest. As regards both corporations and individuals, the tax authorities have very accurate data on giving eligible for tax deduction. Constructive dialogue with the tax authorities in order to gain access to data of this kind.

Finally it must be stressed, that the relatively few quantitative studies available on Danish philanthropy lack standardized approaches for valuating gift giving. The different data sources are built on a diversity of definitions, a variety of categories and different methodologies, which all together weakens the comparability in terms of input, output, outcome and impact. Future standardization effort should not, however, be done at the expense of the more qualitative and historical approaches to philanthropy, which, as described in the introduction, has led to valuable insights into the peculiar Danish traditions of gift giving by private citizens, lotteries, corporations, and last but not least: Foundation owned Businesses.



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