

# Caught between two worlds: CSR of Swiss Corporate Foundations

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## Abstract

**Purpose:** This study explored the activities of Swiss corporate foundations as the CSR arms of their parent corporations. Even though Switzerland has a favorable legal context for setting up foundations and is perceived as a country with a long philanthropic tradition, little empirical research exists on this topic.

**Design/Methodology:** The sample of 14 foundations represented SMEs and large multinationals across eight industries. Qualitative in-depth interviews were used for data gathering, accompanied by elite interviews with opinion leaders. The data focused on various aspects such as the connection to the funding corporation, the rationale behind setting up the foundation, current perceptions on corporate citizenship as well as the stakeholder communication.

**Findings:** The findings revealed that Swiss corporate foundations seem to be caught between two worlds. They are beholden to a profit-oriented corporation for establishing them but they are expected by society to pursue the altruistic goal of being good citizens supporting charitable activities. They have a delicate balancing act to develop their own identity and position themselves to society. To stay within the legal boundaries and keep credibility high, these foundations struggled to not be seen as the publicity arm of the parent corporation – some foundations performing this balancing act better than others. Different structures such as the composition of the board of trustees or the place of work reflected the standpoint of the interviewees of either being independent or supporting the business.

**Originality:** To the best of our knowledge, no other study has explored the dimensions of Swiss corporate foundations as conducted in this study, which is important to the body of knowledge. Given the large number of corporate foundations in the world, this study helps broaden the horizons of the CSR body of knowledge.

## 1. Introduction

Faced with fierce economic competition in an increasingly globalized economy, corporations are being forced into becoming good corporate citizens. Giving back to the society in which they are prospering is increasingly demanded by consumers, multiple stakeholders, and the public at large. Put differently, being socially responsible is no longer a “nice to-do”, but a “have to-do” (Epstein 2005, p. 26). As a result, the concept of Corporate Social Responsibility (CSR) has gained in popularity in the past two decades. A leading news magazine stated that “Corporate Social Responsibility, once a do-gooding sideshow, is now seen as a mainstream” (The Economist, 2008). Other scholars have contended: “the corporate social responsibility concept has a bright future because, at its core, it addresses and captures the most important concerns of the public regarding business and society relationships” (Carroll, 2006, p. 26).

By way of responding to these growing expectations, corporations have increased their philanthropic activities

and corporate giving has increased in recent years manifested in various forms, ranging from formal internal structures to totally separate legal entities such as corporate foundations (Keinert, 2008). Corporate foundations derive their financial resources primarily from the corporation (Eckhardt et al., 2012; European Foundation Center, 2007). In 2011 82% of corporations in the USA reported having set up a foundation (Committee Encouraging Corporate Philanthropy (CECP), 2012). Investing in such an independent legal entity signals a long-term commitment and engagement from the corporation. Corporate foundations exist between two worlds: the “corporation” and “foundation.” The first is in the profit sector whereas the latter is part of the non-profit segment (Meffert, Then, & Fritsch, 2006). The two worlds have different mechanisms and objectives; a business logic aiming to generate profit versus the aim to increase the welfare of society and have a positive social impact. In view of this, it is especially interesting to see how corporate foundations handle the challenge of having a corporation as altruistic benefactor while also having a ‘firewall’ that prevents the

corporation from using the charitable activities of the foundation for refurbishing its own reputation – what CSR literature has termed ‘strategic CSR,’ a term we find in contradiction with true CSR.

## 2. REVIEW OF LITERATURE

The concept of CSR: Various definitions of the term have evolved over time, with the “father of corporate social responsibility,” Howard R. Bowen calling it “the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of objectives and values of our society” (Bowen, 1953, p. 6). In the 1960s the literature on CSR developed considerably, with Davis as one of the most prominent scholars defining social responsibility as “businessmen’s decisions and actions taken for reasons at least partially beyond the firm’s direct economic or technical interest” (Davis, 1960, p. 70). The author pointed to the relationship between social responsibility and business power, which in the late 1970s and 1980s became commonly accepted (Carroll, 2006).

In 1971 the Committee for Economic Development (CED), offered a definition that indicated the substantial changes in the social contract between business and society:

Business is being asked to assume broader responsibilities to society than ever before and to serve a wider range of human values. Business enterprises, in effect, are being asked to contribute more to the quality of American life than just supplying quantities of goods and services. Inasmuch as business exists to serve society, its future will depend on the quality of management’s response to the changing expectations of the public. (p. 16)

One of the first theories categorizing a company’s diverse obligations was the pyramid of responsibilities first published by Archie B. Carroll in 1979 (Carroll, 1979). It defined CSR through four layers: “the social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organizations at a given point in time” (Carroll, 1979, p. 500).

The early 2000s witnessed very few new contributions to the definition of CSR, but considerable empirical research focused on the relationships between CSR and business components as well as a split of the field into various specializations (Carroll, 2006). Bowd, Harris and Cornelissen (2003, p. 19) defined CSR as “corporations being held accountable by explicit or inferred social contract with internal or external stakeholders, obeying the laws and regulations of government and operating in an ethical manner which exceeds statutory requirements.” Mullerat (2005, p. 3) saw CSR as the concept “whereby companies voluntarily decide to respect and protect the interests of a broad range of stakeholders while contributing to a clearer environment and a better society through an active interaction with all.” With the rise of supranational communities in the field of CSR, the European Commission published a green paper in 2001 to promote the concept of CSR in Europe among various players within the economy. It hereby defined CSR as the concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis (Commission of the European Communities, 2001, p. 6).

However, ten years later, the EU introduced a revised definition, outlining CSR as “the responsibility of enterprises for their impacts on society” (European Commission, 2011, p. 6).

As this array of definitions that have evolved during the last sixty years shows, the concept of CSR is a fluid one, whereby it is both a means and an end. As a means it is an integral element of the firm’s strategy, defining the way the firm delivers its products or services to the market. (as an end???) Furthermore it also takes the role of an end by maintaining the legitimacy in the larger society through bringing stakeholder concerns to the foreground (Werther & Chandler, 2011, p. 7).

The changing circumstances of the 20th century led the notion of shareholders being the sole focus and the single most important group being rethought. The stakeholder theory, with R. Edward Freeman as its pioneer, was the first economic theory advocating a departure from the classical undisputed rights of shareholders and towards an increased focus on a broader public (Keinert, 2008). The concept of CSR is closely interrelated with the concept of stakeholder management; what can be said is that CSR carries both an internal and external dimension, whereby it points to the responsibility of firms regarding both groups of stakeholders, taking a broader view than just stockholders (Keinert, 2008). Donna Wood’s work on CSR provided a crucial linkage between the two theories: she formulated the notion that CSR challenges the purpose of the corporation, shifting from a shareholder to a social view, embracing the idea that the interests of specific stakeholder groups have to be considered in defining the purpose of the corporation (Freeman et al., 2010). Furthermore, it’s a crucial tenor of the company on which relationships with constituents can be built (Fieseler, 2008). CSR not only has to be conducted because of altruistic motives, but can also strongly be connected to the firm and help build a competitive advantage within the industry. In this strategic view “CSR is not about saving the whales or ending poverty or other worth-while goals that are unrelated to a firm’s operations and are better left to government or nonprofits” (Werther & Chandler, 2011, p. 9). It is more about economic, legal, ethical and philanthropic issues that stakeholders view as directly related to the firm’s plans and actions, linking back to the stakeholder theory. A successful CSR strategy is marked by an overlap of economic and social interests. Werther & Chandler here applied the broader concept of CSR to the idea of “strategic philanthropy” that was already established by Porter & Kramer.

### Engaging in CSR

As with the definition of CSR, no unified approach exists for the implementation of CSR-activities. Sriramesh et al. divided CSR activities into three phases, independent of the size or industry of the company: proactive, accommodative and reactive (Sriramesh, Ng, Soh, & Luo, 2007, p. 127). Proactive companies implement CSR-activities according to their core values and corporate strategy. Corporations on the accommodative stage fulfill minimum criteria by following given regulations and guidelines and corporations implementing CSR on a reactive way conduct activities just to meet expectations of stakeholders.

To support organizations in the perception of social responsibilities, international organizations have developed standards, which should guide the behavior of companies.

The standards aim to point out some specific topics of CSR and help companies implement them (Staatssekretariat für Wirtschaft SECO, 2009). One prominent question which arises in this context is whether social responsibilities should be mandated by governments or primarily relies on voluntary efforts. Critics point out that voluntary standards are simple ways for companies to avoid binding regulations that would require the adoption of improved standards. On the other hand side, companies stress the need for voluntariness and flexibility so that the social responsibility can fit within the company's overall objective and financial capability. Roselle (2005) took a double-sided answer to this question, stating that the best solution lies between the two extremes. Without some government compulsion, companies may decline to take any action and those that do may have a competitive disadvantage through higher costs of goods sold, lower return on equity and other factors. On the other hand, flexibility is needed for companies in order to carry out social responsibility objectives in ways that suit the overall strategic goals of the company (Roselle, 2005). The State Secretariat for Economic Affairs SECO in Switzerland took a similar position: CSR is business-driven; the government should just have a complementary role to sensitize for the topic and help in the implementation if needed. The influence of the government should therefore be as minimal as possible (Staatssekretariat für Wirtschaft SECO, 2009).

A further aspect that has to be considered for the implementation of CSR is the potential differences in various countries, industries and corporations. Matten & Moon (2007) analyzed why forms of business responsibility for society both differ among countries and change within them. Key factors causing national differences and influencing how CSR is conducted are the institutional frameworks such as political, financial, education and cultural systems shaping national business systems. The authors argued that the USA has a system which leaves more incentive and opportunity for corporations to take comparatively explicit responsibility. European CSR on the contrary has been implied in systems of wider organizational responsibility which yielded comparatively narrow incentives and opportunities to take explicit responsibility.

By explicit CSR Moon and Matten referred to corporate policies that assume and articulate responsibility for social interests, consisting normally of voluntary programs by corporations. Explicit CSR rests on corporate discretion rather than reflecting governmental authority. Implicit CSR on the other hand side has exactly the role of corporations within the wider formal and informal institutions for society's interests and concerns at its heart. While explicit CSR is the result of a deliberate, voluntary decision of the corporation, implicit CSR is a reaction to the corporation's institutional environment assigned by law. The USA is characterized by more explicit CSR, while Europe is located more in the field of implicit CSR. Nonetheless, the authors identified a spread of explicit CSR to Europe, giving CSR the potential of being a competitive advantage. A turn towards explicit CSR implies a sharpened and strategic demonstration of the CSR efforts, and hence a closer look at with whom, when and how to communicate (Matten & Moon, 2007).

A national study in Italy showed that the adoption

of CSR-activities by companies varied even within one country by the size of the enterprise as well as the sector of the economy in which the enterprise operated. Generally speaking, the study stated that CSR practice was considerably skewed in favor of large companies, which conducted their activities with a more strategic objective (F. Martin, 2005).

As Googins & Rochlin (2006, p. 127) put it right to the point "communication is at the heart of implementation". Even though some literature (S. Waddock & Googins, 2011) pointed out that it is not always beneficial for organizations since it might breed skepticism, "communication is inescapable – it is implicated in CSR and business strategies whether management likes it or not" (Ihlen, Bartlett, & May, 2011, p. 11), as it helps constitute stakeholder participation and ethical business practices.

This conservative way of communicating CSR engagements reflects the fact that it is a sensitive area and a double-edged sword. Even though stakeholders ask for CSR communication, excessive self-promotion can be quickly interpreted as a cynical effort of going through the CSR motions only to receive the public relations benefits (Morsing & Schultz, 2006b; S. Waddock & Googins, 2011; Walter, 2010; Werther & Chandler, 2011) and is often referred to what Wagner, Lutz and Weitz called "corporate hypocrisy" (Wagner, Lutz, & Weitz, 2009, p. 77). This paradox emerging when attempting to communicate CSR is especially enforced when the level of trust in businesses is low. In this context it is particularly challenging to communicate social activities, the difficulty even increased by the influence of the context, the country and industries having substantial effects on the trust atmosphere (S. Waddock & Googins, 2011). Two challenges emerge from this dilemma: one is to develop trust with the various stakeholders who interact with the company, taking the country- and industry-contexts into consideration; the other is to build the communication on authentic values, beliefs and practices. Both must be achieved through a permanent process of engaging with stakeholders, who don't only expect authenticity and transparency, but ongoing and interactive communication and information exchanges built on relationships. At the earliest stages of CSR, communications tend to be primarily focused on external issues, only recently have professionals begun to realize that internal constituents are absolutely critical to the authentic reputation and outcome as well. Employees increasingly begin to express concerns on how the company they work for is fulfilling its obligations towards society (S. Waddock & Googins, 2011).

With such notions, the academic field of CSR communication has gained popularity during the last few years. Research came up examining the role and methods of how to best communicate CSR-activities to internal as well as external stakeholders. Institutions and corporations published surveys about the reporting of CSR in different environments, may it be the comparison of traditional and online media (CSR Europe, 2009) the analysis of various countries (PwC, 2011) or even setting up guidelines (European Commission, n.d.).

Morsing & Schultz (2006b) developed three strategies for CSR communication based on Grunig & Hunt's characterization of models of public relations,

ranging from monologue to dialogue. The first model called “the stakeholder information strategy” is a one-way communication from the company to its stakeholders, which the purpose to inform the public in an objective way about the activities of the company. It is crucial to keep the public informed, as stakeholders have the opportunity to either support or oppose the company. The second model is based on the asymmetric two-way communication model, involving the stakeholders more by giving them the possibility to respond to corporation actions. But it is important to note that the company in this “stakeholder response model” tries to change the public attitudes and behaviors and does not change itself in response to public reactions. This is the core difference to the third model, the “stakeholder involvement strategy” which is about demonstrating to constituencies how the company integrates their concerns. This model allows stakeholder the highest degree of influence, as it is based on a two-way symmetric communication, giving constituencies a voice and involving them in creating new corporate actions. The CSR focus is continuously negotiated in interaction with stakeholders. The scope of the dialogue is to demonstrate the company’s responsibility towards society and on the other hand side improving the reputation of the corporation. It can create a competitive advantage through which the company can differentiated itself from its competitors (Morsing & Schultz, 2006b).

#### **CSR in Switzerland**

The hallmark of CSR and corporate philanthropy being a truly global idea might lead to the assumption that national dynamics are secondary or even irrelevant. However, while the concept of CSR might be said to be global in nature, recent research suggests that it is applied differently across various social, economic, cultural, legal and political contexts (Gjølberg, 2009; F. Martin, 2005; Matten & Moon, 2007; Coppa & Sriramesh, 2012; Pastrana & Sriramesh, 2014). Distinct national patterns of CSR exist, and the nationality of a company matters in relation to its CSR practices. Although empirical studies on CSR practices in Switzerland are really sparse, a few studies have analyzed the motives of Swiss companies to engage in CSR, the public opinion towards it, as well as CSR communication (Birth, Illia, Lurati, & Zamparini, 2008; Ryser, 2010; Zürcher Hochschule Winterthur, 2006).

The study by Gjølberg (2009) comparing various countries regarding their CSR performance enforces this view. The author developed an index which aim it was to reflect the broader corporate practices and activities in the CSR. This was done by examining over- or under-representation in nine selected CSR initiatives and ratings. 20 nations (EU15, Norway, Switzerland, Japan, United States, Australia and Canada) were analyzed in the two dimensions of CSR practice and performance. Results on CSR practices, as shown in figure 4, indicates that Switzerland has unexpectedly an over-representation, being the top scorer of the index.

This shows that Switzerland is very active in adopting the selected CSR initiatives or ratings. One might have argued with the concept of explicit CSR (Matten & Moon, 2007) that the United States should have been at the top, since the index captures the degree to which companies are sufficiently explicit about their CSR efforts by adopting the

indicated CSR initiatives and rankings. The result is therefore surprising regarding two aspects: Switzerland scoring at the top and the USA being the least explicit about their CSR efforts, This supports the hypothesis that Europe is moving towards explicit CSR. Gjølberg explained the surprising result by stating that “Switzerland has a large number of TNCs which are under continuous scrutiny from media and NGO watch dogs, and which therefore have a strong incentive to engage in CSR” (Gjølberg, 2009, p. 15). Even when deconflicting the aggregate of the ratings, dividing them into less vs. more demanding ones, Switzerland still kept its top position. Summing up, the results clearly showed that a company’s nationality does matter to its CSR practices. While the CSR concept is global in nature, national social, political and economic institutions play important roles in shaping practices and performance (Gjølberg, 2009).

Empirical studies on specific the Swiss market will therefore now be discussed, to work out the national characteristics in this field. Although the concept of CSR has gained much prominence over the last sixty years, Switzerland still lacks a solid empirical body of research (Liebig & Castelli, 2010). The section will thus first discuss the governmental view on CSR and then present various studies conducted for the Swiss market.

The Swiss government included explicit designations about sustainable development. As a result of the Rio-conference, Switzerland signed the Agenda 21, a package of measures to reach the intended goals. A specific strategy for the country, called “sustainable development in Switzerland”, was introduced in 1997 and has since then always been updated. The strategy is based on the three dimensions of the triple-bottom line: economic performance, ecological responsibility and social solidarity. CSR is a part of this strategy and is supported by the government in so far that it invites the private sector to embed CSR in their daily activities.

The State Secretariat for Economic Affairs SECO is the binding point between corporations and politics. It therefore has an important role in the promotion of CSR, being a central contact point for CSR-related questions. The SECO supports the implementation of CSR in a complementary role not only within the country, but also in its foreign economic affairs strategy by promoting and creating standards. As CSR is seen as a significant factor of competitive capacity, the governmental body has an interest to push this subject to create a stable economic market within Switzerland but also to foster credibility for Swiss companies engaged in international company groups (Staatssekretariat für Wirtschaft SECO, 2009).

Analyzing the perception and expectations of the Swiss population, researchers at the Zürcher Hochschule Winterthur conducted the “Swiss CSR monitor” in 2006 (Zürcher Hochschule Winterthur, 2006), whose aim was to collect data of the public opinion towards societal responsibilities of companies and thus to face companies with the public expectations. The changing perceptions hold chances and risks; companies should therefore be sensitized to the perceptions of their various stakeholder groups. The results showed that the Swiss population clearly expects companies to assume responsibilities that go above the economic profit and the binding laws. Compared to the other G8 countries, the expectations are high and are even reflected in the fact that Swiss have a high willingness to sanction

companies that behave irresponsibly. Besides these high expectations, Swiss companies are very conservative in their CSR communication, with only about one third of the population having heard of CSR-activities during 2005. The conservative communication might be among others due to the fact that almost 70% of the population thinks that companies engage in CSR-activities to polish their image and not to really have a positive impact on society. The study put a focus on the bank and pension fund industry, with results underlining the fact that different industries are faced with different expectations, which links back to the outcomes of the study of Martin (2005) discussed in connection on how to implement CSR.

Ryser (2010) conducted a nation-wide CSR survey of 232 companies, analyzing the motives for social engagement, the central elements of the dialogue with stakeholders as well as the various activities conducted. The study found out that the top management (82.6%) and the employees (67%) had the most important influence when it came to the emergence of social responsibility within the firm. Furthermore, the congruence with the business strategy was of importance. These findings are summarized in figure 5, which shows that Swiss enterprises see their social engagement especially driven by philanthropic-strategic reasons as well as internal motives. Philanthropic-strategic must hereby be understood according to Porter & Kramer (2002) as the combination of economic and social benefits, supporting the fact that the engagement had to be in congruence with the business strategy. The disconnection to the business proposition was therefore also named as the second reason for not engaging in CSR behind lack of resources. This view is especially prevalent in big enterprises (>250 employees).

The importance of internal stakeholders supports the view that employees are crucial players to increase the authenticity of the reputation.

Furthermore research showed that the cooperation with external constituents has so far been neglected. This is reflected as well in the results showed in figure 5, with external motivations for social engagement being taken into account the least, independent of the size of the company. External stakeholders are just considered at the moment that conflicts evolve to correct the image damage. A stronger stakeholder management and dialogue would be recommended, as it is also what constituents request and might lead to less conflicts (Ryser, 2010).

Our study adds to the body of knowledge by focusing on a sector not studied so far – Swiss corporate foundations. Switzerland offers a very favorable legal environment for setting up foundations, with just three conditions that need to be met: dedication, property and a clear purpose (Die Bundesversammlung der Schweizerischen Eidgenossenschaft, 1907). Further, Switzerland has a philanthropic tradition of more than six centuries. One of the oldest enlisted foundations, the “Inselspital” (University Hospital of Bern), was founded in 1354 and continues to be in operation today (Fondation 1976, 2010).

Swiss corporations are embedded in this long tradition and favorable context and have increasingly begun to meet the expectations from society by

setting up their own foundations. Of the 95 members of SwissFoundations, the association of Swiss grant-making foundations, a seventh have been founded by a corporation and is nowadays incorporated in its context (Eckhardt, Jakob, & von Schnurbein, 2012). According to SwissFoundations this may reflect the fact that in Switzerland corporate foundations also are used as a means to accomplish the CSR goals of a company. Despite this, and the flourishing sector of foundations in general (Eckhardt et al., 2012), there is a lack of literature when it comes to in-depth studies on Swiss corporate foundations.

Scholarship about CSR in Switzerland is sparse. Although corporate foundations have increased in number as well as in financial health (Eckhardt et al., 2012), there is a lack of literature when it comes to in-depth studies specifically of corporate foundations. As the Center for Philanthropy Studies (CEPS) based at the University of Basel stated, the philanthropic engagement of corporations in Switzerland has been scarcely explored so far. Two questions were especially relevant for the CEPS: the relationship between business and the charitable engagement as well as the examination of the forces behind successful corporate philanthropy (Schnurbein & Bethmann 2010, 47). The focus of the study was to explore the rationale and personality of Swiss corporate foundations as well as their connection to the funding corporation based on the following research questions:

**RQ1:** What is the rationale behind setting up the foundation?

**RQ2:** What are the current perceptions of CSR among the sample of corporate foundations in Switzerland?

**RQ3:** What significance does the foundation have compared to other CSR activities (if any) of the corporation?

**RQ4:** What are the benefits reflecting on the corporation and on the other side how can the foundation profit from its connection to the corporation? Where do the synergies lie?

**RQ5:** How much are internal and external stakeholders involved in the activities of the foundation?

**RQ6:** How does the foundation communicate its engagement to its internal and external stakeholders?

**RQ7:** How is the impact of the activities of the foundation measured?

#### **Operationalization of the research questions**

Despite their long existence in Switzerland, from a legal point of view, no overall encompassing definition exists on what is a corporate foundation. Relying on a Swiss source, the Stiftungsreport 2012, as well as the European Foundation Center, this study understands corporate foundations as a private, charitable foundation that derives its financial resources primarily from the corporation while maintaining close ties to the donor corporation while legally being considered an independent entity. (Eckhardt et al., 2012; European Foundation Center, 2007). Because most of the interviews for this study were conducted in German, which does not have an equivalent term for corporate foundations, the researcher was very careful to understand how the foundation and corporation are interconnected and selected corporate foundations that fit with the above description.. Foundations that have been set up as a social security system of the personnel of the corporation have not been included in the sample. The terms this study gave

respondents a degree of freedom in how they defined CSR so, as not to limit their perceptions.

### 3. METHODOLOGY

Given the dearth in empirical studies of Swiss corporate foundations, this study used qualitative in-depth interviews to focus on individual detailed explanations with the aim of delving deeper into a few corporate foundations to also demonstrate the potential variety of perspectives (Flick, 2009). The interviews were based on an interview guide consisting of 17 questions, which were structured to align with the research questions. The questions were revised mid-way through data collection to ensure better data, a useful feature of in-depth interviews (similar to ethnographic interviews).

Because in Switzerland corporate foundations are subject to the same rules and regulations as other foundations, no lists of corporate foundations exist. Therefore, we had to systematically locate corporate foundations by mainly relying on clusters of companies with a high potential for engaging in CSR using criteria such as big or important companies as well as traditional brands, or members of platforms specializing in CSR or corporate philanthropy. Bigger corporations are more likely to be engaged in charitable causes. But since traditional companies as well as family businesses play a crucial role in Switzerland as well, they could not be neglected and were taken into account regardless of their size. The second cluster amplified the pool by considering companies of varying sizes and orientation that were members of a platform closely connected to the topic of interest.

In all, we identified about 100 corporate foundations of which 60 were approached for an interview. Thirty five of the foundations responded (17 positive and 18 negative) and the first author interviewed 17 people from 16 different foundations. After the interviews, the researcher had to exclude two foundations from the sample, as they did not correspond to the definition set up for this study. Both foundations hold securities in the corporation and have not been established as pure CSR instruments from the corporation.

Therefore, the final sample consisted of 15 interviewees from 14 different corporate foundations. Out of these 14 foundations, two belonged to the same funding corporation, resulting in a sample composed by 14 corporate foundations from 13 different corporations. The possibility to conduct interviews with two foundations belonging to the same corporation gave interesting insights on how corporate foundations can vary when even being funded by the same corporation. In the end, the sample comprised 11 foundations set up by large corporations and three set up by SMEs (with fewer than 250 employees). This confirms the findings of Gentile & Lorenz (2012) that bigger companies are normally more likely to engage in charitable causes. The parent corporations represented 8 industries although the majority were from the Banking and Insurance sectors, reflecting the economic landscape in Switzerland (see Gerber & Sriramesh, 2014 for a study of CSR in the Swiss watch industry).

The majority of the 15 interviews were conducted in person to have greater interaction as well as assess nonverbal nuances (Brosius, Koschel, & Haas, 2008; Gläser & Laudel, 2009). The researcher also supplemented interview data by analyzing websites and some social media channels as well. This use of multiple data sources helped identify how much evidence converged. Using the method of data triangulation (Golafshani,

2003; Patton, 2002; Suter, 2011), we additionally conducted an elite interview with the director of SwissFoundations, the association for Swiss grant-making foundations, after all the interviews with the foundations were completed. This allowed us to analyze the research questions from multiple perspectives and ensure as much internal and external validity as possible (Guion, Diehl, & McDonald, 2011).

### 4. RESULTS & FINDINGS

The findings indicate that corporations have multilayered responsibilities and setting up a corporate foundation was also a way to respond to their responsibility towards society. It represented one part within the idea of giving something back to society. A corporate foundation is not only a good tool to implement this plan, but offers the possibility of having an entity that is separated from the business and which can therefore guarantee a certain degree of independence. In every instance, the decision to set up a foundation came from the top management team. This supported the results of various studies such as Ryser (2010) that the top management had the most important influence (82.6%) when it came to practicing social responsibility in a firm. Two principal reasons emerged as motives for corporations to set up foundations: altruism as well as conforming with legal requirements. Only four foundations referred to favorable publicity as a reason for setting up a foundation although it was not clear whether that was the principal reason.

#### **Connections to the parent corporation: proximity vs. independence**

Legally speaking, corporate foundations are expected to be completely independent from the parent corporation in every way. However, our study found two ways in which our interviewees perceived the connection to the parent corporation. Five interviewees emphasized a strong link between the foundation and the parent corporation's identity. These respondents often spoke of "we" and classified the foundation as being one part of the bigger corporation. However, eight interviewees contrasted this description by clearly stating that they were independent from the funding corporation and four of them had offices outside the corporate building. But still this means that nine foundations in the sample shared the same premises as the parent corporation clearly showing an "umbilical cord" attachment to the parent corporation.

We did focus closely on independence as that signifies that a corporation does not use foundations for publicity purposes. To our chagrin, the overlap was quite pronounced. Twelve of the fourteen foundations in our sample carried the same name. In addition, most of the foundations in our sample had very close financial ties with the parent corporation and had other organizational structural linkages that made a complete independence questionable. The primary goal of each corporate foundation both legally and morally is altruistic and the primary focus of corporations is profit-orientation. We found that foundations are often caught between these two worlds of having to balance the ties to a profit-making entity with their altruistic mission.

Another question that was never directly brought up but was a central part of the discussion with the interviewees was the extent to which a corporate foundation is used in a strategic way to support the business objectives of the

corporation. The proximity of the thematic focus as well as the geographical proximity of the foundation to the corporation could imply that foundations are a prolonged arm of the business and therefore have a strategic business focus instead of a purely altruistic aim. Four interviewees argued that such a thematic and geographical connection was needed to join forces, while eleven interviewees saw the risk of it as being misused for the interest of the corporation in the name of tax-exemption and charity. This is in line with strategic philanthropy discussed by Porter and Kramer (2006) who stated that, corporations should “focus on the areas where social and economic interests intersect, and apply distinctive corporate resources, not just money, to solving social challenges” (p. 193). This world view posits that companies who use their charitable efforts to improve their competitive edge would not only benefit society, but also themselves. We do not subscribe to this view for several reasons including the fact that charitable foundations are exempt from taxes precisely because they are expected to exist for altruistic reasons and should therefore be excluded from any business-oriented or profit-making goals. A study by Schnurbein & Berthmann (2010) concluded that corporations value positive contributions towards society more than an image improvement. However, our study could not definitively conclude that corporate foundations in the sample were set up to strategically help reputation management. While the benefit of image transfer was mentioned in our study by all interviewees, it was never mentioned as a distinct reason to set up a foundation..

#### **Strengths & weaknesses of Swiss corporate foundations**

One interviewee's comment typified the understanding of twelve interviewees that corporate foundations offered both the possibility to have a connection to a corporation but also to be independent through their legal status: “[...] this certain distance, which permits a certain independence, but also offers the advantages of a neighborhood, of an immediate proximity.” This world view suggests that foundations benefit not only from the financial stability that the parent corporation offers but also but also the possibility to make use of synergies and an immense pool of knowledge. Six foundations in the sample strongly emphasized this as an advantage. One of the main benefits indicated by all interviewees was an image transfer both to the inside and outside of the corporation. Five foundations said that internally it made employees proud and motivated them.

However, such close association with the parent corporation is not without risks. Two foundations in the sample indicated that the poor reputation of the parent corporation did affect the activities of the foundation: “we have reached out to experts, world class experts, and some of them refused to work with us. Not for their personal reasons, but to protect their own reputation.” This is especially worth mentioning as corporate foundations are legal separate entities, but as the example has shown, the parent corporation can have a strong influence on the activities of its foundation. A third of the interviewees mentioned the danger of being seen as a publicity instrument to gloss over the negative actions of the parent corporation.

The feel good factor that foundations produce does not only motivate internal stakeholders, but also external ones such as clients and partners according to eleven of our interviewees. As mentioned by them people expect corporations to go beyond commercial activities into becoming credible entities in society. The plethora of corporate scandals and financial crises of recent years requires that corporations become vehicles for social

welfare that would contribute to their legitimacy.

#### **Communication**

As underlined by several scholars, communication of CSR is a double-edged sword that, while helping corporations, could also indicate that the corporation is engaging in greenwashing. Therefore, we decided to study this aspect also vis-à-vis our sample of Swiss corporate foundations. Participants saw immense potential in communicating CSR, but as one interviewee put it “[...] communication is something very difficult and when it turns out to be about philanthropy it is even more difficult.” In some industries the public was a priori skeptical. Extensive self-promotion of the foundation might breed the skepticism that the foundation just acted as a prolonged arm of the business of the corporation. Therefore, the communication was seen as a balance act between communicating about the activities and decreasing messages that could be too self-congratulatory or promotional.

Waddock & Googins, (2011), found that when the trust in businesses is low, the communicating about charitable activities only exacerbates the negativity. Results from this study supported the literature. The bank industry, which has a low level of trust in Switzerland and abroad due to recent scandals, was the one most concerned about using CSR as an instrument to obtain positive publicity. “When we decided to set up a foundation, a lot of our partners were afraid that we would make a big mistake and that our clients would misinterpret it and see it as a pure advertising instrument for the corporation“. Or as another interviewee put it “some of these foundations are doing very good things. They should talk more about the good work they are doing but it can reflect bad and backfire“. Our finding reflects the findings of the Swiss CSR monitor (2006), which studied the bank and pension fund industry and came to the conclusion that around 70% of the population thinks that corporations engage in CSR activities to polish their image supporting the thesis that not only national patterns, but also peculiarities of industries matter. “Now everything has changed. The bank's reputation is being questioned in minds of many people. The reputation issue has changed, this is not the old conservative highly trustworthy bank in the mind of some people anymore. And now the bank sees this foundation that could help improve the reputation.”

As stated in the literature, stakeholders expect not only authenticity and transparency, but ongoing and interactive communication and information exchanges built on relationships. The evidence from this study could not confirm that this was the case for our sample. In most cases the communication was one-way, fostering a monologue than an active dialogue. The fact that internal constituents are absolutely critical to the authentic reputation and outcome of the corporation was supported by this research. As employees increasingly begin to express concerns on how the company they work for is fulfilling its obligations towards society, corporations react to this and put more emphasis on internal communication. Corporate communication channels have been leveraged to spread the message of the existence of the foundation within the company, putting importance on the fact that employees know what their company is involved with.

**Conflicts of interest for corporate foundations**

The relationship between the parent corporation and corporate foundations can often create potential conflict of interests between altruism and self promotion, which is why we believe there is the potential for corporate foundations to often be caught between two worlds. Our findings clearly show that there are several areas of potential conflicts of interest that should be avoided by these foundations. Unless altruism is the true mission of these foundations, they can be perceived as not walking the talk resulting in loss of credibility for the foundation. We therefore offer some thoughts on how corporate foundations should position themselves both internally (to the corporation as benefactor) and society at large.

Corporate foundations should carefully assess the projects that they choose to be involved in and assess to what extent these projects are congruent with social good as opposed to the reputational benefits to the parent corporation.

The idea here is for the foundation to distance itself from even the perception of being used by the parent corporation for reputational as opposed to altruistic purposes. Having a truly independent Board of Trustees (or other body overseeing the activities of the foundation), both in terms of membership as well as mission and outlook will help alleviate a lot of the real, and perceived, conflict of interest between the parent corporation and the foundation. This of course leads to the need for the foundation to generate resources (especially financial) beyond those offered by the parent corporation. Finally, another source of independence could be that the parent corporation perform its own CSR activities as other corporations do, thereby essentially dissociating itself from the CSR activities of its foundation. In other words, there should be a “fire wall” between the corporation and the foundation in order for the public to have confidence that altruism is the true purpose of the foundation.

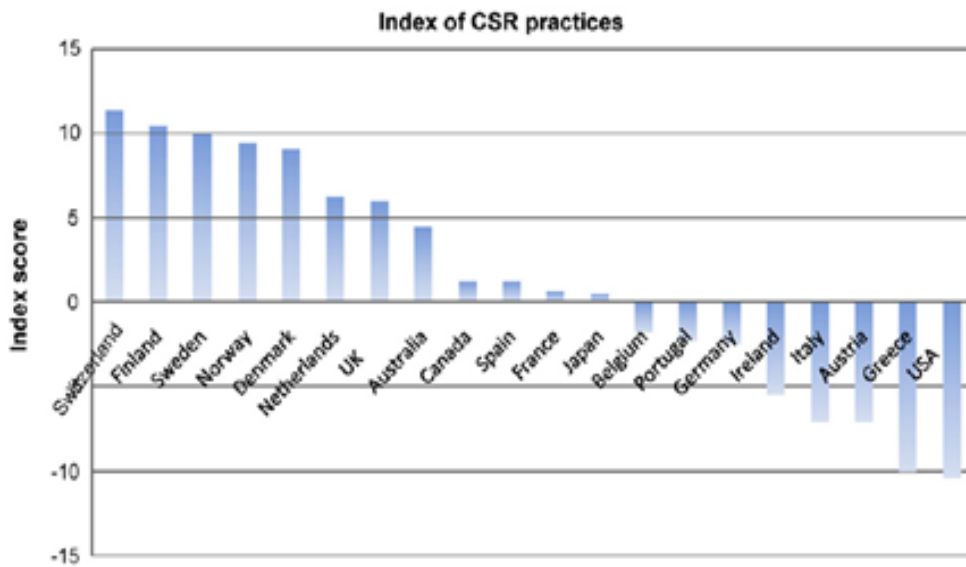


Figure 1 Index of national CSR practices, total scores per nation (Gjølberg 2009)

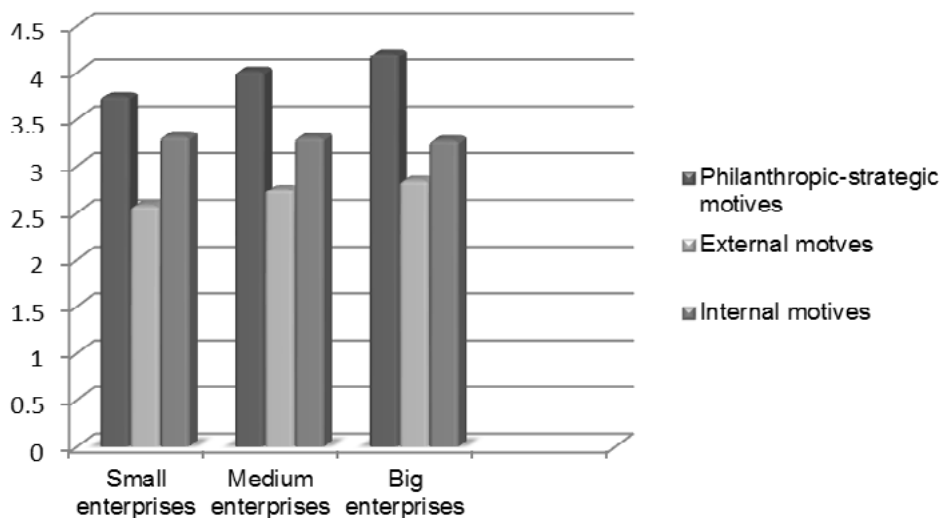


Figure 2 Motives for social engagement in Swiss enterprises of various size (Ryser, 2010)



## 5. CONCLUSION

Corporations are increasingly faced with expectations from various stakeholders to act in a socially responsible manner and give something back to society. This study of a sample of Swiss corporate foundations confirmed that corporations increasingly assume this responsibility assigned to them by setting up their own foundations. The first outcome of this study is that over 100 corporate foundations were catalogued – helping lay the foundation for future research of this sector. Further, the findings of the study clearly indicate that corporate foundations have characteristics that are distinct from the CSR activities of corporations. The legal independence of foundations from parent corporations coupled with the possibility to make use of synergies with the corporation presents a unique opportunity to support charitable causes. However, the advantages can unfold as challenges of separation of identity, which prompts us to posit that corporate foundations seem to be caught between two worlds: the parent corporation's reputational aspirations and the altruistic mission of the foundation. As a consequence of acting in the intersection between the corporate and societal world, the question about proximity or independence emerged to be a central one around which different aspects of corporate foundations need to be addressed. The majority of interviewees in the sample clearly stressed the importance of independence to maintain the credibility of the foundation but there was not sufficient evidence that indeed such separation existed. In order to address this chasm, we have offered some recommendations vis-a-vis the composition of the board of trustees, the thematic and geographic choice of projects, the choice of communication channels, the position within the organizational structure as well as the model of financial support.

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