

A Case Study on Motivation and Constraints of Corporate Product Philanthropy

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Abstract

Due to the limited public resources in comparison to the growing need for social welfare, it has increasingly been concerned to develop resources in the private sector. However, it has been less discussed about product donations comparing with cash giving. Product donations, popularly known as gifts-in-kind, are a form of non-cash philanthropic contributions. Recently, product giving have increasingly become both a form of corporate philanthropy and a source for nonprofit organizations. This study is to explore perceptions on motivation and constraints of corporate product philanthropy for more effective management of product donations. Data were collected by interview in-depth with four corporate managers and two NPOs staff in charge for product donation in South Korea. As the result, three categories were identified as motivation of corporate product donation: 'charitable and altruistic cause', 'effective use of excess inventory' and 'strategic corporate philanthropy'. Also, the staff of corporations and NPOs perceived three categories as constraints on product philanthropy: 'tax benefits less than disposal and liquidation', 'ambiguity of the calculating of value of donated products', 'lack of intermediary service and recognition' and 'weak partnership among government, corporations and NPOs'. Based on the findings of study, suggestions are discussed for policy implications and effective intermediary systems such as the on-line catalog of Good 360.

Keywords: Case Study, Corporate Philanthropy, Motivation of Philanthropy, Product Donation

1. Introduction

To cope with the growing need of social welfare in comparison to the limited public resources, it has increasingly been concerned to develop resources in the private sector. Particularly, product donations have more given attention as an important resource as much as cash donation recently¹. Product donations, more popularly known as gifts-in-kind, are a form of non-cash philanthropic contributions (GIK). Many scholars and practitioners generally agree that GIK has increasingly emerged both a popular form of corporate philanthropy and a source for nonprofit organizations². According to one estimate corporations contributed \$15.29 billion to charity in 2010 in U.S; more than 60 percent of these donations were GIK³.

Four trends cause the growing product giving². First, some firms replace cash contributions with product donations because recessions tend to cause about excess inventory and weak cash balances. Secondly, product donations are more visible for longer term than one-time cash giving; because this generate greater brand building of firm due to the durability of the product's image. Third, product donations generate additional image effects over donating or liquidating due to becoming environmentally sustainable practice by decreasing the demand for landfill space. Finally, product giving is more financial incentive of special tax treatment not experienced with other means of product disposal or cash gifts. These potential advantages to firms need a more study of product donation².

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In Korea, although corporations and individuals have donated product to NPOs or charities, there is no accurate data on the exact figures overall. In the case of Community Chest of Korea, the biggest fundraising organization in Korea, 14.06% of its total donations only come from product donation in 2009⁴. This is a considerably very low level as compared to a ratio of product donations, 50 to 60% of the total donations in industrialized countries.

Despite this importance of product donation, it is pointed that there are rare institutions or systems to activate product donations. Unlike cash donation, product donation required a relatively complicate procedure in terms of tax exemption, inventory management and administrative process. Therefore, there is a need to establish the infrastructure that can manage to product donations, such as tax incentives, the method of a reasonable cost calculation of donated product, and intermediary product matching services between business and charities. However, there been extremely limited research on product donation in Korea except a few study on tax system^{5,6} and the case of corporate product donation⁷.

Product donation as potential social welfare resources can be an important alternative for supplementing cash resources. Accordingly, this study is to explore more effective management to activate product donation by understanding perceptions on motivation and constraints of corporate product donation between corporate managers and NPOs staff who have charged in product donations throughout qualitative method.

2. Theoretical Background

2.1 Motivation for Corporate Product Donations

Product donations are a form of non-cash contributions more popularly known as gifts-in-kind (GIK) and product giving. Product donations initially started as donations of used goods, they have now evolved to donations of surplus produced goods. Recently they have seen an expanded application of the concept to include donation of professional services by corporations including services on financial management, communication or training.

Many firms are increasing product giving; sometimes these product donations are their largest part of phil-

anthropic activity. In 2009, donations of products and services by more than 20 percent over the previous year, in part due to corporations using in kind donations to compensate for decrease in cash philanthropy in USA². In fact, some researches cause a seven percent increase in total corporate donations because of as increasing in non-cash giving².

Businesses have donated to charity for various motivations that are both instrumental (purely for interest of the company) and altruistic (purely for the benefit of the charity)⁸. For example, a firm might contribute lumber to help build a job training center for various reasons: helping the unemployed in the community, obtaining a better trained worker pool for the future, creating positive publicity, promoting their brand, and/or clearing excess inventory. In such cases, advantages for the charity have reciprocating benefits to the company.

Today Corporate Social Responsibility (CSR) has developed beyond this dichotomous perspective such as instrumental and altruistic motivations. Recently CSR tends to consider charitable giving as a strategic investment activity that contributes the interest of internal and external stakeholders – the shareholders, employees, as well as current and potential customers⁹. For instance, some companies have measured corporate success in terms of combined economic, ecological, and social criteria of triple bottom line approach. This view corresponds to the “do good in order to do well” business philosophy of Drucker¹⁰. It removes the shareholder/social responsibility dichotomy associated with the either/or view of corporate mission; instead, strategic corporate philanthropy operates from a both/and approach in that it retains the characteristics of a mutual gain for all parties involved¹¹.

2.2 Influencing Factors of Corporate Product Donations

In order to promote corporate product donations, it is important to consider how the legal and institutional environment needs to be formed that induces business participation. In relation to this issue, legal standards, tax incentives or criteria for estimating the value of donations are commonly mentioned as institutional strategies.

First of all, tax incentives are one means of institutional factor that promotes product donations. If the tax benefit is small, corporations would adopt a cheaper alter-

native than product donation. In the U.S., Section 170(e) (3) of the Internal Revenue Code has been legislated to promote corporate product donation, which allows corporations to have their tax exempt on up to two times the cost of products. Meanwhile, in South Korea, the tax benefits range between a mere 5% (designated donations) and 50% (special donations) of the corporation income depending on the donating organization.

Furthermore, the criteria for calculating the donated goods differ from country to country. For Korea, under the implementation order for The Act on Corporate Income and The Act on Income, the value of items donated are calculated based on book value. However, even though the various items and products make it difficult to convert their values using a single criterion, there is no clear set of rules for calculation purposes in the tax law or other law. Therefore, it is pointed out that estimating the value of donations and giving tax benefits by an arbitrary judgment of the persons in charge of fundraising may lead to a moral hazard between donors and recipients¹².

Lastly, from the corporations' point of view, it takes time and money to find, match an appropriate nonprofit organization and check whether the items have been delivered properly and whether they are used effectively. For product donation, there are additional matters to consider in the treatment of tax, inventory execution and administration that the entire procedure becomes very complicated.

To address this issue, intermediary organizations for product donations have been established in the West. One of representative organizations is GIKI established in the US in 1983¹³. Organizations that specialize in handling donations in kind in the US or UK go beyond playing the role of a simple intermediary and offers strategic consulting and planning, help with selecting recipient organizations while taking into account the various needs of the corporation, promotion to the public about the gift and following donation services.

To address this issue, the West has established intermediary organizations for product donation or relevant systems. One of the best cases is GIKI founded in the U. S. in 1983. Organizations specialized in conducting product donation in the U. S. or the U. K. go beyond playing a merely delivering role and substantially help donors by providing a set of professional services from the planning stage of product donation, such as strategic consulting and planning helping select recipient organizations tak-

ing into account the various needs of the corporation and recognition and follow service like public relations.

Accordingly, intermediary services by professional and reliable Institutions of product giving are essential for the effective connections between donors' resources and demanders' needs. In case of Western countries, professional product donation intermediary organizations such as GIKI (now Good 360), Goodwill Industry in the U. S. and In Kind Direct in the U. K. save operating costs through constructing a network to devise cost effectiveness. Furthermore, they have provided specialized services, from donation consulting to following service, in order to have a great effect on the development of product resources.

However, South Korea still merely delivers products from fundraising organizations to demanders in product donations, but there is a lack of system of professional intermediary services, such as consultation, matching regarding product donations, administrative treatment and recognition and following service. The absence of professional intermediary services may cause enterprises to have skepticism about the benefits or effectiveness of their product donations.

3. Research Methods

This study was used in-depth interview in order to understand a perception on motivation and constraints of staff in charging corporate product philanthropy between corporations and NPOs. Participants of interview were selected through purposive sampling at two NPOs that have received product donations and four corporations that have donated their own product in order to get affluent information on product donations.

To select objects, for the NPOs, the data of donations by annual reports and internal documents were used as references and for the enterprises, the data of donations by Financial Supervisory Service Electronic Disclosure System, the data on donations of White Paper by Federation of Korean Industries Social Contribution and homepage of each enterprise were used.

The interview questionnaires consisted largely of four domains: corporate product donation motivation, operating procedures and limitations of the product donation support system. The in-depth interview was conducted by two researchers from September through October 2011 for about two months. According to the proce-

dures of analysis of qualitative data, the main focuses of the research questions used in the data collection were converted to upper categories, and then analyzed in the procedures of the formation of sub-categories in drawing concepts.

4. Results

4.1 Motivation for Donations in Kind

4.1.1 Charitable and Altruistic Driven Motivation focused on Basic Goods for Living

Fundraising Organization staff, one of the largest fundraising organizations in South Korea said that food accounts for the biggest share of corporate product donation. Agro-products and food such as kimchi and instant noodles accounts for more than a half (56.1%) of the entire goods donated to the Community Chest of Korea in 2008. What is interesting is that corporations do not donate their own products, but use cash to purchase essential basic goods to donate.

Unlike in advanced countries, the reason for such donation patterns is because donators believe that the most rewarding part of giving is to deliver a sense of “warmth”. That is, the overwhelming motivation for donation is to offer charity to those in need and in Korean culture sharing food with others is seen as one of the best ways to show a sense of sympathy and caring. Basic goods for living based on charitable motivations took up a large percentage.

“For example, Construction company OO also donates in the form of offering construction services, which is their main business. They build houses and sometimes donate materials, too. (But) what drives their behavior the most is the offering a sense of caring and warmth. Food or rice is often preferred as an item to be handed over to the charity organization. This gives them great satisfaction”. (A, Fundraising Organization).

“In the case where items to be donated are bought, they usually focus on certain areas. As I mentioned earlier, they take particular interest in children or the elderly. So then what do they need? They don’t have rice? Ok, we will donate rice. Rather than focus on what they have that they can give, their focus is on what would be most useful to the recipient”. (A, Fundraising Organization).

4.1.2 Effective Usage of Surplus Products

CSR Staff say that they perceive the needs to address surplus products and to donate profits back to society as their motivations for product donation. This is the generally well-known instrumental motivation of donation for the corporation.

- (Consumers) only buy things that are produced within the past six months. They don’t even touch those older than that. It will never sell. All such items are collected and taken to the return center. If there is no system such as a food bank, then we go on to dispose them. What a loss that is on a national scale! Especially since these are items that have not gone bad and are perfectly edible.” (D, Corporation).

- “(To us) there are clothing and household goods. Those are the resources available and we also have redundant resources. How can we most effectively use those redundant resources? That was the start of our thought. And we realized that donations in kind could also be a good tool that serves a social purpose, too. That is how we came up with the idea”. (E, Corporation).

4.1.3 Planned Strategic Donations of the Company’s Own Products

Although corporate donations in kind are primarily motivated by the need to get rid of inventory, it can be noted that their perception towards donation as a way of achieving a social purpose is becoming expanded and internalized.

- For example, for corporations E and F, they recognized the “genuine feelings involved in donations” and regarded donating their own products as one of the most strategic ways of contributing to society as a result of seeking for “a sustainable social contribution.” (Case F). In particular, Corporation D has gone one step further by manufacturing new products that are exclusively for donations on the side. “Getting rid of inventory, this is of course beneficial to the corporation but the donation also has to carry a sense of genuine caring. How can we meet the needs of those in need? How can we make the most of our available resources to contribute to our local community?” (E, Corporation) “Recently there are many cases where we take new products and donate them. Starting two years ago, we took all of the items that were returned to the food bank and submitted new products to

the bazaar that were specifically ordered for that very purpose. These days the ratio of new product manufacture specifically for donation to inventory product are about 6:4. The trend in corporate donations has been changing like this". (D, Corporation).

It turned out that both CSR staff and fundraising organizations staff in charge product donation perceived the motivation for corporate product donation in various ways, such as altruistic, instrumental and strategic motivations. Of course, donations of basic human needs such as food and clothing driven by charitable motivation are still high in product donation, but there is a trend of changes into a planned donation of the company's own products emphasizing its characteristics, so it is judged that it would be necessary to improve the business's perceptions of product donations based on strategic motivation in the future and induce the expansion of participation.

4.2 Constraints of Corporate Product Donations

4.2.1 Tax Benefits Less of Product donations than Disposal and Liquidation

Corporate Staff in charge of product donation point out that the tax benefit of corporation product donation are not any better than the benefits they might have gained if the donated products had been simply disposed or sold at a give away price. Therefore, measures must be taken to increase the tax benefit so that it is higher than the benefit of disposing the items in order to promote more corporate product donation.

In South Korea, the tax benefits range between a mere 5% (designated donations) and 50% (special donations) of the corporate income depending on the donating organization, which is lower than those in the U.S., where the tax benefit can reach as much as twice the value of donated items.

- "The company gets benefits if it disposes of the (inventory items) and the same benefits if it donates them. Shouldn't the government offer incentives that make donating more attractive than burning these items? How can they expect things to change on their own without offering policy support?" (F, Corporation).

- "I think the policies need to be updated. Tax benefits need to be increased so that (corporations) can happily participate in such donation activities. As of now,

they are rather passive. Because even if they take the trouble to donate, it doesn't bring them much tangible benefits. If they were to sell the items at a year-round discount store they could get cash in their hands. So then why would they take the trouble to make donations despite the low tax incentives? The government has to release its hold on this area". (B, Fundraising Organization).

4.2.2 The Ambiguity of Calculating the Value of Donated Products

Since the estimation of the value of donated items is directly linked to the treatment of expenses that affect the amount of corporate tax due, firms tend to wish that the value of these items get set at a higher price.

For the allocation of such value, the book value (prime cost) is applied under the Act on Corporate Income Tax. Both charity organizations staff and corporate staff mentioned the need for improvement in this area.

- "In principle the items are valued at book value. That's common sense. But even with cars, their value is turned to 0 after 3 to 5 years. We still call them inventory items, but from their (corporation's) perspective they see it as brand new items". (B, Charity Organization).

- "For example, let's say it takes 1000 Won in costs of goods sold to make one notebook. Then even if the product is manufactured, you still need labor to have people package it. And once the item is packaged, it has to be shipped somewhere, so you incur transport costs. If you look at it that way, you have to include labor and shipping costs into Costs of Goods Sold. Only when those costs are included in the donation receipt can you say that the right value has been allocated". (E, Corporation)

But the problem is that it is hard for fundraising organizations to objectively identify the book value of items. The book value is based on the concept of prime cost, but this can differ, even for the same products, depending on which industry the company is in. Currently the tax laws or other laws do not clearly provide the standards for estimation of the amount of donations and do not have any provisions on the donations of used goods. Therefore, it is pointed out that, if the receipts of product donation are issued according to an arbitrary judgment of the managers of donation in fundraising organizations without any clear standards and tax benefits are given based on that, sometimes, there may be moral hazard of the donors and the recipients.

- “If corporations give us all the information on costs of goods sold then everything will become clear. It wouldn’t be easy to make a call but still we would like to have the data. In the case of manufacturing firms, they have a list or invoice of costs so we could receive that. If they have the figures for how many items were sold in one year and how many they produced, then we can divide the total revenue by number of items sold to get the cost. There are cases where they do that. But as of now it’s hard to get detailed data like that”. (A, Fundraising Organization).

- “I feel the need to have a discussion table where we can jointly conclude the donation amount. There are commonly referred to criteria for valuing each item. For example, for food items we can use the wholesale price, for clothing we could value items at 70% after one year, and then at 30% after another year, things like that. We could apply those criteria. If the item is more than one year old, no matter how high a price they want to charge, they can’t right? They bring down the price voluntarily. It should be like that with donations, too, where common sense rules”. (F, Corporation).

4.2.3 Lack of Intermediary Services and Recognition for Donations in Kind

CSR staff answered that there is a need for intermediary services that link donating parties with charity organizations. In particular, in terms of post-donation services, there is much room for improvement as most fundraising organizations in general just issue a receipt for the donation or list the donation on their website or newsletter, but don’t do much more.

In advanced countries, intermediary service organizations increase donating corporations’ satisfaction by offering specialized services that cover promotion to the general public and recognition and follow service to bring substantial benefits to their brand image.

“What is best is when you receive a heartfelt ‘Thank you’ message from the recipients after the donated products have been delivered”. (C, Corporation).

“I wish the intermediary services organization would more actively promote the donations made by corporations, perhaps through the website of NGOs. It would be great if that could lead to an enhanced corporate image for us as an organization that takes part in bettering the local community”. (D, Corporation).

4.2.4 Weak Partnerships among Government, Corporations and NPOs

NPOs staff note that in order to promote more donations in kind, the mindset of corporations towards such donations need to change and in particular, the mindset of the CEO. They also pointed out that larger companies need to take the lead in this field. To that end, government, companies, and NPOs need to make an effort in establishing a partnership that extend product donations culture.

“The way I see it is that in order to upgrade the culture of product donations in Korea, the mindset and values of CEOs need to change. If we listen to what staff say about surplus products, their priority list goes like this. First, turn it into cash, second, try discounts. Third, try flash sales and if nothing works, then donate the times. That is, donation is at the very bottom of the priority list”. (A, Fundraising Organization).

“If big companies took part in this culture, there would be huge ripple effects. If big corporations lead it, then it would become a big issue, too. That’s because from the corporation’s point of view, they are buying their own products so they still generate revenue and since they had already pledged to make cash donations to their local community, they don’t need a separate budget, they just use a part of that budget to buy the items to donate”. (A, Corporation).

“Can you believe 8 trillion Won worth of items are disposed of without ever being used? I don’t know the exact amounts but some say that the disposing cost of these items amount to 600 billion KR Won, too. And that’s just a rough estimate so who knows – if you do it well, you could even save 8 trillion Won. That is a huge amount. It would provide food for a lot of hungry people. Don’t you agree? So the government and the corporate world need to be more proactive about this. That’s what I think”. (F, Corporation).

5. Conclusion

This study tries to suggest effective management in order to facilitate gifts-in-kind by exploring the perceptions of the staff who have charged in product donations at corporations and fundraising organizations. As the result, the implications were as follows:

First of all, it is necessary to improve the perception of corporations to approach product donations from stra-

tegic and environmental motivations as well as charitable and instrumental motivations and spread the culture of participating in product donations. To date, the participation rate in such gift-giving has been a small share in the total amount of donations. Most donations in kind by corporations are limited to basic items such as food or clothing, mostly driven by a charitable motivation. A change in mindset that allows the various needs of the donation recipients to be reflected and the various characteristics of each corporation to be taken advantage of is needed, along with measures to encourage more corporations to take up on the activity.

Furthermore, it is important to consider what kind of environment would be needed to induce higher participation from corporations in gifts in kind. Above all, legal and institutional infrastructure is needed. To do this, tax benefits need to be expanded to motivate more corporations to donate and a more reasonable method of calculating the value of donations needs to be put in place. In order to achieve a more effective connection between needs and resources, a management system that matches the demand with the donations will also be needed. In the US, organizations such as GIKI allow those in need and donating institution to use an online catalog system to mutually verify the supply and demand of certain items so that a need tracking survey is possible for better matching between donor and charities.

Finally, in order to extend corporate product donations, it is essential to establish a cooperative partnership among the government, corporations and NPOs. Like Gifts in Kind International, intermediary organizations are necessary to form partnerships between institutions within a given local community to make the most of resources such as warehouses, human resources or networks. Because it is possible to be more cost efficiency using community resources, it is needed to make an effort for a collaborative partnership.

This study is significant in that it will provide a basic data for improving the institution and management of corporate product donation in order to develop in-kind resources as potential resources.

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