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CHARITY AS A REPUTATION COMPONENT OF A COMPANY

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Abstract

The purpose of the study is to estimate the impact of charitable activity on the business reputation of the company. The article shows the controversial attitude to charity on the part of the business community and the general public. The link between the charitable activity of the company and its reputation capital is indicated. A comparative analysis of Western and Russian charitable activity practices was carried out. The author's study of the charitable activity of Russian organizations is used as an example to analyze the impact of charity on the company's business reputation. According to the results of the analysis, the vast majority of entrepreneurs consider the implementation of charitable projects as an opportunity to demonstrate business sustainability and strengthen the reputation of the company. The reasons restraining the development of charitable activity in Russia are analyzed. The main ones are: imperfection of legislation; lack of support for charity from the state, society and the media; psychological unpreparedness of entrepreneurs themselves and a model of establishment and development of charitable activity as a reputational component of the company is proposed. The model includes the following blocks: external environment, internal environment, subjects of the model (influence groups), model objects (exposure groups), stages of the formation and development of charitable activities, expected results.

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Keywords: Business reputation, charity, reputation capital, model, social investments, business.



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1. Introduction

By the early to mid-1990s, the concerns of many companies about the way they are perceived by different groups of the public had increased dramatically. Requirements of observance of ethical business practices, maintenance of corporate governance principles and social responsibility are at the forefront.

The globalization of markets and business practices, the development of global information communications and powerful decision support systems have led to a sharp increase in the importance of the work of a growing number of structures and organizations building a positive business reputation. During the same period in Russian companies – and first of all in large corporate structures – public relations units, one of the goals of which was to form the image and business reputation of companies, also began to be actively created.

A good business reputation enhances the company's competitiveness, attracts consumers and partners, accelerates sales and increases their volumes, facilitates the company's access to resources (financial, informational, human, material) and operations. It is equally important for both commercial and non-commercial and governmental organizations. The work of forming, supporting and improving business reputation is carried out not only for organizations and individuals, but also for states and regions of many countries and the world.

Charity is one of the tools that help the company to build a positive business reputation. All over the world, charity is regarded as a socio-cultural management technology, which results in a favorable attitude of the society and the state authorities, as a means of achieving company's strategic goals.

2. Problem Statement

The task setting is determined by the following problems. The attitude to charity is controversial, as evidenced by the presence of different points of view on this topic. Thus, in the Russian scientific literature of the 1960-s there is no word "charity", and the term "philanthropy" was interpreted from the position of the class society as assistance provided to the part of poor population by individual representatives of exploiting classes and special bourgeois organizations, mainly to distract workers from the class struggle and evade taxation (Belyaeva & Eskindarov, 2008).

The Russian writer Tolstoy (2017) believed that charity aggravates and does not contribute to the improvement of the situation with the homeless, and that "there is no one to give money to, if one wishes for the good and not only to give money to anyone" (p. 386).

According to modern critics, charity is: a type of business, usually quite successful one, the institution of political and ideological influence, a means of entertainment for the rich, a very costly event (organization of philanthropic activities is often worth much more than direct assistance to people in need), a pompous event, the activity that gives power (who raises funds is the one who distributes them, i.e. gets power), and the desire to show off to the public. It is necessary to consider charity as a tool to reduce the acuteness of social antagonisms, to perform a socially compensating role, to form the image and business reputation of the company.

In developed countries, as a rule, effective corporate planning of charitable activity takes place, priorities and evaluation criteria are formed. The nature of charitable activity in Russia shows that

companies are not fully aware of the potential benefits from social activity as a whole and from charity in general. A favorable tax regime for philanthropists has not been fully formed, there is no developed charity infrastructure, there is neither connection with the company's strategy nor focus on its goals, and there is also no clear mechanism for allocating funds and control over their targeted usage.

The analysis of charity in Russia shows that companies do not quite realize the potential benefits of their social activity. Private business is usually supported by single events. The noncommercial sector exists mainly at the expense of its own funds and foreign charity foundations. The comparative analysis of Western and Russian charity practices carried out by the authors (Table 01) demonstrates it.

Table 01. Comparative analysis of different charity practices

Western practice	Russian practice
<ul style="list-style-type: none"> - coordination of charity with commercial plans of the company; - effective corporate planning of charity (allocation of priorities, evaluation criteria). Connection with the strategy of the company; - charity falls under the definition of social investments; - obtaining reputational advantage, increase in image; - corporate charity is one of the ways of expressing the social position of the company; - cooperation with public authorities in many countries is obligatory. 	<ul style="list-style-type: none"> - misunderstanding or denial of potential benefits from social activity; - usually, support of single actions, special motives of charity; - the noncommercial sector exists at the expense of its own funds and charity foundations; - misunderstanding of the importance of charity for business reputation, its connection with corporate social responsibility; - the companies begin to think of their reputation, social responsibility to achieve the business objectives (for example, the IPO); - lack of support from the state (lack of favorable tax regime for philanthropists).

Determination of the general signs of charity is highly important. In charity, it is necessary to define not only the subject (certain people, collectives, non-profit organizations, government institutions), and the object (people, welfare institutions), but also the form of its organization (direct or indirect). In this regard, there is a need for the making of a model of formation and development of charity as a company's reputation component.

3. Research Questions

The analysis of theoretical and practical materials on separate aspects of the problem set showed that assessment of the charity impact on company's business reputation is still relevant.

In Russia, questions of formation and maintenance of good business reputation of the companies came to the forefront due to the necessity to change the negative attitude of the public, investors and consumers to large business.

To maintain their image and improve their business reputation, Russian companies are forced to adapt to the new trends which were outlined in the external environment surrounding them, to form strategic objectives, to build standards and to carry out tactics of socio-public behavior taking into account these trends.

The business reputation is formed under the influence of many factors among which charity plays an important role. In order to make it possible to speak about the efficiency of charity as an instrument of social investments, it has to be properly organized and skillfully operated.

The research was carried out in three steps:

1. At the first stage, the analysis of Russian and foreign charity organization practices was carried out.
2. At the second stage, the charity organization model was developed due to the results of the impact of charity on companies' business reputation assessment.
3. At the third stage recommendations concerning the increase in efficiency of charity as a company's reputation component were offered.

4. Purpose of the Study

Determination of prospects of developing charity, its principles, objects and subjects. Designing a model of formation and development of charity as a reputational component of the company. Identification of causal relationships in the process of formation and development of charity activities of the company.

5. Research Methods

In the process of the research the following methods were used: theoretical (analysis; synthesis; generalization; analogy method); diagnostics (poll; interview); empirical (studying of standard documentation; observation). The experimental base of the research was large business of two Russian areas: Tver region and Volgograd region.

6. Findings

Nowadays, in difficult conditions of the financial and economic crisis, the developed positive business reputation helps the organizations to keep their competitive positions in the market. Business reputation of the company means the public opinion about the company which is formed in the consciousness of interested parties (target groups) during the considerable time term. It is based on the assessment of the main aspects of its activity – economic, social, ecological (Kozlova, 2014).

Considering all emotional coloring of this definition, it is obvious that the reputation is the category formed on the basis of real experience of interested parties' interaction with the company, set of company's values which are formed on a basis of long-term visual preferences and emotions.

The positive business reputation becomes a guarantee of sustainable economic development, competitive advantage in the market. The reputation is one of the most valuable assets of any company. According to the global research conducted in 2006 by the Interbrand company and the Business Week magazine, the intangible value of a brand as a reputation element can make up to 70% of the company's market capitalization (Khotinskaya, 2006).

This asset has a direct impact not only on the cost of the company (including its liquidity and market capitalization), but also on its ability to achieve strategic and production objectives (Belyaeva &

Kozlova, 2011). The positive business reputation created for years is an index of the company's trustworthiness, its stability even in the crisis conditions.

According to the materials of survey dedicated to the management of the Russian companies, that was conducted by the authors in November 2015, in two areas (Tver region and Volgograd region), problems of corporate image and business reputation are discussed at least 1 time a week in 50% of the companies. At the same time, about 70% of the interviewed managers consider themselves completely competent in the problem of corporate image and business reputation of their enterprise.

Considering business reputation through a prism of the client relations, they find the assessment of business reputation by clients of the company extremely important. That is why over 2/3 of all respondents are constantly interested in their opinion, having personal contact with them. The vast majority of respondents answered the question "Whether the enterprise (organization) should engage in the formation of its image and business reputation among external audience (consumers, clients, residents of the region, etc.)" positively, understanding that investments in reputation management will promote attraction of serious partners and investments.

One of the instruments that help to create the business reputation of the company (especially in the conditions of unstable economy) is charity. If the company doesn't reduce its charity programs in such conditions, it shows the stability of its development, which is very important for the investors, the state and municipal governance bodies, consumers and other interested parties. Correctly planned and skillfully operated, charity is capable to create a considerable reputation advantage for the company.

Active charity leads to the improvement of the company's relationship with investors, promotes engaging of new clients and workers. Participation of the company's staff in the implementation of charitable projects improves intra-corporate relationships. Corporate charity is usually widely highlighted in mass media and associated with a high-quality and prestigious company.

As a result, sales volumes increase and the company's position in the market becomes stronger. Promoting the distribution of national culture beyond its limits, charity leads to an increase in the image of the country on the international scene and to the strengthening of the company's business reputation at the local and national levels.

Opponents of charity claim that it indulges dependence. Modern realities confirm that many developed countries (first of all, in Europe) have already faced problems of encountering a mass layer of dependents. J.S. Mill has formulated a peculiar "pragmatical" rule of charity, according to which it must save from poverty, but not undermine the individual diligence and ability to be self-sufficient (Mill, 2007).

The Russian companies have already begun to work in this direction. It is confirmed by the results of the research conducted by authors. The vast majority of respondents (83.3%) noted that charity, first of all, needs to be aimed at professional retraining and employment of people in need.

None of the interviewed companies reduced their charity programs in crisis, but the priorities of help were reconsidered practically by everyone, as they had replaced the financial support with natural, including volunteering. 74% of respondents completely support charity and a quarter of them closely interact with non-profit organizations during the implementation of charity projects, which can be the evidence that in these companies effective corporate planning of charity takes place.

It should also be noted, that the absolute majority of businessmen (about 85%) consider charity during crisis as an opportunity to show the stability of the business and to strengthen the reputation of the company. The authors carried out a comparative analysis of Western and Russian charity practices. The main conclusions that may be drawn from this analysis are:

- Western companies, while doing charity work, see the main goal in improving their corporate image and increasing trust in their company, rather than in financial benefit. Their charitable activities are fully aligned with the company's business plans and strategy. Charity is seen as part of social investments and is a way of expressing the company's social position. There is effective corporate planning for charitable activities;

- Russian practice of charitable activity is mainly expressed in terms of individual events support and is not systematic; there is a misunderstanding or denial of potential benefits from social activity; there is no favorable tax regime for philanthropists; the state support also does not have systematic nature yet.

In developed countries, the charity activities of the companies are planned and clearly organized, priority areas are highlighted and efficiency is assessed.

Usually, the implementation of charitable business programs is carried out through the transfer of funds to non-profit organizations or special charitable foundations.

Practice shows that charitable foundations remain the most effective form of charity organization as they allow to take the interests of all participants into account.

According to the majority of studies conducted in the United States and Western Europe, charitable activity carried out by companies and individuals is encouraged by numerous benefits and deductions. It turns out that contributions to charity are similar to investments and generate income for donors. In the United States, for example, almost every large company has its own charitable foundation. The funds allocated there are not taxed.

In case of progressive tax rates, companies, by maneuvering the amount of contributions to charity, can reduce the amount of taxable income to a level that provides a lower tax rate. In addition, funds in charitable foundations can be invested in government securities (one of the latest trends in the USA), and thus equity capital can be increased.

At the same time, the number of benefits provided to the American philanthropists by the state is constantly growing. Such state support contributes to a high level of enthusiasm, which American companies show in the organization of charitable activities.

Charity activities in Russia are regulated by the Federal Law "On Charity and Charity Organizations" adopted in 1995 (Federal Law No. 135-FZ "On Charity and Charity Organizations" dated 11.08.1995).

Following global practices, in November 2014, the Federal Law No. 327-FZ "On Philanthropy", Federal Law No. 327-FZ "On the arts patronage" which defines the concept of "patronage" (2014), which is a charity in the field of science, culture and art, was adopted. The main difference in the field of charity between Russia and Western countries lies in the field of taxation. Until 2002, there was a legislative provision that did not tax from 3 to 5 percent of net profit if the company donated this amount to charity.

This law was repealed in 2002. It is obvious, that charitable companies need certain tax breaks, as funds for charity are taken from the net profit.

In our survey, two thirds of the respondents noted the imperfection of tax and legislative spheres among the reasons hampering the development of charity. Recently, there have been notable changes in Russian philanthropy legislation.

They concern not only the law on charity itself, but also the laws in the tax sphere. The new law on the regulation of non-commercial activities eliminates several provisions which were an obvious injustice in relation to charitable organizations.

The taxation of volunteers' expenses has been eliminated; goods and services received in their natural form are no longer subject to profit tax, similar provisions related to the taxation of final recipients have appeared (previously, people who received assistance, had to pay taxes in some cases).

A new page in our legislation is the tax benefits for private philanthropists. In many countries such benefits exist for both private and corporate clients.

Since 2012, Russia has introduced a property deduction only for private individuals, but a very important precedent was set, and this gives us hope that similar incentives will be provided to corporate donors in future as well.

In addition to improving the legal framework and creating a favorable tax regime for philanthropists and beneficiaries, the necessary conditions for the successful development of companies' activities in the field of corporate philanthropy are:

- increased transparency and information openness of companies and non-commercial organizations;
- support of the charity culture in mass media;
- the start of a psychological breakthrough in the minds of entrepreneurs - philanthropists;
- support from the state and society (motivation of charitable activities);
- assessment of companies based on their social activity and charitable activity (rating grades);
- preparation of social reports should become a mandatory requirement.

Organization of charitable activity is a complex and expensive project and it should be implemented in the long term. Thus, there is a need to develop a model of formation and development of charitable activities as a reputational component of the company. The author's version of such a model is presented in figure 01.

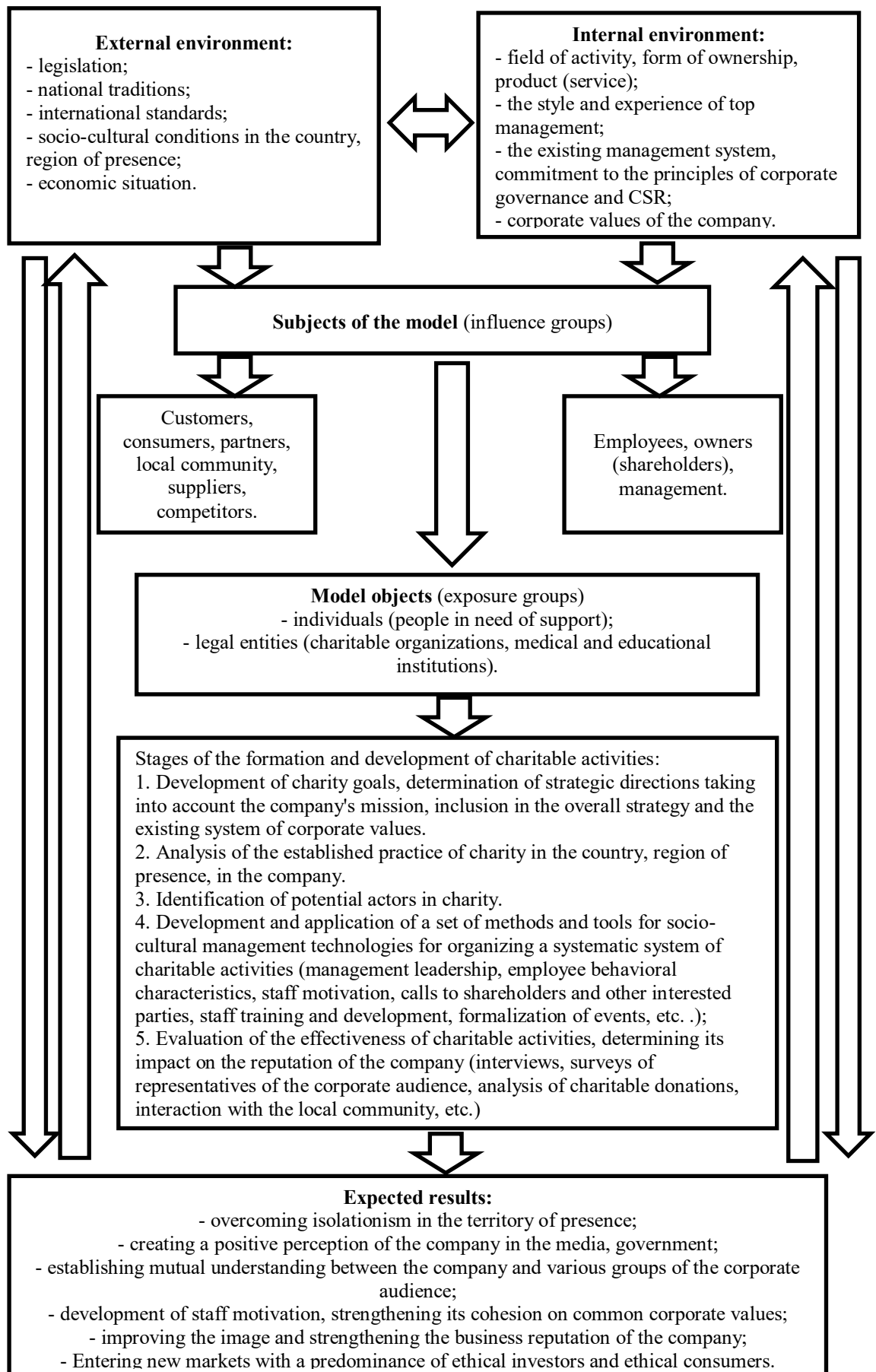


Figure 01. The model of formation and development of charity activities of the company

7. Conclusion

In order to achieve the desired attitude of all stakeholders, it is necessary to create and manage your reputation. The reputational strategy should be reflected in the company's mission and main strategies. A certain information background should be created through the publication of positive materials in the media, distribution of press releases, participation in exhibitions and charity activities, etc. It should not be spontaneously formed. Reputation work should not be one-off. It is necessary to deal with this issue throughout the entire period of the company's existence. Immediate benefits should not be more important than strategic, long-term results.

Practical interest in this problem is constantly growing. That is why it is important to create and, in a number of cases, replicate proven technologies of corporate philanthropy, build a system (model) for managing these processes within the framework of improving organizational, communication, reputational and strategic management of companies. Formalization of charitable activity, its inclusion as an element of CSR in the overall effectively built corporate governance system, will only increase the trust of the corporate audience and strengthen the reputation of the company.

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