

Corporate Philanthropy in the Czech and Slovak Republics

FINAL REPORT

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Non-technical summary

The paper looks at philanthropic behavior of corporations and the underlying motivation for this behavior in two transition economies, the Czech Republic and Slovakia. It focuses on quantitative information—the amounts spent on charitable purposes. Unlike the preceding studies (moreover, focused on the developed economies) it distinguishes two channels of support, sponsoring and giving, and in Slovakia also assignation, a possibility to design 2% of paid taxes to charitable purposes.

The study fills the gap of economic, quantitative research of corporate philanthropic behavior in transition economies, as well as examines the impact of changes in tax legislation that might have an effect on corporate charity.

The study analyses data, collected in two surveys, for 577 firms over three years (2001-2003) and 162 over five years (2001-2005) in the Czech Republic, and 152 firms over four years (2001-2004) in Slovakia. Two decisions are analyzed: whether to participate in sponsoring and giving, and if, how much money to spend. The first decision is examined using probit model, because the results from this model are used in the second specification to correct for selection bias. The second decision, regarding expenditures, is examined using the fixed effects specification for panel data (capturing the unobserved firms specific effects), with consequent decomposition of the effects of the observed firm characteristics.

The major findings are:

- there are major differences between the two countries in giving, Slovak corporate philanthropy is less developed than the Czech one; one of the reasons is lower profitability of firms in Slovakia
- firms in both countries behave similarly in sponsoring
- there is no significant difference in motivation for sponsoring and giving, both are motivated more by maximization of managerial utility than by maximization of profit

- changes in tax legislation (particularly radical in Slovakia) did not have a direct observable effect on the aggregate amounts for philanthropy, but, they seem to have negative effect on growth
- changes in the tax legislation in 2004 in Slovakia caused a shift from giving to sponsoring in firms with foreign owners
- there is no growth in philanthropic spending in Slovakia in the considered time span, there is significant growth in the Czech Republic, approximately 20%
- foreign donors do not give more than domestic firms, but they spend more on sponsoring

The results show that there is a need to further support the development of corporate charity, in particular in Slovakia, focusing on small and regional firms. Thus, nonprofit organizations searching for funds shall also turn to small and local organizations, which are willing to give despite their low profitability. In Slovakia, an adjustment of the legislation to allow deductibility of gifts would have positive effect on growth of corporate charity.

Keywords: corporate philanthropy, sponsoring, giving, transition, tax legislation