

Enterprise Foundations and Sustainability
By David Schroeder and Steen Thomsen
- Commentary

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Objective of the Papers

- The 98-page bundle actually consists of two papers: Paper 1: Foundation Ownership and Sustainability – International Evidence; Paper 2: Foundation Ownership and Financial Performance – a Global Analysis
- The two papers are related and presumably based on the same sets of companies (?). Paper 1 compares empirically the ESG performance of foundation-owned companies with that of listed family and investor-owned companies whilst Paper 2 compares the accounting and market returns.
- With the two papers, the authors found that foundation-owned firms (FOFs) exhibit higher ESG performance (esp on Social aspect, e.g. employee satisfaction) than matched family firms and do no worse than matched investor-owned firms (paper 1) and in terms of financial performance, FOFs perform as well as matched family firms and investor-owned firms (paper 2)

Contribution of the Papers

- Conclusions insightful – show that foundation ownership may be a good corporate form to promote long-term sustainability and corporate social responsibility without sacrificing financial performance
- International in nature: Papers use unique dataset of 178 publicly listed firms (57 FoFs cf 121 nFoFs) from 28 countries over the period 2003-2020 (17 years) (paper 1) and 318 publicly listed firms from 26 countries over the period of 20 years (paper 2)
- Statistical results are strong: p values for both papers appear to be strong. For Paper 1, when the individual ESG components are examined, the positive effect of foundation ownership is mainly driven by S dimension.

Comments

- Definition of foundation-owned companies: paper 1 defines at least 10% of voting rights owned by foundation while paper 2 defines at least 20% of voting rights – perhaps a more consistent definition across the two papers?
- On Paper 1, the distinctions between family foundations and charitable foundations can be clearer (Paper 1, Hypothesis 2) as many families set up foundations with charitable cause as one of the purposes for reasons of tax. In the US, a private foundation is required to distribute annually at least 5% of the total fair market of its noncharitable-use assets from the preceding year for charitable purposes – so if it is set up by a family, would you classify this as a family foundation or charitable foundation? Is Calsberg foundation a family foundation (established by Jacobsen) or a charitable foundation? Perhaps distinction can be made on percentage of income put towards non-business causes? Or the purpose stated?

4.3 Grants

- 4.3.1 The board of directors shall determine the portion of the Carlsberg Foundation's profits that shall be made available to the departments of the foundation for distribution in accordance with the rules set forth below, and shall determine the use of the amounts granted to department B.
- 4.3.2 The board of directors may, if the circumstances warrants it, provide special sums at the disposal of a department for payment of its extraordinary expenses.
- 4.3.3 Department A, the Carlsberg Research Laboratory, shall receive 8 % of the total grants awarded by the Carlsberg Foundation in any individual financial year.
- 4.3.4 Department B shall receive the sum remaining after deduction of the amounts granted to departments A, C and D.
- 4.3.5 Department C, the Museum of National History at Frederiksborg, shall receive funding in accordance with an approved budget for the individual financial year.
- 4.3.6 Department D, the Tuborg Foundation, shall receive 13 % of the total grants awarded by the Carlsberg Foundation in any individual financial year.

Comments

- Continuing with the distinctions between family foundation and charitable foundation, some of the so called “responsible business behavior” of foundation may not hold true because of the difference in purpose between the two – family foundation is set up to preserve family conflict and perpetuation of family wealth – so “muted profit motive” (Paper 1 Figure 1) may not hold true for family foundation – Taiwan Chang Gung Hospital 2017 ER doctors mass resignation crisis
- How foundations influence companies they hold shares in can be explained clearer. Presumably through the appointment of directors on the for-profit business company by virtue of their concentrated shareholding? This is a crucial point as the extent of the foundation’s involvement in the company can differ depending whether it is a family foundation or charitable foundation. Perhaps the authors want to include this as a testing variable?

Comments

- Although the foundations may have “philanthropic goals”, these goals are generally framed very widely and may or may not be congruent with those of the company. For example, Carlsberg Foundation Charter specifies 4 objects and only the first object – on Carlsberg Research Lab is in line with the goals of Carlsberg A/S. So it is not true to say that “foundation-owned firms are held accountable to their non-selfish purpose stipulated in their charter” (Paper 2, page 8) as foundation and the for-profit company have two different charters/constitutions. The for-profit Carlsberg’s aim to “develop the art of beer-making to the greatest possible degree of perfection” (page 9) is not much different from Heineken’s “We brew the joy of true togetherness to inspire a better world.” (Heineken’s Purpose taken from its corporate website)

Comments

- Perhaps a list of the foundation-owned companies tested and their matching companies in the papers can be provided? As pointed out by authors, matching is difficult as sizes may be different. In addition, firms' life cycle is also different as foundation-owned companies tend to be created in the 19th or early 20th century. Also line of business may be different – e.g. Paper 1 p 12, the shipping conglomerate Maersk has been matched with Hapag Loyd (family-owned – Q: why not the larger CMA-CGM owned by the Saade family?) and Nippon Suisan Kaisha (investor-owned). But Nippon Suisan Kaisha is actually a fishing company and not in shipping business. Finally, the authors mentioned the example of Robert Bosch GmbH (Paper 1, pages 10-11)? Was Bosch included in the sample? Bosch GmbH is privately owned by Robert Bosch Stiftung and the descendants of Robert Bosch. So is Bertelsmann. But sample is supposed to consist of only listed companies

Discussion/Future Research

- The two papers still gave insight to an interesting organizational form, i.e. foundation. But limitations:
 - Predominately used in civil law countries, esp Europe c.f. trust company in common law countries?
 - Usually created for preserving the founder's legacy/family wealth – not a trait for company in general. Also only found in large founder companies.
- Which element of enterprise foundation actually drives the results? Is it structure or purpose
 - Paper 2 Page 4 lists out the elements of enterprise foundation, some are quite unique – e.g. independence with no owners nor members; purpose of longevity or charitable purpose; endowment – source of future income. Maybe future test/study can see which variable affecting the result and see if it is possible to distill it and put it into normal company?
 - Example: law mandates all for-profit companies need to put at least 10% of annual returns etc. into charitable purposes unrelated to core business of company. Or at least 5% shareholdings with voting rights to be held by charitable organisation?