Corporate Support for the Arts in a Small Country in Transition: the Experience and Motivation Factors for Corporate Patronage and Sponsorship in Estonia.

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Abstract
Corporate patronage and sponsorship are the rising income possibilities for arts organisations in Estonia. The paper gives a general overview of the legal environment of corporate giving in Estonia and is followed by empirical research conducted from the point of view of leading companies. The results reveal companies’ experience and motivation to deal with corporate giving, their opinions on the relevant legal environment in Estonia and the shortcomings in the course of support. The key findings of the research show that large companies in Estonia use corporate support mainly as a promotional tool, financing more preferably well-established, traditional organisations or activities that attract large audiences similarly to the main trends in other countries. The main obstacles why companies do not deal more with patronage in Estonia is the insufficient amount of accumulated wealth and the legislation that is considered unclear and unfavourable to smaller companies.

Keywords
Corporate giving, arts sponsorship, arts patronage, philanthropy.

1. Introduction

Estonia has faced big changes during the past fourteen years while liberating itself from the occupation of the Soviet Union and entering into modern democratic society. During those years the governments in Estonia have followed the practice of liberal policy-making that has definitely been positive for the economy and the overall development of the country, at the same time it has left aside the soft values of society like social security, education as well as arts and culture. For example, the percentage of the State budget devoted to arts and culture has dropped from 5% to 3,5 % over the last five years. The decreased state participation has forced the arts organizations to use more entrepreneurial approach and to involve other sources of income beside public support and the box-office.

The extent of private contributions depends on the traditions and legal environment of a country. Estonia follows the prevailing trend of European countries where the State and local municipalities are the main financers of arts organisations in addition to earned income. Private support of big state arts organisations’ amounts to no more than 5% of the organisation’s overall budget. In the case of other types of arts organisations, especially different festivals and non-governmental organisations, the share of private contribution in the overall budget is higher and may reach even the 50% level. Although the percentages may seem small, the amount of money is considerable and the arts organizations should not neglect these rising possibilities that the private sector is offering.
The aim of the present research is to study and analyse the phenomenon of corporate giving to arts and culture and to expose the general tendencies and motive factors of private sponsorship and patronage in Estonia. As the private patronage and sponsorship is a new phenomenon in Estonian society practically no research has been done in the given field. The only comprehensive research on charity of Estonian businesses has been carried out in 1996 (Kolga, 1996). The results allow making some comparisons of the tendencies in corporate giving over eight years.

2. Different Motives of Corporate Support for the Arts

Very often the terms connected with private support are used misleadingly in Estonia. One possible way of depicting different forms of income of an arts organisation is shown in Fig. 1:

![Figure 1](image)

In the present research the "philanthropy, charity", "patronage" and "sponsorship" are treated. "Philanthropy and charity" are defined as "the voluntary provision of money, materials or help to people in need" (Arts&Business, 2001). "Patronage" means the encouragement through monetary support to certain field of life. Patrons have an active approach and motivated reasons for their actions (Mazza, 1994). Patronage is more altruistic than sponsorship but unlike in philanthropy the supporter wants something in return. "Sponsorship" is the payment of money by a business to an arts organisation with the explicit objective of promoting the business’s name, its products, services or image. Sponsorship is a part of a business’ general promotional spending" (Arts & Business, 2001).

Some authors distinguish very strictly between corporate philanthropy and patronage as opposed to corporate sponsorship (Schuster, 1997, Colbert, et al 2000). They explain that the distinction is so important, both because the motivations are different in the two modes of support and because there is an important legal distinction drawn between the two in many countries. The main differences between sponsorship and charitable contributions can be brought out as presented in Table 1:
Table 1

<table>
<thead>
<tr>
<th>Source of funds</th>
<th>Sponsorship</th>
<th>Charitable contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Marketing, advertising or communication budgets</td>
<td>Philanthropic or charitable contributions budgets</td>
</tr>
<tr>
<td>Accounting</td>
<td>Written off as a full business expense, like promotional printing expenses or media placement expenses</td>
<td>Write off is limited by tax laws regulating charitable contributions; as a result, accounting/tax considerations are less likely to influence the way a corporation designates funding of a not-for-profit organization.</td>
</tr>
<tr>
<td>Objectives</td>
<td>To sell more products/services; to increase positive awareness in markets and amongst distant stakeholders (customers, potential customers, geographic community)</td>
<td>To be a good corporate citizen; to enhance the corporate image with closest stakeholders (i.e. employees, shareholders, suppliers)</td>
</tr>
<tr>
<td>Partner/Recipient</td>
<td>Events; teams; arts or cultural organizations, projects, programs. A cause is sometimes associated with the undertaking</td>
<td>Larger donations are typically cause-related (education, health, diseases, disasters, environmental), but can also be cultural, artistic, or sports related. At times funding is specifically designated for a project or program; at times it is provided for operating budgets</td>
</tr>
</tbody>
</table>


Other authors do not agree that the distinction is so strict and argue that corporate support should not be seen as a pure dichotomy between targeted business marketing versus altruistic philanthropy (O'Hagan and Harvey, 2000, Young and Burlingame, 1996, Fisher and Preece, 2003, Burlingame, 2001). They have stated that the motives for patronage may very easily apply to sponsorship and there is also a philanthropic element, no matter how small, in sponsorship deals. Therefore the following six motives have been brought out in general, without an attempt to classify the support as patronage or sponsorship.

Different research has shown that the strongest motivation why companies give monetary support to beneficiaries is the promotion of corporate image (Irish Sponsorship Industry - Outlook 2000, O'Hagan & Harvey, 2000:215, Goncebate & Hajduk, 1996:53, Kirchberg, 1996:125, Lidström, 2002:5, Hitters, 1996:165). Companies want to be associated with strong and prestigious cultural organisations and through the supported associations they want to improve their own image (Goncebate, 1996:54, Piperno, 1996:141). Therefore new and more alternative initiatives get much less support than old, institutionalised organisations. The values and types of a supporter and a beneficiary should also match together. A company selling on the international market would support more likely an international festival, whereas a company acting on the local level would support more regionally important activities (Martorella 1996:23, Lidström, 2002:5). A company is motivated to promote its corporate image in order to achieve its public relation goals, serve its big clients and show its hospitality and build goodwill among opinion-formers (Martorella, 1996:22).

The second most important motivation for companies to support arts and culture is connected with the promotion of the company products and brands (Irish Sponsorship Industry – Outlook, 2000). Arts sponsorship is closely connected with advertising considerations and this is a good way to introduce new products, to reach new potential customers and in this way increase the
sales of a company (Leclair, & Gordon, 2000:229). Companies are interested in this case about strong media coverage not the representation of the aesthetic value of the art and therefore support more likely mass events (Hitters, 1996:159).

The third possible motive of the companies to support arts and culture is described as political. Young and Burlingame describe the basic motivation here as “to preserve corporate power and autonomy by building private initiatives as an alternative to the growth of governmental authority and limiting government interference in the free enterprise system” (Young & Burlingame, 1996:161). The main aim in this case is to maintain a positive operating environment for business. A company can show to the society that this is a “good company” that cares about society. Under political motivation corporations may view their participation as a substitute for governmental support of the arts (Goncebate, 1996:53).

The fourth important motivation for companies to support arts and culture is the chief executive’s personal objectives. This motive can involve either the chief executive’s hobbies and interest towards certain fields or the personal contacts with the directors of cultural organisations (Martorella, 1996:22, Goncebate, 1996:53, Kirchberg, 1996:124, Hitters, 1996:166). The personal involvement of CEOs is more dominant for smaller companies and with the increasing size of a company the influence of the personal inclinations of the executives vanishes (Kirchberg, 1996:124).

A more altruistic motivation for supporting arts and culture is the social responsibility and community relations. Young and Burlingame have called this model as ethical/ altruistic behaviour (O'Hagan & Harvey, 2000:206). The main rationale behind this motive is that companies and society are interdependent and it is the moral obligation of companies to give something back to society. In the United States this motive plays an important role among companies, whereas in Europe the social responsibility as a motive for arts sponsorship and/or patronage plays a smaller role than presupposed (O'Hagan & Harvey, 2000:207, Colbert, 2000:189, Hitters, 1996:166).

Whereas in private patronage tax incentives definitely play an important role in motivating people to donate, this type of motivation can also be considered in the case of corporate patronage and/or sponsorship. Ann Venhaeverbeke from CEREC, the European arts sponsorship association, states that “fiscal incentives do not affect giving per se. No company in Europe gives support to the arts solely to benefit from tax deduction” (Venhaeverbeke, 1996:84). However, the fiscal framework gives parameters within which the companies can operate and one can state that if tax exemptions did not exist, it could inhibit the sponsorship and/or patronage from the private sector.

The above-mentioned motives show that they always derive from the supporter and may range from more unselfish reasons, like the love for art or social responsibility, to the most market-oriented reasons like increased sales of a certain product. Since the late 1990s while changes in overall philanthropy have taken place, moving from responsive into proactive way of support, the arts organisations have to be ready to develop a viable business plans and they receive funding only if they achieve the goals established in the business plan (Wagner, 2002, Kressner Cobb, 2002). Nowadays businesses look for the creativity that the arts field can offer to them and therefore the key word in patronage for the future is “partnership” (Kössner, 2003). Thus one can state that corporate sponsorship and patronage are approaching and are not very clearly distinguishable any more.
3. Legal Environment of Sponsorship and Patronage in Estonia

Estonian laws do not define the term “sponsorship” so consequently the taxation of sponsorship contributions is also unclear. The taxation of “gifts and donations” is treated under the Income Tax Act. The overall rule according to §49 of the Income Tax Act is that all resident legal persons shall pay income tax (24 per cent) on all gifts and donations. When the gifts and donations are made to certain entities they are tax exempt. Income tax is not charged on gifts and donations made to “Public benefit organisations” (PBO, defined below) within certain value limits. The value limits are either:

1) an amount equal to 3 per cent of the salaries that are subject to social tax payments made by the taxpayer during the same calendar year; or
2) 10 per cent of the profit of the last financial year of the taxpayer.

At this point one should mention that as of the year 2000 there is no corporate income tax in Estonia provided the corporation reinvests the profit and does not take it out in the form of dividends (§50 Income Tax Act). This law has definitely improved the overall economy of Estonia, but it is not favourable to the development of corporate philanthropy.

In the case of private donations, 100 per cent of the donated amount can be deducted from the pre-tax income if:

1) the total amount of the donation does not exceed 5% of the taxable income: and
2) the documented donations have been made to organisations acting for the public benefit. (§27 Income Tax Act).

“Public benefit organisations” according to the Income Tax Act are defined as:

a) state or local government scientific, cultural, educational, sports, law enforcement or social welfare institutions;
b) religious associations pursuant to the Churches and Congregations Act ;
c) organisations included in the list of non-profit associations and foundations benefiting from income tax incentives.

A non-profit association or a foundation shall be entered in the above-mentioned list if it acts in the public interest in the fields of science, culture, education, sport, law enforcement, health care, social welfare, nature protection and meets specific requirements as stated in §11 of the Income Tax Act. This list is updated two times a year and on April 1, 2004 the list contained 1435 organisations out of which 196 (14 per cent) state arts and culture as their main activity. On April 1, 2004 the total number of non-governmental organisation and foundations in Estonia was 20 354 of which 1230 (6 per cent) are specialized in arts and culture.

In Table 2, the tax rates in Estonia in connection with gifts and donations are given.
While the taxation of donations is clearly defined in the Income Tax Act, the legislation does not define the term “sponsorship”, consequently sponsorship activity leads to different interpretations from the point of view of taxation. Some people equate sponsorship with marketing expenses and advertising, others with gifts and donations. The Estonian Tax Board and Ministry of Finances have three various viewpoints on sponsorship taxation (Jegorov, 2002, Vanasaun, 2002). According to them sponsorship can be treated as a) gifts and donations, b) expenses related to business (for example, purchase of advertising service in the case of a sports competition) or c) it is a purchase of a service, but the expense is not directly related to business. If sponsorship is considered equal to gifts and donations the taxation is treated according to §49 of the Income Tax Act as explained above.

When sponsorship is considered as an expense related to the business no deductible limits in terms of tax legislation are applied. According to §32 of the Income Tax Act: "the expenses are related to business if they have been incurred for the purposes of deriving income from taxable business or are necessary or appropriate for maintaining or developing such business and the relationship of the expenses with business is clearly justified." There are no limitations on how much an enterprise can spend on advertising, however questions may arise over what is a reasonable price for a concrete advertising activity. As there are no rules or limits how a company could advertise itself, different interpretations may arise.

In cases where the sponsorship activity is the purchase of a service that is not directly related to business, the sponsor must pay a tax of 24 per cent.

From the point of view of the Ministry of Finance, the funds for donations should come from the budget for philanthropy, advertising costs from the marketing budget and the funds for sponsorship should be split up between the advertising budget and budget for philanthropy according to the type of contribution made (Vanasaun, 2002). One possible way on how companies deal with these budget issues on a daily basis is given in the results of the present study of eleven companies.
4. Details of Research Method and Results

4.1. Research Method

In the course of the research semi-structured interviews with executive directors and marketing/PR directors were made. The aim of the research was to get an overview of the Estonian patronage and/or sponsorship environment, to find out how companies differentiate between patronage and sponsorship and to discover the motivating factors of the companies to deal with patronage and sponsorship.

As the ability of a company to support arts and culture as well as other activities depends on its overall success and profitability, mainly the companies belonging to the list of TOP100 companies of Estonia in 2003, compiled by the Estonian business-daily “Äripäev” were interviewed. All selected companies are generally known and very visible as big supporters of arts, sports, education, social and other fields in Estonia. The results of the interviews reveal the attitudes of the bigger corporations and may greatly differ from small and medium scale businesses in Estonia. Therefore the results of previous research done in Estonia are used as material for comparison in the Discussion part.

Table 3 gives a summary of the data of the interviewed companies and people:

<table>
<thead>
<tr>
<th>Name of company</th>
<th>Field of business</th>
<th>Turnover millEEK</th>
<th>Profit MillEEK</th>
<th>Rank in TOP 100 comp. in 2003</th>
<th>Rank in TOP 100 comp. by profit in 2003</th>
<th>Position in the company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hansapank</td>
<td>Bank</td>
<td>7352,8</td>
<td>1873,9</td>
<td>22.</td>
<td>1.</td>
<td>Head of PR Department</td>
</tr>
<tr>
<td>Ühispank</td>
<td>Bank</td>
<td>1572,1</td>
<td>379,2</td>
<td>52.</td>
<td>6.</td>
<td>Vice Director of PR and Marketing Division</td>
</tr>
<tr>
<td>EMT</td>
<td>Telecommunication</td>
<td>2203</td>
<td>857</td>
<td>6.</td>
<td>2.</td>
<td>Executive Vice President, Marketing Director</td>
</tr>
<tr>
<td>Elion</td>
<td>Telecommunication</td>
<td>2323</td>
<td>286</td>
<td>78.</td>
<td>7.</td>
<td>Head of Communication</td>
</tr>
<tr>
<td>Tele2</td>
<td>Telecommunication</td>
<td>820,6</td>
<td>187</td>
<td>1.</td>
<td>15.</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Falck</td>
<td>Security</td>
<td>700</td>
<td>76</td>
<td>32.</td>
<td>29.</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Edelaraudtee</td>
<td>Railway transport</td>
<td>Undisclosed</td>
<td>Undisclosed</td>
<td></td>
<td>Development &amp; Marketing Director</td>
<td></td>
</tr>
<tr>
<td>Alexela</td>
<td>Fuel retail</td>
<td>Undisclosed</td>
<td>Undisclosed</td>
<td></td>
<td>Executive Director</td>
<td></td>
</tr>
<tr>
<td>Name of company</td>
<td>Field of business</td>
<td>Turnover millionEEK</td>
<td>Profit millionEEK</td>
<td>Rank in TOP 100 comp. in 2003</td>
<td>Rank in TOP 100 comp. by profit in 2003</td>
<td>Position in the company</td>
</tr>
<tr>
<td>-----------------</td>
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<td>-------------------------------</td>
<td>----------------------------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>MinuVara</td>
<td>Facility maintenance</td>
<td>42</td>
<td>Undisclosed</td>
<td>91.</td>
<td>88.</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Kommest</td>
<td>Car retail</td>
<td>874</td>
<td>Undisclosed</td>
<td>88.</td>
<td>80.</td>
<td>Marketing Director</td>
</tr>
<tr>
<td>Kalev</td>
<td>Food factory</td>
<td>347.7</td>
<td>32</td>
<td>80.</td>
<td>Public Relation Manager</td>
<td></td>
</tr>
</tbody>
</table>

The interviews tackled the following issues:

a) the general situation and legal environment and of sponsorship and patronage in Estonia;
b) the experience of sponsorship and patronage of a company, different fields supported and reasons for their selection, expectations from given;
c) the practical process of sponsorship and patronage: form and amount of support, agreements concluded.

4.2. Results of Interviews

4.2.1. General Landscape of Sponsorship and Patronage in Estonia

The companies considered the general environment for sponsorship and patronage in Estonia good or at least improving over the past years. They pointed out that the State has taken some actions in order to facilitate the support provided by private businesses, mentioning that donations to Public Benefit Organisations are tax-exempt. There are nevertheless several problems that hinder companies from giving more support.

The most mentioned reason was the overall economic situation of Estonia. The country is small, its companies are small and they do not have the capacity to deal with patronage. Most companies in Estonia reinvest the profits and as it is exempt from income tax therefore they have no stimulation to deal with patronage. The same applies to private individuals - there are not many people who have enough accumulated capital to deal with charity or patronage.

The second reason why companies do not deal with corporate giving is the fact that sponsorship as well as patronage/charity is not valued in society in general. The media was criticized that no public discussion on these issues has been initiated. Consumer research has shown that when people make a purchase they hardly ever take into consideration if the company whose product or service they are acquiring has given support to anyone.

Although the large companies that were interviewed pointed out that they have no problems with taxes and laws, the legislation is considered unclear and unfavourable to smaller companies. Companies found the level of 3 per cent of the salary payments subject to social tax being tax exempt as too little.
Several people considered arts patronage risky as the result of an arts product is not predictable and when it is artistically bad it will give a bad image also to the company, although the company has done a good thing by supporting Estonian arts.

The interviewees pointed out that there is a lack of co-operation both between organizations and between companies. Several people mentioned that third sector organisations in Estonia are not strong enough to manage projects properly.

The companies had the opinion that generally support goes directly to the beneficiaries and not through foundations, nevertheless, half of the companies interviewed have also given their assistance to different foundations. The foundations were mainly connected to hospitals and public universities. The main reason why companies support beneficiaries directly is that Estonia is so small and there is no problem of getting information where the good projects are. The company gets more visibility when supporting directly and therefore is more likely to improve its image. Foundations are used in order to support individuals.

4.2.2. Supported Fields

All companies interviewed support different fields and the division between different spheres of life is quite equal (see Table 4). They consider supporting sport a more business-like cooperation than other fields. Traditional and successful fields in Estonia like cross-country skiing, light athletics, basketball get more assistance and much aid goes to big amateur sport events. Only one company states that they support sports on a small scale, like some sport activities connected with young people outside the capital. Ten companies state that they support arts and culture, out of them only one company declares it is their first priority. Three companies mention that they have a separate budget for small projects which may involve arts and culture but is not their priority. Six companies support the social field, such as different charity foundations at hospitals, families with many children, foster families, etc. Three companies mention “youth and children” as a separate field. Two companies have systematically supported projects in the environmental field and one company sponsors political parties. The share of the support to arts and culture among other fields directed from 10% to 60% of their total budget meant for sponsorship/patronage.

Table 4 reveals the fields that are supported by the companies interviewed:

<table>
<thead>
<tr>
<th>Name of company</th>
<th>Sport</th>
<th>Arts</th>
<th>Education</th>
<th>Social field</th>
<th>Children and Youth</th>
<th>Environment</th>
<th>Small projects</th>
<th>Political parties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hansapank</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uhispank</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EMT</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elion</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tele2</td>
<td>+</td>
<td>+</td>
<td></td>
<td>+</td>
<td></td>
<td></td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Falck</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td></td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Edelaraudte e</td>
<td>+</td>
<td>+</td>
<td></td>
<td></td>
<td>+</td>
<td></td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Alexela</td>
<td>+</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>MinuVara</td>
<td>+</td>
<td>+</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kommest</td>
<td>+</td>
<td>+</td>
<td></td>
<td>+</td>
<td></td>
<td>+</td>
<td></td>
<td>+</td>
</tr>
<tr>
<td>Kalev</td>
<td>+</td>
<td>+</td>
<td></td>
<td>+</td>
<td></td>
<td>+</td>
<td></td>
<td>+</td>
</tr>
</tbody>
</table>
The interviews revealed that the companies are more interested in connecting themselves to well-established, traditional and professional organisations. Innovative art that takes place for the first time has difficulty in getting funds from private donors. The number of audience of the event plays an important role where preference is naturally given to the activities that involve more people.

To the question "Which fields are more supported and which types of companies support more in Estonia?", all the respondents thought that such businesses like banks, telecommunication companies, food industry, car sellers, etc. are most likely those who provide financial assistance in Estonia. It was also mentioned that those companies that deal with retail sale support more than those who deal with infrastructure. Business-to-business companies practically do not support because it does not offer any return to them. Companies who have local personified owners were considered as bigger supporters. All interviewees think that most of the money goes to sports. The main reason why sports get a big share of support is because sports get more media coverage and sports managers are more competent in fundraising.

The second most supported field was mentioned as arts and culture. The growing fields are education, social services and the environment. All those events that involve more people get more support as well as those activities that involve famous people known through the media (either sportsmen, rock-singers, etc.) receive more money. The role of top management was identified as an important factor. Where top management people were formerly involved with sports, more money would be channelled to sports events. Where top management had attended music schools, more money would be channelled to culture. The respondents pointed out that generally in Estonia personal preferences of management are more important than the marketing strategies of the company.

4.2.3. Motivation Factors of Selected Areas

There are several reasons and motives behind the decisions why companies select a concrete field for support and different fields are supported for different reasons. Dealing with social fields shows that the company is willing to take social responsibility; supporting sports is a more business like deal as it gives broad advertising possibilities; supporting arts is a good use of event marketing, etc. After analysing the comments of the interviewees the following motivation factors can be established.

1. Most of the companies select the activities because these areas are somehow connected with their own activities or products. For retail oil company it is only natural to support motor-sports as it is for the candy factory to support children.

2. Often the activities are selected because the company and beneficiary share common values. EMT and Elion are considering themselves as leaders in their field in Estonia and therefore they want to support those organizations and activities that are also leaders in their field. A mobile phone operator funds more activities for young people, Tele2 considers itself as an alternative company and therefore assists more alternative arts events, etc.

3. Sponsorship and/or patronage help to improve the company's overall image. As it is very difficult to measure how much the sponsorship brings back to the company, the companies consider this activity as a long-term investment. The image of the company is not only important for the whole society but foremost to their own employees and existing clients. Strong brands in arts and culture can add a good image to a company, therefore a bank turned to the National Opera by themselves to support opera’s 100th anniversary activities. Companies stressed that
they want to cooperate only with strong organizers and quality projects. One-time events and newcomers hardly ever get support.

4. Through patronage a company can motivate its own employees involving them in the organizing committees of the events the company supports which gives the employees a good possibility to gain experiences they do not gain from their every-day job.

5. Some people said that patronage and charity raises the supporter's self-esteem. Both management and the employees feel good about working for a company that cares about society.

6. Sponsorship is a part of a company's communication and marketing strategy. As there is too much mass advertising nowadays people do not notice it any more so sponsorship is a good way of differentiating from others. Cultural events can be used for event marketing for company's big clients. Many respondents mentioned that sponsorship gives back media coverage and is just another way of advertising.

7. Almost half of the companies said that sponsorship and patronage decisions depend largely on personal connections or personal interests of top management. From the present research this is more clearly seen in the case of the smaller companies and not so much in the big companies like the banks and telecommunication companies.

8. In some cases the sponsorship and patronage decisions involve some other business decisions. A couple of times the interviewees said that very often the patronage decisions are made because other agreements in the business field can depend on them. The supported event maybe a good place to meet some other decision makers and the company can show itself in good light.

The companies almost always had clear expectations on the desired return from the supported event, organisation, etc. Some companies made strong difference between sponsorship and patronage/charity. Patronage and charity were considered to be the same thing. Often supporting sports was considered sponsorship and supporting social field as charity. Companies admitted that it is very difficult to calculate the exact return on any supported activity in financial terms or new clients. Often the terms were mixed and the overall tendency was to use the word "sponsorship" for all kind of private support, not just for the business relation of a private corporation and beneficiary.

4.2.4. Practical Process of Corporate Giving: Types of Agreements Concluded, Form and Amount of Support

All companies interviewed conclude agreements with beneficiaries but the agreements are in different types and companies define them differently. The mentioned types of agreements are: "Advertising agreement", "Cooperation agreement", "Sponsorship agreement", and "Donation agreement". "Advertising agreements" are most common in the field of sports and the expenditure can be considered as a business expense. "Donation agreements" are common in the field of charity and they are subject to §49 of the Income Tax Act. Three companies conclude "Sponsorship agreements" and they are essentially the same as "donation agreements". Six companies conclude "Co-operation agreements". In two cases these are similar to "Donation agreements". In other cases companies do not consider patronage merely as providing funds but they expect some activity in return.
As statistics on sponsorship and/or patronage do not exist in Estonia when the companies were asked to gauge the total expenditure on sponsorship and patronage by private corporations in Estonia none of them were willing to indicate any amount. Most of the companies did not even see any need for such statistics. They pointed out that the border between advertisement and sponsorship is vague and therefore establishing exact sponsorship figures is difficult. Similarly it is very difficult to establish a value for donated or discounted goods and/or services. Fixing values for providing space free of charge or the use of the know-how of personnel is impossible.

The amounts for sponsorship and/or patronage of companies come from the marketing budget, and they may vary from 5%-40% of it. Although the companies differentiate substantively between sponsorship, patronage and charity, yet the funding for all of these activities always comes from the same budget line: the marketing budget line. Bigger companies had a separate line for sponsorship and the amount devoted to corporate giving is fixed per year.

Companies mainly give monetary support. Only one company stated that their support is in the form of free or reduced price tickets and two companies said that they support 50% with money and 50% of services or products. It was pointed out that although the majority of the support is financial one should not underestimate the value of providing the know-how of employees who help organise events or allowing organisations to use spaces the bank possesses without fee.

5. Discussion of Results

In the circumstances where Estonian companies and individuals have only had the past fifteen years time to accumulate capital, it is only natural that companies state economical reasons as the main problem in patronage and it has not changed since 1996 (Kolga, 1996). Neither has the society values changed in connection with sponsorship/patronage according to companies. 70% of the respondents said in 1996 that they have not received any public recognition from society after supporting some activity or organisation (Kolga, 1996). Companies are though much less critical towards the legislation and taxation than in 1996 when 2/3 of the companies stated that legislation prevents patronage. It may reveal that companies are more aware of the legislation and it is more favourable towards bigger companies.

In Estonia corporations support beneficiaries mainly directly and not using foundations as mediators. As the legislation does not differentiate between foundations and other public benefit organisations, companies can just as easily directly support the final beneficiaries. The foundations are still largely used in order to support individuals, especially in the field of education.

Estonia seems to follow the patterns of other countries where the majority of sponsorship and patronage money goes to sports. The trends which fields get more financial aid have not changed on a large scale in Estonia since 1996. Then and now the biggest share is devoted to sports (Kolga, 1996). The new trend seem to be supporting environment that was in 1996 only mentioned by 8% of the companies.

The results show that the companies are more interested in connecting themselves to well-established, traditional and professional organisations. Innovative art that takes place for the first time has difficulty in getting funds from private donors. The number of audience of the event plays an important role where preference is naturally given to the activities that involve more people. In this way the Estonian big companies follow the trends in other countries (Lanier, 2001, Colbert, 2000, Hitters, 1996, Maatjens, 2003).
The results of the interviews show that the main motivating factors indicate that corporate support must function as a promotional tool of the company. This trend is similar with the new tendencies in Western countries (see Table 5) where the most important motivating factor is "the promotion of the corporate image" and "the promotion of products and brands". The companies in Estonia do not speak much about social responsibility or community relations, but stress the common values of the company and beneficiary as well as the motivation of its employees. Already in 1996, 80% of the leading companies were dealing with patronage and sponsorship in order to advertise their companies and raise the image of their companies. At the same time they estimated the possibility to promote their products through patronage as quite low (Kolga, 1996). It seems that during the past eight years Estonian companies have learned how to promote their products through sponsorship. In 1996 78% of the companies mentioned "their moral obligation" to deal with patronage (Kolga, 1996) whereas people during the interviews in 2004 did not use this reason to deal with sponsorship and patronage though they did mention that companies should care about society.

### Table 5

**Different Motives of Corporate Giving**

<table>
<thead>
<tr>
<th>Other countries</th>
<th>11 companies in Estonia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Promotion of corporate image</strong></td>
<td>Supported areas are connected with their activities or products</td>
</tr>
<tr>
<td><strong>Promotion of company's products and brands</strong></td>
<td>Promotion of corporate image</td>
</tr>
<tr>
<td><strong>Political motivation - maintain good environment of business</strong></td>
<td>It is a part of company's communication and marketing strategy</td>
</tr>
<tr>
<td><strong>Chief executive's personal objectives</strong></td>
<td>To motivate its own employees, raise its self-esteem</td>
</tr>
<tr>
<td><strong>Social responsibility</strong></td>
<td>Personal connections or interests of top management</td>
</tr>
<tr>
<td><strong>Tax incentives</strong></td>
<td>Sponsorship and patronage involve some other business decision</td>
</tr>
</tbody>
</table>

As the phenomenon of corporate giving is quite new in Estonia and several foreign words have been taken into use in the Estonian language, the terms "sponsorship", "patronage", "charity" and "philanthropy" are generally used misleadingly. The overall tendency is to use the word "sponsorship" for all kinds of private support and not just for support which has marketing value. As the legislation does not define the term "sponsorship", then legally it does not make much difference how people call the phenomenon as far as everybody understands what is the aim of the support. But as some people equate sponsorship with marketing expenses and advertising, others with gifts and donations the uncertainty on taxation exists. Linguists and specialists should promote and explain the right usage of the terms and more exact legislation should be introduced. In spite of the uncertainties in legislation the companies interviewed very clearly know what they expect from the supported activities and for the sake of good co-operation both parties should clearly articulate their aims.

Companies mainly support in form of money and this was already so in 1996 (Kolga, 1996). In smaller scale of companies though the situation may be different and such behaviour would have corresponded to the new trends in other countries where small and medium businesses are more involved in cultural sponsorship with their products, services and know-how (Kössner, 2003). This could be a necessary topic for further research.
While in the United States the sponsorship budget comes from the marketing, advertising or communication budget and charitable contributions come from the philanthropic budget, then in Estonia the budget for sponsorship, patronage and charity is a part of marketing budget line. Taxation is however different for sponsorship and/or advertising as well as for patronage and/or charity as described above. Taxation uncertainties lead to misinterpretations that might prevent private companies from dealing with sponsorship and patronage in general.

6. Conclusion

The decreased state participation has forced the arts organizations also in Estonia to involve other sources of income besides public support and the box-office. The present research attempted to find out the motives and experiences to deal with arts sponsorship and patronage from the viewpoints of entrepreneurs and companies. The key findings of the research revealed that large companies in Estonia use corporate support mainly as a promotional tool, financing more preferably well-established, traditional organisations or activities that attract large audiences similarly to the main trends in other countries. The main obstacles why companies do not deal more with patronage in Estonia is the insufficient amount of accumulated wealth and the legislation that is considered unclear and unfavourable to smaller companies. As the phenomenon of corporate sponsorship and patronage is relatively new, it is not generally valued in the society and much more public debate is needed.

References


*Other sources and consulted web-pages:*

Eesti Riigiteataja: [http://www.riigiteataja.ee/](http://www.riigiteataja.ee/)