



# THE HEC FOUNDATION

Financial years 2018 to 2022

Organisation receiving donations

July 2024

# Summary report

## **A foundation whose work is part of a cross-functional relationship within the “HEC community” and is in a favourable financial position**

The HEC Foundation was created in 1972 on the initiative of the HEC Alumni association, to support the work of the École des Hautes Études Commerciales (HEC), itself founded in 1881 by the Paris Chamber of Commerce and Industry (CCI). From the outset, its actions have been part of this community of stakeholders with closely intertwined strategies. Its governance, in particular, is based on cross-fertilisation with these historic partners. Against this backdrop, the status of the school was radically overhauled in December 2015 with the creation of *Etablissements d'enseignement supérieurs consulaires* (EESCs) by the so-called *Business Simplification Act*<sup>1</sup>. The CCI Paris Île-de-France holds the majority of the share capital of this new not-for-profit establishment, in which HEC Alumni and the HEC Foundation are now also shareholders. While these relationships are backed up by a variety of contractual links, notably concerning the school's shareholding or the provision of material and human resources to the foundation, the latter nonetheless retains real independence from its privileged partners.

Its main objective is to strengthen the school's academic excellence, and therefore its attractiveness, while promoting the social and geographical diversity of its students. Although the funding of an endowment fund and the gradual increase in the school's share capital are not formally listed among the school's statutory missions, each of these aspects has mobilised significant funding over the period, and in fact contributes to the organisation's corporate purpose by providing sustainable resources for the EESC.

The foundation uses most of its inputs to fund initiatives run by the school, which is almost exclusively responsible for the initiatives funded under its social missions. Its strategy reflects that of the HEC school, and basically consists of implementing fundraising campaigns, mainly with major donors and sponsors. These two categories of benefactor contributed 51% and 40% respectively of its fundraising income over the period.

The organisation's internal procedures appear to be proportionate to its surface area and under control, but they call for a deepening of the risk control procedures already initiated, as well as the design and implementation over time of an audit plan covering all risks. With this in mind, in addition to rigorous hierarchical control and monitoring by the governing bodies, particular attention must be paid to the protection of personal data and the effective verification of the ethical rules adopted by the Foundation.

In financial terms, the foundation, whose balance sheet value has doubled since 2017, is in a favourable position. Reflecting the growing support for funding the school's projects, operating expenses increased by 50%, while fundraising income rose by 68%. These represent an average of €17.8m a year, excluding financial income. Against this backdrop, structural surpluses are helping to strengthen equity, which in 2022 included more than €42m in EESC HEC shares and more than €80m in marketable securities and cash income.

## **An ambitious, closely managed fund-raising campaign by the governing bodies, with convincing results**

The fundraising campaign launched in 2019 set the ambitious target of raising €200m by 2024. These funds are earmarked to finance strategic projects in line with the school's priorities. These focus on student affirmative action, excellence in teaching and research, and

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<sup>1</sup> Law no. 2014-1545 of 20 December 2014.

campus modernisation. The campaign, which is actively managed by the governing bodies in close collaboration with members of the HEC community, had already raised more than €152m by the end of the 2022 financial year, with costs kept under control and a high level of profitability.

The fundraising strategy relies heavily on major donors and corporate sponsors, who account for over 90% of revenues. However, a variety of awareness-raising and fundraising initiatives are also aimed at other individual donors, such as students and former graduates ("Alumni"), who are potential future major donors and intermediaries with sponsors.

The HEC Foundation is also home to seven foundations under its aegis, which are closely monitored and play a full part in the organisation's strategy of cultivating a long-term, individual relationship with its major donors.

Although bequests and donations are few in number, they do make a significant contribution to the Foundation's inputs. At more than €2.9m a year on average over the period, they are even higher than the annual average for financial income (€2.4m). Their management by the Foundation's departments appears to be under control, as is the management of donations and sponsorship agreements.

### **Transparent monitoring of funds raised from public generosity, but financial information to be corrected and completed**

Prior notifications of appeals for generosity are regularly filed with the central government.

From a formal point of view, the audited accounts comply with the obligations relating to the monitoring of funds raised from public generosity. They do, however, call for accounting adjustments of a technical nature. The notes to the financial statements (income statement by source and destination) must, in particular, give a better account of the contribution of sponsorship and financial income to the foundation's inputs and to the financing of its missions. Both their origin and their nature make them, in this case, products of public generosity and they should be classified as such, which is not the case today. Conversely, the book value of contributions made to HEC in the form of an increase in the school's share capital since 2019 is wrongly considered sponsorship proceeds. In addition, the very principle of this offsetting entry in the accounts is questionable, quite apart from its connection. In addition, all voluntary contributions in kind must be valued in accordance with the regulations.

Generally speaking, the financial communication, although extensive, could be further improved by providing more details on the foundation's endowment strategy and by explaining the internal rules for allocating donations.

### **Effective promotion of the social and geographical diversity of students and support for the academic excellence of the HEC school**

The Foundation's main use of inputs from public generosity is to fund financial aid schemes for students. They cover various forms of grants for a variety of groups (high school students, French and foreign students at the HEC business school, MBA students, doctoral students), representing 55% of social mission uses over the period. As such, the foundation makes a significant contribution to the diversity of profiles within the school, providing the majority of the funding for this type of scheme set up by the EESC, which concerns almost a quarter of its students.

The Foundation's funding of teaching and research activities, although less significant for the school in budgetary terms, is also significant, with €22.6m accumulated over the period. This comes at a time when the EESC's other external sources of funding are drying up, in particular subsidies from the Chamber of Commerce and Industry and the apprenticeship tax,

which tends to shift the balance of the school's budget onto tuition fees, which are on the rise. The final strategic focus of the fundraising campaign, contributing to the modernisation of the school's infrastructure, only attracted residual funding from the Foundation over the period. However, this real estate component represents a crucial financial challenge for the members of the HEC community, and in particular for the foundation, with a view to the future campus modernisation programme currently being defined for 2025.

### **A pro-active endowment strategy that reinforces the role of the HEC foundation vis-à-vis the school**

The rapid increase in the Foundation's shareholding in the school bears witness to the importance of the funding provided through this channel over the period. This trajectory is set to continue and will be accompanied by a growing role for the Foundation in the governance of the institution, alongside the CCI, which will remain the majority shareholder.

The organisation's endowment strategy has also resulted in an increase of more than €18m in its marketable securities and cash. At the end of the period, the foundation had a portfolio of over €80m. This is managed actively, professionally and under the close supervision of the company's governing bodies, on the basis of a clear strategy and a tried and tested internal organisation. Nevertheless, the unfavourable economic climate during the period under review resulted in a financial performance that fell short of objectives.

In conclusion, the HEC Foundation has a sound management and financial position, implements a convincing fundraising strategy, and makes a significant contribution to the diversity of student profiles and to the academic excellence of the school that it aims to support through the public generosity schemes that it mobilises; it must nevertheless make progress in certain aspects of its accounting presentation and donor information.

## Opinions issued pursuant to Articles L. 111-10 and R. 143-11 of the French Financial Courts Code

On completion of its audit, in the light of the due diligence it has carried out and within the limits of the prerogatives conferred on it by Articles L. 111-9 and L. 111-10 of the French Financial Courts Code, the Court of Accounts considers that the expenditures incurred by the HEC Foundation over the course of the 2018 to 2022 financial years complies, on the one hand, with the objectives pursued by the public appeal for generosity and, on the other hand, with the Foundation's objectives.

However, the Court has three reservations:

- certain voluntary contributions in kind are not valued in the foundation's financial statements (the provision of equipment and the costs borne by the school's corporate and partnerships department) even though they contribute directly to the foundation's fundraising activities;
- the financial income generated by inputs from public generosity is wrongly excluded from the scope of inputs linked to public generosity in the presentation of the statement of utilisation of inputs for all the financial years under review; income from sponsorship is excluded, contrary to regulation 2018-06, from the column "of which public generosity" in the income statement by origin and destination (CROD) for the financial years 2020 to 2022;
- the unjustified recording of income entitled "HEC donation", as part of the foundation's increase in the capital of the HEC *Établissement d'Enseignement Supérieur Consulaire* (EESC), both in the income statement and in the inputs from public generosity in the use of inputs statement, has led to inaccurate accounting and financial information being provided to donors and the public for the 2019 to 2022 financial years.

## Recommendations

The Court makes the following recommendations to the foundation:

1. Fully integrate internal control and risk management into the audit cycle.
2. Include in the foundation's financial statements all voluntary contributions in kind (including the provision of equipment and costs borne by the school) and ensure transparency as to whether or not they are taken into account in the calculation of fundraising and operating cost ratios.
3. From 2024, revise the rules for compiling the accounting notes relating to the monitoring of inputs from public generosity in terms of the allocation of sponsorship income and financial income.
4. Adopt a consistent presentation, in the balance sheet and income statement, of the treatment of the HEC foundation's increase in the capital of the HEC *Établissement d'Enseignement Supérieur Consulaire* (EESC).
5. Enhance information on the organisation's endowment strategy and its performance in all fundraising media, particularly the website.