Creating and Defining Value: Corporate Philanthropy and Social Responsibility 1984-2014

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It has been more than thirty years since Edward Freeman published Strategic Management: A Stakeholder Approach where he highlighted and reframed fundamental questions about how business interacts with stakeholders. The initial insights of stakeholder theory highlight that business has positive and negative effects in society and by necessity must take into account the opinions and needs of a variety of stakeholders. The challenge for management is to figure out a company's obligations and what role or influence stakeholders might have in an organization's decision-making and value creation. In this stakeholder dynamic, the role of corporate philanthropy has gained wider attention and scrutiny. In many cases, the practice of philanthropy has become more strategic and aligned with business objectives but in other cases it remains an outlier. Changing beliefs about the role of business in society in the past thirty years have increased the pressure on business to define how it addresses higher purposes beyond financial gain. The practice of corporate philanthropy itself is under siege with some business writers calling for a redirection of philanthropic funds on the grounds that philanthropy does not help a brand and neither it the most effective way to make social change (McLaughlin, 2014). This paper examines key efforts to define the role of corporate philanthropy in improving the practice of defining and measuring the value of business in society delivering value to society and to the business over three decades with an emphasis on corporate philanthropy. Three specific recommendations are offered for improving the practice of defining and measuring the value of corporate philanthropy. The tension, for companies, between creating business value and social value over the past thirty years will also be discussed.

To address the next thirty years of corporate philanthropy, three changes must occur to ensure that strategic corporate philanthropy maintains its critical place in delivering value to stakeholders. First, the field of corporate philanthropy must design and implement new metrics on how this function adds value to society and to business; relatedly, the definition of value should include the perspectives of various stakeholders who derive value or possibly experience the negative effects of a corporation. Second, the field of philanthropy must commit to developing a transparent base of knowledge about what works and what does not work in solving a particular problem. Third, the CSR field demands new competencies to embrace a new and collaborative way of doing business; these new competencies will enable more rigorous, relevant and meaningful engagement both internally and externally .

Metrics

The present drive toward integrated citizenship reporting has challenged those proponents of corporate philanthropy to design better measures of impact. As recently stated by sustainability experts, RobecoSAM AG, “Investors’ demand for long-term oriented strategies that integrate economic, environmental and social criteria within their portfolios is expected to grow – even more so after the recent financial crisis exposed significant risks associated with short-termism. As investors seek to invest in companies with a superior business model and attractive long-term potential, their stock selection decisions will increasingly be influenced by sustainability considerations.”

In an effort to stimulate debate and dialogue around the role and responsibility of business in society, the European Academy of Business in Society (EABIS now ABIS) commissioned an edited volume on the current state of CSR (Kakabadse & Morsing, 2006). Prominent among the essays is a contribution by R. Ed Freeman and S. Ramakrishna Velamuri where they offer an updated view of stakeholder engagement including ten principles of what they term “Company Stakeholder Responsibility.” (Freeman & Velamuri, 2006) In this essay, the authors argue for a framework that integrates the considerations of business, ethics and society. Among the ten principles is a call for companies to articulate how they serve their stakeholders with the proviso that there is never a tradeoff of interests of one stakeholder versus another.

Terrence Lim, in a 2009 study, also pointed to employee engagement as one area where philanthropy contributed, or could contribute, value to the business in terms of retention and job satisfaction. Lim, an independent scholar commissioned by Committee Encouraging Corporate Philanthropy (CECP), assessed current measurement practices as they related to corporate philanthropy. Lim’s publication was one of the first and most rigorous attempts to quantify the value of corporate philanthropy among various stakeholder groups.The interesting element of Lim’s approach was his sensitivity to the various stakeholders of corporate giving. For example, the author designed effectiveness conversations between specific stakeholders such as the grant recipient and the giving officer, the giving office and the CEO and the giving officer and the CFO. These conversations hinged on how philanthropy was delivering value to these various stakeholders. In another section, he addressed the ROI nature of philanthropy through the eyes of a social investor and concluded, “Absent effective industry standards, companies have an opportunity to distinguish themselves in their conversations with the investor community by proposing standards of their own.” (Lim, 2009)

It is a lack of standards in general that has hampered efforts to report the impact of corporate philanthropy on any stakeholder group. Most companies report the very elemental total cash and product giving as well as giving as a Percent of Pre-tax Net Income (PTNI). The advent of cause-related marketing has given philanthropy a boost while also mixing business motivations with the more altruistic “do the right thing” charitable giving. There is, however, promising research underway that could improve the private sector's ability to not only justify philanthropy but actively increase philanthropic intent.

An interesting position around stakeholder engagement has been constructed by Bhattacharya et al. (and cited by Lim) beginning in 2001 and continuing to the present day emphasizing the particular importance of consumers and employees in ensuring that corporate responsibility initiatives return business value among a broader group of stakeholders.   C.B. Bhattacharya has been on the forefront of research around employee engagement and how employees feel and demonstrate connection to their companies especially around CSR (Bhattacharya, Sen, &Korschun, 2011). The links between company-sponsored giving and employees of the firms have proven to be key opportunities to bring human resources strategy in line with corporate philanthropy.

Growing evidence is pointing to two areas where corporate philanthropy can do more to measure its impact on the business: employee relations and corporate reputation. There is an increasing literature base that shows the connection between the causes a company supports and the company's ability to recruit and retain employees. The connection is deepened when employees, as volunteers, are connected to organizations supported by the company. In fact, leading companies have designed leadership development programs around community engagement. In terms of employee engagement, a 2014 study proved that contributing to a social cause is an important driver of engagement for workers in firms that practice corporate philanthropy. Researchers from the University of Southampton discovered that when workers are given a social incentive such as a charitable donation linked to their job, "performance increases by an average of 13 per cent, rising to 30 per cent amongst those who are initially the least productive."(Tonin & Vlassopoulos, 2014)

The area of trust and reputation measurement has matured rapidly since 1997 when Charles Fombrun and Cees van Riel began what has become known as the discipline of reputation management in founding the Reputation Institute (Reputation Institute, 2015). Since then, they have worked with about 400 global companies in understanding how reputation can affect business results. Similarly, Harris Poll Reputation Quotient (RQ®) has been judging and ranking companies since 2000 (Harris, 2015). Harris Interactive measures reputation along six dimensions: products and services, financial performance, workplace environment, social responsibility, vision and leadership, and emotional appeal (Harris Interactive, 2015). The Reputation Institute outlines seven dimensions of reputation: products and services, innovation, leadership, workplace environment, citizenship, governance, and financial performance.   Both frameworks evolved from the thinking of Charles Fonbrum and both include linkages to philanthropy in the respective social responsibility and citizenship dimensions. Fonbrum's method is polling consumers' perceptions of companies' behaviors .While there are still opportunities to continue to improve the impact measurement of philanthropy around employee engagement and reputation, a much larger opportunity exists to refine how philanthropy creates social value which in turn affects multiple stakeholders.   Currently, the Global Reporting Initiative, the Dow Jones Sustainability Index, CECP and the Conference Board all collect data from companies on their philanthropy. However, the data and the questions asked to collect the data are very limited. Given the multitude of existing country-level data on health, education and related social indicators, there is a clear opportunity to create a common platform (and common indicators) for companies to measure their success in meeting social needs.

It will take strong leadership form an organization such as CECP or BSR and the additional commitment of some leading companies to call for these indicators. Rigorous indicators could serve to provide more transparency around corporate giving and also allow for comparison among industry sectors and among individual companies. For example, philanthropy measures could be tied to existing social progress data sets such as the Human Capital Index developed by the World Economic Forum. The Index includes 51 variables that measure “contributors and inhibitors to the development and deployment of a healthy, educated and able workforce” in 122 countries (World Economic Forum, 2015). Since a talented and stable workforce is vital to the private sector, aligning strategic philanthropy around workforce development would make sense to all stakeholders. Similarly, the health care sector could align around the World Health Organization’s Global Health Indicators which represent a major effort to track health outcomes globally (World Health Organization, 2012).

Most corporate philanthropy programs rely on NGO partners to design and execute interventions. In many cases, corporate funders offer general operating support to their non-profit partners. However, in a new era focused on outcomes and transparency, all funders will have to increase the M&E capacity of their grantees in order to report credible output, outcomes and program impact. There is a growing opportunity for funders to support the enhancement of partner NGOs’ ability to monitor and evaluate programs. However, there is great inconsistency among NGOs’ M&E capacity. As public-private partnerships (PPPs) continue to grow in number and scale, there is also an opportunity to develop measures around how a funder contributes to solving a problem. This is a complicated area of measurement and will require a significant shift from “attribution” to “contribution.” In other words, funders should move away from trying to solve problems on their own and move toward articulating how they can contribute to solutions. Thankfully, there is an evidence base for evaluating the effectiveness of a coalition (Raynor, 2011). As PPPs proliferate, it is incumbent on all to apply rigor when developing programs and interventions including mutually-agreed upon theories of changes, logic models and monitoring and reporting plans. Overall, better data collection and analysis will lead to better decision-making and better reporting.

Shared Knowledge/Shared Results

As the pressure for funders to be more transparent grows, funders will be forced to think about reporting in new and different ways. There is an emerging drum beat around greater oversight of all philanthropy sparked by the recent questions raised around the Clinton Foundation (Callahan, 2015). There is increased attention on the fact that the U.S. Treasury estimates the cost of charitable tax expenditures over the next decade to be around $740 billion. Many argue that the tax avoidance needs more scrutiny and that the government could use the resources for endangered federal programs. This pressure provides an opportunity for funders to collectively commit to new ways of reporting on philanthropic activity and results in a timely manner. There are emerging efforts to address philanthropic transparency such as the Fund for Shared Insight, the Open Philanthropy Project and, on the non-profit side, Give Well. However a more concerted and collaborative commitment must come from all funders to create a publically-accessible and real-time source to disclose basic grant making and program effectiveness.

The calls for transparency are mostly directed to the private foundation but will soon be directed more pointedly to corporate funders. Innovative approaches such as the Kellogg Foundation's efforts to provide an easily searchable and up-to-date database of its grants are leading the way. The Case Foundation created an initiative called Revolutionizing Philanthropy and a campaign called Be Fearless that encourages foundations and nonprofits "to be bold, act with urgency and embrace risks with potential to produce exponential social returns." (Gunther, 2015) These innovative approaches not only call for transparency but also advocate for a space to share and learn about grants that did not work. Given the private sector's experience with citizenship reporting, the demand for more reporting around philanthropy should be a natural extension of existing stakeholder reporting. As a recent **Stanford Social Innovation Review** article suggests, "By funding projects that involve shared knowledge, foundations can increase both the value of their initiatives and their ability to offer innovative solutions."(Kallergis & Lambelet, 2015)

New Competencies

This return to stakeholder engagement and the growth of PPs call for a reassessment of CSR strategies, especially those for MNCs. Stakeholder engagement is an increasingly complex practice and competency to be developed by organizations and the professionals engaged in this practice. This stakeholder competency is unlike most other managerial skill sets and, at present, is often learned on the job. There is clearly an opportunity for the creation of competency standards for this new and critical function. Boston College, in 2010, was one of the first to recognize the need to identify competencies for corporate citizenship leaders. Their study emphasized the ability to work collaboratively with stakeholders and called for qualities such as optimistic passion (Kinnicutt & Pinney , 2010). Later, in 2012, Business for Social Responsibility commissioned a study to determine existing and emerging competencies related to sustainable business practices and found that among the new competencies required is stakeholder engagement.

In a previous article, we advanced an original framework for articulating, comparing, and assessing stakeholder engagement competence for organizations and professionals based on the underlying ideas about communication that comprise principles for designing collaborative stakeholder engagement (Aakhus & Bzdak, 2015). We argued that external engagement is a new practice demanding a new approach. The adoption of this new approach will require a dramatic shift for companies at all levels of management. In essence, it is a new way of thinking that will not be adopted through training but rather through a complete re-thinking of all engagement processes. This re-thinking is critical in an era of increased PPPs.

Implications

Freeman's views on stakeholders came at a time when corporations were faced with multiple challenges such as high-profile business scandals and the very public excesses of Wall Street. The old model of a corporation from the 1950s and 1960s was giving way to increased pressure on all stakeholder fronts. It is sobering to note that one-third of the companies listed on the Fortune 500 of 1980 had disappeared in the 1990 listing. Numerous responses to these changes can be noted. For example, the 1980s saw the emergence of the Social Venture Network (SVN), a group of socially minded and purpose-driven businesses. In 1991, SVN members created the first version of BSR, which was designed to inform policy formation in Washington, D.C. In 1992, Business for Social Responsibility was launched, with 51 companies signing on as members including Ben & Jerry's, the Body Shop , and Stonyfield Farms. Today, BSR has more than 250 members and continues to push the boundaries in defining the role of business in society.

In 1994, the London Benchmarking Group (LBG) was formed in the United Kingdom when a group of leading companies sought to define the value they were returning to society. Their efforts to quantify the role of business in society became an accepted rubric among a segment of the world of multi-national corporations (MNCs); the rubric is used by more than 300 companies today. The LBG identified three major motivations behind corporate community involvement: "a sense of moral and social responsibility, also responding to expectations from society; a belief that companies have a long term interest in fostering a healthy community, sometimes known as enlightened self-interest; the knowledge that community interventions involving employees, customers and suppliers can have direct benefits, through increased profitability, stronger company image, reduced costs, better employee morale and improved customer loyalty."   The LBG model continues to have great influence over CSR practice with elements of the model forming the basis for the Dow Jones Sustainability Index rankings.

Also in 1994, Harvard Business Review (HBR) published the influential "The New Corporate Philanthropy" which suggested that a new era of philanthropy was emerging where corporate giving could be designed to be a business advantage (Smith, 1994). Craig Smith, the author, cites examples where corporate philanthropy leaders engage with business unit leaders to craft programs that drive business value. Smith's essay marked a time when corporate philanthropy was realizing the potential of bringing the power of the whole corporation to bear on solving social issues. Writing in the early years of globalization, Smith points to philanthropy's ability to create trusting relationships in new markets as well as the reputational value emanating from philanthropic programming.

As early as 1999, Michael Porter and Mark Kramer were addressing the inability of corporate philanthropy to deliver measurable value to the company. They followed this work with a more specific proposal in 2006 work in developing the role of philanthropy in creating a competitive context. More recently, their 2011 "creating shared value" publication has led to a movement toward a dual social/business agenda. Building on earlier work, the Shared Value approach advises companies to develop their competitive advantage by seeking points of profitability at the intersection of business opportunity with social values. The purpose of engagement with stakeholders is to discover the points where business can be conducted in a profitable manner that solves social and environmental problems. As Aakhus & Bzdak criticize, the purpose of engaging stakeholders from the Shared Value perspective is to find the sweet-spot where business and social value come together.

In the wake of the financial crisis, Charles Handy, writing in 2002, called for a re-defining of the role of business in society (Handy, 2002) Handy argues that business exists for a higher purpose than profits and that profit is a means to this end. Also writing in 2002, Roger Martin, in 2002, offered a framework to define the basic elements of CSR and the potential returns to stakeholders as a result of CSR practice (Martin, 2002). His "virtue matrix" outlines the instrumental and intrinsic approaches to CSR. According to Martin, the instrumental approach is equated with conforming to the "civil foundation" expectations of society while the intrinsic approach is more aspirational and not undertaken to advance shareholder value; Martin uses the term "frontier" to describe this element of his virtue matrix. Although his matrix does not appear in the core CSR literature, his article advances the notion that shareholder value and social responsibility can co-exist.

Ten years later, legal scholar Lynn Stout, challenged the prevailing wisdom of shareholder primacy in 2012 by offering compelling arguments about the absence of a legal basis for shareholder primacy (Stout, 2012). Moreover, Stout examines the identity and trading behavior of the typical shareholder, suggesting that shareholder primacy is based on a convenient but untrue characterization that investors lack pro-social inclinations. Reminiscent of Handy's earlier arguments, Stout claims that the principal-agent reasoning underpinning shareholder primacy is fallacious and that, indeed, there is a business-to-society relationship, the recognition of which is limited by this fallacy.

In what appears to be an about-face, the Harvard Business Review published a piece in early 2015 which acknowledged that the drive toward shared value might not be as realistic or relevant as first thought (Rangan, Chase,& Karim, 2015). However, the authors of this essay conclude best practice CSR companies invest in programs that "… are aligned with the companies' business purpose, the values of the companies' important stakeholders, and the needs of the communities in which the companies operate." This surprising point of view recognizes the complexity of stakeholder expectations and the many ways a company can deliver value to these stakeholders. The authors also appear to recognize that the shared value approach is not the quick fix that it has been purported to be.

The whole concept of "purpose" and aligning with purpose has gained traction in recent years. Paul Pollman, CEO of Unilever, has become the most outspoken business leader to talk about the changing role of business and the competencies required of business leaders. According to Pollman, "Most of the leadership skills we talk about—integrity, humility, intelligence, hard work—will always be there. But some skills are becoming more important, such as the ability to focus on the long term, to be purpose driven, to think systemically, and to work much more transparently and effectively in partnerships." (Pollman, 2014) As an indicator of the growing interest around purpose and business, the Huffington Post launched a platform in June, 2015 to communicate various aspects of the new role of business in society (Huffington Post, 2015).

There is, however, no clear guidance on what the actual competencies are that reflect proficiency in being purpose driven or being effective in partnerships. As was the case with the stakeholder competency, there is an opportunity to design and implement managerial and leadership competencies for incoming business leaders. Taking a cue from Rangan, it is critical for each business to define its purpose, understand their stakeholders' expectations and , most important, understand the needs of their communities. As companies explore models of engagement beyond shared value, the lessons of Freeman, Stout and Handy will create a strong foundation to build a case for engaging in large-scale partnerships and collaborations to tackle social issues. As Freeman and Velamuri state, "(organizations) cannot generate profits or fulfill purpose without intense engagement with their stakeholders." (Freeman & Velamuri, 2006)

Conclusion

The role of business in society has changed dramatically since 1984 when Edward Freeman published his seminal work.The conversation has clearly evolved to a place where stakeholders have assumed new importance and new meaning form the private sector. Concurrently, the public sector, the private sector and civil society have been moving toward a more interdependent existence. Societyis now at a critical point where companies are re-evaluating the place of CSR within their structures and relatedly, the place of corporate philanthropy within the CSR domain.There has been a call for all CSR to be more integrated into all business functions. However, there is also a case to be made for philanthropy to be separate but connected to the business. In many cases, corporate philanthropy professionals build trusting relationships with NGOs and governments based on shared values and shared commitment to solving a problem collaboratively. However difficult it is to measure the intangibles surrounding trust, these intangibles often lead to very tangible and measurable outcomes among a variety of stakeholders.

As discussed, there are multiple opportunities to create new indicators which measure the value of corporate philanthropy. We now understand that philanthropy has the ability to return value to multiple stakeholders including employees, customers, communities and stockholders. In addition, corporate philanthropy can be a powerful contributor to a company's reputation and its ability to build trust among diverse stakeholders. It is time to resolve the tension around philanthropy's potential to deliver value to a company. It is also time to understand that solving social problems is a shared responsibility among all sectors and that these problems should be the focal point and the center of stakeholder engagement. Business resources, including philanthropy, are but one potential element of a broader solution to a social challenge.

In addressing the recommendations around new metrics, a new way of collaborating and new competencies, corporate philanthropy leaders will have better tools to define the potential as well as the limitations of corporate philanthropy in the context of CSR and business strategy. Freeman's more recent call for the "Social" in CSR to be replace by "Stakeholder" would help in reframing the responsibility of business in society. As the MDGs evolve to the SDGs, there is a clear call for a new way of approaching the environmental and social problems that face the global community. As companies strive to articulate their purpose beyond profits, it is time for a renewed vision of philanthropy as a key element in a company's stakeholder engagement strategy. This can only happen if attention is paid to measuring the impact of philanthropy and enhancing our competencies to work in a more genuinely collaborative way.

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