Creating and Defining Value: Corporate Philanthropy and Social Responsibility 1984-2016

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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 chapter examines key efforts to define the role of corporate philanthropy in the broader context of Corporate Social Responsibility. The tension, for companies, between creating business value and social value has led to multiple approaches, theories and practices.

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. The purpose of engaging stakeholders from the Shared Value perspective is to find the sweet-spot where business and social value come together. Terrence Lim, an independent scholar, in a 2009 study commissioned by the 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 officer 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)

While Lim was attempting to quantify the value of corporate philanthropy, a new social entrepreneurship model was taking shape and culminated in the 2008 book by Matthew Bishop and Michael Green entitled Philanthrocapitalism: How Giving Can Save the World (Bishop and Green, 2008). Mostly centered in the Silicon Valley and championed by leaders such as Pierre Omidyar from eBay, the social entrepreneurship movement seeks to bring business acumen and investment techniques to solving social issues. There are also other key figures such as Mario Morino and his firm, Venture Philanthropy Partners. Morino established a $30 million fund raised through a community foundation and functions as a venture capitalist fund. In all instances of these new social investing models, the challenge of measuring social impact remains a challenge. One interesting scholar has tackled the question of aid effectiveness in both a practical and creative way. The work of Yale economist, Dean Karlan, combines the rigor of behavioral economics with microfinance field research to offer effective poverty solutions to philanthopists (Karlan & Appel, 2011).

There is an emerging drum beat around greater oversight of all philanthropy sparked by the recent questions raised around the Clinton Foundation (Callahan, 2015). More recently, the Gates Foundation has come under fire for their involvement and influence in a broad array of social issues (McGoey, 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. As the pressure for funders to be more transparent grows, funders will be forced to think about reporting in new and different ways.

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)

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. 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.

Society is 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. 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. 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.

Opportunities to Accelerate Change

In the era of the Sustainability Development Goals (SDGs), strategic philanthropy has been and will continue to be a proven a catalyst for social change. While it is still early in terms of SDG goal-setting and commitment making, there is a sense of urgency to develop and design the new large-scale partnerships that will allow dramatic progress in reaching the 2030 targets. As Jorge Moreira da Silva, director of the Development Co-operation Directorate at the Organisation for Economic Co-operation (OECD), reminds us, "…meeting the Sustainable Development Goals in developing countries will require $3.3-4.5 trillion in additional investment. Without increased private sector involvement — including the growth of healthy and sustainable businesses in low-income countries — we will never make it" (Moreira da Silva, 2017). In the health sector, recent work by the UN High-Level Commission on Health Employment and Economic Growth argues, "This is a once-in-a-generation opportunity to build a sustainable health workforce in all countries by 2030, shaping the unprecedented demand for 40 million health workers, and addressing the needs-based shortfall of 18 million health workers." (WHO, 2016) The opportunity is shaped around an economic model proving the socioeconomic returns on investment in the health workforce.

There are three immediate opportunities to accelerate SDG progress. First, there is a clear need for agreed upon principles of engagement for large-scale and formal collaborations. The Tropical Health and Education Trust has a practical model which could serve as a starting point for potential collaboratives. There is also an opportunity to build and scale existing collaborations. For example, the Frontline Health Workers Coalition has played a critical role as a convener and thought leader. The Coalition, including members of the private sector, provides an inclusive space for stakeholders to debate and advocate for health workers. A policy analysis released by the Coalition in November 2016 calls for governments and all stakeholders to collect and deliver critical data on health workers, including CHWs, that will address the most severe access gaps (Frontline Health Workers Coalition, 2016).

Second, assuming that each partnership has measurable goals, there is a critical opportunity to develop a tracking and reporting mechanism where all partners and partnerships can credibly report progress. The SDG Philanthropy Platform is one promising approach led by Foundation Center, United Nations Development Programme (UNDP) and Rockefeller Philanthropy Advisors Advocate to advocate for the use of data as a driver for philanthropic investment and to promote accountability among funders (Cheney, 2017). Third, and related to the previous opportunity, common terms and tools for measurement can provide a consistent method for all participants to report outputs, outcomes and impact. As an example of one promising development that points to progress on common monitoring and evaluation practices, the Global Reporting Initiative (GRI) has updated its Sustainability Disclosure Database to include SDG target 12.6. This move will help member states to encourage or require companies to report on their sustainability activities. The Target 12.6 – Live Tracker (http://database.globalreporting.org/SDG-12-6/) tracks the progress of sustainability reporting around the world. Although limited to one goal, this type of method to encourage progress and transparency is a potential game-changer. Similarly, in the social investment domain, Clearly So announced a promising new impact measurement tool for private equity and venture capital funds (Thorpe, 2016).

As capitalism is being re-invented and the voices of multiple stakeholders are becoming more prevalent and demanding, now is the perfect time for the private sector to embrace large-scale collaboration and a shared sense of purpose. The next 15 years will see more private sector leadership in developing commitments to address the SDGs including be new business models, new social investment models and new ways of measuring progress. New models of creating social and business value will be introduced at the same time skills-based volunteerism will grow exponentially.

It is also the perfect time to reflect upon the learnings from pioneers in collaboration such as Starbucks, Dow and many other documented cases of pioneering partnerships. It is also an opportune moment to re-examine the important contributions to collaboration theory as advanced by scholars like James Austin. The new era of collaboration should move beyond a shared value mindset to new models of partnership where each contributor plays an equal role in defining challenges and designing solutions with the greater goal of sustainable value creation.

The role of business in society has changed dramatically since 1984 when Edward Freeman published his seminal stakeholder theory essay. The conversation has clearly evolved to a place where stakeholders have assumed new importance and new meaning from the private sector perspective. Concurrently, the public sector, the private sector and civil society have been moving toward a more interdependent existence. 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. In the end, it is shared visions, respectful partnerships and bold goal-setting that will lead to creating transformative and lasting value for society.

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