Corporate Responsibility and Corporate Philanthropy

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The Millennium Development Goals Report 2011 gives good grounds for optimism: “lives have been saved or changed for the better;” “poverty continues to decline in many countries and regions;” and “targeted interventions have succeeded in reducing child mortality”[3]. Yet in spite of continuing national and international efforts to alleviate poverty, the sad reality is that over a billion human beings continue to live on USD 1.25 or less a day. The scale and complexity of tackling this greatest social challenge of our time requires that national governments, the international community, business and civil society each commit their share of resources, skills and know-how to achieving sustainable solutions.[4]

No single group can do it alone or take sole responsibility. A nation’s economic and social success is greatest where there is a clear division of labor and responsibility between different members of civil society, along with a common understanding and shared values on societal goals.

The *primary responsibility* for human development undoubtedly rests with national governments and their administrations, doing their best with the resources available to them.[5] Regardless of the opportunities offered by the global economy and the resources made available by the international community, *good governance* remains the single most important factor for human development—that is to say *transparency* in policy and social decision-making; *responsiveness* to priority needs; *accountability* for the policies and work undertaken by state employees; the *rule of law*; an independent and efficient judicial system; as well as *institutional pluralism* and *participation* of the people in all decisions impacting their lives.[6]

Business enterprises, too, have specific duties and responsibilities in society’s division of labor—primarily to provide goods and services that succeed in meeting customer demands and can be sold at competitive prices, in the best interest of the corporation, while adhering to law and regulation. The goods and services made available through markets provide society with many different kinds of social value: for example in the case of pharmaceutical corporations, medicines that reduce the severity of diseases, protect life by reducing morbidity, improve quality of life for patients (less pain and disability, fewer side effects) and allow for a (relatively) normal private and professional life.[7]

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3 See http://www.un.org/millenniumgoals/11_MDG%20Report_EN.pdf p.4.

4 See UN General Assembly: In Larger Freedom: towards development, security and human rights for all. (Report of the Secretary General, A/59/2005), New York 2005; also The Global Compact/Global Public Policy Institute: Business UNusual. Facilitating United Nations Reform through Partnerships. New York 2005.

5 See Leisinger K.M.: Overcoming poverty and respecting human rights: ten points for serious consideration, in: International Social Science Journal Vol. 180, published on behalf of UNESCO by Blackwell Publishing, Oxford 2004 pp. 313-320.

6 See Acemoglu D. / Robinson J.A.: Why Nations Fail. The origins of power, prosperity, and poverty (Crown Business), New York 2012.

7 See e.g. Epidemiology and End Results Program, 1975-2000, Division of Cancer Control and Population Sciences, National Cancer Institute, 2003; Cancer Facts & Figures 2004, American Cancer Society; Journal of Pediatric Oncology Nursing, Vol. 21 (2004), No. 3, 160-164; Leukemia Research Foundation, December 2003.

Successful entrepreneurial engagement is one of the most important drivers of economic growth, which increases choice, widens opportunities and renders all other development efforts easier to achieve.[8] By creating employment and income, providing technical and managerial skills, generating social benefits, paying taxes, contributing to pension funds and deriving innovative solutions to economic, social and environmental problems, corporate management can be a substantial force for good: indeed “it is companies, not abstract economic forces or governments, which create and distribute most of a society’s wealth, innovate, trade and raise living standards.”[9] The profits generated by successful companies are usually not the result of a zero-sum game in which all other actors lose: corporate success stimulates economic growth through linkage effects with other sectors, triggering further economic activity and more income, thus making ‘the cake’ bigger. In a number of emerging economies, business engagement has created substantial employment and income, thereby contributing significantly to poverty reduction.[10]

Of course it is not entrepreneurial engagement *per se* that is desirable. It is competing with integrity[11]—i.e. entrepreneurial engagement conducted in a responsible manner in line with international norms such as those underlying the corporate responsibility platform of the Global Compact[12]—that makes the development impact positive.

First things first: ‘Doing no harm’

By definition, "being responsible" is first and foremost the non-negotiable duty to refrain from harm (*primum non nocere*). No matter how different human beings' world-views, goals and expectations, people all over the world largely agree on what is harmful or should be avoided. Enlightened managements know that unfair labor conditions, harmful environmental standards, or worse ‘collateral damage’ in the form of human rights violations, are not acceptable. Inadequate national law is no excuse for corporate responsibility shortcomings: in the face of dubious legal standards, enlightened managers exercise self-restraint and avoid morally ambivalent business practices. There is ample scientific literature[13] on the *minima moralia* of corporate conduct and its supporting business case.

Second: ‘Doing good’ is increasingly part of society’s expectation

For an increasing number of citizens in modern societies, ‘doing no harm’ is no longer sufficient for a company to be regarded as ‘part of the solution.’ Competing with integrity and minimizing corporate misconduct through value management remains non-negotiable, but does not in itself assure that all stakeholder expectations are met. Interest groups whose demands are not met become disappointed—and disappointment leads to loss of trust.

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8 Birchenhall J.A.: Economic Development and the Escape from High Mortality, in: World Development Vol.35 (2007) No.4 pp.543 – 568; For the record: policies to improve income distribution in the context of economic growth will help to “lift more boats.” For the introduction of this debate see Chenery. H.: Redistribution with Growth (Oxford University Press / World Bank) New York 1974.

9 Birkinshaw J. / Piramal G. (Eds.): Sumantra Goshal on Management: A Force for Good (FT Prentice Hall) Harlow 2005, p.2.

10 See Dollar D. / Kraay A.: Spreading the Wealth, in: Foreign Affairs, Vol. 81 (2002), no. 1, p. 120-133. While absolute poverty decreased, income disparities increased. See Wade R.H.: Is Globalization Reducing Poverty and Inequality? in: World Development Vol.32 (2004) no. 4 pp.567-589.

11 “Competing with Integrity” is the title of a book that still merits professional attention: De George R.: Competing with Integrity in International Business. Oxford University Press, New York 1993.

12 www.unglobalcompact.org

13 See e.g. Küng H. / Leisinger K.M: / Wieland J. (eds.): Manifesto Global Economic Ethic. Consequences and Challenges for Global Businesses. dtv, München 2010; also Leisinger K.M.: The Role of Corporations in Shaping Globalization with a Human Face. In: Straus J. (Ed.): The Role of Law and Ethics in the Globalized Economy. (Springer) Heidelberg 2009, pp. 27 – 48; and cited literature.

This issue stems from diverging concepts of the role of the corporation in society and of management accountability. While many industry leaders still conceive their role as being to 'mind their business' in a traditional way, leaders of civil society and UN bodies today consider this view myopic. Such differences in judgment reflect fundamental differences in underlying value premises and axiomatic assumptions.

For several decades, corporate activities to promote human welfare and increase positive impacts on society over and above core business activities have been regarded by academia[14] and enlightened firms[15] as an integral part of their corporate social responsibility.

Such thinking lies behind the Global Compact *Blueprint for Corporate Sustainability Leadership*, which expands on the original 10 principles of the UNGC to urge companies to take "action in support of broader UN Goals and Issues,"[16] such as helping to achieve the Millennium Development Goals. The LEAD initiative of the Global Compact encourages companies "... to undertake more outward-oriented actions to increase their positive impacts in society" (p.7) and

- Pursue social investments and philanthropic contributions that tie in with the core competencies or operating context of the company as an integrated part of its sustainability strategy;
- Coordinate efforts with other organizations and initiatives to amplify—and not negate or unnecessarily duplicate—the efforts of other contributors;
- Take responsibility for the intentional and unintentional effects of funding and have due regard for local customs, traditions, religions, and priorities or pertinent individuals and groups; and
- To strive for partnerships with UN entities, governments, NGOs and industry peers.

There are many ways for companies to create value for society in addition to the positive externalities created by normal business activities. There are many potential beneficiaries to create value for and many possible aims to be supported, including the achievement of broader UN Goals. All such activities increase corporate impact in society; all make companies 'part of the solution' in a wider sense; all are therefore desirable.

The approaches explicitly recommended by the Global Compact are *strategic social investments* and *corporate philanthropy,*[17] twin concepts companies can apply according to their business model, corporate culture and top management values framework. Both are valuable—indeed in many cases there is a continuum between the two types of

[14] See Carroll A.B.: A Three-Dimensional Conceptual Model of Corporate Social Performance. In: Academy of Management Review. Vol. 4 (1979) Nr.1. 4, pp.497-505, also The Pyramid of Corporate Social Responsibility: Towards the Moral Management of Organizational Stakeholders. In: Business Horizons (Elsevier), July-August 1991, pp. 39-48.

[15] The Novartis Foundation for Sustainable Development (www.novartisfoundation.org) was founded by the predecessor company Ciba-Geigy in 1979. Novartis has one of the world's leading corporate responsibility portfolios today. See www.novartis.com/corporate-responsibility/index.shtml.

[16] Referring to an "array of global issues – based on the most acute or chronic global challenges - including Peace & Security; the Millennium Development Goals; Human Rights; Children's Rights; Gender Equality; Health; Education; Humanitarian Assistance; Migration, Food Security; Sustainable Eco-Systems and Biodiversity, Climate Change Mitigation and Adaptation; Water Security and Sanitation, Employment and Decent Work Conditions; and Anti-Corruption. See UN Global Compact: Blueprint for Corporate Sustainability Leadership, New York 2010, p. 4f.

[17] Other approaches, e.g. "Social Enterprises," are therefore not discussed here despite their having huge potential to create social value and stronger societies in which communities and citizens have power to shape their lives and determine their destinies, see HM Government: Growing the Social Investment Market. A Vision and Strategy. London (Cabinet Office) 2011.

engagement—and they should therefore not be seen as mutually exclusive. They are, however, characterized by important conceptual and motivational differences.

For this reason, semantic and conceptual clarity is required, since the chosen approach, content, structure, expected deliverables and target populations for corporate social responsibility initiatives will vary depending on the underlying motivations and corporate expectations. Conceptual clarity makes it easier for corporate management to make the right choices on whether something should be done, for whom and in what form. In addition, honesty and transparency over motivation and purpose help to manage expectations and avoid misconceptions by potential civil society partners.[18]

Corporate Philanthropy—a multi-faceted concept

As with 'Corporate Social Responsibility,'[19] 'corporate philanthropy' is an umbrella term which encompasses a number of different values, interests, mindsets and alternative approaches. These, in turn, are based on a variety of perceptions shaped by cultural, contextual and professional factors. Such pluralism of definition inevitably gives rise to confusion and renders comparisons difficult.

For most members of civil society the term 'philanthropy' triggers humanitarian, altruistic, pro-poor associations. In contrast, 'strategic corporate philanthropy' and 'strategic social investment' tend to derive from the primary purpose of benefiting the corporate bottom-line by developing future markets or making the supply chain more efficient. For this reason, these approaches—together with cause-related marketing[20] or sponsoring—are usually not associated by civil society with the term philanthropy.

We therefore propose to differentiate between three concepts: corporate philanthropy, strategic corporate philanthropy and strategic social investments.

Corporate philanthropy

In its original, *altruistic* meaning—*phil-anthropos*—philanthropy describes voluntary, active, non-reciprocal efforts (financial, organizational, human resources, etc.) by an entity with the sole purpose of benefiting human beings, or fulfilling an unmet social need, regardless of any specific 'return on investment' for the donor. Corporate philanthropy is needs-oriented and falls into Archie Carroll's category of "purely ethical" because it is not based on economic, legal or political considerations.[21] Corporate philanthropy should not be charity *per se*—namely the unconditional support of needy people—since the use of corporate funds should be predicated on a minimum of good governance by the

[18] Some civil society representatives see Corporate Social Responsibility in general as an "invention of PR", see Frankental P.: Corporate social responsibility - a PR invention? In: Corporate Communications: An International Journal Vol. 6 (2001), No.1, pp.18 – 23.

[19] Archie Carroll in 1999 reviewed more than 25 different conceptual approaches; 10 years later, Alexander Dahlsrud referred to 37 definitions. See Carroll A.B.: Corporate Social responsibility: Evolution of a Definitional Construct. In: Business and Society Vol. 38 (1999) No.3, pp 268-295; see also Dahlsrud A.: How Corporate Social Responsibility is Defined: An Analysis of 37 Definitions. In: Corporate Social Responsibility and Environmental Management Vol. 15 (2008) pp.1 – 13. Dahlsrud finds that despite the different phrases applied, the definitions are congruently referring to five dimensions – environmental, social, economic, stakeholder and voluntariness – making the lack of one universally accepted definition less problematic than it might first appear; See also Freeman I. / Hasnaoui A. : The Meaning of Corporate Social Responsibility: The Vision of Four Nations. In Journal of Business Ethics Vol. 100 (2011) pp. 419-443.

[20] Defined as "...the process of formulating and implementing marketing activities that are characterized by an offer from the firm to contribute a specified amount to a designated cause when customers engage in revenue-providing exchanges that satisfy organizational and individual objectives." See Varadarajan P.R. / Menon A.: Cause-Related Marketing: A Co-alignment of Marketing Strategy and Corporate Philanthropy. In: Journal of Marketing Vol.52 (July 1988) pp.60.

[21] Schwartz M.S. / Carroll A.B.: Corporate Social Responsibility: A Three Domain Approach. In: Business Ethics Quarterly Vol. 13 (2003) Issue 4, p.515f.

beneficiaries. It should also—except in cases of humanitarian emergency—address the roots of a problem rather than its symptoms (as charity tends to).

A good example of this is supporting the elimination of neglected tropical diseases such as leprosy, by donating medicines for its cure and working with partner organizations involved in the fight against the disease. Most patients affected by such diseases are living in absolute poverty with a purchasing power of USD 2 or less a day—hardly a conventional customer base for the high-value, innovative medicines of a multinational, research-based pharmaceutical company.

Corporate philanthropy goes far beyond what bottom-line duties require.[22] It is one way to demonstrate what values the company stands for: making a difference and being part of the 'solution' even where turnover and profit are not increased. In the absence of an actively pursued business case, corporate philanthropy depends predominantly on the social values, sensitivity and awareness of a firm's top management. It is part of management's value framework, company culture and core values. The values of decision-makers in companies are fundamental elements guiding corporate preferences: those managers who as private individuals value benevolence and welfare enhancement of the needy are likely to apply their intrinsic concern for others in the corporate context and support the company's engagement in corporate philanthropy.[23]

While the primary purpose of corporate philanthropy is altruistic, it can generate positive 'moral capital' among communities and stakeholders beyond the company's direct business relationships. It can also strengthen the motivation of employees by making them proud of their company. Such 'moral capital stock'—i.e. the "accumulated outcome of the process of assessment, evaluation, and imputation by stakeholders and communities of a firm's philanthropic activities"[24]—*can* provide a company and its shareholders with an "insurance-like protection" for a company's intangible assets in the event of accidents or other unfortunate incidents.[25] Where corporate management is perceived to be socially aware and responsive to others' needs, such events tend to be viewed for what they are—accidents—rather than being attributed to irresponsible motivations such as saving money at the cost of safety. When such events occur, a company needs moral capital to mitigate negative perceptions; but this has to have been created before the mishap eventuates.

However—in contrast to other forms of created social value—both the moral capital serving as 'insurance' and the employee pride are *desirable side-effects* of the altruistic action, not its primary objective.

Strategic corporate philanthropy

Strategic corporate philanthropy describes a corporate contribution concept whereby present or future business activities are supported while creating measurable social value. This 'giving for reward' style of philanthropy is a springboard for improving corporate financial performance and, as such, focuses on areas of strategic interest to the company. Recent years have shown steady growth in strategic corporate

22 Schwartz M.S. / Carroll A.B.: Corporate Social Responsibility: A Three Domain Approach, In: Business Ethics Quarterly Vol. 13 (2003) Issue 4, p.505f.

23 Choi J. / Wang H.: The Promise of a Managerial Values Approach to Corporate Philanthropy, In: Journal of Business Ethics Vol. 75 (2007) pp.345 – 359; Choi and Wang also conclude that managerial benevolence and the integrity to act consistently according to personal values are likely to enhance corporate financial performance through promoting managerial credibility and high levels of trust among corporate stakeholders.

24 See Godfrey P.C.: The Relationship between Corporate Philanthropy and Shareholder Wealth: A Risk Management Perspective, In: Academy of Management Review Vol. 30 (2005) no.4, pp. 783.

25 See Godfrey P.C.: The Relationship between Corporate Philanthropy and Shareholder Wealth: A Risk Management Perspective, In: Academy of Management Review Vol. 30 (2005) no.4, pp. 777 – 798.

philanthropy.[26] Integrated into the overall corporate strategic plan, it endeavors to strike an optimal balance between business interests and community needs. In its purest form, it is based on rational economic choice, investing only in activities expected to create measurable value for shareholders.

A good example is a corporation that designs and markets computers donating computers to high schools in poor neighborhoods and university students from low-income families. The social value created by enabling students to work with state-of-the-art equipment is also a pre-investment in future market success, as it attracts potential future customers to the donated technology. In this situation, the business case is obvious: it is the creation of better brand recognition and loyalty, reputational capital, higher employee morale, deeper customer commitment and strategic benefits for the company.

The very existence of a 'business case' for strategic corporate philanthropy is one reason many civil society stakeholders consider it to be a contradiction-in-terms, arguing that making corporate giving strategic detracts from the intrinsic value of the philanthropic act, devaluing its benefit.[27] This critique contrasts a 'value-rational' with a 'purpose-rational' position and, given the global scale of poverty, is not especially helpful: as long as the activity creates desirable social value for beneficiaries, the motivation of the donor should not matter. Such criticism is likely to reflect ideological aversion to 'big business' rather than deep dedication to solving humanitarian problems.[28]

No doubt, strategic corporate philanthropy activities can result in desirable social and economic externalities. However, given their strategic primary purpose, they are likely to have a strategy- rather than needs-oriented focus, with potentially socially discriminating results: becoming engaged with the problems of the poorest might not be considered 'attractive' from a corporate strategy point of view.[29]

A similar approach, based on the same motivation but even more bottom-line oriented, are strategic social investments.

Strategic social investments

Strategic social investments are intended to develop present markets and create the preconditions for future market expansion. They can also support development clusters by addressing the overall socio-economic conditions in a given target area. A pharmaceutical company can, for example, engage in strategic social investment in low-income markets by providing essential healthcare education, training medical auxiliaries and other health staff and thus increasing the demand for essential drugs. At the same time the company can improve access to affordable medicines through differential pricing schemes and other special arrangements. All these actions are helpful for patients with low purchasing power and, at the same time, strengthen or develop the corporate brand.[30]

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[26] Saiia D.H. / Carroll A.B. / Buchholtz A.K.: Philanthropy as Strategy. When corporate charity "Begins at Home" In: Business & Society Vol.42 (2003) No.2, p.171.

[27] P. 185

[28] Such criticism is also voiced against altruistic forms of corporate philanthropy: e.g. Novartis' decision to donate all drugs needed in the fight against leprosy was not well received by several NGO engaged in the fight against leprosy, yet since the leprosy patients getting medication for free and being cured don't care about the pharmaceutical company's motivation, should anyone else?

[29] Leisinger K.M.: Corporate Philanthropy: The "top of the pyramid". In: Business and Society Review, Vol. 112, No.3 (Fall 2007), pp.315-342.

[30] See e.g. Novartis' Arogya Parivar http://www.youtube.com/watch?v=ZVShahuX5Bc

In proposing strategic social investments under the slogan “Creating Shared Value,”[31] Michael Porter and Mark Kramer discount prevailing justifications for corporate social responsibility—i.e. ‘morally right thing to do,’ ‘societal license-to-operate,’ ‘sustainability’ and ‘reputational capital.’

Their approach focuses on addressing those social issues affected by a company’s business activities or which significantly affect the underlying drivers of a company’s competitiveness in the locations where it operates. The “Creating Shared Value” approach can include strategic philanthropy to improve education, support environmental efforts or remove other obstacles to development, but the main purpose of all such activities is to reap “disproportional benefits because of the superior reputation and relationship” such corporate engagements can create.[32]

All such approaches can create social value over-and-above the societal benefits that accrue from core business activities done in compliance with the 10 UNGC principles. Within corporations, one often finds pure altruistic philanthropy, strategic philanthropy and strategic social investment coexisting, along with hybrid forms, to make up the corporate social value creation portfolio and mutually enhancing one another.

To develop ‘good practices’ and enable corporate management to create an optimal portfolio of actions “in support of broader UN goals and issues,” it is important to make clear what kind of corporate *and* social value ought to accrue from “outward-oriented actions to increase positive impact on society.” A good way to sort out different options in a rational way and communicate them credibly is to be transparent about the corporate value management expects from “more outward-oriented actions to increase their positive impacts in society.”

What ‘corporate value-added’ does management expect?

Differing forms of corporate philanthropy have existed for years. In a 2011 poll conducted by the Committee to Encourage Corporate Philanthropy (CECP), attendees of a CEO conference cited the following motives for the corporate commitment to solve societal problems:

- 25% *Greater Community Need*: recognition that the public sector alone cannot meet rising needs;
- 22 % *Globalization*: market integration and expansion bringing companies closer to social issues faced by new stakeholders in other parts of the world;
- 18 % *War for Talent*: employees with superior competences and skills prefer to work for a values-driven employer.

Since companies are not purely altruistic institutions and as such should not allocate scarce resources where no benefit results, the fact that corporations invest funds in philanthropy suggests that some kind of value is perceived. This ‘value,’ however, can be defined very differently.

- **Shareholder value:** The core of this value proposition is that companies ought to become engaged in (strategic) corporate philanthropy activities and strategic social investments only where shareholder value is increased. At its extreme, this means corporate giving is restricted to instances where the benefit to the company is clear,

[31] Porter M. / Kramer M.: Strategy and Society. The link between Competitive Advantage and Corporate Social Responsibility. Harvard Business Review December 2006.

[32] Porter M. / Kramer M.: The competitive advantage of corporate philanthropy. In: Harvard Business Review December 2002, pp.7f.

compelling and measurable. Since corporate objectives like social value and profits cannot be maximized at the same time, constituting—at least in the short term—a direct goal conflict, a focus on profit maximization is likely to exclude bankrolling philanthropy from corporate funds—for reasons set out by Milton Friedman many years ago.[33]

To 'soften' this stance one could look at enhanced corporate reputation or increased employee morale as elements of increased shareholder value, however public acknowledgment is hard to measure and predict due to a range of variables, not least of which is the pluralism of stakeholder values.

- **Stakeholder value:** According to this concept, companies should engage in corporate philanthropy in order to satisfy the requests and expectations of stakeholders (e.g. civil society organizations, neighboring communities, employees and other specific constituencies). The underlying rationale is that the company receives benefits such as higher customer loyalty; deeper employee commitment and motivation due to the greater pride they take in the organization; and improved public image as a responsible member of society and 'good' corporate citizen. 'Giving back' to the various constituencies that grant the company its societal license to operate preserves and enhances the value of corporate assets, providing some 'insurance' for difficult times.

  In contrast to short-term financial gain, stakeholder value is difficult to quantify. No accepted standards, accounting metrics or performance benchmarks exist for measuring social returns to stakeholders. A second factor making 'stakeholder performance' difficult to gauge is that most companies do not invest in differentiating stakeholder analysis enabling program or project priorities to reflect the diversity of stakeholder interests. Furthermore, stakeholder value accrues over the long term; it does not appear in a *quid pro quo* fashion in the next quarterly results.

  By far the biggest challenge in measuring stakeholder value is that the "stakeholder world is pluralistic."[34] The 'public' consists of multiple communities with competing views of the world, different moral value systems and value hierarchies. Definitions of what constitutes a 'good' society—and thus preferences for 'good' corporate action—vary between individuals and across issues. In the OECD countries, for example, well over 70 percent of the population indicates that they are concerned about poverty and misery in the developing world and perceive a moral duty to contribute to poverty alleviation.[35] Corporate engagement in the fight against misery should, therefore, appeal to people and attract plaudits; yet this is not necessarily the case. Where the same people are opposed to biotechnology or genetic engineering, disagree with animal experiments or disapprove of high management remuneration, the significant positive impact of a company's philanthropy is offset by this, and the 'net effect' of these conflicting judgments may not be positive.

- **Intrinsic value:** This value proposition holds that companies ought to engage in corporate philanthropy to be 'part of the solution' to social, ecological and other problems on a needs-oriented basis, without expectation of reward. The value lies in

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[33] Friedman M.: The Social Responsibility of Business is to Increase its Profits. In The New York Times Magazine, September 13, 1970 p.32f (www.colorado.edu/studentgroups/libertarians/issues/friedman-soc-resp-business.html); for counter-arguments see e.g. Blair M.M.: A Contractarian Defense of Corporate Philanthropy. In: Stetson Law Review, Vol.XXVIII, 1998, pp.27ff.

[34] See Godfrey P.C.: The relationship between Corporate Philanthropy and Shareholder Wealth: A Risk Management Perspective. In: Academy of Management Review Vol. 30 (2005) no.4, pp.779.

[35] See http://www.oecd.org/dataoecd/56/35/41804623.pdf ; http://pewglobal.org/2007/12/13/a-global-look-at-public-perceptions-of-health-problems-priorities-and-donors/ and http://www.worldpublicopinion.org/pipa/articles/btdevelopmentaidra/135.php?lb=btda&pnt=135&nid=&id=

the results themselves—e.g. a reduction of infant and child mortality, the number of patients cured or vaccinated, the number of girls educated, or other social criteria.

Each of these value propositions has legitimacy and they are not necessarily 'either-or' alternatives. But we can see how different value propositions based on distinct motives and definitions of 'success,' lead to alternate strategies, forms of engagement, expectations and deliverables targeting varying beneficiary groups. In other words, the strategy must follow on from the desired value outcome. Corporate management must therefore debate the different options and identify the value targeted by their actions in support of broader UN Goals and issues.

The professional necessity of a 'business approach'

Whatever the chosen strategy or strategy mix is, corporate managers have a fiduciary obligation to protect the company's resources. While managers are granted a broad discretionary free-space to allocate resources—including for corporate philanthropy—they must see to it that these are deployed in the most cost-effective and efficient way. The allocation of corporate resources to top managers' 'pet projects,' lacking in reasonable business judgment[36] and from which the company cannot derive benefit of any kind, must be considered an illegitimate use of corporate funds: indeed resources for such purposes ought to come from the private pockets of the decision-makers.

Experience shows that the impact of corporate philanthropy, strategic corporate philanthropy and strategic social investment is higher wherever activities in support of broader UN goals and issues are:

- *aligned with the corporate core competence* and in line with the company's values and culture and do not address generic issues: good practices include the identification and analysis of the societal issue areas where the company can create best social value by playing an optimal role due to its specific professional know-how, skill-portfolio, experience, networks and wealth of innovation and creativity;

- *focused* in order to create more impact with the available resources since experience shows that too broad a portfolio of activities is usually associated with a smaller impact and a lower efficiency;

- *based on research to understand the complexity* of an issue before becoming engaged: complex issues never have simple solutions and successful strategies always depend on the social (local) context of the problem; awareness of the interests involved in maintaining or solving the problem; and considering the impact of activities on power structures and other factors necessary to create win-win-constellations. Success in solving complex issues depends predominantly on behavioral and social change, not just technology. Since social change is complex and unpredictable, resistance and conflict should be expected; they can—to a certain extent—be anticipated and proactively mitigated by *listening to beneficiaries and learning from their points of view*;

- *managed transparently* with regard to the processes of problem identification and the selection of solutions, and with regard to the goals and rationale, as well as activity plans and related budgets. It is also good practice to be transparent about the successes achieved and failures suffered: lessons learned should be

[36] See for this Barnard J.W. Corporate Philanthropy, Executives' Pet Charities and the Agency Problem. In: Faculty Publications, Paper 314 (College of William & Mary Law School) Williamsburg 1997, pp.1147 -1178.

continuously integrated, and long-term commitment should build in the flexibility to respond to new challenges, with 'exit' points defined from the outset;

- constituted of more than simply 'writing cheques'; a company should "*Do more than give*"[37] and, wherever possible, bring in management techniques and processes, business skills, human resource support, access to networks, and other assets to achieve a greater impact. Deeper involvement, however, necessitates the allocation of appropriately trained human resources—attached to a professional corporate philanthropy program rather than in the communication, public affairs or marketing departments—to allow for unbiased priority-setting.[38] External experts should be brought in wherever internal competences are not available and evaluations ought to be done by credible Third Parties.

- underpinned by *performance-based funding and SMART objectives* (specific, measurable, attainable, relevant and time-bound) along with frequent thorough evaluations. If sustainable outcomes are to be achieved, long-term program needs rather that short-term project support and cooperation with suitable partners are necessary parameters of professional corporate philanthropy;

- founded on *the right choice of partners and networks* that share the corporate values and goals and provide the necessary complementary skills, resources and experience needed to maximize impacts. Applying the same criteria used in the business sphere to the partner selection process and to due diligence is also recommended;[39] and

- communicated in a fact-based, honest and non-euphemistic manner. Successes must be put into the context of the scale of the problem and acknowledge the contributions of all partners involved. Using euphemisms as a strategic tool for communication risks being perceived as hypocrisy.[40]

Corporate philanthropy and other activities in support of broader UN goals and issues are not substitutes for responsible corporate conduct. They should therefore not be part of the corporate activity portfolio until the corporate 'house' is in order: to support kindergartens in the community while tolerating child labor in the supply chain, for example, is at best cynical.[41] Corporate philanthropy should also not be leveraged to 'compensate' for past corporate misconduct: this compromises credibility. Similarly, trying to communicate philanthropic efforts to 'do good' while inappropriate labor practices and environmental harm are taking place is counter-productive:[42] wherever philanthropy is perceived as a tool for diverting public attention away from corporate wrongdoing rather than a genuine

[37] Crutchfield L.R. / Kania J.V. / Kramer M.R.: Do More than Give. The Six Practices of Donors who change the World. Jossey Bass, San Francisco 2011.

[38] For substantiation see Maas K. / Liket K.: Talk the Walk: Measuring the impact of Strategic Philanthropy. In: Journal of Business Ethics. Vol. 100 (2011) pp. 445 – 464.

[39] Simon F.L.: Global corporate philanthropy: a strategic framework. In: International Marketing Review Vol.12, No.4, (1995) pp. 20-37.

[40] La Cour A. / Kormann J.: Euphemisms and hypocrisy in corporate philanthropy. In: Business Ethics: A European Review Vol. 20 (2011) Nr. 3. pp.267-279.

[41] Chen, Patton and Roberts found cases where companies with a poor record of integrity in their normal business activities were more likely to make charitable contributions and conclude that corporate philanthropy may be more of a legitimization tool than a measure of corporate responsibility; see Chen J.C. / Patten D.M. / Roberts R.W.: Corporate Charitable contributions: A Corporate Social Performance or Legitimacy Strategy? In Journal of Business Ethics Vol. 82 (2008) pp. 131-144.

[42] As shown early on by Marylin Collins, see Collins M.: Global Corporate Philanthropy—Marketing beyond the Call of Duty? In: European Journal of Marketing Vol. 27 (1991), No.2p. 50ff.

manifestation of a company's 'responsibility philosophy,' it will erode rather than enhance reputation.[43]

Is there a 'business case' for corporate philanthropy?

It's not only about facts

Is 'being good by helping needy people' beneficial for a profit-oriented enterprise? The question will irritate those of an altruistic bent, for whom helping needy people is justified by the simple fact that they are better off. Yet the question is quite valid for those good-minded and responsible people who consider that such help should be a private act of human solidarity rather than a corporate obligation. In this case, finding a 'business case' could tip the balance in favor of corporate philanthropy, unleashing sizeable resources for the world's poor. But unfortunately, there is no simple answer.

First of all, people's judgment is not always rational: we know from empirical social science that those who passionately advocate a given 'good purpose' tend to—albeit subconsciously—direct inquiry towards evidence that supports their position and reinforces valid arguments for corporate philanthropy. In contrast, people who reject the idea of corporate philanthropy tend to point to evidence of its irrelevance to corporate economic performance, the cost to shareholders and the diversion of management time.[44] Both 'camps' put greatest weight on the arguments and evidence supporting their particular views, undervaluing counter-arguments and keeping their value premises—the compass by which they navigate the issues—implicit.

According to certain 'theories of the firm,' the discourse should not be about whether companies can legitimately engage in efforts to solve deep-rooted problems that cause human misery: this is quite simply 'none of their business.' What the 'business of business' is exactly depends on what management believes to be the purpose of the firm. If the answer is that the company must be guided by a "single objective function: wealth creation for the shareholder;" and that "if shareholder wealth is maximized, social welfare is maximized as well;" then it becomes logically incoherent to allocate resources to altruistic corporate philanthropy.[45] Strategic corporate philanthropy must serve the function of strategic social investments—enlightened, long-term allocation of resources owned by the shareholder.

There are, however, valid doubts over whether property rights and the invisible hand of the market alone can, in the long run, solve most social problems, even with governments to 'pick up' the rest.[46] Moreover the assumption that the neoclassical interpretation of the firm is the only one acceptable to capital markets is both challenged by economists and disproved in practice: many highly successful companies support programs that address fundamental societal challenges such as those mentioned by the UN Global Compact LEAD initiative.[47]

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43 Godfrey P.C.: The Relationship between Corporate Philanthropy and Shareholder Wealth: A Risk Management Perspective. In: Academy of Management Review Vol. 30 (2005) pp. 777-798; also Patten D.M.: Does the Market Value Corporate Philanthropy? Evidence from the Response to the 2004 Tsunami Relief Effort. In: Journal of Business Ethics Vol. 81 (2008) pp. 599-607.

44 E.g. Bartkus B. / Morris S. / Seifert B.: Governance and Corporate Philanthropy: Restraining Robin Hood? In: Business & Society Vol.41 (2002) No.3, pp.319-344; There are also studies that prove that 'unprofessional' corporate giving does not lead to good either for the donor or the donee – but this is not dealt with in the current context.

45 See the full theoretical discussion in Margolis J.D. / Walsh J.P.: Misery loves companies: Rethinking Social Initiatives by Business. In: Administrative Science Quarterly Vol. 48 (2003) p 281f.

46 See e.g. Stiglitz J.E.: Globalization and its Discontents. (Norton) New York 2002.

47 See e.g. Accenture / CECP: Business at its Best: Driving Sustainable Value Creation. New York 2011 (www.CorpratePhilanthropy.org/research).

The picture looks different if a “stakeholder theory of the firm”[48] is accepted: here, corporate management has not only a duty to act in the interest of shareholders, but must also satisfy requests of other stakeholders. In this view, business success depends on a web of relationships between groups, each with a stake in the corporate activities; the input and goodwill of stakeholders such as employees, customers, communities or special interest groups are crucial elements for success. In this broader perspective, a management striving to make the company a ‘good citizen’ will still endeavor to achieve the best financial results for shareholders, but in a way that creates as much value as possible—and as little expense—for all societal stakeholders.

There is evidence for a business case

Many years ago, Archie Carroll made the case that “companies will be expected to be profitable, abide by the law, engage in ethical behavior, and give back to their communities through philanthropy.”[49] Financial success will always be a top priority. But there *is* evidence that corporate philanthropy in its different forms is advantageous for the company: it fosters public acceptance, which in turn enhances corporate financial performance.[50] There is also evidence that corporate philanthropy makes “employees and their families feel proud”[51] and creates an “insurance effect” counteracting negative societal perceptions during accidents or other unfortunate events.[52] Corporate philanthropy is also likely to have positive reputational effects,[53] building trust and better relations with stakeholders[54] and customers.[55]

This evidence of course refers to very different forms of corporate philanthropy and so much depends on the structure, motivation and quality of different forms of philanthropy, that a *generalizing* judgment about the ‘business case’ may not be possible: different criteria will be used to evaluate altruistic corporate philanthropy, strategic corporate philanthropy and strategic social investments. As the assessment depends on the parameters used, it makes little sense to put them in the same discussion basket.

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48 Which was gaining ground as early as 1984 see Freeman R.E.: Strategic Management: A Stakeholder approach (Pitman) Boston 1984, Freeman continued to develop his concept, see Freeman R.E. / Harrison J. / Wicks A.: Managing for Stakeholders (Yale University Press) New Haven 2007.

49 Carroll A.B.: Ethical Challenges for Business in the New Millennium: Corporate Social Responsibility and Models of Management Morality. In: Business Ethics Quarterly Vol. 10 (2000) Issue 1, p.41.

50 Wang H. / Choi J. / Li J.: Too little or too much? Untangling the relationship between corporate philanthropy and the firm’s financial performance. In: Organization Science Vol.19 (2008) No.1 pp 143 – 159.

51 If and when certain conditions are given, see Muller A. / Kräussl R.: The Value of Corporate Philanthropy During Times of Crisis. The Sense-giving Effect of Employee Involvement. In: Journal of Business Ethics published online 17. April 2011 (DOI 10.1007/s10551-011-0861-6.

52 Godfrey P. / Merrill C. / Hansen J.: The Relationship between Corporate Social Responsibility and Shareholder Value: An Empirical Test of the Risk Management Hypothesis. In: Strategic Management Journal Vol. 30 (2009) pp. 425-445.

53 Bramer S. / Millington A.: Corporate Reputation and Philanthropy: An Empirical Analysis. In: Journal of Business Ethics Vol. 41 (2005) pp.26-44. Bramer and Millington consider that the reputation effect also depends on the quantity of philanthropic expenditure, which is a function of the financial performance of the company, making this part of the reputation equation. They also see an industry-specific effect in-as-much-as industries that exhibit significant social externalities—such as the alcoholic drink and tobacco sector—are likely to gain better reputations through philanthropy.

54 Wang H. / Choi. J. / Li J.: Too little or too much? Untangling the Relationship between Corporate Philanthropy and Firm Financial Performance. In: Organization Science Vol. 19 (2008), pp.142-159.

55 Sen S. / Bhattacharya C.B. / Korschun D.: The Role of Corporate Social Responsibility in Strengthening Multiple Stakeholder Relationships: A Field Experiment. In: Journal of the Academy of Marketing Science. Vol. 34 (2006) No.2 pp.158-166; Barnes R.: American’s value business’ philanthropic performance. In: The Chronicle of Philanthropy Vol. 13 (1995) pp 1-4. Barnes claims “three out of four” Americans take a company’s philanthropic record into account when deciding to do business with it.

Proving a business case for altruistic or strategic corporate philanthropy (not strategic social investments, since these would not be made if there were no business case) is more difficult than analyzing the causal relationships between overall corporate social and financial performance. Margolis and his colleagues found in their study that "the overall effect is positive but small [… and that the association is] strongest for the analysis of the specific dimension of charitable contributions, revealed misdeeds, and environmental performance."[56] But the direction of the correlation was not exactly clear: they found at least as strong a link from prior corporate financial performance to subsequent corporate social performance as the reverse. Margolis and his colleagues, however, came to the conclusion that "...there is no financial penalty for corporate social performance" and reminded us that "...if corporate responses to social misery are evaluated only in terms of their instrumental benefits for the firm and its shareholders, we never learn about their impact on society, most notably on the beneficiaries of these initiatives."[57]

Marc Orlitzky and his colleagues found affirmative results in their study about the relationship between corporate social and financial performance: corporate virtue in the form of social responsibility—including, but not explicitly mentioning corporate philanthropy—is likely to pay off.[58] The relationship tends to be bidirectional and simultaneous and reputation appears to be an important mediator of the relationship.

By avoiding the traps of selective literature research or anecdotal evidence, we come to the conclusion that the relationship between good 'social' and financial performance is too complex to discern a measurable causal relationship between philanthropy, as a sub-aspect of corporate responsibility, and shareholder wealth. Sustainable financial results depend on the totality of outcomes of 'good management' and not only the partial, normative aspect of it such as corporate philanthropy: much of what is considered 'good ethics' or 'good corporate citizenship' is simply part of 'good management practices.'

So, are we restricted to a value-based 'right thing to do' argument? To a certain extent, yes—the more so as we move up the corporate responsibility 'pyramid' with altruistic philanthropy at the top. To become engaged in altruistic philanthropy depends on the value premises of those who decide about resource allocation, i.e. the top management. The more needs-oriented corporate philanthropy becomes, the more inadequate a 'philanthropy-pays-for-shareholder-value' approach becomes. Without referring to the value premises of top management, it is impossible to answer questions about the 'whether,' the 'how,' the 'for whom,' and the 'how much' of "action in support of broader UN Goals and Issues."

Value premises matter

Today's management of global companies is more complex than ever, as is solving the dilemmas arising from the multitude of 'stakes' and striking a sustainable balance between them.[59] Top management has to acknowledge the conflict between economic efficiency

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[56] Margolis J.D. / Elfenbein H.A. / Walsh J.P.: Does it Pay to be Good? A Meta-Analysis and Redirection of Research on the Relationship between corporate social performance and financial performance. Work in progress, Harvard Business School, Boston MA, November 1st 2007.

[57] Margolis J.D. / Walsh J.P.: Misery loves companies: Rethinking Social Initiatives by Business. In: Administrative Science Quarterly Vol. 48 (2003) p 282.

[58] Orlitzky M. / Schmidt F.L. / Rynes S.L.: Corporate Social and Financial Performance: A Meta-Analysis. In: Organization Studies Vol. 24 (2003) No.3, pp. 403 – 441.

[59] Margolis and Walsh, quoting P.E. Tetlock, point to the importance of values in this context: "Disagreements rooted in values should be profoundly resistant to change...Libertarian conservatives might oppose the (confiscatory) stakeholder model even when confronted by evidence that concessions in this direction have no adverse effects on profitability to shareholders. Expropriation is expropriation, no matter how prettified. And some egalitarians might well endorse the stakeholder model, even if shown compelling evidence that it reduces profits. Academics who rely on evidence-based appeals to change minds when the disagreements are rooted in values may be wasting everyone's time." See Margolis J.D. / Walsh J.P.: Misery loves

and the allocation of corporate resources for the creation of social value, over and above the value that arises in the context of pursuing the conservative business model. They will have to weight different stakeholder requests and balance their fulfillment from a long-term perspective. As not all stakeholder requests can be met, choices have to be made and in many cases this process is values-driven. Equally, many fundamental societal problems cannot be solved by corporate policies that focus exclusively on activities intended to maximize shareholder wealth.

Two factors define the perception of what are responsible and irresponsible stakeholder demands: corporate culture and the value premises of corporate management.[60] These factors may change over time and—as moral reflection and choice are always to a certain extent contextual—diverge in different parts of the world. Nevertheless it is not a heroic assumption that firms with a 'humanistic culture' are likely to have a broader and deeper responsibility perception that those that only care about maximizing profits in a legal way.

A top management's value framework and social awareness determine the company's commitment to corporate philanthropy, its structure, content and volume, as well as the expected value for a specific constituency and the definition of 'enlightened self-interest.' If top management accepts the obligation that those with 'broader shoulders' assist those in need, and sees the necessity of being part of the social fabric of the society their children and grandchildren will grow up in, they will become engaged in needs-oriented philanthropy.[61]

For hard-nosed managers, the argument that a corporate action is 'morally right' may not carry a lot of weight if that action does not directly contribute to the creation of economic value for the company. Yet, as individual citizens, they seldom disagree with the appropriateness of supporting social purposes or helping alleviate human misery. This role conflict could be lessened if there was more pronounced public acknowledgement from civil society constituencies. Reputational capital, public image, employee pride and admiration for being part of the solution can contribute to long-term value for shareholders. Indeed, there is evidence that top management that is socially aware, has compassionate values and takes consistent action—while striving for economic excellence—produces better and more sustainable financial results than managers who focus on economics alone.[62]

A pledge for needs-oriented corporate philanthropy

Profit-oriented companies are not a one-stop-shop solution for achieving the Millennium Development Goals as agreed upon by the international community. Indeed they may not even possess the best competence for the fight against human misery; but their resources, skills, experience and mind-set have proven valuable in helping to tackle obstacles and find answers in achieving the Millennium Development Goals.

Given the pluralism of opinion and values, both within a company and among relevant stakeholders, it is probably wise to recommend a mix of corporate philanthropy, strategic philanthropy and strategic social investment so the preferences of all internal and external

companies: Rethinking Social Initiatives by Business. In: Administrative Science Quarterly Vol. 48 (2003) p 281.

60 Galbreath J.: Drivers of Corporate Social Responsibility: The Role of Formal Strategic Planning and Firm Culture. In: British Journal of Management. Vol. 21 (2010), pp 511-525.

61 See Corvino J.: Reframing "Morality Pays": Toward a better Answer to "Why be Moral" in Business. In: Journal of Business Ethics Vol.67 (2006) pp. 10ff.

62 Choi J. / Wang H.: The Promise of a Managerial Values Approach to Corporate Philanthropy, op.cit; Worden S.: The Role of Integrity as a Mediator in Strategic Leadership: A Recipe for Reputational Capital. In: Journal of Business Ethics Vol. 57 (2003) pp. 31 – 44.

constituencies can be addressed. There is a continuum between altruistic philanthropy and enlightened strategic philanthropy / strategic social investment engagements—and both ends of the spectrum ought to feature in the corporate social value creation portfolio, according to where they can yield the biggest impact and greatest cost-effectiveness. The entire portfolio is important: its different elements can be fine-tuned according to the specific circumstances, particular stakeholders and constituencies, and organizational and cultural contexts of the firm.

As long as a company complies with the spirit of the 10 principles of the UN Global Compact, one should not moralize over the scope of corporate responsibility, but it is difficult to escape the fact that the fight against human misery *does have* a distinct *moral* dimension. It is among the most precious inter-religious, intercultural and inter-temporal valid hypernorms of mankind that every human being has a right to life and possesses an inalienable and untouchable dignity.[63] Enlightened global citizens derive from this not only a culture of non-violence but also the commitment that those with 'broader shoulders' should carry more and help those living in misery. There is a growing consensus that 'corporate citizens'—namely those companies competing with integrity—have a role to play in the *contrat social* against extreme poverty. They can do this through needs-oriented corporate philanthropy.

All enlightened individuals, local communities, nation states, foundations, multi-lateral institutions and corporations have a role to play. Indeed, if all bring their specific contribution to the table and co-operate in good faith in piecing together the 'solution mosaic,' it will be easier to achieve the Millennium Development Goals – and eventually also the Sustainable Development Goals after 2015.

[63] See Küng H. / Leisinger K.M. / Wieland J. (Eds.): Manifesto Global Economic Ethic. Consequences and Challenges for Global Businesses. dtv, München 2010; see also: www.weltethos.org