The Business Case for Corporate Philanthropy

Part 1: Literature Review of Motivations and Impacts

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- Arizona School Boards Association
- Arizona Super Bowl XLIX Host Committee
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- The Central Arizona Project (CAP)
- Chicanos Por La Causa
- The City of Phoenix Fire Department
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- Curis Resources (Arizona)
- The David and Gladys Wright Foundation
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- Maricopa Community Colleges
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- Public Service New Mexico (PNM)
- Raytheon
- Republic Services Inc.
- Rio Tinto
- Rosemont Copper Mine
- Salt River Project (SRP)
- Science Foundation Arizona (SFAZ)
- Tenet Healthcare
- The Tillman Foundation
- Turf Paradise
- Valley METRO Light Rail
- Tenet Healthcare
- Twisted Adventures Inc.
- Vote Solar Initiative
- Waste Management Inc.
- Yavapai County Jail District
EXECUTIVE SUMMARY

- This is the first of a two part study examining the business case for corporate philanthropy, commissioned by The Pakis Center for Business Philanthropy.

- The purpose of this study is to identify key findings within the literature relating to the motivations for corporate philanthropy, potential benefits for implementing firms, and examples of societal impacts.

- Describing corporate philanthropy as a component of corporate social responsibility in which firms typically make cash and in-kind gifts and donations to society-based programs, the study suggests that philanthropic gestures were initially left to the whims and preferences of individuals, but have grown in popularity as a corporate initiative since the 1950s.

- The motivations or key drivers for corporate philanthropy are presented as a continuum ranging from pure altruism to pure profit maximization or economic/market-based reasons.

- Altruistic corporate philanthropy is described as the general desire of a firm to do good deeds simply because it is the right thing to do, without any consideration for the benefits that firm might receive in return.

- Strategic philanthropy is described as a form of impure altruism, in which firms invest in societal programs that are synergistic with their own mission, goals, and objectives. This still results in a direct societal impact, but also generates indirect benefits for the firm’s core business objectives, which in the long run impact a firm’s bottom line.

- Pure market-based motivations for corporate philanthropy use the advancement of social interests as a vehicle to directly increase consumption and profits for a firm— for example, by linking the fundraising for a charitable cause to the purchase of a firm’s products and services.

- The literature identifies at least six broad categories of benefit for firms engaging in corporate philanthropy. These are:
  - Executive and employee recruitment and retention;
  - Brand building/loyalty and corporate image;
  - New opportunities for innovation;
  - Building trust and influence among government and legislative bodies;
  - Fiscal impact; and
  - Increasing profits and shareholder returns.
• These benefits are dependent on the firm’s motivations for engaging in corporate philanthropy. They are not mutually exclusive, and can often overlap.

• The literature is inconclusive about the link between corporate philanthropy and corporate financial performance, although a majority of studies argue in favor of a link.

• Lev et al.’s (2010) analysis of 251 U.S. firms from 1989 through 2000 estimates that a $500,000 increase in charitable contributions on average could generate an additional $3 million in sales revenues, equating to a $791,500 increase in net income.

• Potential reasons for the inconclusive findings between corporate philanthropy and corporate financial performance to date include:
  
  o A focus on diverse industries possessing very different social and environmental concerns and degrees of stakeholder interaction within individual studies;
  o Different measurements of corporate financial performance; and
  o The payback period for corporate philanthropy can often take 10-15 years.

• The societal impacts of effective corporate philanthropy programs can extend to:
  
  o Public health, nutrition, and welfare;
  o Educational and employment opportunities;
  o The development of a stronger climate for doing business;
  o Environmental impacts;
  o International/disaster relief; and
  o Diverse, one-off local issues.

• Few firms currently fully disclose their corporate philanthropy.

• Proponents of increased transparency claim that a company has nothing to fear if the gifts and donations are being made for legitimate business reasons; but full disclosure can also attract negative scrutiny, and potentially give away insights that could erode a firm’s competitive advantage.
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1.0 INTRODUCTION: WHAT IS CORPORATE PHILANTHROPY?

*Philanthropy noun* “the practice of giving money and time to help make life better for other people.” *Merriam-Webster Dictionary*

Derived from the Greek “philanthropos” and Latin “philanthropia”, the term “philanthropy” literally translates as “love of humanity”, or “useful to mankind.”\(^2\) First coined by the fifth century BC playwright Aeschylus in *Prometheus Bound*, the modern concept of philanthropy took shape in the eighteenth and nineteenth centuries, and became a very fashionable activity among British and American traders and entrepreneurs. However, Bremner in Wells (1998) claims that the first American philanthropists were actually Native Americans, as demonstrated by the value placed on concern for the common good within their cultures.\(^3\)

Ricks and Peters (2013) state that individuals, rather than firms, originally engaged in philanthropic activities. However, this situation changed following a 1954 Supreme Court ruling (Smith Manufacturing v Barlow) which removed the legal restrictions for corporate philanthropy. The legal restrictions at that time reflected public and corporate sentiment, which suggested that the firm’s primary social responsibility was to increase shareholder wealth through profit maximization.

Often implemented as a component of corporate social responsibility (CSR) programs, corporate philanthropy (CP) today is a way for businesses to give back to local, national or even international communities, via charitable donations to nonprofit organizations. This “giving back” can take the form of financial (cash) donations or non-cash contributions such as time, expertise, or tangible (in-kind) goods. Table 1 lists a select number of contemporary definitions of CP.

Morris et al. (2013) suggest that there are two key types of CP: conditional charitable support based on purchases or a percent of pre-tax profits; and an unconditional form of giving in which there is no purchase-based promise or obligation to donate on behalf of the donor, thereby generating a variable charitable support value.

Leisinger & Schmitt (2011) argue that CP should generally address the roots of a social problem, rather than its symptoms (except in cases of humanitarian emergency), to demonstrate the values that a firm stands for.

However, the participation of firms in philanthropic activities remains, for some at least, a source of contention. For example, Friedman (1970) argues that charitable contributions should be made by individual stockholders, rather than big business, as the latter’s solitary social responsibility is to maximize wealth for shareholders.

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Tonello (2011) also suggests that some people still oppose CP today on the grounds that it consumes company resources, and is prone to further the goals of management rather than shareholders.

Table 1: Select Contemporary Definitions of Corporate Philanthropy

<table>
<thead>
<tr>
<th>AUTHORS</th>
<th>DEFINITION</th>
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<tbody>
<tr>
<td>Campopiano, De Massis &amp; Chirico (2015)</td>
<td>“…the discretionary wealth transfer of net income to stakeholders.” (p. 245)</td>
</tr>
<tr>
<td>Fontelera (2015)</td>
<td>“…a company’s way of giving back to its community -- local, regional, national or international -- through financial donations and non-cash contributions such as time, expertise and tangible goods like computers, medicine, food and textbooks. Companies can donate to charities and nonprofits by giving directly from the company’s cash or assets, fundraising through its employees, and fundraising from others.”</td>
</tr>
<tr>
<td>Gautier &amp; Pache (2015)</td>
<td>“…voluntary donations of corporate resources to charitable causes.” (p. 344)</td>
</tr>
<tr>
<td>Fontelera (2015)</td>
<td>“…the voluntary business of giving money, time or in-kind goods without any direct commercial benefit, to one or more organizations whose core purpose is to benefit the community’s welfare.” (pp. 285-286).</td>
</tr>
<tr>
<td>Kabongo, Change &amp; Li (2013)</td>
<td>“…an act of corporations giving a portion of their profits and resources to non-profit organizations.” (p. 49).</td>
</tr>
<tr>
<td>Morris, Bartkus, Glassman &amp; Rhiel (2013)</td>
<td>“…charitable support not associated specifically with marketing a product or service.” (p. 286)</td>
</tr>
<tr>
<td>Lähdesmäki &amp; Takala (2012)</td>
<td>“…the charitable transfer of the firm’s resources at below market prices. …a voluntary allocation of a firm’s resources to activities that are not business related and for which there are no clear social expectations as to how the firm should perform.” (p. 374)</td>
</tr>
<tr>
<td>van Kranenburg &amp; Zoet-Wissink (2012)</td>
<td>“…an extension of corporate social responsibility.” (p. 11)</td>
</tr>
<tr>
<td>Leisinger &amp; Schmitt (2011)</td>
<td>“…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.” (p. 4)</td>
</tr>
<tr>
<td>Lev, Petrovits &amp; Radhakrishnan (2011)</td>
<td>“…includes direct cash giving, foundation grants, stock donations, employee time, product donations, and other gifts in kind.” (p. 2)</td>
</tr>
<tr>
<td>Tonello (2011)</td>
<td>“…one component of social responsibility, albeit an important, highly visible component.”</td>
</tr>
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</table>

Source: Author’s Review

In 2014, the Committee Encouraging Corporate Philanthropy (CECP) estimated that 271 U.S firms, including 62 of the largest 100 companies in the Fortune 500, contributed more than $18.5 billion in cash and in-kind giving to philanthropic causes. This demonstrates the significant extent to which U.S. businesses engage in CP today. European businesses, by comparison, are allegedly less inclined to engage

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in philanthropy, due to higher taxation, a more developed welfare state, and a perceived devolvement of responsibility to government.\textsuperscript{5}

This is the first of a two-part study exploring the business case for corporate philanthropy, on behalf of the Pakis Center for Business Philanthropy. Managed by the Arizona Community Foundation, the Pakis Center is widely recognized as the premier charitable partner for CP in the state. The Center has two key objectives:

- To approach corporations and encourage them to invest back into the local community; and
- To help corporations organize, administer, or coordinate their own in-house philanthropic programs.

The purpose of the current report is to identify the motives for CP; internal (business) and external (community) benefits and impacts; and the importance of disclosure based on an extensive literature search. This report also supports the key literary findings, where possible, with real-world examples.

The issues addressed as part of this literature review include:

- Public perceptions of CP;
- Effective ways to maximize employee engagement;
- The benefits of CP for staff retention and recruitment;
- The transferability of employee skills acquired or enhanced through participation in a nonprofit cause to the workplace; and
- An evaluation of potential shareholder benefits.

A second report, offering qualitative insights on the benefits of effective CP, will follow in spring 2016.

Section 2 reviews the motives for CP.

Section 3 offers insights on the benefits of CP for a firm, followed by a discussion of potential societal impacts in Section 4.

Key issues pertaining to disclosure are discussed in Section 5.

Conclusions are presented in Section 6.

\textsuperscript{5} Source: Lähdesmäki, M., & Takala, T., (2012).
2.0 THE MOTIVES FOR CORPORATE PHILANTHROPY

“Embracing the vision of giving back to the community can revitalize the initial energy and drive that led to the creation of your company in the first place.” *The Truist Blog*

One of the most comprehensive and broad-ranging reviews of CP is provided by Gautier & Pache (2015). Drawing from a review of 162 academic papers published in management, marketing, economics, sociology, and public policy journals, they conceptualize CP along a continuum, ranging from altruism at one end to for-profit at the other.

Gautier & Pache’s altruistic extreme focuses on a commitment to the common good. That is, a genuine desire by managers and owners to do good deeds for the sake of it can be an important potential driver for CP. The for-profit end-point emphasizes CP as a purely marketing activity. That is, a firm can also only engage in CP if it can benefit from the investment through the generation of extra returns for shareholders. In addition, Gautier & Pache refer to a midpoint along their continuum in which CP is conceptualized as a community investment. This community investment also indirectly serves the firm’s interest through an improvement of brand image, to gain approval and respect from local business elites, or even to counter government intrusions. Almost all of the papers reviewed by Gautier & Pache date from the 1980s onwards, lending weight to the currency of their findings. 75% are American in origin, and 87% display an Anglo-Saxon bias.

Liket & Simaens (2015) offer three conceptualizations of CP as economic, ethical, and idealized practices; and conclude that the motives are usually highly contextual. Questioning the lack of empirical studies establishing the extent to which CP motives are altruistic or strategic in nature, Liket & Simaens suggest that this is consistent with the conceptual ambiguity and lack of clarity about the objectives of CP.

Ricks and Peters (2013) also identify three key motives underpinning CP. These are:

- A *normative motive*, encouraging corporate philanthropy on the basis that all stakeholder interests are inherently valuable, even those with no specific financial or contractual arrangements with a firm;
- An *enlightened self-interest motive*, in which a firm will help others primarily to promote its financial self-interest, without any specific plan and/or way of measuring the extent to which its CP is responsible for financial results; and
- A *strategic motive*, in which the social and economic goals of a firm and the target recipients of CP are measureable, and can be realized simultaneously and complementarily.

Ricks and Peters, therefore, do not draw a distinction between strategic and economic/for-profit motives.

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Drawing from these insights, Seidman recommends that the motivations or key drivers for CP are best conceptualized as a continuum ranging from altruism at one end to pure business/market/economic reasons at the other. This is illustrated in Figure 1. Each key driver will be discussed in turn.

Figure 1: The Corporate Philanthropy Key Motivations Continuum

2.1 Altruistic Motivations for Corporate Philanthropy

Altruistically oriented firms chose the object of their philanthropic engagement exclusively on the basis of personal preference and social importance.

Defined by Kerr, Godfrey-Smith, and Feldman (2004) as:

“...behavior that benefits others at a personal cost to the behaving individual” (p. 135),

the concept of altruism can be traced back to the nineteenth century French mathematician and philosopher Auguste Comte, who argued in *Catéchisme Positiviste* that an individual has a moral obligation to renounce self-interest and live for others.

The *Online Oxford English Dictionary* defines altruism as:

“...the belief in or practice of disinterested and selfless concern for the well-being of others.”

Altruism, therefore, is a general desire to do good deeds, not because of an obligation, sense of duty, through loyalty, or for religious reasons, but simply because it is believed to be the right thing to do. Altruistic CP is a form of unidirectional helping behavior. It refers to the making of a charitable gift or donation (in cash or kind) by a firm to a nonprofit with the sole objective of benefiting society.

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7 Source: http://www.oxforddictionaries.com/us/definition/american_english/altruism
Consistent with Bowden’s (1953) early definition of CSR as the obligation of a businessman to act in a way that will contribute to society’s general wellbeing, a firm engaging in altruistically-motivated CP has no thought whatsoever for the benefits they might receive in return for their philanthropic gesture. They are exclusively motivated by an advancement of social welfare. Altruistic CP, therefore, is:

“...a voluntary expression of the firm’s commitment to the common good...an expression of a firm’s care for the society that surrounds it” (Gautier & Pache, 2015, p. 347).

Godfrey (2005) equates altruism with business citizenship, which he defines as the deep social involvement of a firm’s obligations to all citizens, irrespective of any economic gain. During the 1980s and 90s, both Democrat and Republican U.S. administrations called upon businesses to take a greater role in solving societal problems, lending weight to the notion of altruism as a key driver of CP.

One issue with the altruistic approach is that goodness is often in the eye of the beholder, and therefore somewhat arbitrary. History suggests that altruistic charitable management sometimes reflects the fleeting and personal wishes of shareholders or top managers, rather than any interest in the greater good. For example, Lev et al. (2011) state that CP is one potential area where managers have discretion to use a firm’s resources independent of business objectives. There is no limit (in theory or practice) placed upon managerial decision making, investments and moral obligations under an altruistic approach; and little-to-no political accountability to check managerial discretion. Directors are less likely to question altruistic CP for fear of being labeled misanthropes. Firms sometimes give more to charity when their top executives and directors have close ties to local business elites (Galaskiewicz, 1997). Urriolagoitia & Vernis (2012) also warn that CP motivated by altruism can be unfairly influenced by local NGOs applying the most pressure within a community.

The biggest problem with a CP strategy based on altruism, though, is its incompatibility with the capitalist concept of the firm, and in particular the primary objective of profit maximization. This issue is succinctly summarized by Friedman (1970), who argues that charitable contributions should be made by individual stockholders, rather than big business. The sole social responsibility of big business, according to Friedman, is to increase profits for shareholders. Tonello (2011) also suggests that CP is still criticized today because it consumes company resources, and far-too-frequently furthers the goals of management rather than shareholders.

Porter and Kramer (2002) identify two implicit assumptions underlying Friedman’s objection:

(a) Social and economic objectives are separate and distinct to such an extent that a firm’s social spending will come at the expense of its economic results; and
(b) Firms that address social objectives provide no greater benefit than individual donors.

However, they also counter that both of these assumptions only hold true when CP is altruistically motivated, and therefore unfocused and piecemeal.
Concerns about altruistic motives for CP has also encouraged the likes of Kaye (2013) to conclude that a firm today cannot simply cut a check, and claim that they are “doing good”. In short:

“…a company needs to do more than sweat out quarterly Wall Street reports, and instead not only look far into the future, but build a strong business and around it, a more just and resilient society.” (Kaye, 2013)

2.2 Strategic Philanthropic Motivation

An alternative understanding of CP, which attempts to address the profit maximization concerns of critics such as Friedman, is centered on strategic motivations.

The concept of strategic philanthropy was first suggested by Post & Waddock (1995), when they drew a distinction between the orderly methods and procedures that a firm adheres to when making donations (“philanthropic strategy”), and the corporate donations that have meaning and impact for both the giver and the receiver (“strategic philanthropy”). Strategic philanthropy is therefore supposed to guarantee a synergy between the mission, goals, and objectives of the donor firm, and the cause or activity benefiting from the donation.

This motivational driver for philanthropy is supported by Lev, Petrovits & Radhakrishnan (2011) who write:

“Acknowledging the economic benefits of corporate philanthropy does not negate its power to alleviate social problems and enhance communities.” (p. 7)

Porter & Kramer (2002) disagree with the use of the term “strategic”, suggesting that strategic philanthropy in practice is all too frequently reduced to a form of public relations or advertising. The end goal of this public relations or advertising exercise, they argue, is simply the promotion of a corporate image or brand through cause-related marketing or sponsorship.\(^8\) Porter & Kramer conclude that CP will generate the most value for shareholders when a firm:

- Engages in sufficient due diligence to select the best grantees;
- Promotes the donor recipients to suppliers, customers and competitors, thereby maximizing the benefit-cost ratio of their social investments;
- Utilizes their non-monetary skills to improve the performance of CP recipients and social impact per dollar expended; and
- Advances knowledge and practice in the field, finding new solutions to create social value

However, subsequent academic studies suggest that a form of strategic philanthropy resembling Porter & Kramer’s enhanced bullet-pointed conceptualization does exist.

For example, Saiia, Carroll & Buchholtz (2003) write:

\(^8\) Seidman believes that this criticism more closely resembles the economic or marketing (for-profit) conceptualization of CP.
“Strategic philanthropy is an example of the firm seeking to achieve a synergistic outcome by targeting corporate resources at societal problems or issues that resonate with the core values and mission of the firm. Thus, as an application of the familiar aphorism, “charity begins at home,” corporations can contribute to their communities in more meaningful and effective ways by carefully defining what they stand for as corporate organizations.” (p. 170).

Godfrey (2005) suggests that firms practicing strategic philanthropy generate intangible strategic assets such as reputational capital, employee commitment, and trust or acquiescence among regulatory institutions and legislative bodies. The extent to which a firm participates in strategic philanthropy is always limited to its strategic interests, thereby ensuring that the primary objective of any business (profit maximization or the generation of shareholder wealth) is adhered to. Godfrey argues that the key determinant of a CP program motivated by strategic reasons is “Does the philanthropic activity of the firm represent a genuine manifestation of underlying intentions, vision, and character, or is the activity simply designed to ingratiate the firm among the impacted community?”

van Kranenburg and Zoet-Wissink (2012) appear to describe the strategic drivers as “impure altruistic” motives. They suggest that firms that engage in CP for impure altruistic reasons do so for a combination of self-centered and other-centered (societal) motives.

Gautier & Pache (2015) also highlight a broad consensus in the literature that suggests CP serves the firm’s interests, albeit indirectly, in terms of reputation, prestige, or employee pride. They refrain from using the label “strategic philanthropy” in favor of a concept of “CP as community investment.” However, the core tenets appear very similar. For example, Gautier & Pache suggest that a firm can in the long run benefit from CP based on community investment motives, as the philanthropy will help foster a better environment for business through enhanced social cohesion, safety, education and infrastructure improvements.

Gan (2006) suggests that strategically-motivated philanthropy is symbolic of the conflicts that the managers of contemporary firms must explore, understand, and resolve.

The strategic motivation for philanthropy therefore focuses a firm’s charitable efforts on a cause or issue that simultaneously provides a direct benefit for society, and indirectly supports a firm’s core business objectives.

According to the 2015 Edelman Trust Barometer, 84% of consumers believe that a firm can pursue its own goals while also acting in a way that is beneficial for society.⁹

2.3 For-Profit Market Motivations for Philanthropy

The academic literature also identifies a third potential driver for philanthropy— that is, for-profit or market motives. Unlike the concept of strategic philanthropy, which can indirectly affect the bottom line of a firm, a market-based approach directly and positively affects profitability or shareholder value. One example is the linking of fundraising for a charitable cause to the purchase of a firm’s products and services. Under this latter cause-related example, the firm’s “gift” simply amounts to the transfer of money directly collected from consumer purchases.

Nickel and Eikenberry (2009) argue that the subtext of consumption, profits, and media celebration intrinsic to the market motivations for CP do not communicate or reflect a desire for society as a whole:

“A discourse of philanthropy in which consumption, profit, and media celebration uncritically narrate money conveys a false message about how the world is and how it could be. ... The transformative potential of philanthropy is in its ability to represent the need for social change. A designified philanthropy blurred with consumption, profit, and media celebration fails to signify anything other than consumption, profit, and celebration.” (p. 17)

Gautier & Pache suggest that a shift toward CP motivated by market or economic reasons not only creates confusion about the nature of the practice. It also calls into question whether it can even be philanthropic, as:

“...the absence of commercial returns is the cornerstone of philanthropy.” (p. 348)

Morris, Bartkus, Glassman & Rhiel (2013) also suggest that consumers are on times suspicious about the primary beneficiary of purchase-based philanthropy. That is, they question who truly benefits - the nonprofit/charity, or the firm producing the product?

2.4 Impact of Business Size on Philanthropic Motivations

Most academic studies of CP to date focus on the motivations of large firms. However, an estimated 90% of businesses worldwide are small- or medium-sized enterprises (SMEs); and these SMEs are usually very different in terms of structure and philosophy to bigger firms. The Midmarket Institute also claims that medium-sized enterprises comprise 26% of U.S. businesses.

Likert & Simaens (2015) conclude that company size, as well as industry region, internal audiences, and the size of philanthropic budgets can all influence CP.

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Campopiano, De Massis & Chirico’s (2015) study of philanthropic practices at SMEs in Lombardy, Italy, in 2012 concludes that philanthropic engagement increases with family involvement in ownership.

Lähdesmäki & Takala’s (2012) empirical study of 25 Finnish SMEs concludes that their philanthropic efforts are more reactive than planned, reflect the ideas and motives of the owner-manager, and are strategic in the sense that they served both societal causes and the economic objectives of their own businesses. The authors also acknowledge that the number of close relationships between a small business and its stakeholders potentially increases the probability of an altruistic motive. It is dangerous to draw generalizations from Lähdesmäki & Takala’s small sample study. Nevertheless, they propose a categorization of small business philanthropy, based on two main themes or dimensions, for future research, illustrated in Table 2. One of the themes is motives, which ranges from altruistic to marketing reasons. The other theme is the basis for engagement, ranging from ad hoc decisions to more strategic deliberations.

Table 2: Potential Classification of Philanthropic Motives in a Small Business Setting

<table>
<thead>
<tr>
<th>Marketing Orientation</th>
<th>Altruistic Orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ad-Hoc Decisions</strong></td>
<td><strong>Altruistic Orientation</strong></td>
</tr>
<tr>
<td>Type A</td>
<td>Type C</td>
</tr>
<tr>
<td>CP expected to bring some added value to a business, but targets are random and based on ad-hoc decisions</td>
<td>CP is the moral duty of a business, but targets are random and based on ad-hoc decisions</td>
</tr>
<tr>
<td>Type B</td>
<td>Type D</td>
</tr>
<tr>
<td>CP expected to bring some added value to a business, and the targets are strategically chosen</td>
<td>CP is the moral duty of a business, and the targets are strategically chosen</td>
</tr>
</tbody>
</table>

Source: Lähdesmäki & Takala (2012)

van Kranenburg & Zoet-Wissink (2012) also explore a niche aspect of SME CP. This is the extent to which SMEs support international causes. Drawing from a mail survey of 142 SMEs in two cities (Arnhem and Nijmegen in the Netherlands), van Kranenburg & Zoet-Wissink reject the suggestion that SME support for international charities is driven more by the altruistic, rather than the self-interest, motives of managers. They also fail to find a significant difference between the choice of decision-maker (that is, contracted manager or owner) and the propensity to support international charities, or the age of the SME and its propensity to support international causes. Finally, van Kranenburg & Zoet-Wissink suggest that small firms are less inclined to support international causes than medium-sized companies, in part because they focus to a large extent on their own local communities.

A survey of 170 executives at medium-sized enterprises conducted by Business4Better in 2013 also found that:
75% engaged in corporate philanthropy to impact their communities, rather than improve their bottom lines;

Checkbook philanthropy is being replaced by more meaningful practices such as 40% offering employees time-off to volunteer, and 30% of companies engaging in pro-bono services;

Philanthropic plans are usually championed by CEOs;

Causes tend to be local, business-focused, and targeted at 1-5 nonprofits; and

Less than 20% of employees participate in the philanthropic programs.
3.0 THE IMPACTS OF CORPORATE PHILANTHROPY FOR BUSINESS

“...top economic thinkers have always considered societal good integral to business success. We’ve just somehow neglected that part of the message.” Boccalandro 2015

The impact of CP on a firm is dependent in part on their motivations for engaging in philanthropic activity. Nevertheless, the literature identifies at least six ways in which firms can benefit through their implementation of one or more CP programs. This section describes each internal benefit in turn, providing real-world examples where possible.

3.1 Executive and Employee Recruitment and Retention

An effective CP strategy can help a company or corporation retain, motivate, and develop the skill sets of existing executives and employees, as well as attract new people to join their workforce.

Turban & Greening (1997), for example, suggest that corporate giving enhances the attractiveness of an employer to prospective employees. Kaye (2013) states that an increasing number of professionals are attracted to employers that are perceived to have a strong social purpose. Integrity Solutions (2013) conclude that employees increasingly want to know that their employer shares their own personal values. The Truist Blog (2013) proposes that millennials want to feel inspired by their work; and a CECP (2006) member survey concludes that employee volunteer programs:

“...increase collaboration, team-building and internal networking, enhance employee retention and provide professional development opportunities for all levels of employees.” (p. 15)

The effective implementation of a CP program enables employees to take a pride in both their work and employer, thereby potentially increasing their morale; and engaged employees result in a more productive workforce.

One good example of the employee morale-boosting benefit is State Street’s Global Giving Campaign (McGrail, 2013). State Street is an American worldwide financial services holding company. Founded in 1792, it is the second oldest financial institution in the United States. In 2011, State Street launched The Global Giving Campaign to primarily engage and unite its employees worldwide around a single cause over a three-year period. The societal impacts of this campaign were a secondary consideration. A company-wide employee survey chose education as the principal focus of the campaign, and decisions about appropriate educational partners were devolved to three regions (North America, EMEA, and Asia Pacific). During the first year of the campaign, $1.3 million was raised in employee gift contributions and matched on a 1-to-1 basis by the firm. The State Street Foundation also monetized 7,500 employee volunteer hours donated to the educational partners. A survey of employees at the end of the first year concluded that 63% of surveyed employees felt engaged as a result of their participation in the campaign;
and 59% stated that volunteer opportunities helped increase their level of engagement. By the end of the second year, 71% of employees participating in the educational philanthropic campaign expressed a stronger commitment to State Street.

The New York Life Foundation’s philanthropic focus on childhood bereavement, which strategically aligns with the corporation’s mutual insurance business, is reported to have increased employees pride and participation in the foundation’s work (Cunniffe, 2013).

Home Depot’s Corporate Month of Service, where company employees engage in volunteer projects throughout the U.S, has helped instill a greater sense of corporate pride among 91% of the home improvement retailer’s workforce (CECP, 2006).

Encouraging employees to participate in nonprofit activities can also prove beneficial for the acquisition of new skills. Higher employee job satisfaction and commitment, and leadership/professional skills are all associated with corporate-sponsored volunteer experiences. Adecco (2015) estimate that 76% of staff on pro bono contracts acquire significant job-relevant skills.

Deloitte’s volunteer community projects are perceived to develop leadership skills among junior staff, helping them to enhance their communication, delegation, and management skills (CECP, 2006).

IBM’s Smarter Cities Challenge – a competitive grant program that sends teams of employees into cities around the world to address community issues – is heralded by Doug Conant, Chairman of the Committee Encouraging Corporate Philanthropy, as:

“…a priceless program for professional development and employee engagement that IBM could not have purchased through the market.” (Cunniffe, 2013)

IBM also offers 100 online tools for employees to explore when they volunteer with an organization, encompassing areas such as how to write a business plan, and the role of a board of directors.12

Lev et al. (2011) highlight Microsoft’s CP program which includes organized group activities, paid leave-of-absence for employees that volunteer matched by a $17 per hour contribution from the corporation, and nonprofit board service training to hone employees’ leadership skills. Microsoft implements CP worldwide; and its 2010 corporate citizenship report claims to have increased Egyptian employee satisfaction from 61% to 91% following the launch of a volunteer program in the country.13

Tonello (2011) suggests that company executives can benefit as a result of a CP program in a number of ways. For example, their status can become elevated in elite social circles, through their management of

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the donation. Executives are sometimes given the freedom to support organizations and causes matching their own ideological agendas; and they can further their careers by gaining favor with board members.

An effective CP program can also help to maintain an ongoing pipeline of future talent for a firm to harvest. A 2013 Cone Communications/Echo Global CSR Study of 10,287 adults in ten countries found that 81% of respondents consider CSR (including philanthropy) when they identify potential employers.\footnote{Source: Cone Communications/Echo, (2013).}

Two examples of recruitment pipeline benefits are provided by Porter & Kramer (2002).

Cisco System’s Networking Academy, which began as a form of altruistic giving, has developed into a web-based distance learning curriculum for computer network administrators at 9,900 institutions in 147 countries. In addition to the many social benefits of the program, the Networking Academy has helped alleviate a potential constraint on Cisco’s future growth (the lack of suitably-trained future employees), and also provided attractive job opportunities for high school graduates within the IT industry.

DreamWorks’ philanthropic support for an entertainment studies program at LA Community Colleges, which aims to improve the education of and employment opportunities for low income students, has also generated for the studio a pipeline of specialist-trained graduates.

3M’s Frontline Talent Initiative which enhanced the sales training of students in colleges has helped to cut in half the amount of time needed for a newly hired frontline employee to be rated as productive by their supervisor.\footnote{Source: Ricks Jr., J. M., & Williams, J. A., (2005).}

A March 2013 survey of 173 medium-sized enterprises by Business4Better concluded that less than 10% use CSR (including CP) for employee engagement; and CP programs introduced and managed by the CEO or owner do not always attain a high employee participation rate. This has led Scott (2014) to conclude:

“With employee engagement being an area of particular struggle for mid-sized companies, it’s important that these organizations better leverage the power of strong volunteer and giving programs to awaken and inspire their employees…and keep the best of them from walking out the door to bigger rivals.”

Gautier & Pache (2015) also call for additional research to assess the outcomes of CP on employees.

However, there is a significant amount of compelling evidence to suggest a positive relationship between effective CP programs and executive/employee recruitment and retention.
3.2 Brand Building/Loyalty and Corporate Image

An effective CP strategy can also help establish or build brand and corporate recognition, generate brand loyalty, offset negative perceptions, and repair damaged consumer relationships.

Gan (2006), for example, suggests that CP can create goodwill, in which public relations can be used to help to cultivate a positive, socially responsible image in the eyes of a sometimes critical consumer. Lev et al. (2011) state that charitable contributions can increase the consumer recognition of either a brand or a company as a whole. Vázquez-Carrasco & López-Pérez’s (2013) systemic review of SME CSR also suggests that CP in SMEs can enhance brand image and positioning.

Godfrey (2005) suggests that the reputation of a company or corporation has economic value because it disposes stakeholders to hold beliefs and/or engage in actions that potentially create or destroy shareholder wealth.

Werbel and Wortman’s (2000) analysis of 163 corporate foundations between 1988 and 1993 found that the total amount of philanthropic allocations increase following negative media exposure, to help repair damaged relationships.

Patten’s (2008) analysis of corporate press releases announcing donations to the 2004 Tsunami in Southeast Asia generated a significant positive 5-day cumulative abnormal return among a sample of 79 U.S. companies.

CECP (2006) found that 35% of its members use marketing or advertising to raise awareness of their CP. The key to the success of any CP program is that it must be perceived as a genuine manifestation of the benefactor’s underlying social responsiveness. If this is not the case, it is unlikely to have a positive public relations impact or increase shareholder value. Sasse & Trahan (2007), for example, conclude that consumers develop a negative attitude to firms they believe are engaging in “cause-exploitative marketing” – that is, the excessive promotion of CP can create cynicism rather than goodwill.

A study by Ricks (2005) supports the assertion that CP can have an overall positive effect on consumer perceptions, but these effects do not always transfer to brand evaluations, patronage intentions, or by corollary increase sales. He also concludes that a reactive form of CP is often not the most viable way to thwart negative publicity.

ConAgra, a U.S. packaged foods company headquartered in Nebraska, is highlighted by Siu Turner (2015) as a good example of a company connecting its CP to marketing and PR, through its Child Hunger Ends Here campaign. This encouraged consumers to buy specially marked ConAgra brands to trigger a meal donation to Feeding America (a hunger relief organization). Not only was the delivery goal of three million meals achieved in 2014. ConAgra also witnessed a 40% increase in awareness, and a 39% increase in sales.¹⁶

The Truist Blog (2013) argues that a well-executed CP program can resonate with customers on a deeply emotional level that goes far beyond even the most creative advertising campaign. That is, CP initiatives lead to greater customer engagement by making the connection between your company, the customer experience, and community building.

3.3 Establishing New Opportunities for Innovation

Philanthropic partnerships with universities, non-profits, and foundations, can grant benefactor businesses access to new ideas, technical expertise, invaluable research, and fertile recruitment pipelines.

Cunniffe (2013), for example, suggests that aligning philanthropy with business-related causes has benefits for incubating business ideas based on an interview with the former President and CEO of Campbell Soup and Chairman of CECP.

Recognizing the importance of world-class science and education partnerships, DuPont is a prime example of a corporation attempting to inspire the next generation of scientists, engineers, and innovators through CP. Its emphasis on STEM education programs and science literacy include the DuPont Challenge for students, Ag Ambassadors Academy for teachers, and the Young Professor Program. All three programs are used to stimulate innovation, as well as help develop a highly trained workforce. The Young Professor Program, targeted at universities, has awarded grants in excess of $50 million to 700 young professors in 19 countries. DuPont’s website states:

“The hope is that these unrestricted grants will lead to a fruitful relationship beneficial to both parties, and could include future research partnerships, student hiring, etc.”17

Porter & Kramer (2002) suggest that one primary reason for CP is that businesses cannot flourish in a degraded environment. Philanthropic partnerships with universities can help to rectify this issue. One potential problem with this approach is the sheer number of companies trying to focus their philanthropic activity on education. For example, CECP (2006) found that 77% of its members had adopted education as a focus area for their company’s philanthropy. However, Kumashiro (2012) claims that philanthropic giving to date has still to surpass 1% of total educational funding in the United States.

CECP’s Giving in Numbers 2015 Edition suggests that technology companies allocate 45% of their philanthropy to K-12 and Higher Education programs. This is consistent with the sector’s dual needs of a well-trained workforce and access to innovative research programs.

Clevenger’s (2014) doctoral dissertation suggests that little research has been conducted into the corporate-higher education partnerships. Drawing from an ethnographic study of ASU, the ASU Foundation, and six U.S. corporations from 2006 through 2010, Clevenger identifies research as one reason why corporations engage with higher education institutions.

Bereskin et al. (2015) suggest that philanthropic partnerships with research organizations can also expand a company’s knowledge, and serve as an outsourcing of research and development. For example, Texas Instruments’ Analog Design Contest not only enables students to engage with the corporation’s products. The contest rules automatically grant Texas Instruments the exclusive right to exploit the intellectual property rights of contest submissions. As a result, the contest is a mechanism for students to innovate for the corporation.

Quest Diagnostics’ partnership with the University of California, San Francisco gives researchers access to its exclusive patient database and opportunities to bid for grants worth up to $500,000 per project. In return, Quest can leverage university expertise to identify new biomarkers for future products.

3.4 Corporate Philanthropy as a Means of Buying Influence

An effective CP can be used by a company to help build strong relationships with government officials, community leaders, and other key non-consumer stakeholders. That is, CP can be used by a company or corporation to “buy” influence.

Gan (2006) suggests that establishing direct links between for-profit businesses and non-profit recipients can generate political leverage for business to maneuver around regulation. van Kranenburg & Zoet-Wissink (2012) suggest that CP helps firms to gain sociopolitical legitimacy, elicit positive stakeholder responses, and gain political access.

Fooks and Gilmore’s (2013) analysis of British American Tobacco’s CP suggests that tobacco companies primarily allocate charitable contributions according to their political effect potential. These effects are:

- Access to policymakers;
- Constituency building among civil society organizations to build support for policy positions and generate advocacy allies;
- The use of donations to weaken opposing constituencies;
- Enhancement of the donor’s status as a source of credible information; and
- Agenda -setting.

One British American Tobacco document unearthed by Fooks & Gilmore suggests the use of philanthropic work to offset the negative effects accruing to the industry from primary health and passive smoking issues. Another document recommends the targeting of charitable contributions to projects demonstrating political priority, to enhance British American Tobacco’s ability to build platforms for dialogue with several governments. A good example of this political influence impact is the company’s decision to fund urban regeneration projects and City Technology Colleges in the UK during the Thatcher years, based on their proximity and access to the UK government.
Hirschhorn (2004) also suggests that Philip Morris’ entire CSR program (not just its philanthropic giving) is designed to burnish the company reputation and deflect lawsuits, based on an analysis of internal documents.

Su & He’s (2010) survey of 3,837 Chinese private firms concludes that companies engage in CP to protect their property rights and nurture political connections as a means of maximizing profits.

The ethics of using CP impact to buy government influence might be open to debate; but its existence cannot be questioned.

A more ethical example is The Sutton Trust, which was founded in the UK in 1997 by Sir Peter Lampl to improve social mobility through education. The Trust today provides multi-year grants to fund new and innovative projects that provide educational opportunities for young people from disadvantaged backgrounds. By funding and publicizing grantee achievements, Ochs (2008) claims that it has been able to attract government attention and influence educational policy change.

3.5 Fiscal Impacts of Corporate Philanthropy

The previous section suggested that CP can be used to help create favorable business climates for firms, through government and legislative influence. Neiheisel (1994) suggests that this opportunity to influence government can include protection from higher taxes.

However, an alternative fiscal benefit is also available to implementers of CP. That is, firms can use the available fiscal incentives to deduct the monetary value of their CP from state and federal tax obligations. Charitable contributions are reported on corporate tax returns, but not always disclosed to shareholders unless they are donated via charitable foundations.

Gautier & Pache (2015) conclude that the fiscal impacts of corporate philanthropy to date have not been studied in detail. Arulampalam & Stoneham’s (1995) UK study suggests that lower corporate tax rates are positively linked to lower levels of philanthropy. That is, the level of philanthropy declines because companies can offset less of the cost of the philanthropy from their corporate taxes.

Carroll and Joulfaian (2005) have also explored the effects of taxes on corporate philanthropy. Working with a sample of 26,000 C and S corporations, their results suggest that CP declines in accordance with tax prices, and rises with income and advertising. Given the price-sensitivity of corporate charitable contributions, they conclude that a profit maximization model fails to fully explain patterns of CP in the short run.

3.6 Maximizing Profits/Increasing Shareholder Returns

A CP program motivated by purely unselfish altruistic reasons seeks only to improve society. However, strategic and marketing-motivated CP programs also seek to maximize corporate profits in the long-run, thereby increasing shareholder returns.
Gautier & Pache (2015), for example, state that there is a widespread belief that firms implementing effective CP programs perform better from a financial perspective.

Lev et al.’s (2010) analysis of 251 U.S. firms from 1989 through 2000 estimates that a $500,000 increase in charitable contributions on average could generate an additional $3 million in sales revenues, equating to a $791,500 increase in net income. Their data is sourced from the Taft Corporate Giving Directory, and consists of 1,168 observations. Although the association between contributions and subsequent corporate financial performance is described by the authors as statistically and economically significant, they also note decreasing marginal returns to philanthropy. This means that their estimates of enhanced sales growth are not estimated to continue in perpetuity.

Tonello (2011) suggests that increasing CP expenditure is positively associated with future revenue growth for consumer product companies.

Porter & Kramer (2002) suggest that Safeco’s partnership with the nonprofit sector to expand affordable housing and enhance public safety has increased insurance sales by up to 40% in four test markets.

Lev et al. (2011) suggest that Crate and Barrel’s gift card scheme, in which customers allocate CP to different U.S. educational projects, generated a 16% increase in sales for redeemers in 2007-2008, and a 5% increase in sales for non-redeemers.

However, other studies question the existence of a positive relationship between the amount of corporate giving and corporate financial performance.

For example, Griffin and Mahon (1997) find no correlation between philanthropic generosity and financial performance for seven chemical industry companies, using multiple sources of data and dimensions of corporate financial performance.

Seifert et al.’s (2003) study of matched pairs of generous and less generous companies fails to find a significant relationship between corporate philanthropy and financial performance.

Working with a sample of 540 firms listed in Bloomberg from 2003 through 2011, Hogan et al. (2014) also fail to find a significant relationship between CP expressed as a percent of EBITDA and excess returns for shareholders.

The literature is therefore at best inconclusive on the relationship between CP and corporate financial performance. This can be explained with reference to at least three limitations.

First, most of the studies consist of multiple industries possessing very different social and environmental concerns and degrees of stakeholder interaction; and this variation could have an impact on the quantitative assessments.
Second, different authors use different methods to measure corporate financial performance, including profitability, asset utilization, liquidity and risk/market measures. This again could impact the calculations.

Third, Kaye (2013) states that the payback for CP is not immediate – it can take 10-15 years. However, it is not clear to what extent (if at all) studies take this delayed payback period into account in their quantifications of the relationship between CP and corporate financial performance.

Given the inconclusive nature of the literature, Lim (2010) calls for a more systematic study of the value of CP for traditional investors. This might also explain why Business4Better (2013) concludes that only 20% of mid-sized companies measure the success of their CSR (including CP) in terms of financial impact.

Gautier & Pache (2015) ultimately describe the link between CP and financial performance as:

“...one of the most researched and frustrating questions among scholars interested in the business and society relations: many variations appear across firms, industries, and periods.” (p. 358)

3.7 Competitive Advantage

Each of the individual benefits discussed above can potentially offer a firm some form of competitive advantage. This is a key goal of both strategic philanthropy and a marketing-motivated CP program. Tonello (2011) suggests that a competitive advantage is only possible when the corporate giving programs are well-designed and carefully executed.

SAP is a good example of a company or corporation using CP to acquire a competitive advantage. A global market leader in enterprise application software, SAP currently donates technologies across the world, with an emphasis on emerging and frontier markets. Their CP is carefully targeted to take advantage of significant future rewards and returns potential in markets currently underserved by the corporation (Kaye, 2013). For example, in 2013, SAP launched a five-year Skills for Africa program tasked with developing information technology skills to boost access to education, and offer critical support for entrepreneurs. SAP’s CP programs are always tailored to the specific needs of each market. For example, in Brazil, SAP has established a 3-year Emerging Entrepreneurship Initiative to mentor small businesses short on capital who need help navigating bureaucratic red-tape.

The competitive advantages afforded to SAP through their CP extend far beyond employee engagement. For example, Kaye (2013) suggests that SAP’s CP will also help to ensure a long-term future for the corporation through the grooming and development of local talent. It will also build a strong business climate critical for the development of SMEs as future SAP customers and suppliers, and ultimately benefit the corporation’s bottom line.

The external benefits of CP are discussed in more detail in the next Section.
4.0 THE SOCIETAL IMPACTS OF CORPORATE PHILANTHROPY

“There is no inherent contradiction between improving competitive context and making a sincere commitment to bettering society....The more closely a company’s philosophy is linked to its competitive context, the greater the company’s contribution to society will be.” *Porter & Kramer (2002)*

Liket & Simaens (2015) suggest that there’s been very little academic research investigating the social outcomes of CP. Nevertheless, a number of general observations can be made, supported where possible, with real-world evidence.

4.1 Educational and Employment Prospects

CECP’s *Giving in Numbers 2015 Edition* estimates that education (both K-12 and Higher combined) is the most popular cause among U.S. companies in 2014, attracting 30% of annual philanthropic allocations.

Tonello (2011) argues that technology companies are often the largest funders of educational institutions, which is consistent with their need for a well-trained workforce and their desire to access university programs.

Lev et al. (2011) suggest that corporate philanthropy can stimulate innovation through grants to universities and other organizations. Universities are often required to source corporate matching money for research activities in state or federal grants; and universities leverage corporate dollars to grow their research endeavors and programs. For example, the Global Institute of Sustainability at Arizona State University, which offers transdisciplinary degree programs to create practical solutions to social, economic and environmental problems, was initially established with a $50 million philanthropic donation by the Julie Ann Wrigley Foundation. University of Arizona President Ann Weaver Hart also describes corporate philanthropic partnerships as one important way for public universities to improve outcomes in teaching, research, and public engagement.\(^{18}\)

Improved educational outcomes by corollary can result in enhanced employment prospects within a community.

Some examples of educational and employment societal benefits associated with CP are as follows:

**The APS Foundation** supports STEM education programs to educate Arizona’s future leaders, to help maintain a strong and prosperous economy.\(^ {19}\) Foundation grants are awarded on a biannual basis to programs that help teachers not only increase knowledge in STEM subjects, but also transfer this knowledge effectively to students.

\(^{19}\) Source: APS, (2015a).
The Bill and Melinda Gates Foundation works with public, private, and nonprofit partners in Washington State to improve educational outcomes for children and families. Their Education Pathways program focuses on five key areas:

- Improved transitions from preschool to college;
- Data-driven decision making focusing on student success;
- Quality instruction and leadership in early-learning programs;
- Increased innovation to boost student achievement; and
- Alignment among health, housing and social service systems.

Goldman Sachs’ 10,000 Women initiative fosters economic growth by providing female entrepreneurs worldwide with a business and management education, mentoring and networking, and access to capital. To date, over 10,000 women from 43 countries have participated via a network of 90 academic and non-profit partners. Thirty months after completing the program, 82% of program graduates surveyed have increased their revenue, and 71% have created new jobs. Women use their income and skills to support both their families and communities.

Intel Teach is a professional development course for K–12 teachers to integrate technology effectively into classrooms and promote student-centered approaches, engaging students in learning and preparing them with critical skills for success in the digital world. Over 15 million teachers have received training in 70 countries. To gauge the success of their program, Intel measures and holds itself accountable for changes in the way that teachers use information and communications technology in the classroom. 75.4% of participants apply new plans for integrating technology into the classroom at least once after completing the program. Negative evaluations and feedback from the program is also used by the corporation to help improve future designs.

In 2013, JPMorgan Chase launched New Skills at Work, one of the largest private sector programs addressing workforce readiness. The $250 million five-year initiative seeks to tackle the skills gap and help workers compete in the global market. In the first year, JPMorgan Chase implemented the program in Houston, Louisiana, Miami, Columbus, New York City, the U.K., and France to identify opportunities for each respective workforce. The banking and financial service company’s philanthropic support is used to produce innovative, data-driven analysis of skills demand and supply gaps in local markets, develop effective workforce programs tailored to the employment needs of each community, and encourage collaboration with like-minded stakeholders.

Motorola Solutions is attempting to combat low academic achievement and high truancy rates in Chicago Schools through a philanthropic association with the Chicago Vocational Career Academy. Over 100

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Motorola employees serve as mentors and skills-based volunteers at the Academy; and they completed more than 70,000 hours of service in 2013.25

**SAP** strives to enact positive social change through economic growth, job creation, and innovation. In 2014, the global market leader in enterprise application software contributed approximately €22 million in cash donations to non-governmental and non-profit organizations.26 To help secure employment for people with autism in technology-oriented jobs, SAP has worked closely since 2013 with Specialisterne in the U.S., UK, Denmark, Ireland, Austria, Switzerland, Germany, Norway, Iceland and Poland. SAP’s CP efforts also include a partnership with Emprego Ligado, a blue-collar employment site in São Paulo connecting unskilled workers to jobs closest to their homes, thereby reducing commuter time and money. Part of SAP's *Emerging Entrepreneurs Initiative*, Emprego Ligado was selected from more than 500 candidates to receive philanthropic support which includes software, exclusive mentorship and participation at SAP events.27

**Shell** has also donated more than $24.8 million to the University of Texas at Austin, including a 5-year $7.5 million collaboration to address worldwide oil and gas issues.28 Most of this money is devoted to research in the Department of Petroleum & Geosystems Engineering and Bureau of Economic Geology. However, $470,000 is used to support University of Texas at Austin student activities and recruitment programs.

**Walmart** and the Walmart Foundation have committed $40 million, 2011 through 2019, to help veterans and their families via employment and transition programs.29 An estimated one million service members are expected to exit the military over the next five years, and San Francisco’s *Swords to Plowshares*, the American GI Forum’s *National Veterans Outreach Program*, and the *Institute for Veterans and Military Families* all benefit from the corporate philanthropy.

### 4.2 Health, Nutrition, and Welfare

CECP’s *Giving in Numbers 2015 Edition* estimates that health and social services is the second most popular cause among U.S. companies in 2014, attracting 26% of annual philanthropic allocations.

Some examples of CP being used to generate health and welfare benefits in the U.S. and/or overseas are as follows:

**Coca-Cola’s** flagship philanthropy program, the *Replenish Africa Initiative (RAIN)*, is a sustainable approach to improve access to clean water for up to 2 million Africans by 2015, reduce preventable waterborne illnesses, and empower women through clean water access and entrepreneurship.30 Drawing from a six-year $30 million Coca-Cola commitment, and in partnership with 140 organizations, **RAIN**:

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28 Source: University of Texas at Austin, (2012).
Improves access to water and sanitation, and promotes improved hygiene behaviors for positive impacts on health and development;
Establishes or enhances sustainable water management practices, improving environmental stewardship and community health; and
Promotes efficient and sustainable use of water for economic development.

The societal impacts of RAIN to date include:

- Clean, sustainable water access for 1 million people (target 2 million);
- Access to sanitation for 180,000 people (target 350,000);
- 35 benefiting countries (target 55);
- 34 watersheds positively impacted by RAIN, covering 65% of Africa; and
- 2 billion liters of water replenished each year to nature and communities.

Heasman (2009) claims that an additional non-societal benefit of the program is that it enables Coca-Cola to return to the communities and nature an amount of water equivalent to the water used in all their beverages and their production.

The ExxonMobil Foundation supports programs targeted at global health issues, as a springboard to future opportunity, achievement and development. One example is the ExxonMobil Malaria Initiative, which supports a wide range of prevention, treatment and advocacy programs. ExxonMobil has committed over $133 million to help fund malaria programs in Africa and the Pacific Rim since 2000, primarily in locations in which they have a business interest. This has paid for 13.6 million bed nets, 2.1 million doses of antimalarial treatments, and 2.2 million rapid diagnostic kits. It has also been used to train 426,000 health workers.

GlaxoSmithKline’s five-year partnership with Save the Children aims to bring much-needed medicines and vaccines to some of the world’s poorest children, train thousands of health workers, and develop child-friendly medicines. Launched in 2013, the program extends beyond traditional charity corporate fundraising, and utilizes GSK’s R&D capabilities to help save up to 1 million children’s lives. Countries currently benefiting from the program include the Democratic Republic of the Congo (which is ranked 168 out of 169 countries in the Human Development Index), and Kenya.

In addition to the 10,000 Women initiative, Goldman Sachs’ innovative International Finance Facility for Immunization (IFFIm) is a great example of strategic philanthropy. The investment banking company offers a small group of bankers on a pro-bono basis to issue bonds secured against national government pledges for developing and delivering children’s immunization programs. This enables the charity GAVI

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33 This is a composite statistic of life expectancy, education, and per capita income published by the United Nations Development Programme.
to plan better, accelerate R&D, reduce vaccine prices, and increase the speed of delivery.\(^{35}\) In 2013, the bonds were credited with saving at least 3 million lives – a major social impact, which indirectly has also generated commercial benefits for Goldman Sachs as a seller of the bonds.

The Hershey Company has developed CocoaLink, a free mobile technology platform, to educate 45,000 rural cocoa farmers in 1,800 Ghana communities about agricultural practices. The program also offers child safety and welfare information. Results to date include a:

- 46% increase in farmers’ yields;
- 70% increase in farmers’ incomes;
- 68% participation rate by farmers in literacy training; and
- 90% participation rate by farmers in basic business and conservation training.\(^{36}\)

The Kellogg Company and Kellogg’s Corporate Citizen Fund have provided local and national support to Feeding America for over 30 years. In 2009, Kellogg announced that it would donate an entire day's worth of cereal production (equivalent to 55 million cereal servings) to the hunger relief network of more than 200 food banks in the U.S. The 2009 donation was worth $10m at retail value prices, and was intended to help address more than 36 million Americans at that time facing hunger. The campaign was supported by employee food drives, a 3-month online donation program that offered consumers $5 of Kellogg’s coupons in return for a donation of $5 or more, and a social media campaign with Ashton Kutcher’s Katalyst Media. Through their global Breakfasts for Better Days initiative, Kellogg’s has also donated more than 900 million servings of cereal and snacks since 2013.\(^{37}\)

The Nike Foundation’s Girl Effect program, run in partnership with the NoVo Foundation, the World Bank, DFID and the United Nations Foundation, is a multi-million dollar program that aims to empower adolescent girls around the world and help reduce global poverty.\(^{38}\) Adopting a holistic approach, the program focuses on five key assets: education; health; economic security; safety; and voice and rights. Launched in 2008, the CP program aims to reach 250 million girls living in poverty across the world by 2030, giving them the tools and access to the critical assets they need to achieve their full potential.

In 2009, Pepsi’s employees launched the Food for Good program. This aims to make healthy food physically and financially available for low-income families through sustainable, business-driven decisions. Over 4 million meals have been served in the U.S. since 2009, including 1.4 million meals in 2014.\(^{39}\)

### 4.3 Develop a Stronger Climate for Doing Business

CECP’s Giving in Numbers 2015 Edition estimates that 15% of U.S. CP allocations in 2014 focused on community and economic development causes.

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\(^{35}\) GAVI stands for Global Alliance for Vaccines and Immunization.


\(^{39}\) Source: PepsiCo (2015).
CP can help to develop a stronger business climate, assist new entrepreneurs, build a strong infrastructure for SMEs, foster the development of business clusters, and strengthen supporting industries. Investing in community and development causes can also help to foster a healthier environment for donor firms to do business. Some examples include:

**American Express’ Travel and Tourism Academies** in secondary schools, which train students for careers at airlines, hotels, and restaurants, have helped to foster the development of clusters and strengthen supporting industries. For example, 80% of U.S. students graduating from the program have gone on to college, and 25% have embarked on careers in the travel industry after graduation.\(^{40}\)

**APS** offers a *Focused Future* program to help leaders from less-populated areas in Arizona develop community and economic development plans and strategies, to lay the foundations for future economic growth.\(^{41}\) This nine to twelve month step-by-step process helps community leaders define economic goals, and create action plans to make those goals become a reality.

**Freeport McMorRan** partners with NGOs, foundations, and institutions to support community development initiatives via a *General Social Investment Program*.\(^{42}\) Two Arizona-specific examples are implemented in Ajo and Bisbee. The types of community benefit Freeport expect as a result of their philanthropy include: increased economic activity in each community; improvements to the business and recreational infrastructure to attract new business, residents and tourists; and an expansion or improvement in local housing options.

In 2014, **JPMorgan Chase** launched *Small Business forward*, a $30 million five-year initiative to support the formation, growth and success of sector-specific small business clusters by helping nonprofit owners provide small business owners with access to investors, managerial training, skilled workers, supply chains, facilities and new markets. Small businesses are perceived by JPMorgan Chase to be the cornerstone of local communities, creating jobs and encouraging innovation.\(^{43}\)

### 4.4 Environmental Issues

CECP’s *Giving in Numbers 2015 Edition* estimates that environmental programs attracted 4% of U.S. CP in 2014, rising to 10% in the utilities sector. The environmental benefits of CP include investments in programs that reduce pollution and waste, and the sustainable use of natural resources.

**ConocoPhillips’ Water Conservation** program is a great example of environmental CP. With nearly two-thirds of the world’s population predicted to be living in severe water-stressed conditions by 2025, ConocoPhillips is partnering with communities and institutions to sustainably protect and manage water resources, and ensure that vital ecosystems are able to deliver the services essential to human wellbeing. There are three core strands to their philanthropy. ConocoPhillips preserves and manages habitats in the

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\(^{40}\) Source: Porter, M., & Kramer, M., (2002).

\(^{41}\) Source: APS, (2015b).

\(^{42}\) Source: Freeport-McMoRan, (2015).

\(^{43}\) Source: JPMorgan Chase, (2015b).
greatest need of conservation and of most importance to its business operations. The program strengthens individuals’ and organizations’ ability to manage water and biodiversity resources effectively. It also fosters innovation and multi-sector solutions to water-quality and accessibility challenges. Each approach enables the multinational energy corporation to serve community needs, and also complement business objectives.44

In addition to donating 1% of its annual sales to environmental causes, the winter and outdoor clothing company Patagonia has invited other companies (including its supply chain) to do likewise.45 Patagonia has also asked consumers to refrain from buying products they do not really need (known as the Common Threads Initiative Pledge).46 As a result, over 1,200 companies in 48 countries now donate 1% of their sales to more than 3,300 nonprofits.47 They also operate a Worn Wear blog, to share stories about the longevity of their clothing. This is a good example of strategic philanthropy, linking concern for the environment with the longevity of Patagonia’s core product line.

Toyota Financial Services is currently donating $5 to the Boys and Girls Clubs of America (BGCA) for every customer that signs up to their paperless billing services. The campaign has raised over $200,000 for BGCA, as well as dramatically reducing the corporation’s paper and printing costs.48

4.5 Disaster Relief


For example, the U.S. Chamber of Commerce lists total pledges of $59.1 million from U.S. based firms in response to the Philippine Typhoon Haiyan. This includes grants awarded to the likes of CARE, Direct Relief and the Philippine Red Cross to deliver immediate relief to affected communities, in-kind donations of antibiotics and medical supplies, and the transportation of water purification systems.49 Accenture donated over $2 million in cash and pro-bono contributions to support relief and reconstruction efforts as part of this CP.

Patten (2008) investigated the market reaction to corporate press releases announcing disaster relief donations to the December 2004 Southeast Asian tsunami. Drawing from a sample of 79 U.S. companies, he identifies a statistically significant positive 5-day cumulative abnormal return. He also concludes that companies making larger donations realize more positive market reactions than others making smaller gifts. The potential societal benefits are far bigger than any impact on market prices for contributing

47 Source: http://onepercentfortheplanet.org
companies; and Patten also lacks a control group of non-contributing companies. However, this again demonstrates the indirect strategic value of CP.

4.6 Other Examples

CP can also enhance cultural and arts opportunities within communities, address civic and public affairs issues, or address a wide range of other social issues. CECP’s *Giving in Numbers 2015 Edition* estimates that cultural and arts initiatives and civic and public affairs programs each attracted 5% of total U.S. CP in 2014. An estimated 13% of total U.S. CP in 2014 is devoted to diverse, unclassified social campaigns.

One good example of an unclassified social campaign is FedEx’s *Moment of Silence*. This was launched in 2013 to bring attention to the number of teens who are killed each year crossing roads due to the distraction of electronic devices such as ipods and cell phones. During the first two years of operations, FedEx had shared the message with 580,000 students at 907 schools in 241 cities. 50

Another example is Wells Fargo’s *Principal Forgiveness* program, which is targeted at financially challenged borrowers who live in a home worth less than their outstanding payments on their Wells Fargo-owned loan. 51 This CP program has benefited 218,000 customers since 2009. The total value of the principal forgiveness is $8.4 billion.

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5.0 DISCLOSURE OF CORPORATE PHILANTHROPY

“Companies aren’t required to publicly report their philanthropic spending; and even if they do so voluntarily, there are few agreed-upon standards for valuing gifts, either cash or in-kind good and services.” Hempel (2003)

There is some debate within the literature about the benefits and drawbacks for firms in disclosing their annual CP.

Godfrey (2005), for example, argues that CP can create considerable moral capital among stakeholders if it is consistent with underlying ethical values, thereby serving as a form of protective insurance for a firm’s intangible assets and offset negative assessments. Given that the earning potential of a business is dependent in part on the nature of its relationships with stakeholders, one might therefore assume that public disclosure is a critical component of any CP program. However, this is not always the case. For example, Godfrey highlights AT&T’s well-publicized support of Planned Parenthood in the 1980s, which generated significant negative reactions from pro-life organizations, culminating in AT&T’s termination of that philanthropic support in 1990. This latter termination of support then eroded the positive moral capital AT&T had established among pro-choice groups. This suggests that the disclosure of contributions to a controversial cause can attract negative scrutiny.

Proponents of increased transparency for CP claim that a firm has nothing to fear if the gifts and donations are being made for legitimate business reasons (Lev et al., 2011). However, this does not always hold true - for example, pharmaceutical firms supporting research organizations that engage in animal testing. Lev et al. therefore recommend that firms at the very least disclose the policies governing contributions, although not necessarily the amounts given or recipients.

Tonello (2011) also notes how full disclosure can deter executives from using the corporate checkbook to support their pet philanthropies, and reduce potential shareholder skepticism about the appropriateness of CP. However, at the same time, he suggests that full disclosure can erode competitive advantage. For example, if hardware donations to educational institutions is a key pillar of a technology company’s CP, Tonello suggests that mandatory full disclosure could highlight to competitors ways in which the firm cultivates important customer relationships. As a result, Tonello concludes:

“...companies with business-driven philanthropy programs have more compelling reasons to keep charitable contributions private but, antithetically, the failure to disclose these contributions is perceived as a signal that the company is concealing self-serving behavior by its executives.”
The Council of Institutional Investors Corporate Governance Policies (2015) Section 2.14 recommends the disclosure of both the amounts and recipients of CP on an annual basis; and many businesses today voluntarily publish glossy CSR reports. However, decisions about the extent to which CP should be publically disclosed should not be taken lightly.

Morris and Bartkus (2015) have recently investigated the reasons behind firms disclosing or not disclosing their CP. They conclude that companies are most likely to disclose their CP if:

- They are doing good in order to do well; and
- They have charitable foundations, who are obliged to provide information to the IRS.

Morris and Bartkus also find that disclosure is not related to firm size, and estimate that consumer products firms are least likely to disclose their CP, albeit for reasons unknown. They conclude that CP differs from other forms of corporate social responsibility because:

“...charitable donations are regarded as voluntary or discretionary for firms...while the firm’s treatment of customers, employees, the natural environment, and stockholders is viewed as a more serious social and ethical responsibility.” (pp 10-11)

Nevertheless, they still ultimately call for greater transparency relating to CP procedures.

6.0 CONCLUSIONS AND ORGANIZATIONAL CONSIDERATIONS

“...contributing to the well-being of others does not necessarily need to be altruistic in order to make a difference.” Lähdemäki & Takola (2012)

This study has offered a number of insights into CP based on a comprehensive literature review and, where possible, real world examples.

Describing CP as a component of CSR in which firms typically make cash and in-kind gifts and donations to society-based programs, the study has suggested that philanthropic gestures were initially left to the whims and preferences of individuals. However, they have increased in popularity among firms following a 1954 Supreme Court ruling (Smith Manufacturing v Barlow) in which the legal restrictions for CP were removed.

6.1 Three Potential Motivations

The motivations or key drivers for CP have been presented as a continuum ranging from pure altruism to pure profit maximization or business reasons.

Altruistically oriented firms chose the object of their philanthropic engagement exclusively on the basis of personal preference and social importance. A form of unidirectional behavior, altruistic CP is a general desire to do good deeds simply because it is the right thing to do. Any firm engaging in altruistic CP has no thought whatsoever for the benefits they might receive in return for their actions. They are exclusively interested in the advancement of social welfare.

The biggest problem with altruistic CP is an incompatibility with the capitalist concept of the firm, which positions profit maximization above all other goals. This issue is succinctly summarized by Friedman (1970), who argues that charitable contributions should be made by individual stockholders, rather than big business. The sole social responsibility of big business, according to Friedman, is to increase profits for shareholders.

As a result, in the late twentieth century, two other types of motivation for CP appear to have gained traction. These are strategic philanthropy and pure market-driven (for-profit) philanthropy.

Recognizing that firms do not operate in a vacuum, strategic philanthropy recommends that firms invest in societal programs that are synergistic with their own mission, goals, and objectives. Described by van Kranenburg & Zoet-Wissink (2012) as a form of “impure altruism”, strategic philanthropic motives are therefore a combination of self-centered and societal motives. An effective strategically-motivated CP program focuses a firm’s charitable support on a cause or issue that provides a direct benefit for society while indirectly benefiting the firm’s core business objectives. The types of intangible asset that strategic philanthropy can generate include reputational capital, employee commitment, and trust or acquiescence.
among regulatory institutions and legislative bodies. Each of these impacts help to create a competitive advantage for the firm and indirectly benefit the bottom line, although this is always a secondary consideration to the advancement of social issues.

Pure market-based motivations for CP directly and positively affect the profitability or shareholder value of a firm. This proposes the use of the advancement of a social issue primarily as a vehicle to directly increase consumption and profits. One example is the linking of fundraising for a charitable cause to the purchase of a firm’s products and services. Under this latter cause-related example, the firm’s “gift” simply amounts to the transfer of money directly collected from consumer purchases.

6.2 Six Categories of Internal Impact or Benefit for Firms

The potential impacts and benefits of CP for participating firms is dependent on their motivations for engaging in CP. Nevertheless, the literature identifies at least six broad categories of benefit. These are:

- Executive and employee recruitment and retention;
- Brand building/loyalty and corporate image;
- New opportunities for innovation;
- Building trust and influence among government and legislative bodies;
- Fiscal impact; and
- Increasing profits and shareholder returns.

These benefits for participating firms are not mutually exclusive and can often overlap.

An effective CP strategy can help a firm retain, motivate, and develop the skill sets of existing executives and employees, as well as attract new people to join their workforce.

It can also help establish or build brand and corporate recognition, generate brand loyalty, offset negative perceptions, and repair damaged consumer relationships.

Philanthropic partnerships with universities, non-profits, and foundations, can grant benefactor businesses access to new ideas and intellectual property rights, technical expertise, invaluable research, and even fertile recruitment pipelines for talented graduates.

An effective CP program can be used by a firm to help build strong relationships with government officials, community leaders, and other key non-consumer stakeholders. That is, it can be used “buy” influence.

Firms can use the available fiscal incentives to deduct the monetary value of their CP from state and federal tax obligations.
Finally, strategic and marketing-motivated CP programs also offer firms the potential to maximize profits and increase shareholder returns. Evidence of this latter benefit is at best inconclusive for at least three reasons:

(a) Most academic studies consist of multiple industries possessing very different social and environmental concerns and degrees of stakeholder interaction.
(b) Corporate financial performance is measured in diverse ways.
(c) The payback period for CP is not immediate. It can take 10-15 years.

Nevertheless, there are several studies and anecdotal examples where a relationship between effective CP and bottom line benefits can be identified. For example, Lev et al.’s (2010) analysis of 251 U.S. firms from 1989 through 2000 estimates that a $500,000 increase in charitable contributions on average could generate an additional $3 million in sales revenues, equating to a $791,500 increase in net income.54

Safeco’s partnership with the nonprofit sector to expand affordable housing and enhance public safety allegedly increased insurance sales by up to 40% in four test markets; and Crate and Barrel’s gift card scheme, encouraging customers to allocate CP between different educational projects, generated a 16% increase in sales for redeemers and a 5% increase in sales for non-redeemers in 2007-08.

6.3 Examples of Societal Impact
CECP (2015) estimates the most popular causes among U.S. companies in 2014 as follows:

- Education (K-12 and Higher) 30%
- Health and Social Services 26%
- Community and Economic Development 15%
- Arts and Culture 5%
- Civic and Public Affairs 5%
- Environment 4%
- Disaster Relief 2%
- Other 13%

Likert & Simaen (2015) suggest that there has been limited research into the social outcomes of CP. Nevertheless, examples of societal impact can be found on a program-by-program bias in several areas.

CP programs such as the ExxonMobil Malaria Initiative and Kellogg’s Breakfasts for Better Days initiative make significant improvements in public health, nutrition, and welfare.

Enhanced educational and employment opportunities are generated by the likes of APS’ STEM initiative or JP Morgan Chase’s New Skills at Work program.

SAP’s Skills for Africa program helps to generate a stronger climate for doing business in an underdeveloped market.

ConocoPhillips’ Water Conservation program is a good example of CP generating impacts for the environment.

CP programs can also effectively address local social issues such as FedEx’s Moment of Silence initiative.

Finally, CP sometimes brings much needed relief to communities hit by national disaster, such as Typhoon Haiyan which hit the Philippines in November 2013.

6.4 Full or Partial Disclosure?
The literature is somewhat inconclusive about the benefits of disclosure.

Proponents of increased transparency for CP claim that a company has nothing to fear if the gifts and donations are being made for legitimate business reasons. However, full disclosure of CP can also attract negative scrutiny, and potentially give away insights harmful to a firm’s competitive advantage.

Charitable foundations established by corporations are already obliged to disclose their gifts and donations to the IRS; and many firms publish glossy CSR brochures on an annual basis. There is a consensus for disclosing corporate policies governing contributions; but more research is required to establish the benefits (or otherwise) of full disclosure.

6.5 Concluding Remarks
Effective CP is a long-term commitment which, if implemented effectively, can result in both corporate and societal benefits.

To minimize objections and maximize impacts, a firm’s CP should ideally be driven by strategic considerations. This is not to dismiss the other motivations for CP. Altruistic motives, in particular, which expect nothing in return for return for a philanthropic gift other than social advancement, are noble and can dominate thinking in smaller enterprises. Likert & Simaens (2015) also call for a detailed empirical study to establish the extent to which CP motivations are altruistic or strategic.

Nevertheless, the alignment of CP with the mission, goals, and objectives of a firm can not only reduce skepticism about motives, increase employee participation, and reduce stakeholder suspicions about ingratiation. It can also enable the firm to make a meaningful and direct social impact, while simultaneously indirectly benefitting its own bottom line in the long run through reputational capital, employee commitment, and trust or acquiescence among regulatory institutions and legislative bodies.
Lev et al. (2011) recommend that directors and top executives should oversee the CP program to ensure a good fit with other business activities and signal a strong commitment to community involvement; and appropriate resources must be identified from the outset to implement the program.

To establish CP as a source of pride, cohesion, and productivity among existing employees, Gautier & Pache (2015) recommend adherence to a clear set of guidelines to stop executives from advocating favorite causes.

There is also widespread support within the literature for continuously evaluating CP, and estimating an overall social return-on-investment. One such framework is already offered by the CECP.

Gautier & Pache (2015) identify at least three issues relating to CP worthy of further study. These are:

- To what extent do tensions within an industry’s employment market encourage firms to engage in CP?
- Is strategic philanthropy more likely than any other strategy to enhance a firm’s economic performance?
- How do corporate contributions affect recipients?

Given the inconclusive nature of the literature, additional insights are also required to establish the nature of the link between CP and corporate financial performance. If a link does exist, is it industry-specific, in terms of sector or size; or is the inconclusive nature of the findings to date simply a reflection of the effectiveness (or ineffectiveness) of the CP programs studied?

Studies of CP within larger organizations currently appear to dominate. However, 90% of the world’s companies are SMEs, employing 1-49, or 50-250 staff. There are unique characteristics associated with SMEs, including closer ties with owners, and increased family participation. The motives, organizational structure, and operating philosophies of SMEs can be very different to larger organizations; and there is a clear need for more detailed analysis of CP within an SME setting.
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