



GIVING THOUGHTS

Using Corporate Philanthropy to Build Long-Term Perspectives

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In February, 2016, The Conference Board released *Is Short-Term Behavior Jeopardizing the Future Prosperity of Business?*, a key business issue report that highlighted constant pressures faced by managers of public companies to meet quarterly guidance and maximize profits, often at the expense of future profitability. This *Giving Thoughts* article looks at the role that corporate philanthropy and community investment can have in shifting a company's focus to long-term value creation.

There's no shortage of evidence to suggest that social and environmental issues are becoming more important to business. Take, for example, The Conference Board's report, *Proxy Voting Analytics: (2010-2014)*, which found that nearly 40 percent of all shareholder proposals submitted at Russell 3000 companies that held meetings during the first half of 2014 were related to social and environmental policy issues, up from 29.2 percent in 2010.¹ Or the U.S. Forum for Sustainable and Responsible Investment's 2014 *Report on US Sustainable, Responsible and Impact Investing Trends in the United States*, which found that as of year-end 2013, more than one out of every six dollars under professional management in the United States—\$6.57 trillion or more—was invested according to a “socially responsible investment” strategy.²

1 Melissa Aguilar and Thomas Singer, “Shareholder Proposals on Social and Environmental Issues,” *Director Notes*, 6, 16, The Conference Board, 2014.

2 “SRI Basics,” The U.S. Forum for Sustainable and Responsible Investment, available at: <http://www.ussif.org/sribasics>.

According to Marc Bertoneche and Cornis van der Lugt, these social and environmental issues are at the heart of “the evolution in understanding of the ultimate purpose of business.”³ In their *Director Notes* article, “The Sustainability Business Case: A Model for Incorporating Financial Value Drivers,” Bertoneche and van der Lugt say: “Business managers, analysts, and scholars have a new understanding of how different aspects of organizational performance create value in a more sustainable and longer-term way. This includes moving away from some outdated accounting concepts and fixation with quarterly earnings to a more forward-looking understanding of what really drives value and creates economic value added.”⁴

Vying for materiality Terms like corporate social responsibility (CSR), sustainability and global citizenship have been coined to label the risks and opportunities that social and environmental issues present to companies. But increasingly, environmental issues have emerged as those CSR issues that are considered most material to the business, largely because the related risks and opportunities are considered more significant. Subsequently, community investment and corporate philanthropy have somewhat fallen behind in terms of materiality.

Evidence for this is largely anecdotal. It is true that a large number of companies participate in corporate giving through cash and in-kind donations,⁵ such as skills-based volunteering or product donations, but the departments that oversee these activities are usually under-resourced and limited in their ability to make the impact they seek. Philanthropy also struggles to get on the agenda of most CEOs and other senior leaders, and companies that do elevate community investment to a higher agenda tend only to be those whose business value is clearly influenced by its community investment strategy, like extractives or health care companies.

This is a problem, because there is a latent value—by definition delivered over the long term—that community investment and philanthropy can deliver to all companies. Two related concepts demonstrate why community investment has important implications to long-term value creation:

- Social impact
- Stakeholder management.

3 Marc Bertoneche and Cornis van der Lugt, “The Sustainability Business Case: A Model for Incorporating Financial Value Drivers,” *Director Notes*, 5, 12, The Conference Board, June 2013.

4 Bertoneche and van der Lugt, “The Sustainability Business Case: A Model for Incorporating Financial Value Drivers.”

5 *Giving in Numbers: 2015 Edition*, CECF in association with The Conference Board, 2015.

Social impact

Companies that invest in the community seek to have a “social impact.” When asked to indicate the motivating factors behind their measurement of corporate social investments, companies that participated in The Conference Board’s 2014 research working group, *Measuring the Impact of Corporate Social Investments*, ranked the desire to deliver social impact as the highest, above other motivations, such as achieving “senior leadership buy-in” and “accountability.”⁶

According to W.K. Kellogg Foundation, social impact refers to “results expected seven to ten years after an activity is underway—the future social change your program is working to create.”⁷ This notion has been disrupted by a demand for some form of shorter-term evidence, or more easily demonstrated impact (perhaps the result of the prevailing tendency for short termism at companies), resulting in the word “impact” being used and understood in different ways.⁸ Nonetheless, it is the long-term changes that the Kellogg Foundation references that are generally understood by the social sector to be the end goal of philanthropic efforts.

Social impact is not a one-way street. Whereas companies often seek to have a positive social impact, while also mitigating negative social impacts, society can impact on the business too. According to The Aspen Institute: “The intersection between traditional business concerns and the social context has important consequences for both the present and future viability of a business’s activity, and also for the society within which that business has, by necessity, to operate. And both sets of consequences matter to business. In other words, there are social impacts of a business, as well as on a business.”⁹

A grounding in these two concepts of social impact—generating social impact and being cognizant of how it will affect the business—helps to nurture a long-term perspective at companies. The Aspen Institute, which calls this “social impact management,” says as way of thinking about business activities, social impact management explicitly considers and evaluates three aspects of a business:¹⁰

- **PURPOSE:** What is the purpose—in both societal and business terms—of a business or business activity?
- **SOCIAL CONTEXT:** Are the legitimate rights and responsibilities of multiple stakeholders considered? Is a proposed strategy evaluated not only in terms of predicted business outcomes, but also in terms of its broader impacts—for example, on quality of life, the wider economy of a region, and security and safety?
- **METRICS:** How is performance and profitability measured? What is being counted and what is not being counted? Are impacts and results measured across both short- and long-term time frames?

6 Cori Cunningham, *Measuring the Impact of Corporate Social Investments*, The Conference Board, 2014.

7 W.K. Kellogg Foundation *Logic Model Development Guide*, updated 2004, W.K. Kellogg Foundation (<http://www.wkcf.org/resource-directory/resource/2006/02/wk-kellogg-foundation-logic-model-development-guide>)

8 *Framing Social Impact Measurement*, The Conference Board, 2014.

9 “Social Impact Management: A Definition,” The Aspen Institute, available at: <http://www.aspeninstitute.org/policy-work/business-society/publications-speeches/publications-archives/social-impact-management-de>.

10 “Social Impact Management: A Definition,” The Aspen Institute.

Applying the lens of social impact management to traditional business topics

The Aspen Institute has developed a list of examples that illustrate the kinds of issues that surface when the lens of social impact management is applied to traditional business topics.

The organization says: “While many questions raised in social impact management are difficult to answer, they are not significantly different by nature from the kinds of judgments and choices business managers make all the time. Business practitioners are familiar, if not comfortable, with decision-making under conditions of incomplete information, asymmetrical information, time pressures, multiple party negotiations, and so on. The reality is that wider society has impacts on business functioning and business has impacts on wider society—whether or not those impacts are actually identified, quantified and incorporated into an organization’s decision-making processes.”

Examples of Social Impact Management Topics by Discipline

DISCIPLINE	SOCIAL IMPACT MANAGEMENT TOPICS
Accounting	<ul style="list-style-type: none"> • Full cost accounting • Differential accounting standards • Integrity and accountability in reporting systems • Potential conflicts of reporting standards in global businesses • Social auditing
Business/ Government Relations	<ul style="list-style-type: none"> • Social impacts of regulation, de-regulation and privatization • Technology transfer and its impact on economic opportunities • Jurisdictional disputes • Negotiating responsibility for “externalities” with host country • Public/private partnerships
Economics	<ul style="list-style-type: none"> • Distribution of wealth within and between countries: business influence/impacts • Family/community impacts of employee time use • Fiscal incentives or disincentives - e.g., tax policy • Causes and impacts of wage and income gap • Social impacts of key economic concepts - e.g. market power, consumer power, market externalities, property rights, etc.
Finance	<ul style="list-style-type: none"> • Impacts of individual and institutional investor incentives • Impacts of capital flows across international borders • Differential access to capital • Examination of the changing nature and role of shareholders • Discussion of social venture capital and social investing

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Examples of Social Impact Management Topics by Discipline

DISCIPLINE	SOCIAL IMPACT MANAGEMENT TOPICS
Information Technology	<ul style="list-style-type: none"> • Digital divide • Social impacts of technology transfer • Confidentiality and information ownership • Workforce impact of IT enhancements
Marketing	<ul style="list-style-type: none"> • Impacts of product development, design, and pricing on consumers • Niche marketing impact on business strategy and target markets • Cultural impacts of advertising messages • Social and cause-related marketing
Operations Management	<ul style="list-style-type: none"> • Impacts of labor standards - risk and safety, child labor, hours, etc. • Accountability and risk management in supplier relationships • Plant siting decisions and stakeholders • Differential safety and labor standards
Organizational Behavior/HR	<ul style="list-style-type: none"> • Employee rights and participation • Work/life balance issues • Workplace equity and diversity issues • Labor relations and union strategies
Strategy	<ul style="list-style-type: none"> • Corporate reputation/image • Executive compensation strategies • Competitive analysis of employee ownership models • Operating in economically disadvantaged areas and emerging markets • Standards for "fair" competition in a global context • Downsizing, plant closings and re-engineering strategies • Trends and critiques of corporate governance

Source: "Social Impact Management: A Definition," The Aspen Institute, available at: <http://www.aspeninstitute.org/policy-work/business-society/publications-speeches/publications-archives/social-impact-management-de>.

Corporate philanthropy: An avenue to social impact management

A sophisticated philanthropy program can help companies to expand their thinking to incorporate social impact management and therefore create long-term value. Philanthropic strategies differ, depending on the company and the resources dedicated to it. But, among other things, corporate philanthropy programs often comprise the following:¹¹

- Invests in the community, with a view to adding capacity to a certain field or building that field from the ground up, a view that requires long-term commitment.
- Aligns grants with the business strategy, utilizing a range of cash and noncash resources to support organizations or issues that generate social impact in an area that provides value to the business as well as society, typically over the long term.
- Develops a signature program to focus corporate resources and extend impact over the long term.
- Nurtures strong relationships with grantee organizations, community leaders, and other stakeholders.¹²
- Conducts rigorous impact measurement that attempts to understand the long-term effects of funding on the societal changes the grant seeks to bring. The program might collect interim evaluation metrics to help refine efforts along the way as it seeks longer-term impact.

The final point on impact measurement introduces an additional element of social impact that underscores the ability of a philanthropy program to institute a long-term perspective at a company. Due to the intangibility of social impact, it is incredibly difficult to measure and to do it successfully requires an organization-wide commitment to the practice.¹³ This commitment transcends the funder and grantee, creating a unified approach between the two sectors to making grants work for the right purpose in the long term (see below about stakeholder relationships and long-term perspectives).

Education: A case in point In recent years, education (K-12 and higher) has emerged as a primary funding area for many companies engaged in philanthropic activities.¹⁴ Education is a case in point for the type of long-term perspective that philanthropic activities can institutionalize at companies. It is an area that is in desperate need of funding: the Committee for Economic Development of The Conference Board (CED), for example, outlines some of the facts that demonstrate a broken college system in the United States.¹⁵

11 Points listed are based on *Corporate Philanthropy: The Age of Integration*, The Center on Philanthropy at Indiana University, 2007.

12 Kathleen P. Enright and Courtney Bourns, "The Case for Stakeholder Engagement," *Stanford Social Innovation Review*, Spring, 2010.

13 James Magowan, "Impact Measurement: Fad or Fact of Life?" *Giving Thoughts* blog, The Conference Board, available at: <http://tcbblogs.org/philanthropy/2015/03/12/impact-measurement-fad-or-fact-of-life/#sthash.gbdDVTr.dpbs>.

14 Stroik, *Giving in Number: 2014 Edition*.

15 Monica Herk, "Fixing Our Broken Colleges: Competency-Based Education and Reauthorizing the Higher Education Act," *In the Nation's Interest*, The Committee for Economic Development of The Conference Board, available at: <https://www.ced.org/blog/entry/fixing-our-broken-colleges-competency-based-education-and-reauthorizing-the>.

These include:

- 17 percent of employers say that recent college graduates they hire do not have adequate skills and require further training. The figures are even worse for high school graduates.
- Even during the height of the recession with 15 million unemployed, the so-called “skills gap” meant that 2.1 million positions went unfilled because employers couldn’t find applicants with the skills to fill them.
- Increasingly a two- or four-year degree is a prerequisite for many jobs, including jobs that previously did not require postsecondary credentials. For example, 65 percent of job postings for executive secretaries and executive assistants now call for a bachelor’s degree, but only 19 percent of current executive secretaries and assistants hold a bachelor’s degree. Some analysts project that almost two thirds of jobs will require a post-secondary credential by 2020.
- Meanwhile, just when a postsecondary credential has become a near-requirement for entry into the middle class or higher, the cost of that credential has been skyrocketing. Since 1978, college tuition and fees have increased 3.5 times faster than overall inflation, and almost twice as fast as increases in health care costs.

CED also points out that these trends are occurring in the midst of rising income inequality in the US and are likely contributing to that inequality, at least for the bottom-middle of the income distribution.

Importantly, CED’s facts highlight a shortcoming for businesses: these students are the employees of the future and if they are ill-equipped to enter the workforce due to a failed education system, the companies that employ them will suffer. So, it makes sense for companies to start embracing education as a key funding issue for their corporate philanthropy work, in order to ready their organizations for success in years to come when these children graduate college and enter the workforce.

The most obvious failings might emerge at the college graduation level, but preparing students for college graduation and the workforce is a decades-long commitment that requires funding at all levels. There are no immediate dividends for investments in education, particularly at the early childhood or K-12 level, but they will pay off over the long term with a more robust talent pool and generally more knowledgeable workforce.

It is these long-term societal needs that employees in companies’ philanthropic arms are more cognizant of and more in tune with than others in business who are focused on delivering short-term financial gains. The importance of infusing that insight and long-term perspective throughout an organization cannot be overestimated.

Stakeholder management

It's been acknowledged that many of the factors driving the focus on short-term value creation in the corporate world are related to perspective—in particular the failure of corporate leaders and shareholders to see beyond quarterly success metrics. To build value over the long term, corporate leaders need to have an educated long-term perspective that considers the role of their company more broadly in society.

As mentioned, philanthropy executives can help to infuse this perspective through their grounding in the complex challenges facing society and by extension facing the business world. But there is also a range of other stakeholders that corporate philanthropy can help executives engage with in order to build a more comprehensive understanding of business value over the long term.

In their report, *Drivers of Long-Term Business Value: Stakeholders, Stats, and Strategy*, Eric Hespenheide and Dinah Koehler say a broader range of stakeholders are raising the bar on business performance. They write: "How stakeholders view a company, what they expect of the company, and how they understand the company's impact on society and the environment matters to business value."¹⁶ In particular, it matters to long-term value. Hespenheide and Koehler call this "enlightened value maximization, which seeks greater alignment between various stakeholders to generate long-term business value."

Corporate philanthropy: An avenue to stakeholder management

Successful grantmaking initiatives are built on a foundation of collaboration. In an article for the *Stanford Social Innovation Review*, Kathleen Enright and Courtney Bourns say "grantmakers must work closely with their grantees, community leaders and other important stakeholders" to keep their grants from failing.¹⁷ Enright and Bourns add: "This engagement helps everyone involved gain a deeper understanding of the problems they are tackling, create new and better solutions, and build more effective organizations." Not all grantmakers build this collaborative approach effectively, but it is a hallmark of successful corporate philanthropy programs.

In "The Age of Responsibility: CSR 2.0 and the New DNA of Business," Wayne Visser considers the evolution of CSR, suggesting that a "CSR 2.0"—effectively a more successful phase of CSR—comprises the following traits:¹⁸

- Defined by "global commons," "innovative partnerships" and "stakeholder involvement."
- Involve mechanisms including "diverse stakeholder panels," real-time transparent reporting and new wave social entrepreneurship
- A shift in power from centralized to decentralized; a change in scale from few and big to many and small; and a change in application from single and exclusive to multiple and shared.

16 Eric Hespenheide and Dinah Koehler, *Drivers of Long-Term Business Value: Stakeholders, Stats, and Strategy*, Deloitte University Press, July 2013.

17 Enright and Bourns, "The Case for Stakeholder Engagement."

18 Wayne Visser, "The Age of Responsibility: CSR 2.0 and the New DNA of Business," *Journal of Business Systems, Governance and Ethics*, vol 5, 3, 2010.

A theme that emerges from these traits is the focus on collaboration and the need to engage stakeholders. That idea is expanded on by The Center on Philanthropy at Indiana University, which presents two notions of stakeholder engagement through corporate philanthropy:¹⁹

- **A “tri-ologue” engaging consumers, nonprofits, and companies** Corporate giving staff are using company-sponsored research about what consumers expect to design giving programs that build partnerships with non-profits that can fulfill or address consumer expectations and reflect the corporate values.
- **A local-distant approach to grantmaking** Companies are strengthening connections with local communities that are “close” to the company, such as employees, customers, suppliers, and local communities, while also building larger, more visible “signature” partnerships to build reputation among stakeholders that are more “distant” from the company, such as regulators and policy makers, the general public and the media.

It is clear from each of these examples that relationship building with stakeholders is critical to having a successful philanthropic program. Similar to the social impact management approach outlined above, it is the corporate philanthropy department or foundation at a company that is often on the frontlines of these partnerships and which—working with the right internal stakeholders—can infuse the philosophy throughout a company.

Nonprofit board service At the same time, the philanthropy team isn’t the only avenue through which to cultivate relationships between the corporate and nonprofit sector. An increasingly common practice in the nonprofit governance world is to have corporate executives serve as board members.

Alice Korngold suggests that effective nonprofit board placements for corporate executives can, among other things, help companies—through collaboration with government and civic leaders—be key players in developing the economies and health and welfare of the communities where a company has an interest; ensure the vitality and sustainability of the communities where customers and employees live and work; and provide opportunities for executives to meet colleagues from diverse backgrounds who work at other corporations, as well as academia, nonprofits, government, etc.²⁰ All these experiences open executives to a broader range of stakeholders that typically view society and the business world with a long-term perspectives.

¹⁹ *Corporate Philanthropy: The Age of Integration*.

²⁰ Alice Korngold, “Philanthropy: Is Your Company Squandering a CSR Opportunity?” *Fast Company*, available at: <http://www.fastcompany.com/1721592/philanthropy-your-company-squandering-csr-opportunity>.

Conclusions

Whereas environmental issues are increasingly capturing the attention of the corporate C-suite and subsequently often dominate discussions regarding the value of “corporate social responsibility,” corporate philanthropy or community investment makes a compelling case for why it can help a company generate long-term value.

Two related concepts in the field demonstrate this positive effect: social impact and stakeholder management. The theory behind social impact generation suggests that companies only begin to make a real impact on communities in the seven- to ten-year timeframe. As executives responsible for corporate philanthropy seek to become more efficient with the resources they dedicate towards social impact, understanding this longer-term outlook can help to ensure success. If social impact is incorporated into business strategy or business decisions, there is a natural shift towards longer-term timeframes.

“Enlightened value maximization” is a concept that seeks greater alignment between various stakeholders to generate long-term business value. It suggests that there are additional stakeholders who are not merely concerned by the creation of shareholder value, but rather the long-term success of a company and the communities in which it operates. Corporate philanthropy presents an avenue through which to engage with these stakeholders, because successful grantmaking initiatives are built on a foundation of collaboration.



ABOUT GIVING THOUGHTS

Giving Thoughts is a public forum in which The Conference Board engages experts from the disciplines of corporate philanthropy, impact investment, and social innovation in an open dialogue about issues of concern to member companies. Subscribe for free to the *Giving Thoughts* blog and series at www.conference-board.org/givingthoughts.

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