The Next Wave of Corporate Community Involvement:

Corporate Social Initiatives

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Within hours of the terrorist attack on New York and Washington, major corporations were donating money and services to help the victims. The services were directly connected to immediate needs: metal cutters and spreaders to aid the search for survivors, work boots, coffee, energy bars, and even aspirin. The sums donated were substantial—General Electric, Microsoft, Pfizer, and Daimler Chrysler each pledged $10 million while AOL Time Warner, Cisco, duPont, and Merck pledged at least $5 million.[1]

While the social initiatives, significant though they were, seemed appropriate and natural, they should not be viewed in isolation. Instead, they are part of a broader movement toward more community involvement, a phenomenon explored in this article.

Increasingly, many leading U.S. and global firms are devoting significant time and resources in support of community involvement projects. These projects encompass a variety of forms and points of focus, ranging from corporate support for training and educating adults and youth in local communities, to nationwide programs helping welfare recipients get jobs, to globally focused efforts providing aid to developing countries.

Many of these new corporate social initiatives are taking on aspects more commonly associated with corporate strategy than community relations; they are grounded in the core competencies of the firm and related to the firm's long-term strategy. Moreover, many firms are becoming key providers of aid to civil society. For example, United Parcel Service (UPS) has used its existing resources to become an important actor in the delivery of humanitarian aid on an as-needed basis. In 1999, this aid included assisting the Red Cross in providing food to Kosovo refugee camps in Albania and Macedonia. UPS collected food donated throughout France, stored and packaged the goods at a UPS distribution center, and then airlifted them (estimated at 500 tons of food parcels) to the areas in need.[2] UPS consistently steps forward to assist in a variety of similar situations, such as delivering thousands of pounds of food and water to the hurricane-stricken Dominican Republic or bringing supplies to victims of tornadoes in Kentucky.

Other examples include the transfer of knowledge and direct support for education. Intel employees provide science education to elementary and high school students in the Philippines and other developing countries. Combined with Intel-donated computers, the provision of tutors enables these children to understand and appreciate technology. These experiences allow the students to attain jobs and higher education that would not otherwise be possible.[3] Similarly, IBM's *Reinventing Education* and *Wired for Learning* programs use company technology and the time of its researchers to help public schools develop solutions to problems ranging from assessing student progress consistently to improving communication among teachers, students, and parents.[4]

The innovative programs of Intel and IBM have clear antecedents. Over the past half century, corporate community outreach has evolved into more complex forms with ever-broadening impact. Initially, the most common form of corporate philanthropy was relatively passive, after-profit direct cash donations. Over time, philanthropy became more directly related to firm strategy and marketing. In the 1980s, corporations developed and refined the notion of "strategic philanthropy." Based on the idea that "competing on price and corporate citizenship is smarter than competing on price alone," firms developed giving plans that were linked to the firm's overall strategy.[5] For example, book and newspaper publishers began promoting causes to increase literacy. To improve its image as an innovator and to attract upscale customers, AT&T developed a giving program in support of creative new artists.[6] With American Express's plan to support the restoration of the Statute of Liberty (donating one cent to the cause every time someone used their credit card), "cause-related marketing" was born and is used today by many companies to associate their image with popular social endeavors.[7]

Today, corporate philanthropy has evolved into a new form with the business-like description of "corporate community involvement." A recent Ford Foundation Report describes corporate investment in community development as a new paradigm likely to "result in a healthier economy and positive business outcomes."[8] Rosabeth Moss Kanter has identified numerous companies in the vanguard of this new paradigm. Such firms "view community needs as opportunities to develop ideas and demonstrate business technologies, to find and serve new markets, and to solve long-standing business problems."[9] Structured volunteer programs for corporate employees are a widespread example of this new phenomenon demonstrating the mutually beneficial nature of such programs. While the community benefits from the donation of the employee's time and talent, the company benefits from more loyal employees, aid in recruiting, and the teaching of teamwork skills to employees.[10]

This article focuses on corporate community involvement that entails a significant use of firm resources related to the organization's core competencies. We term these programs "corporate social initiatives" (CSI). Several characteristics of existing corporate social initiatives are starting to emerge that, in combination, distinguish them from their predecessors. First, CSI programs are connected to the core values of the firm. By their nature, they also reflect corporate recognition of specific community problems or needs as expressed by relevant stakeholder groups. McDonald's has expressed a commitment to developing entry-level employees, which reflects the needs of communities in which it operates. The training and support programs McDonald's uses have resulted in over half of their executives and a third of their franchisees being alumni of entry-level jobs in their fast food outlets.[11] Insurance provider State Farm has an alliance with a nonprofit organization in Chicago that sponsors inspections of homes in low-income neighborhoods for potential safety hazards and provides funding for necessary repairs.[12] Second, CSI programs are linked with the core competencies of the firm. In the UPS example, the company is utilizing its physical resources (e.g., airplanes, delivery trucks, warehouses), human capital (e.g., experienced and knowledgeable managers, drivers), and organizational capital (e.g., the ability to track packages and efficiently route them to their destination) to collect and deliver necessary supplies to those in need.[13] Programs such as these are actively initiated and guided by top management who incorporate them into strategic planning.[14] This distinguishes them from programs delegated to community relations personnel not necessarily knowledgeable about the core businesses of the corporation.

Third, CSI programs are systematically evaluated, assessed, and communicated to stakeholders. Firms such as Shell provide information on their social activities in reports that are audited by major accounting firms, in Shell's case jointly by KPMG and PricewaterhouseCoopers. In its report for calendar year 2000, Shell described its involvement in such projects as helping Mexican villages use renewable energy to reduce dependence on firewood as well as for running road safety education programs in Asia that are designed to help children and the general public avoid road accidents.[15]

Drivers of the New Forms of Corporate Social Initiatives

What can explain the shift in corporate philanthropic activities and the emergence of this new phenomenon of corporate social involvement?[16] We identify three broadly-defined categories of drivers behind CSI programs:

- The Competitive Advantage Factor
- The New Moral Marketplace Factor
- The Comparative Advantage Factor

The Competitive Advantage Factor

Trade liberalization and the rapid growth of Internet technology have made traditional sources of competitive advantage (such as financial capital, technology, and location) more accessible and, therefore, less significant as a source of competitive advantage. In response, senior management is searching for new, hard-to-imitate, less-tangible sources of competitive advantage. These "soft sources" may include the benefits achieved through the successful implementation of corporate social initiatives. Better corporate image and reputation are arguably the most important of these benefits.

Building Reputation Assets

Corporate social initiatives provide a greater benefit to corporate reputation assets than traditional corporate philanthropy. While widespread, the appropriateness of corporations' philanthropic contributions remains controversial.[17] Contributions clearly provide benefits to the recipient, but shareholders and others often worry that such grants are tainted by conflicts of interest (e.g., large grants of corporate money to pet charities of the chief executive officer) or are simply motivated by tax considerations. These concerns have led to legislative bills and shareholder proposals to expand the disclosure of corporate giving practices or even the complete cessation of the practice.[18] The donation of corporate time and talent, on the other hand, is less subject to these concerns. Stakeholders are less likely to view such contributions as self-serving.[19] In addition, the argument by shareholders that they can give their money to a charity if they choose (and not have the firm make a donation for them) may not apply. Social programs based on a firm's core competencies means that it may be one of only a few firms (or perhaps the only firm) capable of providing such aid. This mitigates conflicts of interest problems.

Long-lasting community involvement programs are more likely to improve the image of the corporation than after-profit cash contributions. This is a reflection of the basic sentiment that people need help solving their problems, not just money.[20] In a survey of 1000 Americans asking which philanthropic activity is "most impressive," 43 percent of respondents said "donating products and services," 37 percent said "volunteering employees to help," and only 12 percent said "giving a large sum of money."[21] Activities that demonstrate a real commitment to the community affect the perceptions of not only a firm's customers, but also such stakeholders as employees, suppliers, the community, and opinion leaders.[22] A strong reputation with these stakeholders is necessary for the long-term success of the firm.

In times of crisis, reputation assets that have been carefully built up over time may pay large dividends. A dramatic example of this is the case of McDonald's during the 1992 South Central Los Angeles riots. The company's efforts in developing community relations through its Ronald McDonald's houses and its involvement in developing employee opportunities gave the company such a strong reputation, McDonald's executives stated, that rioters refused to harm their outlets. While vandalism caused tremendous damages to businesses in the area, all sixty of McDonald's franchises were spared harm.[23]

International Expansion

Reputation is also an important source of competitive advantage when a firm chooses to operate in a foreign environment. As firms enter new, unfamiliar markets, community involvement programs in those countries can help the expansion succeed. These programs can develop reputation assets in the new market, strengthen marketing and branding initiatives, improve relations with local governments, and assist in the understanding of local cultural norms of appropriate behavior.[24] For example, AT&T has established a presence in several Latin American countries by using its communications technology to assist in linking rural hospitals to national medical centers. Such involvement is extremely valuable for establishing relationships with important customers and business partners in the new markets, as well as developing a favorable reputation.[25] Immediately after the end of World War II, Merck brought antibiotics to Japan to treat tuberculosis. This initial act developed a tremendous amount of goodwill for Merck and helps explain their subsequent success in the Japanese market.[26]

In some cases, community involvement is not an option but a requirement to operate effectively in the international market. In the petroleum industry, oil and gas companies with operations in Asia, Latin America, and Africa are facing demands from the local community to provide education and health care.[27] These communities want a share of the benefits that the firm receives from operating there. By establishing such programs early on and working with the demands of the community, firms find less resistance to their operations not only from the local community, but from environmental and human rights special interest groups as well. Importantly, these programs are not "give-aways" but rather involve training and working with community members to allow them to plan for meeting their own needs in the future.[28]

The New Moral Marketplace Factor

A firm's performance depends on its capacity to anticipate and adjust not only to competition and rapid technological transformation, but also to changes in the attitudes of consumers, employees, governments, investors, and other stakeholders. Moral desires expressed by stakeholders are embodied in capital, consumer, and labor markets. Marketplace participants make trade-offs between their moral desires and desires for lower-priced goods, better investment returns, and so on. The aggregate product of participants' moral desires in their choices as consumers, investors, and employees represents "morality in markets" and has the potential to affect the outcome of the commercial marketplace.[29] Examples of marketplace morality include investors choosing socially screened investment funds, consumers boycotting Shell Oil because of its decision to sink the Brent Spar oil rig, and employees' desires to work for socially responsible firms.

Based on a social contracts analysis, Thomas Dunfee has argued that the existence of morality within markets creates certain obligations for corporate management.[30] While managers have a basic duty to undertake actions to maximize shareholder value, they also have an obligation to respond to and anticipate existing and changing marketplace morality relevant to the firm. A failure to do so may have a significant negative impact on shareholder wealth. Furthermore, a clear signal from the relevant stakeholder groups will justify corporate involvement even if a direct link to shareholder wealth cannot be shown.[31]

There appears to be significant public support and high expectations for CSI programs. The recent "Millennium Poll" of over 25,000 persons in 23 countries conducted by Environics International Ltd. showed that in almost all countries, and strongly in the United States and Great Britain, the public believes corporations should go beyond simply making a profit and creating jobs and should "help build a better society for all."[32] Moral pressures in the market place may be enhanced through credible reporting of social activities by firms and may be directly influenced by peer pressure.

Social Reporting

The influence of morality in markets is enhanced through disclosure and dissemination of information. Increasingly, pressure is building on firms to provide information on the social impact of all of their activities—regardless of whether or not the firm is undertaking significant community involvement programs. This pressure results from the recent revival of the social reporting movement.

In both the United States and Europe, corporate social auditing, accounting, and reporting (SAAR) is gaining increasing attention. SAAR is a means of measuring a firm's social performance, communicating its performance to stakeholders, and taking into account feedback from stakeholders. Two major attempts to improve the quality and quantity of social reports are the Global Reporting Initiative (GRI)[33] and the Institute of Social and Ethical AccountAbility (ISEA).[34] The GRI is a major collaborative effort of large accounting firms, non-governmental organizations, corporations, and universities, which seeks to establish a common framework for corporate social reporting worldwide. The ISEA, through initiatives such as AccountAbility 1000, is not only developing reporting standards, but also auditing standards and an accreditation path for accountants and auditors in SAAR.[35]

As more firms comply with social reporting standards, stakeholders will gain a better understanding of the community involvement programs undertaken by firms and their competitors. By including within such reports audited accounts of a firm's community involvement programs, stating the costs and benefits (as best as they can be measured), the firm can make considerable strides toward establishing a credible reputation and furthering its competitive advantage.

Peer Pressure

In 1999, Pfizer and SmithKline Beecham donated drugs to alleviate medical conditions existing primarily in the developing world. Pfizer donated $60 million worth of an oral antibiotic to help eliminate trachoma, the world's leading cause of preventable blindness. In an effort to help eliminate the disease lymphatic filariasis, more commonly known as elephantiasis, SmithKline Beecham donated the drug albendazole. While these programs provided a significant boost to Pfizer's and SmithKline Beecham's reputations, they also may be viewed as a competitive response to each other.

In developing reputation assets through CSI programs, as with most aspects of business, a firm must keep pace with the actions of its peers. In a highly publicized action, Merck developed Mectizan, a drug responsive to a disease known as "river blindness" that was widespread in certain impoverished regions of Africa. Because those afflicted by the disease were unable to pay for the drug, Merck decided to donate the drug and even assisted in its distribution. These decisions established a benchmark for Merck's competitors. The leadership of Merck placed pressure on Pfizer and SmithKline Beecham to act likewise when faced with a similar situation. We expect peer pressure to become an important driving force for social initiatives in many industries and geographic locations.

The Comparative Advantage of Private Firms

A final factor putting pressure on firms to enact corporate social initiatives is the potential comparative advantage of business over governments or non-profits to provide assistance in solving certain social problems. This advantage is most readily seen in the developing world,[36] but it also exists in developed nations. Comparing the public sector (including NGOs and nonprofit corporations) and the private sector under a resource-based perspective provides the explanation of this comparative advantage. Through intense marketplace competition, firms have developed unique competencies that provide them not only a competitive advantage over other firms in the marketplace, but also a comparative advantage over governments in being able to respond to certain problems.[37] In general, businesses are adept problem solvers with knowledge bases and stocks of resources that may far exceed those of governments or non-profits in addressing a particular problem. The UPS example is instructive. UPS has the warehouses, transportation vehicles, and other capital assets necessary for a relief operation. Further, they have experience in dealing with corrupt environments. British Petroleum had cost and technical advantages over local governments when they provided solar-powered refrigerators to store anti-malaria vaccines in Zambia. Firms can play critical complementary roles to government and NGOs when they exercise a core competency in responding to a social need.[38]

Precautionary Factors

Management implementation of CSIs should always be sensitive to potential criticisms. Some shareholders may object on the grounds that the programs are a cost that they do not wish to bear out of potential dividends and earnings. Others, however, will recognize the value CSI programs provide the company when properly aligned with corporate strategy. In addition, as social investment funds develop more sophisticated, positive screens—that is, screening companies based on a demonstrated record of social responsibility—shareholders will recognize the value in getting the company's stock included in those funds.

Some stakeholders may object to the choice of the social cause and even object that it is inappropriate, or even illegitimate, for corporations to engage in such actions. Although a few vocal critics may object on these grounds, there appears to be wide acceptance of corporate actions in this area. It is hard to imagine today serious calls that McDonald's abandon the Ronald McDonald houses, or that (then) Bell Atlantic acted inappropriately in their *Project Explorer* which supported a technical school for inner city youth in Union City, New Jersey.[39] In response to those who take the position that it is illegitimate for business to engage in these types of endeavors, Jeanne Logsdon and Donna Wood counter that the legitimacy of business will be questioned if it fails to act as a global citizen. They argue that "corporate social responsibility and citizenship of both types—individual and business—exist to guard against the undesirable consequences of power imbalances in social structures." They extend their analysis to argue that "business citizenship is a necessity for the survival and health of the business institution" noting that it "represents a pathway to the public good."[40]

The implementation of CSIs may require difficult judgments. For example, it may be very difficult to judge accurately consumer desires and their likely impact in the marketplace. Firms expecting immediate market returns from CSIs should be careful in their assessment of consumer preferences and in their assumptions about market impact. Star-Kist conducted internal market surveys that indicated that about one-half of their customer base would pay more for dolphin-safe tuna. The other half were presumably indifferent to the fate of dolphins and wanted the cheapest tuna they could buy. Even so, partly in response to consumer boycotts, they adopted a costly policy of dolphin-safe tuna that was immediately matched by Van Camp and Bumble Bee. In the long term, they did not gain any market share.[41]

Designing Corporate Social Initiatives

As relatively new phenomena, CSIs are going through an experimental phase in which the learning curve is steep. As firms gain more experience, they will identify and employ more efficient strategies. It is probable that strategies will often be unique to particular firms. In the interim, there are certain core factors likely to be critical to success.

Connection to the Firm's Core Values

The success of a corporate social initiative may be critically dependent on whether the program is based on the corporation's values, which in turn reflect the values and beliefs of the firm's managers and other employees. Mission statements and credos form the basis of the firm's core values and culture. These statements guide firm management in times of crisis. For example, in the early 1980s, when several people died from taking Tylenol that had been tampered with, Johnson & Johnson was faced with the difficult decision of whether or not to recall bottles of Tylenol across the nation—a very expensive proposition. Johnson & Johnson's Credo contained a clear statement of responsibility to those who used their products, which made it clear to CEO James Burke that he should recall Tylenol. Such statements form an organization's culture and make difficult ethical decisions easier and more consistent at all levels of the firm. Likewise, established values guide firms in using their resources effectively in a Corporate Social Initiative. Furthermore, active involvement in such programs may help companies bridge the "rhetoric-reality gap" that often occurs when a company's mission statement is disconnected from the day-to-day activities of the firm.[42] Linking such initiatives with firm values also demonstrates long-term commitment to the initiative, which improves credibility with firm stakeholders.

AT&T's contributions to Planned Parenthood represent an example of a firm encountering difficulty because its actions were not clearly connected to the firm's core values. AT&T was a long-time donor to Planned Parenthood until 1990 when groups opposed to Planned Parenthood's position on abortion placed pressure on the company to stop its support. Presumably, AT&T yielded to pressure in part because they did not have a clearly articulated position concerning why they were supporting Planned Parenthood. AT&T's concession to pro-life pressure led to counter pressure from pro-choice groups. By appearing to be responding to whatever pressure was exerted, AT&T was criticized for making everyone angry.[43]

A CSI Program should have top management actively involved in its formulation, implementation, and evaluation. Although the operational management of CSI programs can still be carried out by the community relations unit of the firm, top management should make strategic decisions related to such programs. The support of the CEO and top management is imperative. It shows commitment and expresses the firm's values to both the members of the organization and to its stakeholders.

Response to Moral Pressures

Increasingly, managers must be in tune with marketplace expectations of social responsibility or risk losing value-increasing opportunities at a minimum, and severe damage to their reputation at the worst. Certain demands may be expected of most firms, such as employee volunteer programs, but others may be more specific to the industry, community, or even individual firms. Appropriately reading market demands is the challenge for management. In 1999, Monsanto initiated a program to teach Thai farmers new technologies, such as the use of herbicides, conservation tillage, and "improved quality" seeds.[44] To many, this social initiative appeared to match the competencies of Monsanto with the demands of Thai farmers for better rice farming techniques. However, local Thai interest groups who questioned Monsanto's motives quickly challenged this initiative. Challengers feared that Monsanto was developing the program only to get Thai farmers to become dependent on Monsanto products and to improve a reputation that was damaged by the ongoing genetically modified seeds controversy. Thus, Monsanto's failure to accurately read the market led to a social initiative that may have actually harmed the firm's reputation.

In England, animal rights groups sent drug testing company Huntingdon Life Sciences into a financial crisis by not only directly pressuring the company, but also by exerting secondary pressures on Huntingdon's lenders, securities firms, and those who made a market in Huntingdon's stock.[45] While clearly not the only company conducting animal testing, Huntingdon has been singled out by animal rights activists. Had Huntingdon perceived the significance of moral pressures concerning testing products on animals and in response sought to develop better community relations and communicated more effectively concerning their work and values, they may have found more allies when confronted by a group whose stated mission was to shut them down. In contrast, McDonald's—a common target of activists of all shapes, including animal rights interest groups—has been able to weather such controversies. Again relying on a "reservoir of goodwill"[46] developed from its significant community practices, McDonald's was able to withstand an attack on the treatment of animals used in its food products while it formulated its position on the matter, apparently taking into account moral pressures in the process, and McDonald's eventually emerged as an industry leader on animal welfare.[47]

Through corporate social initiatives, firms can take a proactive role in shaping their reputations and demonstrate commitment to their espoused values. To do so requires that the firm look to the expectations of the consumer, labor, and capital markets, and most importantly, of the entire local community. Being responsive to these expectations is key to the success of any corporate social initiative. Obvious budgetary constraints dictate the necessity to invest only in programs that are most beneficial to the community and the firm. When making a choice among various types of community programs, it is advisable that the firm gets direct input from community leaders and other stakeholders. Such an approach would take into account both community concerns and the firm's business objectives and values. At Home Depot, for example, the community affairs department spends half of its operating budget developing its community involvement strategy, which includes identifying important community organizations and non-profits in the new markets it enters and conducting research with national groups such as the United Way.[48] This significant investment of resources allows the company to find the best opportunities to meet local community needs and recognize emerging trends while also maintaining a unified theme to its CSI programs.

Connection to the Core Competencies of the Firm

One of the most important features of corporate social initiatives is reflected in the link between these programs and the core competencies and key resources of the firm. Management's strategic objective should be to link firm capabilities with the opportunities presented in the external environment.[49] For CSIs, management should scan the external environment to determine where its resources can provide the greatest benefit to the community. As stated above, in its analysis of the environment, the firm should also consider the opinion of community and other stakeholders on what kind of programs are of the most value for the potential program recipients.

The programs firms have implemented based on their competencies are extremely diverse and broad in scope. For example, Home Depot—a home improvement retailer—has structured volunteer programs that capitalize on their employees' knowledge of construction skills and firm resources to focus on affordable living and at-risk youth initiatives.[50] Over one-third of Home Depot's employees are involved in a program called *YouthBuild* which teaches construction skills to youth who have dropped out of school. In the process, this program rehabilitates houses for low-income families and builds playgrounds across the U.S.

The donations of drugs by companies such as Merck, Pfizer, and SmithKline Beecham to alleviate medical conditions that exist primarily in the developing world are key examples of firms using their resources to work for the community. Due to their drug patent ownerships, these were the only firms capable of providing this type of assistance. While these companies were not developing the drugs specifically with the diseases of the developing world in mind, after the potential benefits of these drugs became known, they acted responsibly in assisting in the distribution to the communities in need.

A dramatic example involves Coca-Cola's recent commitment to the global fight against AIDS. Coca-Cola, the largest employer in Africa, plans to use its core competencies in advertising and distribution to assist with awareness and medical campaigns against the plague of AIDS. In Nigeria, Coca-Cola plans to use its trucks to deliver AIDS testing kits to hospitals. In Kenya, Coca-Cola will make 30 billboards available for an awareness campaign their marketing specialists helped to develop. It is even speculated that Coca-Cola trucks will deliver condoms to areas where they are needed.[51]

Marriott International combines its social program aimed at developing skills of less-fortunate community members with its innovative human resources practices.[52] This internationally recognized hotel chain introduced

Pathways to Independence, a training and orientation program aimed at welfare recipients. This labor market group is of critical importance for hotel chains, where a significant number of employment needs require very basic skills and do not pay well. Turnover is one of the major problems in this business. Marriott introduced a very sensitive program that hones the job skills, life skills, and work habits of welfare recipients, and the company guarantees participants a job offer when they complete the program. In addition to creating new jobs in the community, this program has brought tangible benefits to the company: after one year, approximately 70 per cent of the program's graduates continued to be employed by Marriott, while only 45 per cent of similar hires not in the program were still with the firm.[53] Moreover, this program helped Marriott to better understand the values and needs of its employees and make its human resources management policies and practices more efficient.

Bell Atlantic has combined their research and development with their social initiative *Project Explorer*. To try out new technological know-how, Bell Atlantic provided inner city schools with equipment and software for free in return for a testing site. This project helped Bell Atlantic to create one of the first-ever models for using computer networks in schools.[54] This case shows that corporate social and business needs can coincide. It was clearly a mainstream business project that was funded out of operating and technology-development budgets. As an outcome of this project, Bell Atlantic created a valuable revenue stream selling network services to educational organizations.

Companies such as Alcoa, a leading aluminum manufacturer, are transferring their workplace knowledge to the community. In furtherance of the company value to "work safely in a manner that promotes the health and well-being of the individual and the environment," Alcoa's *A Way of Life* program transfers its commitment to employee safety to the employee's homes and communities. Throughout the world, Alcoa assists communities in obtaining necessary emergency relief equipment and provides training on a variety of safety issues.[55]

Setting Clear Objectives and Means of Measurement

A significant lesson from the shift towards strategic philanthropy is the need to establish objectives for community involvement projects and standards for measuring their success. The revival of the social auditing, accounting, and reporting movement is also pushing firms to measure and disclose all aspects of their social performance. Social audits provide accountability to stakeholders, but more importantly assist firms in evaluating and understanding their own performance and the impact of their programs.

This is an area where firms must now place more emphasis. Corporate social initiatives cannot be successfully implemented without a full understanding of the costs and benefits of the program. Just as any effective corporate strategy requires clear goals, an effective use of key resources, and successful implementation, so must a corporate social initiative. In either situation, the basic goal is to create long-term value, which can only be achieved if management has a clear record of where its resources have been invested and what return the firm has achieved on those resources. To accomplish this, management will have to develop new definitions and indicators of successful social initiatives.

Currently, many corporations are attempting to measure the effectiveness of their contributions programs, but few are satisfied with the results.[56] This reflects the significant challenges in measuring the social impact of CSI programs. Organizations such as Walker Information, the Council on Foundations,[57] and the London Benchmarking Group[58] are working to develop indicators that will provide management with information on the benefits to business (such as strengthened relationships with stakeholders) as well as the benefits to the community (such as jobs created and the overall positive economic impact). With this information, business can provide the most value to the community.

Conclusion

The practice of corporate philanthropy has evolved significantly over the past several decades to a point where it is becoming an important part of corporate strategy. Firms are increasingly devoting more resources to their social initiatives and making them a key factor in establishing a competitive advantage. At the same time, the communities in which corporations operate, both at home and abroad, are demanding a share of the benefits that a firm receives by operating in their community. As this "moral" market becomes more sophisticated, establishing successful corporate social initiatives becomes more imperative.

Notes

1. T. Brady and A. Wood, "Firms Donate Millions in Money and Services," *The Philadelphia Inquirer*, September 15, 2001, p. A18.
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4. IBM Homepage, <http://www.ibm.com/ibm/ibmgives/grant/education/programs/reinventing/>.
5. C. Smith, "The New Corporate Philanthropy," *Harvard Business Review*, 72/3 (May/June 1994): 105-116, at 110.
6. Smith, op. cit.
7. M. Drumwright, "Company Advertising with a Social Dimension: The Role of Noneconomic Buying Criteria," *Journal of Marketing*, 60/4 (October 1996): 71-87; P. Varadarajan and A. Menon, "Cause-Related Marketing: A Co-Alignment of Marketing Strategy and Corporate Philanthropy," *Journal of Marketing*, 52/3 (July 1988): 58-74.
8. "The Double Bottom Line: Competitive Advantage Through Community Investment," The Ford Foundation, New York, NY, 2001, p. 2.

9. R. Kanter, "From Spare Change to Real Change: The Social Sector as Beta Site for Business Innovation," *Harvard Business Review*, 77/3 (May/June 1999): 122-132.
10. C. Wild, "Corporate Volunteer Programs: Benefits to Business," Conference Board Report # 1029, 1993.
11. "The Double Bottom Line," op. cit. p. 12.
12. "The Double Bottom Line," op. cit. p. 7.
13. These are the three types of firm resources discussed in J. Barney, "Firm Resources and Sustained Competitive Advantage," *Journal of Management*, 17/1 (March 1991): 99-120. For a complete discussion on the resources firms use to establish a competitive advantage, see R. Grant, "Resource-Based Theory of Competitive Advantage: Implications for Strategy Formulation," *California Management Review*, 33/3 (Spring 1991): 114-135.
14. S. Waddock and M. Boyle, "The Dynamics of Change in Corporate Community Relations," *California Management Review*, 37/4 (Summer 1995): 125-140.
15. "People, Planet and Profits," Royal Dutch/Shell Group, 2001.
16. Other commentators have considered the expanding role of corporate community relations. Waddock and Boyle [op. cit.] identified several external and internal pressures that are transforming corporate community relations practices. Among the external factors they identify are the process of globalization and the development of more alliances between firms. These factors increase the number of communities in which corporations operate and for whom they are responsible for their actions. Likewise, Marsden and Mohan found that 39 percent of firms become involved in social programs for internal needs (such as employee motivation and recruitment, and marketing opportunities), 38 percent identified external social stimuli (such as threat of legislation or concern about a social issue), and 23 percent were responding to both. C. Marsden and A. Mohan, "'I whistle all the way to work and all the way home': Research on 500 Business Best Practices," CSR Europe Research Paper, 1999, <http://www.csreurope.org/csr_europe/Activities/Communications/Publications/chrismarsden1.html>.
17. See H.N. Butler and F.S. McChesneney, "Why They Give at the Office: Shareholder Welfare and Corporate Philanthropy in the Contractual Theory of the Corporation," *Cornell Law Review*, 84 (1999): 1195-1226; F. Stevelman Kahn, "Pandora's Box: Managerial Discretion and the Problem of Corporate Philanthropy," *UCLA Law Review*, 44 (1997): 579; "Corporate Philanthropy Symposium," *Stetson Law Review*, 28 (1998).
18. In the late 1990s, Representative Paul Gillmor pushed for legislation requiring full disclosure of charitable giving and allowing greater shareholder participation in selecting donees. In 1997 and 1998, shareholders submitted proposals at American Express and Aluminium Co. of America (ALCO) to end charitable giving.
19. Wild, op. cit.
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