MEASURING THE VALUE OF CORPORATE PHILANTHROPY

Social impact, business benefits, and investor returns

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OVERVIEW

To realize meaningful benefits, corporate philanthropy must be managed no less professionally, proactively, and strategically than any other core business activity. Systematic measurement of the value of giving brings rigor and discipline to the field, thus making a more persuasive case for why companies should engage in philanthropic initiatives. CEOs, the investor community, and giving professionals need to understand more comprehensively the many mechanisms by which philanthropic investments can be measured and managed to achieve long-term business value and solve critical societal problems.

This research is divided into three conversations: between the CEO and investor community (investor returns), the CEO and giving professional (business benefits), and the giving professional and grantee (social impact).

INVESTOR RETURNS

Growth of Responsible Investing. Investors increasingly recognize that responsible corporate behavior informs their assessments about the quality of company management and whether companies are good long-term financial investments. The growth of responsible investing as a mainstream practice is evident. In 2008, the number of asset management firms subscribing to the UN Principles for Responsible Investing reached 300, representing a total of $15 trillion in professionally managed assets. The trend is also undergoing reinforcement by the integration of social and environmental ratings in investment analysis conducted by leading brokerage, institutional investment, and financial risk management firms. (This includes the incorporation of established social ratings firms KLD and Innovest, along with research by the leading financial risk analytics firm RiskMetrics.) By attracting a larger investor base, responsible companies enjoy access to capital at lower cost, boosting their profitability and share-price premiums. Economists have also found that capital flows linked to responsible investors influence stock prices and can appreciably increase companies' valuation.

A Call for Stronger Standards. However, the social rating criteria presently employed by analysts, as well as the information disclosed by companies, are uneven and ambiguous. Moreover, it is unclear how current criteria and disclosures are related to financial value. CEOs have an opportunity to distinguish themselves in their conversations with the investor community through disclosures about their philanthropic strategies and by leading the proposal of stronger standards.

Link to Share Price. Scholars have long searched for a link between corporate philanthropy and premiums in company profits or stock prices. They believe that, if this link can be proven statistically, it could offer definitive justification for companies to behave as good corporate citizens. The preponderance of scholarly evidence suggests a mildly positive relationship between corporate social performance and corporate financial performance and finds no indication that corporate social investments systematically decrease shareholder value. At the same time, researchers have acknowledged a number of inherent weaknesses in the methodologies and data comprising past studies, thus reducing the power of related statistical tests to prove economic links even when they really do exist.

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BUSINESS BENEFITS

Meeting Strategic Needs. When advocating for significant commitments to philanthropy, giving officers are often asked by CEOs to make not only a social case for the initiative in question, but a "business case" as well: a persuasive argument that the philanthropy will create long-term financial value. Philanthropy can provide novel pathways towards meeting strategic business needs, such as improving employee engagement, customer loyalty, reputational risk, and opportunities for innovation. By meeting intrinsic employee needs that extrinsic rewards (like compensation) do not satisfy, philanthropic programs can enhance individual employee motivation and in turn financial performance company-wide. Engaging in solutions to critical social problems can also provide companies with profitable business opportunities to develop ideas, demonstrate technologies, and access new markets.

Measurement Approaches. These benefits, however, accrue as intangible assets rather than as short-term cash flows and thus are complex to measure. Moreover, the links between social and business advantages are not always straightforward. Still, related business disciplines have developed a body of evidence and measurement approaches that corporate philanthropy can apply to its own activities. Key intermediate outcomes can also be identified and, if targeted, will likely yield desired business behaviors and benefits.

SOCIAL IMPACT

Demonstrating Effectiveness. Giving officers expect grant recipients to demonstrate that the programs in question are achieving intended results. Companies feel a strong connection with the cause and are keenly concerned with whether and how their efforts are giving rise to real social changes, especially when they have actively participated in the design and management of a corporate giving program. Developing a theory of change and explaining how the program will achieve its intended impact are critical preparatory elements of measurement. Corporate and non-corporate grantors and grantees pursue varied missions and goals. The corporate motivation behind the grant and the quality and precision of available data determine the appropriate measurement methodology to adopt. There exists no "silver bullet" or single formula against which social performance can be universally gauged.

The Power of Metrics. Measurement is its own reward: it encourages improvement, management, and the explicit formulation of assumptions and expectations. It should be viewed as a process whose greatest value is achieved by organizations that learn from evidence amassed over time. Companies help grantees harness full potential by calling on their own company-wide experience in devising metrics, collecting data in a disciplined manner, and recommending appropriate action.

CONCLUSION

Corporate philanthropy remains as vital as ever to society and to good business alike. Measurement plays a crucial role in enabling companies to demonstrate that their philanthropic efforts are cost-effective and aligned with corporate strategy overall. Charitable initiatives that serve critical societal needs *and* create long-term business value are most likely to be sustainable and to contribute to a more successful business whole.

The full report is available in hard copy upon request and as a free download at CorporatePhilanthropy.org.

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