Giving Officer Summary

MEASURING THE VALUE OF CORPORATE PHILANTHROPY

Social impact, business benefits, and investor returns

by Terence Lim, Ph.D.

OVERVIEW

Corporate philanthropy is as vital as ever to business and society, but it faces steep pressures to demonstrate that it is also cost-effective and aligned with corporate needs. Indeed, many corporate giving professionals cite measurement as their primary management challenge. The industry critically needs to assess current practices and measurement trends, clarify the demands practitioners face for impact evidence, and identify the most promising steps forward.

This summary introduces a large research study, *Measuring the Value of Corporate Philanthropy*, which aims to meet that need—by presenting the corporate philanthropy community with an analysis of current measurement studies, models, and evidence drawn from complimentary business disciplines as well as from the social sector.

Common questions that giving professionals often face fall naturally into a hierarchy of three conversations with grant recipients, the Chief Executive Officer (CEO), and the investor community.

SOCIAL IMPACT: DISCUSSING MEASUREMENT WITH GRANTEES

Giving officers want a rigorous process by which to assess whether their grant recipients are achieving intended results. The most basic set of social performance measures are "output" metrics and targets—such as the number of beneficiaries served, products distributed, and areas reached. In giving programs comprising short-term, one-off grants, such output metrics might very well be the only feasible measures. Alone, however, output metrics offer little indication whether social improvement is actually occurring—or, for that matter, whether unintentional harm is being caused.

Especially when they have actively participated in the design and management of a corporate giving program, companies feel a strong connection with the cause and are keenly concerned with whether and how their efforts are giving rise to social change. Developing a theory of change and explaining how the program will achieve its intended impact are critical preparatory elements of measurement. Depending on the motivation behind the corporate grant, as well as on the quality and precision of data needed, program managers can choose from three general measurement methods:

1. Formal impact evaluation

Formal impact evaluation is the only one of these methods able to prove statistically that an organization's efforts caused observed impact. It discounts the effects of other influences and validates a logic model. In practice, however, a formal evaluation can be disagreeably rigid and expensive, requiring controlled trials, a wealth of precise and significant data, and lots of time. The method is most worthwhile for reasonably mature programs that represent an innovative solution—especially if a funder wishes to prove independently to other funders or NGOs that the program in question should be scaled-up.

2. Outcomes measurement

Outcomes measurement tracks intermediate societal results realized as a direct consequence of a program's output. These results are nearer-term predictors of ultimate impact and long-term social value. Typically used as part of

performance management, outcomes measurement generates information on a more frequent basis, allowing for mid-stream improvements to the program's intervention strategy and logic model. By applying existing evidence and published national datasets as benchmark comparisons, program managers can gain confidence that their strategy is achieving its intended results. Programs whose corporate funders actively participate in program design and management are especially good candidates for outcomes measurement.

3. Impact achievement-potential assessment

Corporate funders may choose not to be involved in design or management of programs and instead rely on the grantee organization's own self-reported metrics, data, and standards. A systematic approach towards assessing an organization's *potential* for achieving measurable and improvable impact can assure funders that the organization is effecting (or will effect) positive change according to its claims.

Social ROI techniques. Increasingly, some members of the philanthropic community are applying a popular business concept, Return on Investment (ROI), to measure, compare, and aggregate the social effectiveness of multiple philanthropic programs. A key challenge, however, is that grants for different causes seek dissimilar outcomes. Corporate givers who make high-value grants to just one cause issue are likely to be able to quantify impact in a common natural unit and apply *cost-effectiveness* analysis models. By contrast, a *cost-benefit* analysis assumes that grant benefits can be monetized—which means the analysis may be able to aggregate the value of several grants applied to many different issues. But cost-benefit analysis makes greater demands on data, calculations, assumptions, and value judgments about the relative worth of different social outcomes. Thus, cost-benefit analysis should be ventured only by experienced funders comfortable with its requirements and inherent subjectivity.

Leverage effects. Funders can also leverage their reputation and/or other non-monetary capabilities, thereby multiplying the social impact achieved from other funders' monetary donations to the program in question. This leverage should be considered part of a funder's total merit in supporting a grant or program. However, estimating the value of leverage effects requires a combination of quantitative data and subjective judgments. One good way of

doing this is to reduce one's analysis to that of the most likely alternative scenario had the catalytic funder not intervened.

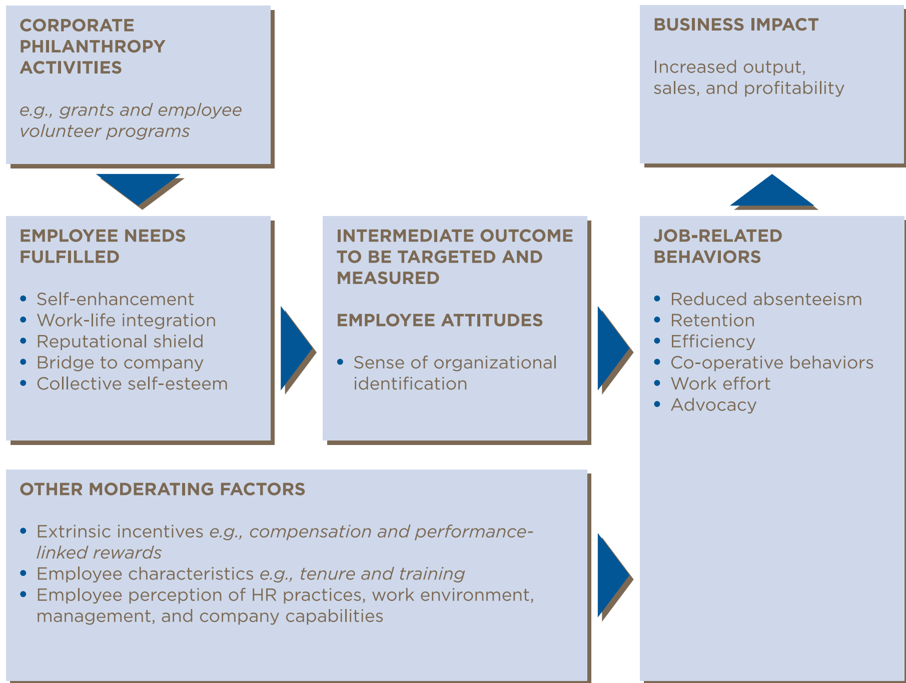
Both corporate and non-corporate grantors and grantees pursue varied missions and goals. There exists no "silver bullet" or single formula against which social performance can be universally gauged. Measurement, to an extent, is its own reward. It encourages improvement, management, and the explicit formulation of assumptions and expectations. Measurement should be viewed as a process whose greatest value is achieved when organizations collect and learn from evidence over time. Budgeting for careful measurement of a program is a critical aspect of ensuring maximum impact value. By calling on their own company-wide experience in devising metrics, collecting data in a disciplined manner, and drawing appropriate conclusions to recommend action, companies can help grantees harness measurement's full potential.

BUSINESS BENEFITS: DISCUSSING MEASUREMENT WITH CEOS

When advocating 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 by improving employee engagement, customer loyalty, reputational risk, and innovation opportunities. These benefits, however, accrue as intangible assets rather than short-term cash flows and thus are difficult to measure. Moreover, the links between social and business advantages are rarely 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.

Employee engagement. Researchers have found that corporate philanthropic initiatives can provide an additional channel for fulfilling a number

A Framework for Measuring Employee Engagement and Corporate Philanthropy



Source: Adapted from Bhattacharya, C.B., Sen, S., & Korschun, D. (2008) and Bartel, C. (2001).

of employees' emotional needs, which in turn correlates to an improvement in job performance. This research suggests that companies devising philanthropic activities for employees should target a key objective: increasing those employees' sense of organizational identification.

Customer loyalty. Particularly in consumer-oriented industries, how people perceive a company vis-à-vis its philanthropic activities can also help that company secure a loyal customer base. All else being equal, a consumer is more likely to choose a product made by a highly responsible company than one made by a less responsible one. A company's philanthropic involvement can lead customers to feel a deeper sense of identification with the company and develop a more positive evaluation of the company's abilities. However, researchers have also found that, when confronted with a company's corporate philanthropic record, customers' perceptions and expectations are more complex than hypothetical marketplace polls suggest—and these complications affect how much philanthropic initiatives actually do translate into increased loyalty and purchases.

Reputational risk. How external stakeholders see a company as "good" rather than "bad" reinforces the company with better human capital, legitimacy, and a license to operate in the communities it serves and seeks to enter. A commitment to philanthropic community initiatives accumulates goodwill and positive perceptions of management character, which can temper eventual sanctions against a company in response to negative reputational events. Companies that participate in social initiatives have been shown to preserve greater share value around announcements of negative reputational events than those that do not engage in such initiatives.

Innovation and growth opportunities. As drivers of business innovation disperse beyond traditional company boundaries, access to a diverse range of external partners becomes increasingly invaluable to companies wishing to generate and be associated with new ideas. Nonprofits offer companies access to just such a distinct network as well as a fresh view of the modern marketplace. The expected financial impact of opportunities derived from philanthropic initiatives includes profits increased directly, through sales, or indirectly, through savings related to risk avoidance or operating-efficiency gains. Cash-flow and other standard financial-valuation methods can be applied to assess the value of corporate philanthropy in securing business innovation and growth opportunities.

INVESTOR RETURNS: DISCUSSING MEASUREMENT WITH INVESTORS

Investors increasingly recognize that responsible corporate performance informs their assessments about the quality of company management and whether companies are good long-term financial investments. The growth of mainstream responsible investing is evidenced by the asset management firms that subscribe to institutional initiatives such as the UN Principles for Responsible Investing and the integration of social and environmental ratings in the investment analysis conducted by leading brokerage, institutional investment, and financial risk management firms. By attracting a larger investor base, responsible companies enjoy access to capital at lower cost, boosting their profitability and share-price

premiums. Economists have found that capital flows linked to responsible investors influence stock prices and can appreciably increase companies' valuation. However, the social rating criteria presently employed by research analysis, as well as the information disclosed by companies, are uneven and ambiguous. Companies face 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.

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 thus far 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 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.

CONCLUSION

The value of corporate philanthropy is measurable—however, as with many elements of business, it cannot always be measured as precisely as we would like. This research provides a starting point for giving professionals, CEOs, and the investor community to understand more comprehensively the many mechanisms by which philanthropic investments can be measured and managed to create long-term business value and meet critical societal needs. If achieving real and meaningful benefits is its goal, corporate philanthropy must be executed no less professionally, proactively, and strategically than any other core business activity.

"A great reference tool for those of us in the field. It will spur dialogue in the industry about the future of corporate philanthropy investments."

— Caroline Roan, Vice President of Corporate Responsibility, Pfizer Inc

"This report should be required reading about the practice of corporate philanthropy."

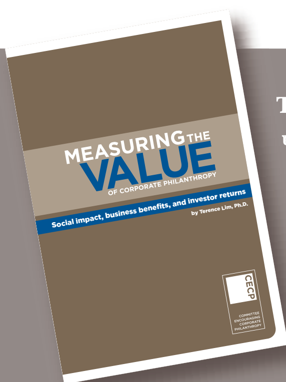
— Michael Bzdak, Director of Corporate Contributions, Johnson & Johnson

"A thorough, well-crafted, and thought-provoking overview — essential reading on the topic."

— Ray Fisman, Lambert Family Professor of Social Enterprise, Columbia Business School

"This is perhaps the most comprehensive study of corporate philanthropy that I have seen."

— Christopher Marquis, Assistant Professor of Business Administration, Harvard Business School and HBS Social Enterprise Initiative



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

110 Wall Street, Suite 2-1
New York, NY 10005
P 212.825.1000
F 212.825.1251

CorporatePhilanthropy.org