THE QUESTION

Dead philanthropy?

In an era when business leaders are retooling their mission and methods to be more socially responsible, and social entrepreneurs are using market mechanisms to solve social problems, is corporate philanthropy still relevant?

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Defining Corporate Citizenship

In analyzing business's desired role in society, it is best to think of the corporation as citizen.

One of the obligations of corporate citizenship---as is the case for private citizens with means---is to provide philanthropic support for important "social goods" where neither the market nor the government do an adequate job. Indeed, corporate citizenship is a much better concept for evaluating business's activities in society than the much narrow and somewhat misleading phrase "corporate social responsibility."

Corporate citizenship has three elements.

First, it involves high economic performance----the sustained, durable provision of outstanding goods and services which benefits shareholders and other stakeholders (creditors, employees, retirees, customers, suppliers, communities etc.) over time. The enormous good done by the fundamental business activity on durable basis---creating the goods and services that make the economy work and grow---is a core characteristic of good citizenship. In this connection, even large corporations are turning to forms of social entrepreneurship, if by that we mean using markets to address social problems such as climate change, water shortages, and health care devices. Such efforts can be straight up market activities.

Second, citizenship involves robust adherence to the spirit and letter of the formal rules, legal and financial, in all jurisdictions where the corporation does business. Significant time, effort
and resources---and substantial leadership and management---are required to do this well in the face of multiple laws (federal and state in the U.S.; local or pan-European in the E.U.; and provincial and local in China) of often uncertain meaning. But such good faith adherence to the rules of the game is essential for the high integrity of a corporation---and for the values of honesty, fairness, trustworthiness and reliability its employees---upon which the corporation builds the trust so essential to its long-term health.

Third, citizenship involves taking appropriate public-spirited actions beyond what the law requires that are in the enlightened self-interest of the company.

--The company can take "ethical" actions, such as creating a "no-bribes" policy or an environmental building standard or a practice of ensuring no child or prison labor is used by third parties in emerging markets. Such voluntary actions that affect the corporation and its employees fall under the rubric of corporate social responsibility, a term that usually, and wrongly, does not include economic performance or robust adherence to the letter and spirit of the formal rules.

--The company can work with others on new laws or regulations when the problem truly involves a "social good," but the cost for a single company acting alone is uncompetitive and the need for collective action is necessary for societal strength and, ultimately, good business conditions. For example, many corporations today are involved in climate change, health-care reform or financial services regulation, although some, not surprisingly, are taking a more narrow, short-term and self-interested view than others.

--Finally, there is the vital role of philanthropy. It does not involve voluntary commitments of action by the corporation or its employees. Nor does it involve corporate efforts to address social goods and to balance public and private interests in enacting laws or regulations. Rather, philanthropy addresses important social needs that neither market nor law reach---or reach effectively. Education in science and engineering (especially for women and minorities) is a favorite of major industrial corporations faced with declining numbers of U.S. students, while targeted programs aimed at under-served high schools in our inner cities is another. Local environmental projects, health care in rural America or Africa, training on governance or anti-corruption or environmental protection---all these issues and many more involve corporations, like citizens, donating funds to not-for-profit third parties who in turn address these crucial issues.

In this period of economic turmoil and dislocation, with cut-backs in government spending and reductions in foundation endowments and outlays, the need for corporate philanthropy has never been greater. Such philanthropic expenditures are usually a tiny percentage of a corporation's costs, but they remain vital, especially now.

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