Community Investment

Alan S. Gutterman

Most businesses, once they reach a certain size and level of resources, provide support for activities of organizations in their communities that are dedicated to address social issues or needs in the community. There is no shortage of issues that companies can focus on in their communities and in any given community businesses of any size can make a meaningful contribution in relatively simple ways such as supporting reading programs for young children, raising awareness of infectious diseases and other health-related issues or providing meals to homeless people in the community. The form of community contribution and engagement by a company can vary significantly, running from a one-time cash donation to a "good cause" to investment of cash, in-kind resources and management time into the creation of long-term partnership with a community organization that works on a broader and deeper solution to a particular issue that has a material impact on the business and the community in which it operates. While positive social and environmental impact in the community is important, when developing the business case for a community investment consideration also needs to be given to the potential contribution that the particular project will have as a "business driver" including benefits such as compliance with global certification requirements, competitive advantage, customer loyalty, compliance with governmental requirements, building the company's social license, risk management, reputation, access to land and improving local workforce skills and productivity.

Most businesses, once they reach a certain size and level of resources, provide support for activities of organizations in their communities that are dedicated to address social issues or needs in the community. There is no shortage of issues that companies can focus on in their communities. For example, among the "global challenges" identified by the Future-Fit Business Framework as being the critical environmental and social issues for businesses and society as a whole were the failure to adequately invest in, upgrade, and secure critical infrastructure, coupled with rapid and poorly-planned urbanization, which has undermined the long-term health and resilience of communities; and a severe income disparity between the world's richest and poorest citizens which both contributes to and is exacerbated by underemployment, a growing skills gap and depressed economies; social instability, which negatively impacts communities and markets and arises from a lack of equitable treatment and access to resources; and erosion of trust in institutions, from governments to business, due to unethical practices and a lack of transparency.[1] In any given community, businesses of any size can make a meaningful contribution in

[1] Future-Fit Business Framework, Part 1: Concepts, Principals and Goals (Future-Fit Foundation, Release 1, May 2016), 11, FutureFitBusiness.org.

relatively simple ways such as supporting reading programs for young children, raising awareness of infectious diseases and other health-related issues or providing meals to homeless people in the community.

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- Logging firms comply with legal requirements by entering into social responsibility agreements with local communities to provide financing for social infrastructure and services in those communities
- A company's innovative program for providing assistance to indigenous peoples in the community in which the company operates was a significant factor in the company's ability to land a significant contract
- Companies that voluntarily join an industry sector group that has developed social responsibility principles make a public commitment to contribute to local development
- A company creates and builds its social license to operate in a severely underdeveloped community by making long-term commitments to work directly with local stakeholders on community development programs
- Responding to concerns about working conditions in its supply chain a company partners with a local nongovernmental organization in a developing country to provide education on workers' rights and training and micro-financing for female entrepreneurship to provide alternative economic opportunities
- A company launches a large HIV/AIDS program including education and financial support for health services, as well as extensive outreach within local communities,

[2] Strategic Community Investment: A Quick Guide (Highlights from IFC's Good Practice Handbook) (Washington DC: International Finance Corporation, February 2010), 8.
[3] Id.

that eventually leads to dramatic workforce productive gains due to reduced mortality and absenteeism and lower health insurance premiums

The challenge for companies is computing and assigning a value to the business drivers involved in a particular community investment project. For example, while there are costs associated with general community engagement and consultations in advance of a project (e.g., wages, communications, facilities, equipment, logistics etc.) they must be balanced against potential benefits and avoided costs derived from completing a project ahead of schedules and avoiding contractual penalties for project delays. Additional intangible benefits include building trust and goodwill and avoiding negative effects on the company's reputation.[4]

Defining Corporate Community Investment

Philanthropy (e.g., grants, volunteering and donations) has been a mainstay of community engagement and involvement for businesses; however, more and more attention has been focused on how businesses can contribute to their communities through innovative investment activities designed to achieve economic, social and environment objectives. This trend has led to extensive research and guidance on social investment generally and, in the context of engaging with local communities, corporate community investment. While investing in community-focused projects involves many of the tools and principles used with traditional investments made by businesses on a day-to-day basis, there are unique issues and challenges that need to be considered. This section sets the stage for building the business case for deploying scarce resources in the community by introducing and explaining several useful definitions of corporate community/social investment.

LBG (http://www.lbg-online.net/), which is managed by Corporate Citizenship, a global corporate responsibility consultancy based in London with offices in Singapore and New York, has developed an emerging global standard for measuring corporate community investment.[5] LBG noted that while businesses engage in a wide range of activities that have a positive impact on society and contribute to sustainability including creation of wealth and jobs, delivery of goods and services, payment of taxes and support for innovation, corporate community investment can and should be distinguished. According to LBG, corporate community investment should be defined and understood as including "voluntary engagement with charitable organizations and activities that extends beyond companies' core business activities".[6]

LBG explained that two key questions need to be considered and answered affirmatively when determining is a particular contribution or activities falls into the category of

[4] Id.
[5] From Inputs to Impact: Measuring Corporate Community Contributions through the LBG Framework—A Guidance Manual (London: Corporate Citizenship, 2014), 3. The initiative was initially referred to as the "London Benchmarking Group".
[6] Id. at 4.

corporate community investment: "Is it voluntary?" and "Is it charitable?".[7] As to the question of "voluntariness", the threshold is that the contribution or activity must be something that a business chooses to do and is not mandated under any legal or contractual obligation. In addition, as mentioned above, the activity should be outside of the core business activities of the company, which means that using less energy or protecting the health and safety of employees, each hallmarks of a socially responsible business, would not be considered a corporate community investment. Finally, corporate community investment does not include steps that companies should be expected to take to mitigate, or compensate community members for, the adverse environmental and social impacts associated with a particular business activity undertaken in pursuit of the company's economic and financial objectives.

In order for the second condition to be satisfied the support must be given to "an organization or activity that is recognized in its geographical location and cultural context as having a clear charitable purpose (e.g., advancing education, protecting health or supporting human rights)".[8] Contributions to formally recognized charities are the easiest to identify; however, qualifying organizations can also include non-profits, non-governmental organizations ("NGOs"), third sector, civil society, schools, universities, government departments and social enterprises. Whether or not a particular organization meets the test turns on whether it is has a purpose, or is delivering an activity, that is broadly recognized as charitable (e.g., education) and being managed in a way so as to deliver public rather than private benefit (i.e., the organization cannot be focused on delivering financial or other returns to private parties, such as shareholders).

Examples of contributions and activities that would qualify as a corporate community contribution include a cash donation to a local registered charity; support of education through a program that allows employees to use some of their paid time to participate in a reading partnership with an inner-city school; and running a program in partnership with a charity to provide work experience and training to homeless people. Supporting the socially responsible actions of others, such as when an airline encourages passengers to donate their unused foreign currency to an international NGO when returning home from a trip abroad, also qualifies; however, the airline's reporting on this activity should separate the contributions by passengers from its own contribution so that the airline does not take undue credit beyond the value that its leverage provided to the NGO.

Businesses take many voluntary actions that have positive sustainability impacts, but they will not count as corporate community investments if the "charitable" criterion is not also satisfied. For example, monitoring waste at a company's factories is laudable but is generally considered to be focused on the company's own environmental performance and not on wider charitable benefits, even though members of the community will

[7] Id. at 3.
[8] LBG pointed out that there is no single internationally agreed definition of charitable purpose and that reference needs to be made to applicable laws and guidelines relating to charities and tax-exempt charitable organizations in specific jurisdictions. For that reason, LBG focuses on the purpose of the contribution/activity (i.e., its intent and outcome) and not simply the legal status of the beneficiary. Id. at 4-5.

presumably appreciate the company's efforts. In that situation the cost of monitoring should not be included in corporate community investment but should usually fit into the company's environmental reporting.[9] Other areas in which careful assessment of whether or not a valid corporate community investment has occurred include mandatory contributions, carbon offset, responsible product use, facilitating giving by customers and/or suppliers, support for small businesses and provision of benefits to employees and their family members.[10]

While LBG believed that the term "corporate community investment" was most descriptive, there are, not surprisingly, a number of different terms that are used to refer to the covered activities included "social investment", "community social investment", corporate social responsibility ("CSR") programs, "corporate citizenship", philanthropy, "company giving", "giving back", social programs, "catalytic philanthropy", "strategic philanthropy" and creating "shared value". ISO 26000 described "community social investment" as taking place when organizations invest their resources in initiatives and programs aimed at improving social aspects of community life.[11] Community social investment includes both traditional capital investments by organizations and financial support to projects that may be identified, funded and/or managed by other groups such as non-governmental organizations.[12] ISO 26000 notes that organizations generally choose from among a wide array of potential community social investments including projects related to education, training, culture, health care, income generation, infrastructure development, improving access to information or any other activity likely to promote economic or social development; however, when creating its community social investment agenda an organization should purposefully seek to align its contribution with its core competencies and the needs and priorities of the communities in which it operates and take into account priorities set by local and national policymakers and the actions that are already being taken by other community stakeholders. ISO 26000 also emphasizes the importance of soliciting and encouraging community involvement in the design and implementation of projects to maximize success and build a foundation for projects to survive and prosper (i.e., to achieve sustainability) as the organization reduces its direct involvement.

Developing a Community Investment Strategy

Corporate philanthropy has a long tradition and companies have often been attempting various types of community investment. While these efforts are generally well meaning and have led to significant improvements in wellbeing in the communities in which the companies are operating, there are also signs that community investments fail to fulfill their full potential, for either the company or the community. Given that many investment projects involve significant amounts of resources, including time and goodwill, falling short on results means that employee morale may suffer and that

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[9] Id. at 5.
[10] See specific LBG guidance notes on these areas. Id. at 5.
[11] International Organization for Standardization, ISO 26000: Guidance on Social Responsibility (Geneva, 2010), 68.
[12] Handbook for Implementers of ISO 26000, Version Two (Middlebury, VT: ECOLOGIA, 2011), 33.

community members lose faith and trust in the company. One list of the reasons why community investments may not achieve the goals established at the beginning included the following factors[13]:

- Limited understanding of the often complex local context
- Insufficient participation and ownership of by local stakeholders
- A perception of "giving" rather than "investing", including a lack of clear objectives
- Detachment of the activity from core business strategy and competencies
- Responding to local requests in an *ad hoc* manner
- Lack of professionalism and business rigor
- Insufficient focus on sustainability
- Provision of free goods and services
- No exit or handover (to the community) strategy
- Overemphasis on infrastructure and failure to address skills and capacity building
- Lack of transparency and clear performance criteria
- Failure to measure and communicate results

Failures in any of the areas listed above can quickly overwhelm the community investment activities of any company. Managers and employees alike may complain that even though significant resources have been invested, conditions in the community do not improve and in many cases projects that have been meticulously designed and built end up abandoned or significant underutilized. The performance and social impact of community investments also suffer when companies have no way to manage requests that come in from the community and drift off into areas that are far afield from the company's core competencies and overall mission.

While companies could abandon community investments in order to obtain relief from the challenges described above, such an approach is no longer practical or advisable for firms looking to build a sustainable business. Community engagement and involvement, including community investment, is essential for attracting talent and satisfying the expectations of customers, investors and other stakeholders. As such, companies need to apply the same discipline to community investing that they do to all other aspects of their business and operations and this means following a deliberative process to develop a comprehensive community investment strategy that effectively deploys the company's core competencies to support community-focused projects that deliver the strongest impact given the level of investment.

The International Finance Corporation ("IFC") has a keen interest in projects promise to improve conditions in communities around the world. In an effort to improve the effectiveness of these projects the IFC recommended the following steps for managing the developing and implementation of a community investment strategy[14]:

[13] Strategic Community Investment: A Quick Guide (Highlights from IFC's Good Practice Handbook) (Washington DC: International Finance Corporation, February 2010), 5.
[14] Strategic Community Investment: A Quick Guide (Highlights from IFC's Good Practice Handbook) (Washington DC: International Finance Corporation, February 2010), 4 and 7.

- Assess the overall business context to identify risks and opportunities and align the company's core competencies and internal functions with the proposed investment activities. This is the point in the process where the focus needs to be placed on developing a business case for the particular investment project that is tied to specific community investment objectives and ensuring that the company's core competencies and resources are being effectively utilized to support communities. Core business competencies can come in many different forms and may include research and development, convening power, supply chain contacts, access to consumers, business know-how, facilities, equipment, logistics and staff time and expertise.
- Assess the local context to gain a better understanding of the social and environmental needs and issues in the community. The assessment should cover socioeconomic factors, stakeholders and networks and potential partners for implementing the project. The goal is to link the community investment strategy to the local context and identify and describe (i.e., develop eligibility criteria) the individuals and groups within the community that will be primary targets for the proposed investments.
- Engage with the local community at each level of engagement that is necessary in order to implement the potential project. Engagement runs from one-way communications intended primarily to share information throughout the community to full consultation that allows community members to have meaning participation in the project and, in some cases, share in the decision making process. At a minimum, engagement supports planning and prioritization and helps with managing community expectations. Engagement should extend to potential community partners that might be willing to collaborate on implementation of specific projects.
- Invest in capacity building in order to ensure that there is sufficient capital and other resources available within the community in order for the project to be sustainable. Capacity building begins with a needs assessment that identifies the types of capacities and skills required for implementing the project. The next step is to develop strategies for filling any gaps including additional investment projects that will run in parallel.
- Set parameters including goals and objectives, guiding principles and criteria for selection of specific investment projects; key investment areas (i.e., target groups and issues); exit/handover strategy, budget, scope and timeline. The community investment strategy should extend over a three to five year period since many of the specific projects and initiatives will take several years to evolve before performance can be fully and fairly measured.
- Select the appropriate implementation model for the project among various alternatives such as conducting the project through an in-house community investment group, investing through an affiliated corporate community investment foundation, outsourcing implementation to a third party, creating a multi-stakeholder partnership or some combination of two or more of the previously mentioned methods. For each implementation model, consideration needs to be given to decision making and governance structures.

- Measure and communicate the results of the project based on progress of appropriate indicators from baseline measures established at the beginning of the project. While return on investment is important, measurement should also take into account perceptions of community members regarding the impact of the project on their lives and the community in general and the impact of the project on company employees. Measures of impact should be reported to the community using an organized communications strategy.

Community investment strategy should be integrated with other company programs that involve individuals and groups within the community such as stakeholder engagement programs, grievance processes, local environmental and social impact management processes and initiatives to promote local hiring and contracting. In addition, while responsibility for development of the community investment strategy may be vested in a small group, it is essential to reach out across functions and departments in order to promote cross-functional coordination and accountability for supporting the objectives of the community investment strategy. Examples of ways in which functional groups within the company may interface with communities on a regular basis include the following[15]:

- Business Development will often be the initial contact with communities
- Human Resources will be involved in recruiting and hiring employees from the local community and establishing compensation and benefits for such employees
- Land Acquisition will negotiate purchases and leases of properties in the community for business operations including resettlement and compensation
- Procurement will enter into contracts with local vendors for goods and services
- Engineering and Logistics will provide support for community investment projects that relate to infrastructure and development
- Environmental and Social Management will be involved in efforts to avoid and/or mitigate adverse environmental and social impacts of company activities and negotiate compensation for such impacts with community members
- Community Liaison will be responsible for broader community engagement processes and grievance management
- Government Relations will liaise and coordinate with relevant local authorities and governmental units
- External Relations/Communications will work with media and key external audiences and manage internal communications regarding community investments
- Contractors will operate in communities provide construction activities, workforce interaction and transport/trucking
- Security will oversee company personnel and/or outside contractors that provide security for employees and community members visiting the company’s facilities and venues where community investment activities are occurring

Cross-functional coordination is facilitated by involving each of the functions in the planning process and allows the company to leverage a wide range of resources, skills

[15] Id. at 12.

and competencies in executing the community investment strategy. In addition, by involving all of the functions in the strategy development and implementation process the company can avoid situations where a function inadvertently undermines community investment efforts as it carries out its normal duties and responsibilities.

Many of the ideas and guidelines mentioned above can also be found in ISO 26000, which recommends that organizations do the following relating to social investments, which is the term ISO 26000 uses to discuss community investing[16]:

- Take into account the promotion of community development in planning social investment projects, making sure that each project broadens opportunities for members of the local community (e.g., by increasing local procurement and any outsourcing so as to support local development)
- Build the capacity for collecting and sharing information in order to effectively identify, assess, negotiate and measure the performance of investment opportunities
- Avoid actions that perpetuate a community's dependence on the organization's philanthropic activities, on-going presence or support
- Assess its own existing community-related initiatives and report to the community and to people within the organization and identify where improvements might be made
- Consider partnering with other organizations, including government, business or NGOs to maximize synergies and make use of complementary resources, knowledge and skills
- Consider contributing to programs that provide access to food and other essential products for vulnerable or discriminated groups and persons with low income, taking into account the importance of contributing to their increased capabilities, resources and opportunities

Companies engaging in community investing can also learn from the emerging practices of private investors and an increasing number of philanthropic groups with respect to “impact investing”, which seeks both financial returns and intentional, measurable social returns.[17] One cautionary lesson is that impact investing, and thus community investment, is hard, particularly when the projects involve local groups that will need assistance in many basis business skills and activities. For-profit organizations also need to be mindful of the goals and expectations of other stakeholders, particularly investors whose primary interest is seeking “market rate” financial returns. In those situations, companies will need to reach out to and engage with stakeholders outside of their local communities to explain how community investing will be conducted and the anticipated benefits to the company and all its stakeholders.

[16] International Organization for Standardization, ISO 26000: Guidance on Social Responsibility (Geneva, 2010), 68.

[17] To learn more about impact investing, see the information available from the Global Impact Investing Network (https://thegiin.org/impact-investing/).

The framework for measuring corporate community investment developed by LBG, which has been mentioned above, can be used to provide prompts for identifying and answering many of the basic questions that should be addressed in creating a community investment strategy.[18] The first set of questions revolve around the "inputs" from the company into the community investment initiative (i.e., how (form of contribution), why (driver for contribution), what (issue addressed) and where (location of activity). Companies generally have the option to contribute a mix of resources including cash, time, in-kind (including pro bono) and management costs and the form of contribution will vary depending on the project and more of one of type of resource may be required at a particular point in the evolution of an investment project. While community investment is the primary topic of this chapter, companies typically also make charitable gifts and sponsor commercial initiatives in the community. When developing the business case for a community investment consideration also needs to be given to the potential contribution that the particular project will have as a "business driver" including benefits such as compliance with global certification requirements, competitive advantage, customer loyalty, compliance with governmental requirements, building the company's social license, risk management, reputation, access to land and improving local workforce skills and productivity.[19]

The next consideration for companies is what issues should be the focus of community investment activities. There is no shortage of issues that could be selected for the focus of attention and companies should take the opinions of local community members as expressed during the engagement process into account. Also relevant at this point are the core competencies of the company since the most effective and impactful community investment occurs when the existing resources of the company are tailored to the needs associated with a specific issue. For example, if the company is involved in the provision of health-related services and/or research and development relating to medical products it probably makes sense for that company's community investments to be in the health area, such as supporting the creation of clinics in underserved neighborhoods and/or wellness-related educational programs. Other major issue areas mentioned by LBG included education, economic development, environment, arts and culture, social welfare and emergency relief.

The second set of questions in the LBG framework relate to "outputs", which are measures of what happens in the community and in the company itself as a result of implementing a particular community investment project. Community outputs include the individuals reached/supported, the type of beneficiary, organizations supported and other company-specific output measures (e.g., environment). Company, or "business", outputs might include employees involved in the activity, media coverage achieved, customers/consumers reached, suppliers/distributors reached, and other influential stakeholders reached. A third set of outputs, referred to as "leverage", includes additional

[18] From Inputs to Impact: Measuring Corporate Community Contributions through the LBG Framework—A Guidance Manual (London: Corporate Citizenship, 2014), 3.
[19] Strategic Community Investment: A Quick Guide (Highlights from IFC's Good Practice Handbook) (Washington DC: International Finance Corporation, February 2010), 8.

resources funneled to a particular cause as a result of the company's community investment, which resources include funds raised from payroll giving and customers, other employee contributions, resources committed by other organizations that the company brought into a project and personal time of employees spent volunteering for a particular project.

The final set of questions relates to the anticipated impacts of the community investment projects on the lives of community members, the skills and resources of community organizations, the local environment, the skills and morale of employees and the wellbeing and strength of the business of the company. For community members, LBG challenges companies to measure the depth and type of impact (e.g., did the community investment lead to improvement in skills and/or the quality of life of a significant percentage of the target community members). The impact of a community investment on organizations in the community can be in the form of improved or new services, increased capacity to reach more people or spent more time with clients, improved management processes, increased profile and capacity to take on more staff or volunteers. In addition to impacts on the environment, consideration should be given impacts on environmental behavior. Improvements to job-related skills of employees, as well improvements in the personal well-being from participating in the community investment activity are valuable outcomes for the company. Finally, the business of the company itself may be improved through human resources benefits, improvements in relations with community members and other stakeholders and the perception of the company in the eyes of such parties, generation of new business opportunities, operational improvements and uplift in brand awareness.

Factors to Consider in Making Community Investment Decisions

There is no doubt that the universe of potential community investment projects will extend much farther than the available resources of any one company, therefore it is important for companies to approach community investment decisions strategically and take into account the following factors:

- ***Impact:*** What impact will the project create, who is impacted and how many? How does the project compare with other existing community investment initiatives, either funded by the company previously or by other existing groups (i.e., will the project be duplicative of existing activities)?
- ***Sustainability:*** What ongoing resources need to be committed and available in order to ensure that the projected impact from the project will be sustainable including additional investments from sources other than the company (i.e., can the project survive once the initial funding from the company has been exhausted)?
- ***Factors for Success:*** What are the critical factors that will determine the success of the project and what influence does the company have over those factors?
- ***Implementation Partners:*** Does execution of the project require the participation of implementation partners and, if so, do all such partners have the capacity to continuously perform their responsibilities in order for the project to be successful?
- ***Timeline:*** How long will it take to complete and for impacts to materialize?
- ***Business Case:*** Has a compelling business case for the investment project been developed that includes a clear definition and set of performance metrics for each of the key business benefits of the project to the company?

- ***Budget:*** How does the proposed project fit within the company's existing budgetary allocations for CSR activities?
- ***Local Engagement and Ownership:*** Have local stakeholders been involved in assessing and verifying the need for and importance of the proposed community investment, which is essential to ensuring that local stakeholders will support both the implementation and long-term sustainability of the project?
- ***Relationship to Operational Activities:*** A question that is somewhat related to the business case factor alluded to above is what relationship does the proposed project have to the company's operational activities in the community (e.g., an investment in skills development can expand and improve the quality of the pool of local workers available to the company for its operational activities)?

Source: Corporate Social Responsibility Processes and Practices Manual: Operating Guidelines (Africa Oil Kenya B.V., July 2015).

Approaches to Community Investment

Tran, in an article prepared for the quarterly publication of Social Ventures Australia, argued that the businesses should use a combination of social investment approaches as part of a well-managed portfolio in order to deliver greater impact, support the generation of social and business value in different ways and engage different stakeholders.[20] The portfolio approach would include initiatives and activities from among the four categories summarized in the table below: traditional philanthropy, engaged philanthropy, catalytic philanthropy and "creating shared value".[21]

[20] N. Tran, "A Portfolio Approach to Corporate Social Investment", SVA Quarterly (August 25, 2016), https://www.socialventures.com.au/sva-quarterly/a-portfolio-approach-to-corporate-social-investment/

[21] Id. (noting adaptation from M. Kramer, "Catalytic Philanthropy", Stanford Social Innovation Review (Fall 2009) and M. Porter and M. Kramer, "Creating Shared Value", Harvard Business Review (January-February 2011).

	Traditional Philanthropy	Engaged Philanthropy	Catalytic Philanthropy	Creating Shared Value
Key question	Which organizations should we support and how much money should be give them?	How do we work with and support a small group of partners to deliver a discernable social impact?	How can we catalyze a campaign that achieves a measurable impact?	How can we design a business strategy that creates economic benefit by addressing social problems?
What is funded	Specific programs and/or equipment	Organizations (capacity building) and outcomes (strategic plan funding)	Multi-sector campaigns	Opportunities for growing the business that aim to solve social problems (e.g., value chain re-engineering)
What is "given"	Primarily money and some time	Money, time, information, networks, skills, goods, services, influence and voice	Leadership and coordination, money, research and knowledge, networks, new business models, influence and voice	Value creation for customers, community, suppliers such as new products and more sustainable processes
Area of impact	Broad-based, spread across several issues	Focused on target areas or issues	Focused on a single systemic issue	Creating social value that aligns with business objectives
Nature of support	"Giving" or "donations" in response to requests or crises; organized funding rounds	Strategic partnerships involving larger multi-year grants	Leader and catalyst for change, involving strategic partnerships and large on-going support	Cross-sector partnerships and collaboration
Number and depth of partners	Typically, many funding recipients receiving relatively small amounts, generally in one-off grants	Typically larger grants over multiple years, potentially to fewer recipients	Typically cross-sector collaborations involving multiple partners focused on a single issue	Numerous partnerships with customers, community and supplier stakeholders

According to Tran and others, adapting a range of approaches can provide a number of benefits and advantages to businesses including appealing to different sets of stakeholders; achieving a broader set of social and business outcomes; diversifying the risk in achieving the social and business objectives; making use of a wider range of skillsets across the organization; taking advantage of different available opportunities and forming non-traditional alliances; and designing complementary initiatives which increase the overall impact of the portfolio. In most cases businesses make changes in their approaches incrementally. For example, a fairly common transition for businesses is shifting from almost total reliance on traditional philanthropy (i.e., community sponsorships, grants to local nonprofits, employee volunteering and fundraising) to engaged philanthropy including multi-year partnerships with various community organizations to address a large and important social issue such as supporting local schools and creating meaningful job opportunities for teenagers in the community who have grown up in difficult conditions. As businesses become more involved in engaged philanthropy, often participating in multiple partnerships dealing with social issues that intersect with their core businesses and resource competencies (e.g., Toyota formed a community foundation to work with local nonprofit organizations on projects relating to road safety, education and the environment), they may eventually decide to stretch for even greater impact through shared value, such as launching a community innovation fund to combine financial and human capital to invent new technical solutions to social and environmental issues.

Research work surveyed by Tran indicated that a growing number of businesses have used three or more of the approaches outlined above; however, while the portfolio approach appears to be catching on it is still not clear that businesses are going about it in a methodical and organized fashion that will optimize and streamline their portfolios. In order to do this, businesses need to have clearly defined social and business objectives for the portfolio; understand the type of value that each program or initiative delivers, who the stakeholders are, and how well it aligns with the defined social and business objectives; and actively manage the social investment portfolio, so that new investments most aligned with the objectives are introduced, ways to get more value out of existing investments are explored, and that legacy programs which are not aligned with the objectives are phased out.[22]

Tran identified the first step toward developing a well-managed social investment portfolio as defining the social and business objectives, and the parameters, of the portfolio, a process that begins with figuring out what impacts the business wants to have in carrying out its social investments. Businesses need to ask and answer several fundamental questions: What does our society need? What does our business need? What are our capabilities towards addressing the social issue? The next thing that needs to be done is for the business to articulate the business related motivations for its social investment activities, which might include, for example, enhancing employee engagement, building customer loyalty, managing downside risks to the company's reputation, contributing to business innovation and growth opportunities, supporting

[22] Id.

community and causes, engaging key stakeholders and/or incubating shared value. Finally, the business should think about the boundaries of its comfort zone for social investing, which means considering how risk adverse the business is and whether there are any causes and/or investment approaches that cause discomfort or which are not aligned with the overall mission and strategy of the business. Available resources are an important consideration at this point since each approach carries a different level of engagement and responsibility (i.e., with traditional philanthropy the responsibility for execution lies with the grantee, but catalytic philanthropy is based on the business assuming responsibility and accountability).

Once the business has determined its social and business objectives the next step according to Tran is to use that information to assess the alignment of each current and proposed social investment initiative against those objectives. A fairly simple way to do this is to score each initiative against the relevant criterion such as the social impact focus area, vision, strategy, core business skills and resources. Once the scores have been computed each of the initiatives can be compared against the others to identify which ones are best aligned, and presumably worth continued support, and which ones may be poorly aligned and thus likely candidates for termination or de-emphasis. The idea is to prioritize initiatives to make the most efficient use of resources and create a social investment portfolio that includes initiatives that score well on both social and business value. In the process of developing the portfolio approach attention should be paid to creating processes that allow the business to track progress against projected impacts and make good decisions about changes in the portfolio as time goes by.

Traditional Philanthropy

The key issues associated with the practice of traditional philanthropy are which organizations and causes should the company support and how much should be contributed, with contributions mainly taking the form of cash with perhaps some employee volunteer efforts. In many cases contributions are made for specific programs and/or equipment and in response to requests from community organizations or a particular crisis that adversely impacts the community. Traditional philanthropy programs often lack an underlying strategy, with decisions regarding donations being made on an *ad hoc* basis. Traditional philanthropy often extends to a large number of beneficiary organizations throughout the community; however, many grants are in relatively small amounts and are not awarded on a recurring basis.[23] A prototypical example of traditional corporate philanthropy is an organized campaign that solicits cash donations from employees, with matching contributions by the company, and a designated time during which employees provide volunteer services to the community organization that will be receiving the donations. Any assessment of the effectiveness and impact of donations made in a traditional corporate philanthropy program is generally informal and reporting typically is limited to a list of the organizations to which the company contributed.

[23] Id.

Although many community nonprofit organizations still receive the bulk of their outside funding from governmental agencies and individual donors, funds from corporations, either directly or through corporate foundations, are obviously welcome and rigorously pursued during the course of nonprofit fundraising efforts. Traditional corporate philanthropy has typically involved grants, matching gifts, in-kind contributions, partnering with local nonprofits and volunteering resources from company employees. While companies, like individuals, are generally interested in making positive changes in their communities when engaging in philanthropy, they are also interested in other business-related benefits and opportunities from their actions including branding, product placement and employee and community engagement.

A study commissioned by The Pakis Center for Business Philanthropy and conducted by the L.W. Seidman Research Institute on "The Business Case for Corporate Philanthropy" included an extensive review of the literature relating to the motivations and impacts of corporate philanthropy. The final report on the study noted that the motivations or key drivers for corporate philanthropy ranged from pure altruism through strategic philanthropy to pure profit maximization or economic/market-based reasons. Altruistic corporate philanthropy was described as "the general desire of a firm to do good deeds simply because it is the right thing to do, without any consideration for the benefits that firm might receive in return". In contrast, strategic philanthropy was described as a form of impure altruism, in which firms invested in societal programs that were synergistic with their own mission, goals, and objectives, meaning that companies could simultaneously create direct societal impact and generate indirect benefits for their core business objectives. Finally, pure market-based motivations for corporate philanthropy used the advancement of social interests as a vehicle to directly increase consumption and profits for a firm (e.g., linking fundraising for a charitable cause to the purchase of a firm's products and services).[24]

An extensive review of the literature on the motivations and impacts of corporate philanthropy completed in November 2015 found at least six broad categories of benefit for companies engaging in corporate philanthropy: executive and employee recruitment and retention; brand building/loyalty and corporate image; new opportunities for innovation; building trust and influence among government and legislative bodies; fiscal impact; and increasing profits and shareholder returns.[25]

While companies, particularly larger ones, seem to be making a shift from traditional philanthropy toward engaged philanthropy, shared value and social investment, there is still room for charitable giving programs, particularly given the demonstrated positive impacts on employee engagement and commitment; however, companies need to rethink their approach to incorporate certain strategic principles. According to a survey of a

[24] The Business Case for Corporate Philanthropy (L.W. Seidman Research Institute, Arizona State University, November 2015), ii.
[25] Id.

number of corporate foundations conducted by the Boston Consulting Group ("BCG"), the following approaches are essential for a successful philanthropic program[26]:

- Companies need to set a clear mission and goals for their giving program and execute it with a clear understanding of what they are trying to achieve from both a business and social perspective. Companies should go through the process of developing a mission statement for their philanthropic program that clarifies why the company has chosen to support a particular cause, the purpose and goals of the program, what resources the company will provide, and what guidelines will be followed. The mission statement engages that choices about activities and causes will be supported are made strategically rather than on an *ad hoc* basis as commonly done in the past.
- Companies should narrow the focus of the philanthropic programs and manage for impact. In the past, many companies diluted their efforts by managing a highly fragmented portfolio consisting of a number of small grants devoted to a wide range of causes. The sounder approach is to concentrate of a smaller number of causes, each of which is selected because they are aligned with the company's business and strategy and the verified interests of the company's main stakeholders. This often means eliminating, or substantially reducing, grants in non-core areas and making a smaller number, albeit usually larger, grants in the remaining target areas. Focus and concentration also allows the company to build expertise in a particular area and develop a reputation for leadership and participation with respect to the selected group of causes. In order to ensure that the selected programs are have the desired impact, provision must be made for rigorous measurement and monitoring of results.
- Companies need to improve their processes for identifying and selecting partners that are best equipped to achieve the program's goals and sustain its efforts beyond the period during which the company is providing its initial support. Partnerships should be made with nonprofit organizations that can assist with designing and executing the program and with other companies interested in the issue or activity that can bring complimentary skills and resources to the initiative. Care should be taken not to stretch resources too much by having too many partnerships and companies should seek to identify a small number of partners interested in long-term commitments, collaborating and communicating and providing the company with recognition and visibility in the community.
- Technically grants made by corporate foundations should have no direct commercial benefit in order to maintain the nonprofit status of the foundation; however, decisions made regarding philanthropic giving, whether made directly by the company or through a corporate foundation, should be made following consultation with groups on the business side to obtain their input on what programs will be meet community needs and generate goodwill among the company's stakeholders. BCG provided several ideas about involving the business while maintaining legal compliance including holding annual "big ideas" forums with business leaders and key partners from the nonprofit world and nongovernmental organizations; involving business

[26] Adapted from M. Silverstein, P. Chandran and S. Cairns-Smith, "Rethinking Corporate Philanthropy" (Boston Consulting Group, May 9, 2013), https://www.bcg.com/publications/2013/corporate-social-responsibility-philanthropy-rethinking-corporate-philanthropy.aspx

leaders in the grant evaluation process; or having business leaders act as champions for specific grants or giving areas.

- Companies often had difficulties deciding on the best way to communicate to stakeholders regarding the philanthropic programs; however, as interest in corporate social responsibility has increased companies have been driven to create effective communications strategies that raise awareness of the social impact of the company's giving program and share the success of corporate-giving efforts in order to establish the company's commitment locally or globally. Employees, community members and other stakeholders should receive regular reports on the company's philanthropy program and directors and executives should be kept informed so that they can include the program in their own internal and external communications regarding the business.
- Companies need to select the appropriate structure for their philanthropic programs and allocate resources and attention accordingly. In general, the choice comes down to funding the programs directly as a business expense or setting up a separate tax-exempt organization (i.e., a corporate foundation) to which funding is allocated solely for use on charitable purposes. Direct corporate giving provides the company with more flexibility; however, a foundation with prefunding from the company can make multiyear investments, set and remain focused on specific goals and objectives and attract external talent that specializes in managing philanthropy. A foundation facilitates the strategic focus mentioned above; however, there are overhead costs associated with a foundation and care must be taken to ensure that the activities of the foundation are aligned with the needs of business, taking into account the need to comply with legal guidelines. Many companies use a combination of direct giving for small grants, perhaps one-time sponsorships of events recommended by employees, and a corporate foundation.

Making the business case for corporate philanthropy has been complicated by the challenges of demonstrating a direct link between philanthropy and financial performance due the lack of objective measures of philanthropy and the social impact of philanthropy; disagreements regarding how to measure corporate financial performance; the long payback periods associated with many philanthropic projects and initiatives; and the reluctance of companies to make full disclosures of their philanthropic investments and activities. Further complicating the situation is the diversity in the areas upon which corporate philanthropic programs have focused including public health, nutrition, and welfare; educational and employment opportunities; the development of a stronger climate for doing business; environmental impacts; and international/disaster relief.[27]

Engaged Philanthropy

Engaged philanthropy involves a wider range of resources than traditional philanthropy, although the total value of the resources invested may not be much more than the contributions that the company makes through traditional philanthropy. Engaged

[27] The Business Case for Corporate Philanthropy (L.W. Seidman Research Institute, Arizona State University, November 2015), iii.

philanthropy uses money, time, information, networks, skills, goods and services and influence to support a small group of community partners to deliver a discernable social impact (e.g., building the capacity of community organizations involved working on a social or environmental cause). Engaged philanthropy focuses on identifying a relatively small number of recipients and forging strategic alliances that will typically extend for several years and involve larger grants. Engaged philanthropy is used to make an impact on specific targeted areas or issues that should be aligned with the company's mission and specific goals and objectives for community involvement. Contributions that are an extension of the company's core competencies is a hallmark of engaged philanthropy.[28]

Engaged philanthropy has been described as incorporating social impact management into a company's philanthropy program to create long-term value, and engaged philanthropic programs include the following elements[29]:

- Investment 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 a long-term commitment
- Alignment of grants with business strategy and utilizing a range of cash and non-cash resources to support organizations or issues that generate social impact in an area that provides long-term value to the business as well as society
- Development of a "signature program" to focus corporate resources and extend impact over the long-term
- Nurturing of strong relationships with grantee organizations (e.g., by having members of the senior management team serve on the board of directors of community organizations), community leaders and other stakeholders
- Conducting rigorous impact measurement (including interim evaluation metrics) that attempts to understand the long-term term effects of funding on the societal changes the grant seeks to achieve.

According to the Aspen Institute, "social impact management" considers and evaluates three aspects of a business: the purpose—in both societal and business terms—of a business or business activity; social context, including whether the legitimate rights and responsibilities of multiple stakeholders are considered and whether a proposed strategy is being evaluated in terms that include not only predicted business outcomes but also broader impacts on the quality of life, the wider economy of a region and security and safety; and measurement of performance and profitability across both short- and long-term time frames.[30] Social impact management can be applied to every traditional business topic, from accounting to marketing to strategy[31]; however, integration may be

[28] N. Tran, "A Portfolio Approach to Corporate Social Investment", SVA Quarterly (August 25, 2016), https://www.socialventures.com.au/sva-quarterly/a-portfolio-approach-to-corporate-social-investment/
[29] A. Parkinson, Using Corporate Philanthropy to Build Long-Term Perspectives (The Conference Board, Giving Thoughts, May 2016), 6.
[30] Id. at 3 (citing "Social Impact Management: A Definition", The Aspen Institute).
[31] Business topics and disciplines and their associated social impact management topics include accounting (full cost accounting and social auditing); finance (discussion of social venture capital and social investing); information technology (digital divide, social impacts of technology transfer and workforce impact of IT enhancements); marketing (social and cause-related marketing and cultural impacts of

difficult, particularly the shift toward focusing on long-term value, and this makes a company's philanthropic program a good vehicle for shifting company thinking. Engaged philanthropy also addresses the growing interest of institutional investors in demonstrated social responsibility by their portfolio companies and the need for companies to proactively manage the expectations of key stakeholders such as individuals and groups in the communities in which the companies operate.

Catalytic Philanthropy

Kramer argued that even though traditional American philanthropists had spent vast amounts of money and helped to create the world's largest nonprofit sector, they had fallen far short in their efforts to solve the country's most pressing problems.[32] He noted that while annual charitable giving in the US had grown by 255% between 1980 and 2005, and the number of nonprofits in the US had more than doubled to 1.3 million during that same period, the US position among the members of the Organisation for Economic Co-Operation and Development in basic measures of health, education and economic opportunity had dropped from second to 12th. While conceding that larger political and economic forces play a much larger role in the persistence of childhood poverty and failed schools, Kramer called on donors to adopt a new approach to social change, which he described as "catalytic philanthropy".

Tran identified the following key question with respect to catalytic philanthropy: "How can we catalyze a campaign that achieves a measurable social impact?" Catalytic philanthropy brings to be bear new and different resources in additional to those deployed in engaged philanthropy, notably the experience and expertise that companies should be able to provide in the areas of leadership and coordination, research and knowledge, networks and new business models. Catalytic philanthropy typically focuses on a single systematic issue with the goal of establishing a leader and catalyst for change. The unique expertise found in the for-profit business world is applied to forging and managing cross-sector collaboration that involves multiple partners focused on that single issue.[33] Relying on a decade of work as a social impact advisor to innovative donors, Kramer identified four distinctive practices that contributed to the effectiveness of catalytic philanthropists:

> "They have the ambition to change the world and the courage to accept responsibility for achieving the results they seek; they engage others in a compelling campaign, empowering stakeholders and creating the conditions for collaboration and innovation; they use all of the tools that are available to create change, including unconventional ones from outside the nonprofit sector; and they

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advertising messages); operations management (plant siting decisions and stakeholders, risk management, impacts of labor standards); organizational behavior (employee rights and participation, workplace equity and diversity issues) and strategy (corporate reputation/image, downsizing, operating in economically disadvantaged areas and corporate governance). Id. at 5 (citing "Social Impact Management: A Definition", The Aspen Institute).

[32] M. Kramer, "Catalytic Philanthropy", Stanford Social Innovation Review (Fall 2009), https://ssir.org/articles/entry/catalytic_philanthropy

[33] N. Tran, "A Portfolio Approach to Corporate Social Investment", SVA Quarterly (August 25, 2016), https://www.socialventures.com.au/sva-quarterly/a-portfolio-approach-to-corporate-social-investment/

> create actionable knowledge to improve their own effectiveness and to influence the behavior of others."[34]

As background for Kramer's arguments and illustrations of the practices of catalytic philanthropy it is important to understand some of the practical limitations of traditional philanthropy (i.e., the main action by donors is deciding which nonprofits to support and how much and what to give them, leaving responsibility for finding and implementing solutions to social problems fully in the hands of the nonprofit), which remains valuable in certain instances. Kramer does not question the good intentions of those working in the nonprofit sector; however, he notes that it is important to understand that most nonprofits are very small and operate with limited budgets that severely restrict the resources that any one nonprofit can bring to a particular problem. In addition, while there are efforts to build networks among nonprofits in most cases any one organization will be operating largely on its own without ready access to sources of best practices and the collective clout to influence governmental actions. In fact, collaboration among nonprofits is often difficult because they are continuously competing with one another to convince donors that their solution and approach to a particular issue is better than other nonprofits with a similar focus. Most nonprofits also fail to measure and publicize the impact of their activities, which impedes their own planning and makes fundraising more challenging. All of these limitations taken together create a nonprofit sector often cannot scale its activities and resources to the point where it can provide meaningful and sustainable assistance to the many people needing the services that nonprofits can render.

The first practice of catalytic philanthropy—taking responsibility for achieving results—begins with donors selecting an issue of great personal significance to them that has raised a sense of urgency and commitment such that they want to take an active role in address the problem beyond the traditional path of simply making passive donations to nonprofits and other community groups. Hallmarks of this practice include becoming deeply knowledgeable about the issue; actively recruiting collaborators and often creating a new separate entity (e.g., a foundation) specifically dedicated to the particular issue or cause; formulating clear and practical goals and identifying the steps that need to be taken in order to achieve those goals; leveraging personal and professional relationships; creating new business models after the extensive research on the particular issue; coordinating the activities of different nonprofits; and proactively influencing governmental actions and public awareness of the issue. Behind all of this is the ability and will to bring connections, capacity and clout that most nonprofits do not have to finding solutions to a problem. However, this does not mean trying to act alone, imposing a solution that has not been vetted by the intended beneficiaries or ignoring the value that nonprofits, community groups and other stakeholders can bring to developing and implementing a collective solution.

The second practice of catalytic philanthropy is a concerted effort by the donor to go beyond individual grants to mobilize an entire campaign to influence change with respect to a specific

[34] Id. The discussion of the four practices of catalytic philanthropy in this section is adapted from his cited article.

issue or problem. Mobilization efforts often focus on breaking down bottlenecks and institutional impediments to change by forging cross-sector collaborations and mobilizing multiple stakeholders to create shared solutions. Some issues cry out for this type of approach: improving educational success and outcomes calls for action across the entire continuum of student progress and can only be done effectively if the initiative engages school districts, teacher groups, universities, private and corporate donors, governmental representatives and community groups. Change campaigns of this type heighten awareness and bring badly needed coordination to solving complex problems; however, they require patience to work slowly and carefully bring more and more stakeholders to the table and convince them to set aside some of their individual concerns to contribute to the larger effort that will have the greatest impact.

The third practice of catalytic philanthropy, using all available tools, captures the observation that more and more donors are going beyond traditional grant making to introduce a wide various of tools to promote social change that they are used to working with in situations throughout the for profit aspects of their activities. As examples Kramer pointed to contribution of corporate resources (e.g., supporting efforts to improve math and science education by having the corporation and its employees provide technology, management advice and intensive tutoring, mentoring, summer employment opportunities and scholarships); investment capital, such as subordinated debt to strengthen the balance of sheet of a local community development corporation; advocacy and litigation; lobbying and using capital and contacts to implement sophisticated communications strategies that are more impactful than traditional low budget public service announcements.

The last of the four practices of catalytic philanthropy was described by Kramer as the creation of "actionable knowledge", which refers to proactive collection and analysis of relevant information about an issue or problem by the donors (as opposed to relying on nonprofits to provide the information so that donor can decide whether to make a passive grant) and use of that information to make decisions about how they will act and motive the actions of others. For example, when taking action on a problem such as improving primary and secondary education in local schools a donor may organize and distribute data regarding school performance throughout the community so that community members can use the data to create solutions for specific schools and identify the schools that might be a good source for mining best practices. When knowledge is organized and presented in a dramatic fashion, perhaps through short documentary videos, stakeholders can be simultaneously entertained, informed and engaged.

Kramer acknowledged that catalytic philanthropy is not appropriate for all donors, most of whom simply do not have the time or resources to do more than engage in traditional philanthropy and do the best they can to select appropriate and effective nonprofits. Catalytic philanthropy is difficult because best practices for the approach are still developing and engaging in catalytic philanthropy requires a significant change in the mindset of companies and their foundations to transition from being donors to agents for change. Among other things catalytic philanthropy calls for new skills and a re-thinking of the culture and self-perception of the company and/or its foundation. Finally, the success of catalytic philanthropy depends on the willingness of the beneficiaries and others already involved in the specific cause or issue (i.e., governmental agencies) to embrace the leadership and coordination skills offered by the company or foundation.

Creating Shared Value

While "creating shared value" is discussed as an extension of philanthropic approaches, it is somewhat unique in that it essentially grounded in business strategy with the goal of addressing social problems at the same time that the company continues to pursue its traditional mission of creating economic benefit. As discussed below, creating shared value asks companies, investors and other stakeholders to accept that using the resources of a business to solve social problems is not inconsistent with growing the business and advancing the company's competitive advantage. Creating shared value is based on the assumption that business objectives can be aligned with creation of value for customers, community members and suppliers. Rather than focusing primarily on the systematic changes associated with catalytic philanthropy, creating social value allows companies to do what they do best: develop new products and more sustainable processes through cross-sector partnerships and collaborations.[35]

Spitzeck and Chapman explained that the concept of shared value dates back to the 1980s to the definition of corporate culture which incorporated that notion of shared values as being clearly articulated organizational values which make a significant different in the lives of employees, as well as in the organization's performance.[36] Shared values were seen as an important way to align employees with the objective and purpose of the business. The idea of alignment was subsequently applied to other business relationships and transactions including the supply chain and customers. The 1980s and 1990s also saw the application of shared values to interactions between business and society including actions taken with respect to local development. Spitzeck and Chapman believed that it was important to understand that Porter and Kramer's arguments and recommendations with respect to shared value, while innovative, were nonetheless grounded in an extensive body of previous research relating to bottom-of-the-pyramid markets, sustainable supply chains and industry clusters for local development.[37]

Porter and Kramer has been strident advocates of businesses making a fundamental shift in their purposes away from short-term financial performance toward coming together with the society in which they operate to create "shared value": "creating economic value in a way that also creates value for society by addressing its needs and challenges".[38] Porter argued that only businesses can create prosperity; however, companies, particularly in the aftermath of the financial crisis of the late 2000s, are often perceived as

[35] N. Tran, "A Portfolio Approach to Corporate Social Investment", SVA Quarterly (August 25, 2016), https://www.socialventures.com.au/sva-quarterly/a-portfolio-approach-to-corporate-social-investment/
[36] H. Spitzeck and S. Chapman, "Creating shared value as a differentiation strategy—the example of BASF in Brazil", Corporate Governance, 12(4) (2012), 499, 500.
[37] Id.
[38] M. Porter and M. Kramer, "Creating Shared Value", Harvard Business Review (January-February 2011), 64.

prospering at the expense of the broader community and, in many cases, have been viewed as being a major cause of social, environmental and economic problems.[39] The response to the actual and alleged issues associated with business activities has often been hostile to companies, with government and civil society often taking steps that companies see as harmful to their efforts to create stakeholder value. Porter noted that while businesses have concentrated more on corporate social responsibility overall perceptions of the legitimacy of the business was declining.

Porter believed that mounting concern regarding environmental and social issues could only be addressed by a new evolution of capitalism in which businesses continued their traditional pursuit of economic value by creating societal value (i.e., shared value). Porter and Kramer defined shared value as follows: "The concept of shared value can be defined as policies and operating practices that enhance competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates. [. . .] Value is defined as benefits relative to costs, not just benefits alone."[40] It is important to note that Porter and Kramer were not asking businesses to set aside their drive to achieve profitability; however, as Porter pointed out, all profit is not equal and turning their focus toward profit involving shared value will cause society to advance more quickly while allowing companies to grow faster.[41]

Spitzeck and Chapman noted that while Porter and Kramer's approach was consistent with prior applications of shared values to the relationship between business and society it also introduced two new conditions: shared value strategies must create value for the company by enhancing competitiveness and must create value for society by advancing social conditions in the communities in which the company operates.[42] Spitzeck and Chapman also pointed out that by providing that societal value is defined relative to costs Porter and Kramer were embracing a strategic philanthropy approach which is concerned with the efficiency and effectiveness of social outcomes relative to investments (i.e., getting the most social impact per dollar spent).[43] The key question here is how to have more societal impact per dollar spent. Porter and Kramer's concern for performance was further highlighted by their insistence that shared value strategies "be data driven, clearly linked to defined outcomes, well connected to the goals of all stakeholders, and tracked with clear metrics".[44]

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[39] M. Porter, Creating Shared Value: Redefining Capitalism and the Role of the Corporation in Society (Slide Deck Presentation at FSG CSV Leadership Summit, June 9, 2011), 2.
[40] M. Porter and M. Kramer, "Creating Shared Value", Harvard Business Review (January-February 2011), 66.
[41] M. Porter, Creating Shared Value: Redefining Capitalism and the Role of the Corporation in Society (Slide Deck Presentation at FSG CSV Leadership Summit, June 9, 2011), 3. Porter explained that creating share value was not philanthropy, "giving back" harm reduction, (just) sustainability, triple bottom line or balancing stakeholder interests. Id. at 4.
[42] H. Spitzeck and S. Chapman, "Creating shared value as a differentiation strategy—the example of BASF in Brazil", Corporate Governance, 12(4) (2012), 499, 500-501.
[43] Id.
[44] M. Porter and M. Kramer, "Creating Shared Value", Harvard Business Review (January-February 2011), 76.

Porter noted that shared value would require a major transformation in management thinking to incorporate societal issues into strategy and operations.[45] According to Porter and Kramer shared value can be pursued and created by businesses in three distinct ways: by reconceiving products and services to address societal needs and/or by opening new markets by redesigning products or adopting different distribution methods in order to serve unmet needs in underserved communities; redefining productivity in the value chain; and building strong and supportive industry clusters with capable local suppliers and institutions and a healthy business environment in the communities in which the company operates.[46]

Focusing on products, services and markets allows businesses to contribute in ways in which they are simply more effective and experience than governments and non-governmental organizations. By integrating shared value into their strategies companies can take advantage of new opportunities for innovation, differentiation and growth. Sometimes the change in mindset is difficult for established firms and it is not surprising to see that sustainable entrepreneurs often take the lead in identifying and capturing shared value opportunities.[47] Spitzeck and Chapman noted that the approach of reconceiving products and markets had previously been introduced and discussed as "Business at the Bottom of the Pyramid" by Prahalad and Hart in the early 2000s and explained their belief that the basic argument in support of the approach was creating economies of scale for offering essential products and services such as health, housing or credit at reasonable prices to disadvantaged communities, thus fostering their inclusion within the formal economy.[48] For Porter and Kramer the idea was that businesses should focus their product- and market-related competencies and strategies on "satisfying unmet social needs" and "serving disadvantaged communities".[49]

One challenge for businesses is selecting the social need they wish to address through their shared value strategies and operations. Porter noted that products and services can be designed to with a focus on environmental impact, safety, health, education, nutrition, living with disability, housing financial security and much more. As for the broader question of identifying product and market opportunities to create shared value, Porter recommended that companies redefine their businesses around unsolved customer problems or concerns as opposed to traditional product definitions; think in terms of improving lives and not just meeting consumer needs; identify customer groups that have been poorly served or overlooked by the industry's products in both advanced and

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[45] M. Porter, Creating Shared Value: Redefining Capitalism and the Role of the Corporation in Society (Slide Deck Presentation at FSG CSV Leadership Summit, June 9, 2011), 3.
[46] M. Porter and M. Kramer, "Creating Shared Value", Harvard Business Review (January-February 2011), 67.
[47] M. Porter, Creating Shared Value: Redefining Capitalism and the Role of the Corporation in Society (Slide Deck Presentation at FSG CSV Leadership Summit, June 9, 2011), 6.
[48] H. Spitzeck and S. Chapman, "Creating shared value as a differentiation strategy—the example of BASF in Brazil", Corporate Governance, 12(4) (2012), 499, 501.
[49] M. Porter and M. Kramer, "Creating Shared Value", Harvard Business Review (January-February 2011), 67-68.

emerging markets; and start the process with no preconceived constraints about product attributes, channel configuration, or the economic model of the business.[50]

As for Porter and Kramer's recommendation that businesses redefine productivity in the value chain, Spitzeck and Chapman noted that their approach consisted of a holistic evaluation of value chain that included firm infrastructure (e.g., financing, planning, investor relations); human resource management (e.g., recruiting, training, compensation system); technology development (e.g., product design, testing, process design, material research and market research); procurement; in-bound logistics; operations; outbound logistics; marketing and sales; and after-sales service.[51] Porter and Kramer argued that businesses can apply shared value to identify opportunities for improvement in key areas such as procurement, resource use, energy use, logistical efficiency, employee productivity and the location of facilities and the supply chain while simultaneously improving economic, environmental and social conditions in the communities where the company is operating. A few of the opportunities throughout the value chain mentioned by Porter for a company engaged in the mining sector included[52]:

- ***Human Resource Management*:** Recruiting from disadvantaged communities; diversity; employee education and job training; safe working conditions; onsite housing so that miners can be closer to their families; employee health; compensation and benefits to support low income workers; and staff retaining and rehabilitation after a mine closes
- ***Mine Acquisition, Development and Operations*:** Energy and water use; worker safety and labor practices; limiting emissions and waste; biodiversity and low ecological impacts; minimizing effects of hazardous materials; recovering additional materials from "exhausted" mines; and minimizing outbound logistical impacts
- ***Technology Development*:** Enhancing partnerships with colleges and universities

One example of the shared value approach in action with respect to the value chain is the efforts of Nestle to redesign its coffee procurement processes. Nestle targeted smaller farms in impoverished areas that were suffering due to low productivity, poor quality and environmental degradation and set out to provide support to those farms through advice on farming practices; assistance in securing plant stock, fertilizers and pesticides; and directly paying them a premium for better quality beans. The results created substantial value for both parties and the environment: farmers' incomes went up due to the higher yields and improved quality of their beans, Nestle enjoyed a more stable and reliable

[50] M. Porter, Creating Shared Value: Redefining Capitalism and the Role of the Corporation in Society (Slide Deck Presentation at FSG CSV Leadership Summit, June 9, 2011), 6 and 9.
[51] H. Spitzeck and S. Chapman, "Creating shared value as a differentiation strategy—the example of BASF in Brazil", Corporate Governance, 12(4) (2012), 499, 501-502; and M. Porter, Creating Shared Value: Redefining Capitalism and the Role of the Corporation in Society (Slide Deck Presentation at FSG CSV Leadership Summit, June 9, 2011), 10.
[52] M. Porter, Creating Shared Value: Redefining Capitalism and the Role of the Corporation in Society (Slide Deck Presentation at FSG CSV Leadership Summit, June 9, 2011), 11.

supply of good coffee and the adverse environmental impact of the farming activities declined in a manner that was sustainable.[53]

Porter and Kramer's recommendation that businesses create clusters for local development follows from previous research that demonstrated that industry clusters enhance innovation, competitiveness and knowledge exchange; shared values align the activities of the actors within clusters; and collaboration and knowledge exchange on sustainability issues in clusters improves environmental and social performance.[54] Spitzeck and Chapman noted that the insights from clustering research were also being applied to local development contexts which similarly depend on the interaction and alignment of several players such as suppliers, service providers, educational institutions, NGOs and local governments in order to attain to local development goals.[55]

Porter's arguments for clustering was based on several compelling business propositions: strong local clusters improved company productivity due to greater supply chain efficiency, lower environmental impact and better access to skills; companies, working collaboratively to build local clusters, could catalyze major improvements in the cluster and the local business environment; and developing local clusters strengthens linkages between company and community success (i.e., what's good for the company is good for the community).[56] He recommended that businesses look to see what suppliers are inefficiency or missing locally and what institutional weaknesses or community deficits are creating internal costs for the firm. The answers to these questions provide the ideas for development-based clustering activities, such as launching education and training programs to be sure that there is a sufficient pool of skilled labor in each of the communities where the company operates and creating an investment fund to support a network of small- and medium-sized businesses that can fill gaps in the supply chain and provide the company with improved services and quality while creating a large number of new jobs in the community.[57]

Porter made it clear that the shared value approach was not the same as corporate social responsibility ("CSR") and that even some of the firms that had been recognized for their CSR efforts would need to do more in order to truly and effectively transition to shared value. For both CSR and shared value it is assumed that companies are committed to complying with laws and ethical standards and acting in ways that reduce environmental and social harm. Key distinctions, however, are as follows: while CSR is based on "doing good" by acting as a good citizen and engaging in philanthropy, shared value has a sharper focus on value creating for the community and the company, with detailed measurement of value taking into account economic and societal benefits relative to cost;

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[53] The discussion in this paragraph is adapted from an executive summary of M. Porter and M. Kramer, "Creating Shared Value", Harvard Business Review (January-February 2011).

[54] H. Spitzeck and S. Chapman, "Creating shared value as a differentiation strategy—the example of BASF in Brazil", Corporate Governance, 12(4) (2012), 499, 502.

[55] Id.

[56] M. Porter, Creating Shared Value: Redefining Capitalism and the Role of the Corporation in Society (Slide Deck Presentation at FSG CSV Leadership Summit, June 9, 2011), 13.

[57] Id. at 14 and 15.

CSR is discretionary, although it is expected more and more by important stakeholders such as investors, while shared value is essential to profit maximization and competing effectively; CSR agendas are often determined externally while shared value priorities and initiatives should be driven by the needs and competencies of the particular business; and the impact of CSR is limited by the corporate footprint and CSR budget while shared value mobilizes the entire corporate budget.[58] Porter counseled businesses to act as businesses, not as charitable givers, and argued that in so doing businesses can achieve renewed purpose and be perceived as legitimate and valued contributors to the wellbeing of their communities.

Porter and Kramer are obviously not the only proponents of shared value and other consultants have praised the concept and offered additional ideas about how businesses might proceed such as sustainable social investments. Social investments have been described as "repayable finance that aims to achieve a social and financial return" and provide businesses with a path for engaging deeply in social causes while realizing strategic opportunities to learn about new markets, growing an existing market, foster innovation and generate sustainable financial returns.[59] Research conducted in 2016 covering 557 corporate social impact programs at 127 companies around the world showed that the most common vehicles used to generate financial returns are targeted at commercial development, infrastructure development, product development or social supply chains.[60] As for the more frequently used approaches to funding and social investments, the preferences were corporate social funds that combine regular financial performance with stated social impact goals; social impact bonds, an investment vehicle whose payoff is dependent on a specific social outcome such as expanding the reach and impact of a particular community development program; corporate venture capital that focuses on significant investments in, and acquisitions of, firms with a social impact that align with the company's core business; social joint ventures and social business units that can be used to pursue long-term business goals (e.g., investigating new markets and/or developing new products and business models) in a manner more closely tied to core business operations without have to purchase new businesses.[61]

Social investments, like all of the shared value approaches, require attention from the leaders of the organization and special efforts to overcome barriers such as a lack of awareness of social investment models and a cultural mindset to concentration on traditional philanthropy. One consultant recommended that companies looking to launch a social investment program need to raise awareness of social investment opportunities within the firm; educate stakeholders about the benefits that social investment can bring across the business; establish dedicated representatives to review how longer-term social initiatives could benefit the business; ensure that the company has access to tools that will effectively measure social returns; and engage with other companies, intermediaries and advisors who can highlight opportunities and mechanisms for launching social

[58] Id. at 16.
[59] Corporate Social Investment: Gaining Traction (Oliver Wyman, 2016).
[60] Id. at 4.
[61] Id. at 4-6. For case studies of various shared value initiatives, see Exploring Shared Value in Global Health and Safety (National Academies Press, 2016), https://www.nap.edu/read/23501/chapter/5

investment programs. Companies should start small and once there is a track record to support scaling up they can implement more sophisticated approaches such as long-term partnerships, joint ventures and social business units. Networking also plays an important role since social investment is often most effective when done in collaboration with like-minded organizations.[62]

Smart Partnering

According to Keys et al., CSR encompasses dual objectives: pursuing benefits for the business and for society.[63] They used these two objectives to create a map of the CSR landscape using two dimensions: benefit to society and benefit to business and then populated that map with four popular activities that have generally been included under the umbrella of CSR. For example, "pet projects", activities selected by individual executives based on their personal interests, are often supported by companies, yet generally have little benefit to either society or the business. Philanthropy is another common CSR approach and generally does well in terms of benefit to society; however, unless philanthropy is done strategically it can be subject to criticism as providing little in the way of benefit to the business of the company. Some companies engage in what have been derogatively termed "propaganda" activities that are primarily intended to enhance the company's reputation but do not produce much in the way of social benefit and often put the company at risk for criticism if it appears that its actions are not as strong as it words. Finally, partnering appears on the map as providing significant benefits on both the societal and business dimensions.

Keys et al. argued that "smart partnering" was an effective way for companies to create value for both the business and society simultaneously by leveraging the complementary capabilities of both partners to develop creative solutions to address major challenges that affect each partner.[64] Keys et al. explained that with partnering the focus of the business moved beyond avoiding risks or enhancing reputation and toward improving the company's core value creation abilities and addressing long-term challenges to the company's sustainability. As for society, the focus of partnering extends beyond maintenance of minimum standards or seeking funding to make an impact on important social issues such as improving employment, overall quality of life and living standards.

Keys et al. urged company leaders to map all of the current and proposed CSR initiatives and activities based on the two dimensions described above. Mapping allows leaders to get a better idea of where the company's CSR activities have been focused in the past and where they should be focused in the future. When completing the mapping exercise, leaders should pay particular attention to identifying the objectives of each activity; the benefits that are being created by each activity, including who is actually realizing those benefits; and how relevant the activity is to addressing key strategic challenges and

[62] Corporate Social Investment: Gaining Traction (Oliver Wyman, 2016), 8-9.
[63] T. Keys, T. Malnight and K. van der Graaf, "Making the most of corporate social responsibility", McKinsey Quarterly (December 2009).
[64] Id.

opportunities of the company. Answering these questions is important because every company, regardless of its size, has resource limitations that will apply to CSR initiatives. In addition, a "deep dive" mapping exercise will force the company to develop and use rigorous measurement and assessment tools in order to develop a clear picture of the impact of its CSR activities, tools that can be put to good use when the company establishes the framework for partnering activities.

Once the mapping process is completed, the information should be used to generate ideas for maximizing both the business and social benefits of the company's CSR activities. Key et al. argued that this meant moving away from the relatively easy CSR activities that companies generally embrace because they are easier to execute—pet projects, philanthropy and propaganda—toward partnering. Companies were advised to concentrate their CSR efforts, making sure that limited time and resources were focused on high business and social impact projects; build a deep understanding of both the business and social objectives and benefits of prospective projects; and find the right partners, partners who offer complementary strengths and have the motivation, and provide the requisite chemistry, to forge long-term sustainable relationships. Partnering activities, much like potential CSR topics, are abundant and each company needs to be smart in their selection process and ask additional questions such as what are the one or two criteria areas in its business where it interfaces and has an impact on society and also has significant opportunities for enhancing the value of the business; what are the core long-term needs for the company and society that can be addressed through a particular partnership; and what resources or capabilities are needed in order for the partnership to be successful and which of these can the company offer through its existing core competencies and innovation capabilities.

Keys et al. emphasized the CSR partnering arrangements are like any other business relationship in that they need to be grounded in a solid business case and approached with rigor as to prioritization, planning, resourcing and monitoring. The premise behind "smart partnering" for CSR is that it will deliver short-term and long-term benefits to businesses and communities; however, those benefits need to be identified and defined in advance so that internal and external stakeholders, including shareholders, can be presented with a feasible story that elicits their support for the arrangement and the investment of resources that will be required from the company. Keys et al. suggested that the benefits associated with a prospective partnering arrangement could be assessed across three dimensions:

- ***Time Frame:*** The time frame is important for CSR partnerships, particularly since the initiatives are typically complex and thus require a longer period of time in order to fully realize their potential. The business case needs to be clear about both short-term immediate objectives for the partnership and longer-term benefits.
- ***Nature of Benefits:*** CSR partnerships generate both tangible and intangible benefits, both of which need to be measured in some way and taken into account. Companies are certainly interested in increasing revenues from gaining access to new markets and this can be easily tracked; however, notice and recognition need to be given to

important intangible benefits such as development of new capabilities and enhancement of employee morale.

- ***Benefit Split:*** Smart partnering is based on generating benefits that are shared between business and society and in order for the business case for the partnership to be effective it needs to be demonstrated that both business and society will be benefit and that the allocation will be appropriate and not one-sided (if they are one-sided what has been touted as a partnership may really be philanthropy or propaganda).

For both businesses and society, consideration needs to be given to short- and long-term tangible benefits and short- and long-term intangible benefits. While each prospective partnership should be evaluated based on the three dimensions described above, it is not strictly necessary that each of them measure the same way on each of the dimensions; however, each arrangement should fit well into the company's overall portfolio of CSR partnerships and meet the minimum criteria for partnership status (i.e., there should be both short- and long-term benefits and benefits should not be extremely one-sided). Keys et al. illustrated the application of the three-dimension evaluation framework, and the room for different yet complimentary types of projects, by considering two partnerships that Unilever embarked on in the late 2000s: Project Shakti, which provided short-term tangible benefits that were extremely clear and powerful, and Project Kericho, which was undertaken to pursue and achieve long-term intangible benefits that were strategically critical for both the business and the communities in which the company was operating.

Project Shakti began as an initiative to financially empower rural women and create livelihood opportunities, including a regular income stream, for them and their families while, at the same time, providing a means for Hindustan Unilever ("HUL") to market and sell its health and beauty care products to low-income consumers in rural Indian villages that often lie entirely outside the reach of mainstream media and cannot be reached cost effectively through the usual marketing channels. In order to reach consumers in these villages, HUL recruited local female entrepreneurs, referred to as Shakti Ammas ("Shakti" for power and "Amma" for mother), across 15 states to act as salespeople and brand-builders, and HUL's products were delivered to central locations where Shakti Ammas purchased the goods and from there to thousands of villages.

From a business perspective, Project Shakti created both short-term tangible benefits in the form of significant sales growth and long-term tangible benefits through HUL's ability to scale a cost-efficient distribution and sales network in remote markets. Intangible benefits to HUL included corporate reputation, education and enhancement of brand loyalty. As for social benefits, HUL trained and employed thousands of women in villages across India in business basics and distribution management and substantially improved health and living standards (i.e., tangible benefits). Intangible social benefits from the program included the development of entrepreneurial skills and mindset and support for rural entrepreneurship.[65] It should be noted that in many cases the benefits

[65] See Hindustan Unilever Limited, https://www.hul.co.in/sustainable-living/case-studies/enhancing-livelihoods-through-project-shakti.html; and R. Narsalay, R. Coffey and A. Sen, Hindustan Unilever: Scaling a cost-efficient distribution and sales network in remote markets (Accenture Institute for High

identified for society will lead to subsequent opportunities for the business. For example, development of a community of entrepreneurs will hopefully lead to future partnerships with local firms to develop products that meet community needs and that will be enticing for consumers in those communities eager to support the efforts of their neighbors.

The Kericho Project took place in the Kericho district of southwestern Kenya where Unilever had been growing tea since 1924. At its Kericho estate, which is Rainforest Alliance certified, Unilever made a decision to provide workers with pay and working conditions significantly above the agricultural workers' norm and minimum statutory requirements and also offered housing, annual leave pay, transport allowances, paternity and maternity leave, free health care, nursery and primary school education, clean potable drinking water and free meals during working hours.[66] In addition, Unilever entered in a partnership with the Sustainable Trade Initative and the Kenya Tea Development Agency that has provided training to over 85,000 farmers on sustainable agricultural practices and Rainforest Alliance certification through Farmer Field Schools, including over 45,000 women (53%), and which has resulted in income diversification, higher yields and health, food and nutrition improvements.[67] Short-term tangible business benefits to Unilever included a positive impact on sales in selected countries and long-term tangible business benefits included control of critical raw material supplies and increased brand strength. Unilever also realized intangible business benefits such as an engaged, healthy workforce, corporate reputation and eco-friendly brands. The local farmers and their communities benefitted from increased income, resource and environmental protection, improved skills and entrepreneurial knowledge, improved living standards and exposure to role models for economic development.

Keys et al. explained that the process of using the framework to identify, quantify and categories the benefits available through a potential partnership not only allowed the company to develop the business case for the project, it also provided the foundation for communicating the story behind and rationale for the project to stakeholders. In order to communicate and report properly and fully, the company must have a clear understanding of the benefits to the business and society and the resources, including time, which will need to be invested in achieving those benefits. At the same time, the company and each prospective partner must have an understanding of the strategic challenges they are attempting to overcome and the resources they can offer through the partnership to collaborate effectively to address those challenges. Keys et al. counseled the companies looking to make smart partnering a strategic imperative and an opportunity needed to focus on key areas of interaction between the company and its environment and address

Performance, 2012), https://www.accenture.com/_acnmedia/Accenture/Conversion-Assets/DotCom/Documents/Global/PDF/Dualpub_23/Accenture-Unilever-Case-Study.pdf

[66] Unilever's operation of the tea estates in Kericho became a significant challenge for the company in 2013 following allegations of sexual harassment of female workers and Unilever accepted and implemented accepted recommendations to improve the gender balance among team leaders and the grievance handling system following an extensive independent review of the allegations. See https://www.unilever.com/sustainable-living/what-matters-to-you/kericho-tea-estates.html

[67] https://www.idhsustainabletrade.com/news/sustainable-agricultural-programme-ktda-idh-unilever-improves-livelihood-tea-farmers/

value creation activities at the center of the company's strategic agenda. In addition, companies needed to look beyond the traditional comfort zones of pet projects and philanthropy and stretch their strategic ambitions for CSR to include smart partnering. Companies should also embrace smart partnering as a vehicle for demonstrating and executing on their core values.

In order to get started on the journey toward smart partnering for sustainability, Keys et al. recommended that company leaders identify two or three critical interactions between the company's business and society and for each of these interactions map out what the company has to offer in terms of capabilities, knowledge, resources and relationships that would contribute to overcoming both business and societal challenges. The next step would be to create a profile of an ideal partner that would include resources that complement those that the company is able and willing to offer. Returning to the Kericho Project described above, Keys et al. noted that Unilever's strategic challenge was to ensure sustainable supplies of critical raw materials and enhance its corporate reputation and that the strategic challenges for ideal partners were increasing income and skills or rural farmers and ensuring a long-term source of income through sustainable agriculture. The partners were able to achieve their objectives by making the appropriate contributions: Unilever offered ongoing, high-volume purchases of tea (i.e., sustainable incomes), agricultural knowledge and experience to help improve quality of farming and crops, long-term perspective to allow time to realize mutual benefits, environmental commitment and reputation and relationships to help build trust with NGOs and governments; and the local partners offered a critical mass of farmers and farming communities motivated to collaborate on activities that would improve sustainability and quality of tea supplies, local and regional government relationships to support improvements in sustainable agriculture and partners with local energy and habitat-conservation knowledge and experience.

Partnering with Local Nonprofits

One important form of community investment is a partnership between a for-profit business and a local nonprofit organization to collaboratively address a social or environmental issue or cause that neither one of them can adequately address on their own and for which local government has also failed to find a solution. While partnerships been businesses and nonprofit organizations make sense, they can be challenging because they bring together organizations with different ideologies and ways of looking at problems, setting goals and measuring outcomes. On the other hand, a so-called "community business partnership" is an excellent opportunity to bring together two or more organizations with common goals and complementary resources to leverage those resources, and the talents and experiences of their employees, to pursue and achieve goals that will benefit the businesses, the nonprofit organizations and the community.

Each side has different goals and objectives with to any particular community business partnership and companies may provide a range of contributions to the partnership ranging from untied cash grants, workplace giving campaigns and employee volunteers to more extensive and integrative collaborations involving significant investments of managerial time, reputation and networking connections. Marketing related sponsorships and cause related marketing initiatives are also popular. In some cases a company and a nonprofit organization may collaborate to conduct research on a particular issue in order to develop new ideas for solutions and disseminate information regarding the issue to governmental agencies and community groups. Businesses and nonprofits may also work together to form and operate social enterprises that are market-based ventures seeking to achieve economic sustainability while fulfilling agreed community-focused social goals. In general, company contributions are intended to provide nonprofit organizations with more stability in their revenue streams, more human resources through the availability of volunteers and capacity building (i.e., improvements and enhancements to the nonprofit organization's external relations, internal infrastructure, finances and managerial skills to allow it to more effectively pursue and achieve its core mission).

Research has identified the following common elements of successful community business partnerships[68]:

- Clearly articulated and shared mission with recognized short- and long-term goals and a commitment to a sustainable (i.e., long-term) relationship
- A commitment of time and funding by the business that reduces the distractions to the nonprofit organization's pursuit of its mission caused by the need to continuously be engaged in fundraising
- Compatible strategy and values between the partners and mutual recognition of opportunities for both partners arising out of the partnership relationship
- Continual measurement and evaluation of programs, as well as the partnership itself
- Decision-making in the best interest of the partnership and to the best interests of each partner
- Good governance and transparency, particularly relating to financial matters
- Identity and integration of the partnership, allowing each partner to separate their individual reputation and brand while integrating the mechanics of the partnership into the structure of each of the participants
- Joint decision-making and power-sharing, possibly including placing corporate executives on the board of directors of the nonprofit organization
- Ongoing learning, adaptability and flexibility that allows programs to evolve and the partnership to grow organically
- Open communications by establishing and maintaining mutual trust, as well as anticipating and preventing problems

[68] Adapted from Enduring Partnerships: Resilience, Innovation, Success (Boston College Center for Corporate Citizenship, 2005); and J. Levine, Elements of Sustainable Partnerships (Boston College Center for Corporate Citizenship, 2004) (as cited and discussed in Relationship Matters: Not-for-Profit Community Organizations and Corporate Community Investment (Australian Government Department of Social Services, October 2008), https://www.dss.gov.au/our-responsibilities/communities-and-vulnerable-people/publications-articles/relationship-matters-not-for-profit-community-organisations-and-corporate-community-investment?HTML#p4

- Recognition of the various strengths brought to the partnership by each partner (e.g., the sector and program expertise of the nonprofit organization and the measurement and reporting expertise of the for-profit partner)
- Suitable programs that fit with the available resources and core competencies of the partners, organizational size and location
- Programs that create value and benefits integral to the partnership itself

Companies seeking to enter into business community partnerships must be prepared to engage in thorough and extensive due diligence with respect to prospective partners, realizing that there may be multiple organizations in any given community that appear to be focused on similar goals and objectives. One factor that is particularly important is the willingness and ability of the nonprofit organization to embrace the company's need for accountability and transparency with respect to the operations of the organization due to the obligations that companies have to other stakeholders to account for the ways in which the resources of the company are utilized. Part of the capacity building exercise in forging a business community partnership may be creating a culture of accountability (or improving the existing culture) through the use of key performance indicators tied to explicit deliverable obligations that the nonprofit organization assumes at the time that the partnership is formed.

Building Community Partnerships

While companies often have the functional experience and resources to launch and manage community investments on their own, research has shown that the most effective and impactful investments are carried out with the active engagement and participation of community groups. As such, companies need to be aware of the steps that should be followed in order to implement community partnerships with the ultimate goal of establishing successor organizations managed and controlled by the community as self-sustaining enterprises. While each situation is different the process generally begins with community engagement that includes the collection of information necessary to determine the appropriate structure for the initial partnership. Once the partnership structure has been established and roles of community groups have been determined, the company can provide training and other resources to build community capacity while the first investment projects are launched. As time goes by the emphasis should shift to planning and launching successor organizations and setting the appropriate levels of ongoing support to such organizations by the company. Finally, like any business skill or activity, periodic evaluations should be conducted regarding the company's partnership building processes and reports on those processes should be prepared and disseminated throughout the community and to other stakeholders.[69]

Building community partnerships requires information about the local context, information that can be collected using the various community engagement methods typically used such as community meetings, interviews with community leaders, surveys

[69] Portions of the discussion of developing and managing community partnerships herein are adapted from "Developing effective Community Involvement Strategies" published by the Joseph Roundtree Foundation.

and the like. The idea at this stage is to map local organizations and understand the priorities and needs within the local community and the resources that are currently available, or lacking, to address the issues that the company is considering for the community partnership initiative. The engagement process provides an opportunity to develop a vision for the partnership and prepare the initial drafts of action plans that will eventually be implemented in the partnership structure. In some cases the company will actually conduct a small project related to the broader issue area as a way to build confidence within the community and test the potential effectiveness of relationships with community groups that will be critical to the success of the larger partnership. These initial projects are also a good way to get underserved and/or often ignored community groups into the process.

The advantages of early community involvement are well known: fresh perspectives, ability to deliver programs that are more appropriate for community needs and expectations and creating more support and goodwill within the community. Moreover, if an anticipated investment will require governmental approvals evidence of community participation in the planning process will usually be necessary before local politicians and administrators can support the project. However, companies should be under no illusion that this stage will be easy, regardless of how much the company believes that it has found an issue upon which the entire community should agree. When the goal is to establish a community partnership companies need to take into account all of the issues that come up whenever a new organization is launched: conflict resolution and compromise; blending different experiences, cultures and languages into a shared vision and perspective on a particular issue; and designing a structure for sharing decision making and managing the affairs of the partnership.

One of the first steps in creating community partnerships that will ultimately become self-sustaining is facilitating the launch of a forum that can be used for the various groups within the community with an interest in the issue or project to convene to share information and provide substantial input into the process. A forum of this type is a bit different than the larger public meetings that will likely occur during the engagement process in that they will include representatives from each of the community groups selected for their ability and willingness to engage in a variety of important functions such as electing representatives to the board; nominating representatives to working parties and topic groups; acting as a consultative group for the partnership; managing staff and projects; promoting particular interest groups within the community; and acting as a channel of information.[70]

Having community representatives at the board level ensures that the community has been consulted regarding all important decisions relating to the partnership. Community board representatives should be appointed with the expectation that they will meet regularly with groups throughout the community to inform the community about the status of the partnership's projects and elicit open dialogue with ideas and criticisms that can be brought back to the entire board. Community representatives involved with

[70] Id. at 4.

working parties and topic groups perform similar functions to the community board members within their areas of interest and expertise. For example, working parties can be formed for each of the neighborhoods within the community that will be impacted by the project in order to identify and manage the unique impacts of the project on a particular neighborhood. In some cases, responsibility for implementing and delivering smaller initial projects can be handed over to community representatives in order to build experience and confidence; however, care should be taken to ensure that they have ongoing support from company specialists who can provide advice. When community representatives are part of the governance and management process special attention needs to be paid to ensuring that meetings are conducted in a way that fits the schedule of community members and takes into account their special needs with respect to language, level of formality, access, daycare etc.

While companies will generally retain a substantial level of input and authority regarding decision making during the earlier stages of a community partnership this is also the time that investments should be made in training community members and groups so that they can eventually manage projects on their own. In order for partnership to function independent of the company and any one community organization provision should be made for separate office space and equipment. An administrative budget should be created, recognizing that most of the resources will initially come from the company. The partnership should have access to the same types of professional resources as more established community organizations include legal, accounting and financial service providers. Extensive training should be made available to community members interested in become more involved with the management of the partnership and its successor organization and the curriculum should address financial administration, legal duties and obligations and management, leadership and communications skills.

Once the partnership is up and running and has established a positive track record within the community, it is time to move forward with establishing a successor organization that is self-sustaining and managed principally by the community itself with appropriate, but limited, ongoing support from the original company sponsor. While companies can, and often do, build a large portfolio of community partnerships as part of the community investment strategies, it will ultimately be very difficult for the company to maintain the same level of participation in each of these partnerships. Moreover, companies may wish to shift the focus of the community investments into other areas and will want to withdraw resources from partnerships that have either failed to achieve their purpose or, more positively, are ready to stand on their own as a local community organization. Establishing a successor organization should be part of the partnership planning from the beginning and companies should continuously scan the environment for people and groups who can successfully and seamlessly assume control of partnerships.

There is no single best resource for a successor organization. In some cases the community leaders of the partnership may emerge as the clear best candidates to take over the projects. In other situations the best place to move the activities of the partnership may be an existing community organization that has proven to be a reliable and competent strategic ally of the partnership during various partnership projects.

Creating a new community development corporation, as discussed elsewhere in this chapter, is also a viable alternative. Whatever method is selected the goal should be a strong locally-managed organization with both its own assets and a support infrastructure that ensures it will have access to the resources necessary to achieve sustainability. On the second point, the successor organization should have strong relationships with governmental agencies, local nonprofit organizations and private businesses who would be willing to step in with short-term funding and provide ongoing training.

Community partnering is one of the noblest and more effective methods that companies can deploy in their community investment strategies and it is important for companies to evaluate their partnering activities regularly and include information on community partnering in their sustainability reporting. Reporting should address the purpose and strategy of each of the partnerships and include information on both quantifiable outputs (e.g., number of community members served; community organizations supported etc.) and more intangible outputs such as improvement to community engagement processes. Reporting should also track the progress of the partnership toward the transition to a successor organization. While all partnership programs are important, capacity building should be emphasized in communications with the community. Not to be forgotten is the positive impact of working on partnership initiatives for employees.

Community Development Corporations

Businesses often engage in community economic development activities through sponsorships and other collaborations with local community development corporations ("CDCs"), which are 501(c)(3) nonprofit organizations that have been formed and organized to support and revitalize communities, especially those that are impoverished or struggling.[71] While CDCs have traditionally been active in projects relating to the development of affordable housing by buying, renovating or build for sale or rental properties, a CDC can be formed to address any specific current need within the community. In many cases, communities may be facing a number of related challenges that appear to fall into different areas. For example, many cities have large areas within their borders in which the residents feel cut off from the rest of the city due to poor transportation; the housing stock is inadequate and deteriorating due to inattention from absentee landlords; the schools are low performing and inadequately funded;, mortality rates are high, particularly from conditions that are treatable if health services were readily available; and jobs, amenities, basic recreational opportunities (i.e., clean and safe parks) and core business services (i.e., grocery stores) are lacking. In that situation, the goal and purpose of the CDC is to bring community leaders together to develop solutions, place pressure on policymakers to act and provide a focal point for contributions of cash and other resources from individuals, businesses and nonprofit organizations willing and able to assist.

[71] R. Erekaini, What is a Community Development Corporation? (September 17, 2014), https://www.naceda.org/index.php?option=com_dailyplanetblog&view=entry&category=bright-ideas&id=25%3Awhat-is-a-community-development-corporation-&Itemid=171

Since communities generally have a number of areas that would benefit from the focus of a CDC (e.g., education, job training, healthcare, commercial development, and other social programs) it is impossible to prepare a list of all the potential activities of a CDC; however, the following list of CDC activities may be useful in providing ideas[72]:

- Undertaking economic development projects in the community including developing real estate, attracting businesses, forming new businesses, providing job training, managing summer work programs, revitalizing a commercial district etc.
- Providing social services (e.g., shelters, community poverty relief, case work, substance abuse programs, social skills and budgeting training, IDAs)
- Assisting neighbors in getting to know each other (i.e., building social capital) or community organizing to get more attention from government and other funders
- Organizing both routine and ambitious clean ups of abandoned buildings, brownfields, or even parks or streams when they are detracting from the health and appearance of the community
- Creating and managing projects to add landscaping, pole banners, public art, mini-parks, and other streetscape features such as new sidewalks or more functional or aesthetic street lighting
- Branding a neighborhood (i.e., new logos, banners, signature events, neighborhood boundaries, and even neighborhood names)

Individuals, groups and formal organizations, such as existing businesses, may decide to work together to form and operate a CDC to address an identifiable need within a community that has not been met by existing government programs, organizations, for-profit businesses and/or other nonprofits. In many cases, a CDC is formed after efforts to prod some or all of the entities mentioned in the previous sentence, particularly governmental bodies, to take action and/or reform their operations to address the need have failed. A CDC is not a governmental entity, although many CDCs work closely with representatives of local governments and develop a synergistic relationship with lawmakers and civil servants in the community. CDCs often attract financial support from both public and private sources and while a CDC is a tax exempt nonprofit there is no specific tax identification or certification that distinguishes a CDC from other nonprofits. CDCs can be quite large, such as well-established organizations in urban communities that have developed and own and operate significant numbers of affordable housing units, or smaller groups that meet in the basement of a school or community center. Staffing for CDCs will usually be a combination of paid workers and volunteers, although the CDC's ability to compensate its staff will obviously depend on the available financial support.

In the typical case the key steps that are required to plan for and launch a new CDC include the following[73]:

[72] Information on additional ideas for CDC activities and programs is available from the National Alliance of Community Economic Development Associations (https://www.naceda.org/).
[73] Adapted from suggestions made in Useful Community Development, "Why Start a Community Development Corporation?", https://www.useful-community-development.org/start-a-community-

- Defining the community need and geographic boundaries
- Finding like-minded individuals and groups within the community and forming a steering committee to conduct and oversee the pre-formation process
- Discussing and refining a statement of need and the preferred focus areas for the proposed CDC
- Determining whether the new CDC will duplicate efforts of any existing organization, and if so, trying to collaborate with it (or even simply invest the resources set aside for the new CDC into the existing organization)
- Sharing the vision informally with community members and incorporating their criticisms and priorities in order to identify activities that are likely to garner a high level of interest and support within the community at large
- Providing a face-to-face forum in which interested individuals are invited to learn of the vision of the steering committee
- Thinking about how the new CDC can obtain enough funding to complete one or two early projects and achieve traction in the community
- Finding an attorney and accountant that can support the CDC in the formation and organization process on a pro bono basis
- Recruiting the initial members of the board of directors of the CDC, making sure to have a mix of expertise and connections within the local community as well as any other persons needed to plan and execute the early projects of the CDC
- Determining the organizational structure of the new CDC including decisions regarding types of membership, voting rights, advisory boards etc.
- Forming and organizing the new CDC and applying for nonprofit status
- Completing an initial project or event to announce the arrival of the CDC in the community and provide a basis for reaching out to community members for support and engagement
- Building the foundation for the bigger, long-term projects and initiatives of the CDC through surveys, community meetings and other organizing activities and developing fundraising campaigns
- Developing a long-term strategic plan that describes the major proposed projects, resource requirements, sources of funds and community impact goals

While planning for and launching a new CDC the organizers must be focused on identifying the unique role that the CDC can play in building a strong, healthier and more prosperous community by collecting the expertise, experience and financial supported needed to address the particular need or problem. A CDC should not be formed for a single one-time project; instead the organizers must be prepared to make a long-term commitment and position the CDC as a permanent player in the economic, social, cultural and political arenas of the community. The leaders of the CDC should expect to

development-corporation.html The website also includes a large library of resources that can be used to gather information on how to launch community development corporations focusing on specific issue areas such as housing, beautification and crime prevention.

become strong voices for change and engage with local institutions, both public and private, and a broad range of community members.

While a CDC is a nonprofit organization, it must be prepared to create and maintain a sustainable business model in order to develop a steady stream of funding from both public sources and private investment. This is particularly important since grant money, while welcome, will seldom meet all the budgetary needs for a comprehensive economic development project and local governments as well as the intended beneficiaries of the project will not be able to provide sufficient financial support.[74] Financial needs will, of course, vary depending on the proposed activities of the CDC (i.e., some projects, such as developing affordable housing, are quite capital intensive while others, such as providing social services, can be effectively carried out with assistance from volunteers). When staffing a CDC, consideration should be given to ensuring diversity and a broad mix of experiences that reflect the backgrounds of those in the community who will be most impacted by the activities of the CDC.[75]

Grants from foundations are one of the most common sources of funding for CDCs and the organizers of the CDC will need to be familiar with the criteria that will be applied by the foundations from which the CDC is likely to request support. Among other things, CDCs must be mindful of the geographic and topical focus of each foundation and the specific process that the foundation uses to receive and review applications (in some cases, foundations operate on an "invitation only" basis, which means that the CDC will need to make connections with people within or affiliated with the foundation first to obtain an invitation from the foundation to submit a proposal). In many situations businesses collaborate with CDCs through their own charitable foundations; however, in some cases the business may become involved in a project with an expectation of deriving a reasonable return on investment, albeit not as high as might be targeted in an entirely commercial project. For example, providing affordable housing is an area in which CDCs are often involved as part of their efforts to revitalize their communities and this may occur through partnership with for-profit real estate developers. The benefits of these alliances to develop low- and moderate-income housing and/or neighborhood retail centers come from the unique skills and resources each side can bring to the project. As one study of how CDCs can work with for-profit developers pointed out "CDCs bring connections to and knowledge of the community, their local economic development mission and expertise, and access to public funding sources, while for-profit developers

[74] Local government programs are often not highly publicized and CDCs will need to carefully scan for programs in their area that might be related to their topical interest. Areas in which local governments often have some programming include economic opportunity, particularly assistance for small business development; housing (e.g., emergency home repairs, repair loans, down payment assistance and renters' rights assistance), transportation and neighborhood care and beautification. M. Beeler, C. Kim and K. Peris, Starting a Community Development Corporation: A Report Prepared for Colony Park CDC (University of Texas at Austin, School of Architecture), 17.

[75] Information on forming and operating CDCs corporations is available from a variety of sources such as the Texas Association of Community Development Corporations (https://www.tacdc.org/), a nonprofit statewide membership association of CDC's and related non-profit, government and for-profit entities that provides services, research and advocacy and events that provide training and allow networking opportunities..

offer expertise in conventional real estate financing and familiarity with the development process and market demands”.[76]

As noted above, a CDC needs a sustainable business model and in order to achieve that the founders and leaders of the CDC must be able to build the requisite organizational capacity to achieve the goals established for the CDC and make the CDC a recognized participant in economic and social development activities in the community. Capacity-building needs and related strategies for a CDC have been summarized as follows[77]:

- ***Effective Executive Director*:** While the CDC may need to rely on volunteers during the early days and months until more financial support is available, once resources can be found an experienced executive director (“ED”) should be hired to provide the CDC with a leader who has the skills necessary to build the organization internally and advocate full time on behalf of the CDC in the community and with prospective partners. Once the ED has been hired the board should be attentive to ensuring that he or she is building and maintaining good relations with the board, community leaders and local politicians.
- ***Competent and Stable Staff*:** One of the primary responsibilities of the ED is building a competent and stable staff that allows the CDC to grow in a managed fashion with a minimum of turnover among personnel so that community members can build relationships with the people working throughout the community on behalf of the CDC. The CDC needs to offer training and fair compensation (salaries and benefits) commensurate with experience, skills and commitment to the CDC, although the ED and the board also need to be mindful that higher salaries may be negatively perceived within the community as being inconsistent with the mission of the CDC to serve impoverished members of the community. Non-employee technical specialists should be used as necessary; however, specialists should be used sparingly since they often lack experience in community-related work.
- ***Effective Fiscal Management*:** Staff hours should be allocated to accounting, budget management and fiscal planning and staff should be continuously trained in fiscal management skills and tools. Fiscal management is obviously important for any business, but especially for CDCs given their fiduciary duties as nonprofit organizations. Fiscal management, as well as management information systems, allows CDCs to maximize scarce resources through increased efficiency and effectiveness.
- ***Board Development and Leadership*:** The composition and skills of the board of directors of the CDC is crucial to success and every effort should be made, from the very beginning, to bring together a board that is diverse in all aspects: gender, ethnicity, talents, experiences and connections. Diversity in all of these areas stretches the reach of the CDC well beyond the cash and tangible assets at hand and

[76] D. Myerson, Community Development Corporations Working with For-Profit Developers (Urban Land Institute: Washington DC, October 2002) (includes a summary of recommendation for effective alliances)
[77] M. Beeler, C. Kim and K. Peris, Starting a Community Development Corporation: A Report Prepared for Colony Park CDC (University of Texas at Austin, School of Architecture), 32.

should enable to board to create a shared vision for the CDC that can be supported by clearly articulated objectives.

- ***Managed Growth*:** A CDC may be formed and launched around a single project; however, for sustainability to occur it is necessary to review the performance of the organization on a regular basis to assess operational needs and, if appropriate, make changes to strategy and projects.
- ***Project Management*:** Consistent with effective fiscal management is the need to develop and practice sound project management techniques to monitor time and efficiencies of work on projects supported by the CDC and think strategically across all of the CDCs activities. Project management tools should be used to control costs and ensure the quality and affordability of projects.
- ***Evaluation*:** Each project in which the CDC is involved must include a formal evaluation process designed with input from the CDC to ensure that all appropriate data is gathered and analyzed.

About the Author

This chapter was written by Alan S. Gutterman, whose prolific output of practical guidance and tools for legal and financial professionals, managers, entrepreneurs and investors has made him one of the best-selling individual authors in the global legal publishing marketplace. His cornerstone work, *Business Transactions Solution*, is an online-only product available and featured on Thomson Reuters' Westlaw, the world's largest legal content platform, which includes almost 200 book-length modules covering the entire lifecycle of a business. Alan has also authored or edited over 90 books on sustainable entrepreneurship, leadership and management, business law and transactions, international law and business and technology management for a number of publishers including Thomson Reuters, Practical Law, Kluwer, Aspatore, Oxford, Quorum, ABA Press, Aspen, Sweet & Maxwell, Euromoney, Business Expert Press, Harvard Business Publishing, CCH and BNA. Alan is currently a partner of GCA Law Partners LLP in Mountain View CA (www.gcalaw.com) and has extensive experience as a partner and senior counsel with internationally recognized law firms counseling small and large business enterprises in the areas of general corporate and securities matters, venture capital, mergers and acquisitions, international law and transactions, strategic business alliances, technology transfers and intellectual property, and has also held senior management positions with several technology-based businesses including service as the chief legal officer of a leading international distributor of IT products headquartered in Silicon Valley and as the chief operating officer of an emerging broadband media company. He has been an adjunct faculty member at several colleges and universities, including Berkeley Law, Golden Gate University, Hastings College of Law, Santa Clara University and the University of San Francisco, teaching classes on corporate finance, venture capital, corporate governance, Japanese business law and law and economic development. He has also launched and oversees projects relating to sustainable entrepreneurship and ageism. He received his A.B., M.B.A., and J.D. from the University of California at Berkeley, a D.B.A. from Golden Gate University, and a Ph. D. from the University of Cambridge. For more information about Alan and his activities, and the services he provides through GCA Law Partners LLP, please contact him directly at alangutterman@gmail.com, follow him on LinkedIn (https://www.linkedin.com/in/alangutterman/) and visit his website at alangutterman.com.

About the Project

The Sustainable Entrepreneurship Project (www.seproject.org) was launched by Alan Gutterman to teach and support individuals and companies, both startups and mature firms, seeking to create and build sustainable businesses based on purpose, innovation, shared value and respect for people and planet. The Project is a California nonprofit public benefit corporation with tax exempt status under section 501(c)(3) of the Internal Revenue Code dedicated to furthering and promoting sustainable entrepreneurship through education and awareness and supporting entrepreneurs in their efforts to launch and scale innovative sustainable enterprises that will have a material positive environmental or social impact on society as a whole.

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