Stanford SOCIAL INNOVATION REVIEW
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Business

Looking Good by Doing Good

Four ways corporate philanthropists can do better by their beneficiaries—and themselves.

By Zachariah J. Rodgers | Apr. 7, 2016

Hundreds of studies have evaluated the link between "doing good" socially and "doing well" financially. While some report large payoffs for firms that engage in corporate social responsibility (CSR)—philanthropic giving, for example—others conclude that CSR has nil or even a negative effect on financial performance. And although there are other reasons—even legal ones (http://www.nyujlb.org/wp-content/uploads/Weitzel.pdf) —to engage in CSR, many firms and managers continue to underinvest in it. Meanwhile, there is an oft-overlooked factor that can enhance the benefits of CSR: media attention.

Typically, arguments that CSR creates shared social and financial value rely on the idea that external stakeholders (such as customers and regulators) reward firms' philanthropic initiatives. Yet how can stakeholders reward firms if they are not aware of their philanthropy in the first place? Media attention plays an important role in alerting external stakeholders to the good that companies are doing.

In fact, in a recent study (http://onlinelibrary.wiley.com/doi/10.1002/smj.2246/abstract) , co-author Peter Madsen and I found that financial rewards for corporate philanthropy accrue only to companies whose philanthropy attracts media attention. Our research examined hundreds of millions of dollars' worth of corporate contributions to relief efforts in four of the most catastrophic disasters of recent years: the Indian Ocean tsunami of 2004, Hurricane Katrina in 2005, the 2010 Haitian earthquake, and Japan's 2011 Tohoku earthquake and tsunami. Using event study analysis (a statistical method to estimate the impact of events on a firm's value), we measured average abnormal stock returns of 0.55-0.65 percent for companies when they received some press coverage for their philanthropic contributions to disaster relief. Compared to the relatively small amount of money and resources the companies put toward these efforts, the market capitalization increase represented an enormous payoff. When firms' disaster relief philanthropy received no media attention, on the other hand, their average abnormal returns were essentially zero.

We also found that four factors significantly affected the amount of media coverage that corporate philanthropic initiatives attracted: credibility, tangibility, effectiveness, and relative generosity. Since these factors may also boost the social value of corporate giving, strategic consideration of these factors could allow firms to both generate greater direct returns from their philanthropic spending and do more good.

Credibility

The media is more likely to cover corporate philanthropy that appears credible. Just as endorsements from popular figures can boost political candidates or consumer products, nonprofit organization endorsements can give credibility to philanthropic initiatives. Our research revealed that when nonprofit partners publicized corporate disaster relief efforts, media attention to those efforts on average doubled or tripled. Corporate donors and fundraisers publicly thanked by the Red Cross, for example, saw large, measurable increases in news coverage. Likewise, the global financial institution ING received positive press when the American Association of School Administrators publicly recognized it for financial assistance (http://corporate.voya.com/newsroom/news-releases/ing-focuses-donation-devastated-school-districts) in school rebuilding after Hurricane Katrina. So did the home improvement company Lowe's when Habitat for Humanity publicly praised its fundraising, cash, and material donations (http://www.prnewswire.com/news-releases/habitat--lowes-to-aid-tsunami-victims-54036272.html) to Sri Lankan home-building after the Indian Ocean tsunami. Such partnerships can also increase philanthropic efforts' social impact, as nonprofits can offer expertise on how best to deploy corporate resources.

Lesson: Partner with an established nonprofit in the area to which you contribute.

Tangibility

In-kind product donations attract more media attention than cash-only donations. And because product and service donations address needs directly, their social impact is potentially greater than cash alone. They also are easier to observe (and photograph).

For the disaster relief we studied, in-kind donations included free telecommunication service by providers like Sprint or Verizon; logistical support by FedEx, UPS, and several major air carriers; consulting by firms such as Intel or GE; kids' shoes from Crocs; food products by companies like Ikea, Kraft, and Walmart; and medical supplies by firms such as Pfizer, Novartis, and GSK. Contributions that included in-kind elements received two to three-and-a-half times as much media coverage as cash-only contributions. What's more, they have the potential to create more impact; the contributors are often professionals in providing the donated goods and services, and the goods themselves can be directly and immediately applied to addressing social needs.

Lesson: Make in-kind donations of goods or services related to your business in addition to, or instead of, cash donations.

Effectiveness

Just as donors give more to charities deemed effective, media pay more attention to high-impact philanthropy. In disaster relief, perhaps the most critical component is speed—donations made early in a crisis are vastly more effective.

Walmart's help in Hurricane Katrina is a prime example. By immediately committing millions of dollars in cash, more than 100,000 meals worth of food, and 1,500 truckloads of donated merchandise, Walmart famously beat federal disaster relief agencies (http://abcnews.go.com/WNT/HurricaneRita/story?id=1171087) to the front and was heavily rewarded with positive publicity (http://www.washingtonpost.com/wp-dyn/content/article/2005/09/05/AR2005090501598.html) . Insurance provider Chubb Corporation made donations 8, 9, and 17 days after Katrina, the Asian tsunami, and Japan Tohoku disasters, but received no media attention; yet its contribution two days after the Haiti earthquake did (http://www.businessinsurance.com/article/20100115/NEWS/100119940) .

Lessons: Engage in philanthropy that efficiently and effectively addresses a social need. Plan in advance so that you are ready for such giving opportunities.

Relative Generosity

In corporate philanthropy, generosity relative to your company's size—rather than in absolute terms—attracts more attention, even when the ratio of contribution-to-firm-size is not explicitly reported. That's why major financial firms like Goldman Sachs, Morgan Stanley, and Prudential—despite writing $1 million checks—received no press coverage for philanthropic relief in several major disasters. Similarly, no public attention went to million-dollar disaster relief donations from oil giants like ExxonMobil and ConocoPhillips, blue chip companies including IBM and 3M, or large manufacturers such as Paccar and Honeywell.

Yet the media recognized smaller firms for donations that were larger relative to company size but lower in dollar amounts. TeleTech Holdings, Publix Super Markets, Crocs, and Health Net each received publicity dollar amounts. TeleTech Holdings, Publix Super Markets, Crocs, and Health Net each received publicity for $100,000 contributions. On average, companies received 20-28 percent more press coverage for each asset-scaled dollar—dollars divided by the overall assets of the firm—donated to disaster relief.

Lessons: Small companies with greater philanthropic contributions relative to company size can beat larger competitors in attracting media attention. Small companies should not avoid giving even if they can contribute only a little; larger companies should give more, because they can.

Conclusion

Increases in the credibility, tangibility, effectiveness, and relative generosity of CSR efforts—when amplified by media attention—can not only increase social good, but also help companies generate greater stakeholder goodwill and subsequent financial benefits. Higher payoffs, in turn, can encourage increased investment in the quality and the amount of CSR efforts, and ultimately bring greater benefit to both corporate philanthropists and their beneficiaries.

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