Corporate Community Investment Impact: Looking through the Lenses of Stakeholders

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1. Introduction

In recent years, following the aftermath of corporate collapses and Global Financial Crisis (e.g., Enron and Lehman Brothers), ongoing social issues (e.g., poverty, child labour, sweat shops), and environmental catastrophe (e.g. Bhopal Union Carbide gas leak, Exxon Valdez and BP Gulf of Mexico oil spills), these have raised concerns among citizens of the planet worldwide regarding the management of the corporate 'license to operate'. Stakeholders now have immediate access to data that goes beyond traditional reports issued by companies and that have changed stakeholder-companies dynamic, creating significant challenges and opportunities for the corporation and impacting upon the way in which stakeholders view and engage with the organisation (Adams and Frost 2006).

In today's rapid global transformation with changing expectations and demands, companies must be accountable for the way they impact the communities and environments where they operate. There has been an increasing mainstreaming of *Corporate Social Responsibility (CSR)* in the sustainable development of business. Hence, a company does not operate in a vacuum as "social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time" (Carroll 1979, p. 500). In this study, we focus on the 'discretionary expectations' aspect of CSR in corporate investments such as philanthropy and corporate giving to meet local community needs.

In a recent survey, 69% of respondents affirmed that their companies are concerned with their impact on society (Ethical Corporation 2010). We have witnessed an escalation in business engagement with various stakeholders through corporate ccommunity investments (CCI) as a management strategy for increasing the value of their companies. Community investment according to LBG (2010, p. 55) relates to: "long-term strategic involvement in community partnerships to address a limited range of social issues chosen by the company in order to protect its long-term corporate interest and to enhance its reputation." This definition appears to denote CCI from a managerial viewpoint of addressing the needs of selected stakeholders for none other than self-interest strategy of protecting corporate reputation. What about the all important perceptions of CCI impacts from the views of these corporate community partners (i.e., beneficiary stakeholders)?

Corporations are spending billions of dollars on various community projects and engagements as part of their corporate community involvement. McNair Ingenuity Research (2005) estimated that businesses in Australia contributed to the tune of $3.3 billion in money, goods and services in 2004. Corporate giving of 171 leading US companies amounted to

community involvement' as an aspect of CSR (Carroll 1979, Barnett 2007). In line with Burke *et al* (1986) notion of 'corporate community involvement' van der Voort *et al.* (2009, p. 312) define it "as the donation of funds, the contribution of goods and services, and the volunteering of time by company employees that is aimed at non-profit and civic organizations." Drawing on this definition, 'corporate community involvement' can thus be considered a synonym of 'corporate community investment' (CCI).

Whilst traditional accounting standards are well established and capable of recognising input cost of CCI with a relative degree of certainty, how do we account for the return on investment (ROI) of community outcomes and impacts whose benefits are usually long-term and defy measurability? Researchers in accounting have attempted innovative methods of return on capital employed (e.g., Schaltegger et al. 2006) and even after more than thirty years of research on the 'business case' for CSR, there is still no definitive conclusion to affirm that "a one-dollar investment in social initiatives returns more or less than one dollar in benefit to the shareholder" (Barnett, 2007, p 795).

It has been asserted that CCI stimulates a "balance sheet effect through which firms build long-term loyalty, legitimacy, trust, or brand equity that reinforce the corporation's other strategic objectives" (Godfrey and Hatch 2007, p. 88). Such a strategic approach to CCI may trigger a ROI, but how much of these intangible benefits are measurable? Internally generated intangible assets (i.e., goodwill) of such nature by definition cannot be recognised in balance sheet until the business is sold. Only the increase in equity deriving from the improved profitability (e.g., ROI and net profit margin) can be recorded in the balance sheet. Does our traditional accounting system mean that what we cannot measure we cannot account for in CCI? It would appear that we should also be advocating a 'blended' ROI that includes some meaningful qualitative indicators to complement the well established financial indices. Management accounting tools such as activity-based-costing and balance-scorecard have advanced some useful non-financial key performance indicators that have been utilised to evaluate CSR practices. The Dow Jones Sustainability Index is an example of an attempt to analyse returns of companies' performance according to generally accepted evolving metrics for sustainable development, which goes beyond profitability. Nonetheless, any attempt to solve the contentious debate in the literature concerning the linkage between social and financial performance is beyond the scope of this paper. Instead, in line with McWilliams et al. (2006) recommendation for future research agenda on assessing the effect of CSR on stakeholders, we set out the explore the outcomes and impacts of CCI on WES Ltd's sponsored community organisations. CCI programs when framed from the strategic perspective are often designed to fit with a corporation's core values, implying a top-down approach (van der Voort *et al.*, 2009). Unlike other research in this arena, this study explores CCI and its outcomes and impacts from the recipient stakeholders' views.

The feasibility of a strategic approach to CCI has its critics (e.g., Rowley and Berman 2000, Barnett 2007). The "seemingly tractable business case for CSR remains just as debatable as the associated dilemma" (Barnett, 2007, p. 795). To appreciate the

spectrum of adult diseases but with a particular focus on the genetic basis of disease. The Institute's vision "For Healthier Lives" is to use "new knowledge and its application to improve the lives of all Western Australians." As part of its commitment to nurturing collaboration amongst Western Australia's medical research community, Partner A is driving the establishment of two state-of-the-art medical research hubs and a Phase One Clinical Trial facility for the State. Our interviews identified different aspects of community benefits from these activities of Partner A which are facilitated by funding and donations from corporate and other organisations.

3.3 *Partner B*

Partner B is working with a mission of touching lives and souls through music. To achieve this, the organisation has given 177 quality performances and 37 workshops in 2009 for a total audience of over 200,000. WES Ltd is one of its three main partners to facilitate these programs through secure corporate funding. The organisation generated total revenue of over $16 million and a net profit of over three hundred thousand dollars in 2009 and employed 83 fulltime musicians. There are many specific benefits that are mentioned by the interviewees being delivered to the community through the activities of Partner B.

3.4 *Partner C*

Partner C operates with a mission of presenting outstanding classical and contemporary dance for the enjoyment, entertainment and enrichment of the community. The vision of the company is to ensure a secure and sustainable ballet company that is playing its full part in achieving a vibrant, diverse, and civilised society for the benefit of future generations of Western Australia through closely working with State, private and corporate partners. The company is running on the revenue from patrons, government grants and donations from corporate partners. Its audience increased by 6 per cent in 2009 to 44,000. With its increased financial viability in 2009, the company attracted Australian dancers working in UK, Sweden and Germany to return home to take up positions with Partner C.

4. Research Methodology

To understand how community engagement by corporations impact on the community from the beneficiary stakeholders' perspective, this study utilized constructivist ontology. Table 1 illustrate the research paradigm that guided this exploratory qualitative study. The constructivist paradigm can help senior managers and policy makers discover what is happening, and *why* organisational actors do what they do (Parker and Roffey 1997), thereby contributing to an understanding of CCI. Drawing on the assumptions of constructivist ontology, the appropriate epistemology is therefore interpretivist (Guba and Lincoln 1994, Lincoln and Guba 2000). The 'realities' presented by the respondents must be interpreted and understood (verstehen), rather than empirically measured, and explained (erklären) (Rowe and Guthrie 2010).

Interview data imparted by these partner organisations provided insights into community benefits and outcomes deriving in part, from corporate sponsorships as perceived by these participants. Emerging themes emanating from the rich interview data are highlighted in this report of preliminary results and briefly discussed in the next section.

5. Preliminary Findings and Discussion

Some preliminary results from this study are highlighted in the following subsections exploring potential community benefits deriving from WES Ltd's corporate patronage with three of its long-term partner organisations.

5.1 Impacts/ Outcomes

This subsection presents the major themes that emanate from the participants, whose 'voice' and comments about the benefits deriving from WES Ltd's community partnership are as enumerated and quoted below.

a. Undertake practice at an internationally recognised standard

Whether in the field of international medical research or in cultural practice, the WES Ltd's partner organisations claim that the local community has been exposed to international trends and enriched through the ability of supported organisations, either directly or indirectly attributable to corporate support, to interact with their international peers and to recruit and attract internationally recognised researchers, performers, guest conductors and soloists from the world. These outcomes are evidenced by the following quotes.

//...people who are engaged in research they're actually at the cutting edge so they know what the latest treatments are... there is an exchange that goes on globally amongst players around a table ....therefore you can actually transfer that information, that treatment, that drug or whatever to the local community much more rapidly. I think it's an intangible benefit of research in general that if you are seen to be contributing to research and you are part of a global community in the research area and you sit around this global hypothetical table, information does get exchanged//...We've created new tests, new treatments, had new students come in and learn... In terms of research metrics you can look at publications, you can look at grants, you can look at presentations//...if you are just not bringing back people that are really bright and at the cutting edge of research you have a system that plateaus, the Americans they say "If you're not going forwards you're going backwards//...our aspiration is to be the leading orchestra in the region by 2015 so that's a real focus for us in terms of that ...it's about being a leader and that's I guess where the contribution to the community comes in...attract and retain the best quality musicians and also to attract the best principal conductors, the best guest conductors and the guest soloists which all help us to become artistically the best and musically the best orchestra that we possibly can be and we'll be fundamental in our push to become the leading orchestra musically within the region...//In Ballet we have corporate sponsors that donate money that goes directly to the Young Artist Program and the Young Artist Program is basically – basically in Western Australia we don't have an elite training facility for ballet dancers. So it gives kids a bit of a kick-start with their career.//

we do, popular concerts, there's an argument that those kinds of concerts are a great way of introducing people and you get crossover from those people across into your main house program.//...have a community choir which has got about 250 members so they're a voluntary choir, they're members of the community who come in and work together. That provides them an opportunity, they have a great love and passion for singing and want to be connected to the music...//stream three or four concerts per year, live streaming and then they're available on an ongoing basis after that, and that's free access for people who all they need is a good strong internet service. So that's a real key focus for us – it's about reconnecting with the community at that level.//.../in a very specific way are those things I mentioned which are the regional tours.//... have young workshops type modern contemporary ballet, ...different locations also, the country is really important, supporting country communities and so we also travel various country destinations....// ...do take education teams out to remote communities around the state and we find creative ways of making that are accessible to everybody so that we're enriching people's lives in an inspiring and artistic and creative way...//we have eight of those schools that are sponsored to do a program with us throughout the year and that's called the Chance to Dance Program. That's fully funded by corporate sources...// Likewise a range of those other programs, so education programs wouldn't be possible without the support of other sponsors. You get some support from State Government but...it's the corporate sector that is fundamentally responsible for us being able to deliver most of that community programs.//

d. <u>Provide education, training and mentoring for local young people and support Western Australian practice.</u>

The community at large has also gained from WES Ltd's patronage through its partner organisations' educational and mentoring activities. Corporate funding has also contributed a stream of outstanding PhD and Honours students from the University of Western Australia, Curtin University and Murdoch University who are attracted by the awards of research grants from WES Ltd's community partners. There are several educational and eco-tours designed for enhancing the lifestyle of Indigenous people. Corporate funding has helped to develop a partnership with Abmusic, an Indigenous Music related to TAFE collage in Western Australia. Young Artist Program is the direct result of WES Ltd's support. Through this program the young talented artists secure their pathways to professional life as they receive one-on-one training and required support to stick to the target.

//Students come primarily through UWA – we have an affiliation agreement with UWA which means that we put our research grants through UWA and a lot of our students are enrolled through the University but we're getting an increasing numbers of students from Murdoch and Curtin which is quite interesting, so, primarily Honours and PhD students...//...also to the education of the community through students, undergraduate, mainly through post graduate students but at a larger level being a conduit between the researchers and the community at large... //...students have the opportunity to watch the talented dancers and hone their skills, strengths and techniques..from sponsored programs.//...very extensive education program which provides access to classical music, opportunities to learn more about classical music, about musicians, about playing, an opportunity for kids in regional and remote communities to see and hear and touch and play their first classical musical instrument//...It's because of the intensive one-on-one training that they were able to get as part of the AUS Young and Emerging Artists Program which has allowed their natural talent

Another significant outcome that stems from corporate and government funding is the support for activities that have also generated new income streams in the Western Australian community. From medical research there are three new "spin-out "companies generating income and they have employed more than a hundred people. One of them which produce genetically modified mice employs 50 people bringing $20 million a year income to the State. Another company is in the business of drug screening, while a third spinout company is a mouse genetics facility. Subsequently, WES Ltd's partner organisation earns *"a royalty stream from them, so it's great that the new industries have developed, but it also benefits us."*

//So these are potential new industries that can develop out of discoveries...//we've ended up making about nine Professorial appointments over the last eight years...//We're about 250 staff, students and admin, that's grown from zero 12 years ago...//our total income at the moment is around $20m. Half of that comes from competitive funding....//We've got commercial links with other companies like Proteomics International and BioPharmica so we are reaching out...//we have 83 full time employed musicians which is a huge amount of people all on a full time wage."

***g.* Relational versus transactional funding provision**

The perceptions of the interviewees were that there are differences in the value to the community partner organisations of different formats for structuring and maintaining corporate giving.

/from WES Ltd...have been seminal in the growth of the Institute.../so I think it's terrific actually, that WES Ltd has got the concept of being strategic about their funding. I think it is fantastic...../ it's one thing for the company just to give us money, but...if the company engages with it and actually gets behind it, it can be a huge benefit/ They're engaged, they're into it and you get the feeling they're behind it/

The key characteristics of the funding structure deemed to be the most effective from the perspective of the community organisations, which were proposed by respondents are as follows:

1. The sponsor organisation had undertaken thorough due diligence investigation at the inception of the funding relationship which engendered trust between the recipient and donor organisations. This trust also had a "halo effect" for other organisations who then felt able to contribute;

2. Untied funding provided; this facilitates flexibility and provides a base on which to grow. Many donors fail to provide for overheads of the community organisation, putting pressure on the organisation's limited resources;

3. Longer-term funding agreements, up to five years rather than annual or project by project, thus facilitating planning and greater certainty in attracting and retaining key staff;

As summarised in Figure 1: Positive Community Impact through CCI, the three different organisations in community partnership programs with WES Ltd may each have different objectives and they bring different types of benefits. However, they all aspire to achieve their respective missions in sharing the same ultimate goal - making a difference to the community in which they serve.

6. Conclusion

In academic research, many attempts have been undertaken to legitimize CCI by showing a business case for it and reporting on their input contributions to community. However, much less attention has been devoted to developing meaningful measure of outputs and impacts of CCI (Tsang *et al.,* 2009). Just as in accounting, measuring CCI is an inexact science, and there is no single best way to fulfil this. That is not to say that what we cannot measure by definition (i.e., Generally Accepted Accounting Principles) need to be ignored in our grabbling with evaluating equally valuable non-financial outputs and impacts. Does the returns on CCI need to be quantified? Perhaps, the more pertinent statement is Einstein's, 'Not everything that can be measured counts, and not everything that counts can be measured.'

In reality, financial performance is often measured within a short-term duration, while CCI generally requires a longer-term period to fully materialise. This exploratory case study contributes to our understanding of assessing what benefit has the community received from CCI and what are the changes for the community that have taken place. The unexpected contribution of this study to the body of knowledge in CCI is the community stakeholders' valued opinions on the transactional versus translational corporate giving. Thus, the findings also reinforced the much needed understanding about the actual dynamics and challenges of managing CCI in the business context (van der Voort *et al.,* 2009).

While the specific outcomes for the community that these organisations sought differ, we have identified a set of broad categories which have remarkable resonance across these organisations. These included facilitating: practice at an internationally recognised standard; translating practice to be of value to the community; undertaking interactive communication with the community; and providing education, training and mentoring in support of practice. These outcomes, relating to quality of practice, dissemination of quality practice and community communication, have both tangible and intangible impacts in the community. All participants also saw the provision of state of the art facilities and the development of new businesses or income streams as outcomes which are more measurable using the financial measures. The positive impact of CCI in medical research program is achieved through new knowledge and its application, while the arts and cultural program results are achieved through world-class performance for the enjoyment, entertainment and enrichment of the community. Corporate patronage can be of assistance in sustaining the healthy and vibrant communities they serve.

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