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INTERACTIONS BETWEEN PHILANTHROPY AND CORPORATE SOCIAL RESPONSIBILITY

When corporate philanthropy and strategic philanthropy rock the boat

This article reviews the interactions between CSR and philanthropy, in the context of their contribution to sustainable development and the common good, based on their main differences and similarities, particularly from a Swiss law perspective. It shows how the concepts of corporate philanthropy and strategic philanthropy contribute to blurring the lines between CSR and philanthropy.

1. CONTEXT: FINANCING SUSTAINABLE DEVELOPMENT

The United Nations started discussing the financing for sustainable development at the 1992 Rio Summit, i.e. 20 years after the book "The Limits to Growth" was published by the Club de Rome. The discussion started with the contributions from Member States. The results were formalised into the Monterrey Consensus [1], and thereafter in the 2015 Addis Abeba Action Agenda [2]. The Signatory States' commitment to allocating part of their gross national income to official development assistance (ODA) [3] was rephrased in Objective 17 of Sustainable Development Goals (SDGs) [4] of 2030 Agenda adopted in 2016 following UN New York Summit of 2015. On this occasion, the United Nations also stressed it was important to "mobilise additional financial resources for developing countries from multiple sources" [5], advocating for the concept of blended finance, as extra-ODA funding will be clearly needed to reach the SDGs towards 2030.

With the call of the Signatory States and the United Nations for partnership with the private (business) sector and social (also called "not-for-profit") sector for realising the SDGs, the frontier between private sector and public sector is steadily narrowing. The private sector is urged to take over social and environmental causes that were formerly under the Member States' sole authority and domain. Meanwhile, the social sector faces the difficulty of ensuring its funding flow, while this sector is booming and governmental funds are diminishing. The fourth sector (with organisations blending social and environmental aims with business approaches) is then attracting both the private and social sectors.

Within this context, the notions of corporate social responsibility (CSR) and philanthropy have evolved to the point where re-questioning the interconnections between the two will help to understand the forces shaping tomorrow's concept of sustainable development.

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2. PHILANTHROPY, CSR AND COMMON GOOD

2.1 Philanthropy and common good. In the absence of a unique definition, philanthropy – which etymologically means the love of humanity – is usually defined on an outcome-basis by reference to the improvement of human welfare [6]. Within this perspective, philanthropy may be defined either as seeking to use finances for the public good [7] or to improve the common good [8].

There is a marked difference between the public good and the common good. The public good refers to goods qualifying as pure proper goods (non-excludable and non-rival in consumption) [9]. The common good is a larger notion which includes public goods, collective goods (excludable, but non-rival in consumption) as well as goods with (perceived or effective) social value [10]. The excludable character of a good permits the option of asking for financial compensation for the use of the said good.

2.2 CSR and common good. CSR usually refers to societal expectations on ESG aspects [11] to be included in a company's managerial decisions and activities. As the concept of sustainable development encapsulates the societal expectations on ESG aspects, CSR becomes the contribution of business to sustainable development [12].

The nexus between CSR and the common good (even the public good to a certain extent) is created through the nexus between sustainable development and the common good. The latter arises already from both the inter-generational and intra-generational dimensions of sustainable development as defined by the Brundtland report [13]. The passage from the three dimensions of sustainable development (society, environment and profit) [14] to the five dimensions of sustainable development of the 2030 Agenda (society, environment, prosperity, peace and governance) [15] has further accentuated this link with human welfare. This passage has a similar echo for the business world: from the triple-bottom line approach [16] (3Ps- people, profit, planet) to quintuple-bottom line (5ps- people, profit, planet, prosperity and peace) [17]. The concepts of global prosperity (global governance) and peace have made their entry into the private sector and have shaped a new definition of CSR, where the notion of prosperity has replaced one of profit. In parallel, the notion of capital is valued beyond the sole financial prism. Human, social and environmental capital is every much as vital as financial capital [18].

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3. CSR AND PHILANTHROPY: MAIN SIMILARITIES AND DIFFERENCES

3.1 Degree of voluntariness. The normative pressure on CSR has increased (even if mainly in the form of soft law) to the point that the voluntary founding dimension of CSR is no longer a defining dimension [19]. Whereas philanthropy remains voluntary, as there is not yet the same degree of pressure on high net worth individuals.

3.2 Level of alignment with societal expectations. As a consequence of the normative context and social pressure, CSR's actors are asked to focus on problems with high societal expectations [20]. Philanthropic activities may, on the contrary, act in full misalignment with societal expectations. CSR's actors and philanthropists' causes are thus determined completely differently: once by society (i.e. the minds of many), once by philanthropist's sole mind. This allows philanthropy to reach those who would not have been reached otherwise, in the absence of certain social pressure. But this also entails a high risk of low social efficiency, as it may target objectives of low possible social value.

In other words, the necessity for CSR to align with societal expectations will lead to better social efficiency than with philanthropy. But it also pushes towards ideals with perceived or effective social value instead of pure public good for which the consensus is lower. The climate issue is an example of public good for which there is not yet a strong unanimous consensus. That being said, the freedom bestowed on philanthropy as to the causes' selection does not necessarily result in improving the public good or even the common good. Philanthropy appears indeed in practice to target impure public ideals and focus more on the philanthropist's objectives than on funding activities with the highest possible social value [21].

3.3 Ultimate research of financial profit. CSR and philanthropy are often said to differ by their relationship towards profit. The focus on financial profit is the main criticism addressed to the notion of CSR. One generally refers to a difference of purpose [22].

Some clarifications are nonetheless welcome.

First, the assumption that CSR-compliant companies may only have a commercial purpose is not necessarily correct. Swiss law allows for instance corporations or LLCs to have an ideal purpose (Art. 620 par. 3 CO). This makes however only sense in practice when coupled with a commercial purpose to gain a partial tax exemption [23].

Second, philanthropic (tax-exempted) foundations may have a financial purpose. Holding foundations have a holding purpose consisting in holding participations in commercial entities [24]. The holding purpose is a financial purpose, even though the dividends – arising out of the subsidiary's commercial activity (entity with a commercial purpose or a blended purpose (ideal and commercial)) – are then spent by the foundation in line with its other (ideal) purpose.

Third, the assumption that philanthropy means absence of profit is not correct. Tax-exempted entities may realise some profits. To quote Fishman and Schwarz, the divergence with a standard corporation lies in the "non-distribution constraint", as the social sector is barred from distributing its net earnings [25]. That being said, this divergence may also be cancelled by the articles of association of a corporation with an undertaking to reallocate the profits to activities in line with the purpose and sustainable development. However, shareholders remain free to re-amend the articles, as long as the quota to do so is reached.

Fourth, acting for the common good does not necessarily equate to having no financial returns (eg. implementation of a banking sector or a train railway are profit-making activities for the common good). The excludable aspect of a common good permits the option to ask for financial compensation.

"In a nutshell, the difference between CSR and philanthropy ensues from the source of funding: internal for CSR as deriving from commercial activity and mainly external for philanthropy."

Fifth, the necessity to make some profit does not necessarily equate to a duty of maximisation of profit. The legal basis supporting a duty to maximise profit is lacking in many jurisdictions [26]. Duty of diligence usually refers to the in-

Graph 1: **POSSIBILITIES OF INVESTMENT FOR STANDARD COMPANY MANAGERS**

Low or no CSR/High profits **?**	High CSR/high profits **Always invest**
Low CSR/low profits **Never invest**	High CSR/low or no profit **?**

terests of the company, not those of the shareholders. This is the case under Swiss law [27]. The Swiss Code of Obligations even refers to the notions of prosperity and sustainable prosperity of the company (in particular in the context of constitution of reserves) [28]. There is also room for understanding the notion of capital beyond the sole financial prism. The prosperity and sustainability of a company mean a long-term vision, which is not possible without caring for society, i.e. without acting for the common good, respectively with a social utility. This is also the meaning of the concept of "social license to operate" [29]. Thus, sacrificing profit for the common good is possible within a CSR approach.

In a nutshell, the difference between CSR and philanthropy ensues from the source of funding: internal for CSR as deriving from commercial activity and mainly external for philanthropy. That being said, returns on invested capital may also be an important source of funding for philanthropy in practice, especially now that governmental funds are diminishing. Managers of CSR-compliant companies are permitted to allocate assets in favour of the common good and even the public good without a financial return by the business judgement rule, albeit up to a certain extent. Limitations arise from the risk of non re-election (usually one-year term) or revocation by shareholders and the duty to ensure the company's survival, meaning some profit must be made.

In other words, there is a conceptual difference towards profit between philanthropy and CSR, but this does not mean that the said difference always materialises in practice. On many occasions, there might be a convergence. Summarising the possibilities of investment for standard company managers, shows (in green) where convergence is possible between philanthropy and CSR *(Graph 1)*.

3.4 Duty to survive. CSR and philanthropy may converge or diverge on their relationship with the future existence of their respective vehicles. The duty of diligence of a CSR-compliant corporation is usually oriented towards the interests of the company [30], while the duty of diligence in philanthropic foundations is focused towards the founder's intent [31]. Depending on the way the articles of incorporation of the philanthropic foundations have been drafted, there is convergence or divergence with CSR in the approach to time.

While making corporate decisions, managers of CSR-compliant corporations must consider that the corporation has to ultimately survive in time, as it must continue to have a commercial activity.

However, depending on the wording of the articles of incorporation, managers of philanthropic foundations do not

Graph 2: **CREATING SHARED VALUE**

have to have the same long-term oriented approach. The foundation's articles of incorporation may provide a time limit or maximum duration. They can also include a duty to annually allocate part of the foundation's assets to the mission (foundation with consumable assets – *fondation à capital consommable*) or, on the contrary, to only use revenues of the assets for the mission (foundation without limitation in time – *fondation pérenne*), determining indirectly the entity's timescale [32].

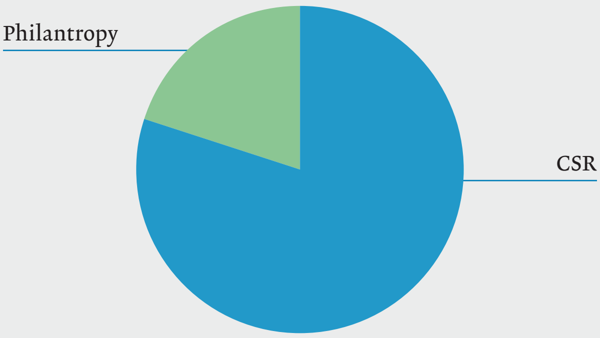
4. THREE MAIN APPROACHES OF THE INTERACTION BETWEEN PHILANTHROPY AND CSR

4.1 CSR as an evolution of philanthropy. Based on the historical trend of corporations donating to NGOs which are responsible for delivering the social benefits some scholars consider that CSR has evolved from a philanthropic/altruistic CSR to the beyond-philanthropy/regulated CSR [33]. The rise of a legal (even in the form of soft law) framework for CSR has institutionalised and internalised the CSR efforts.

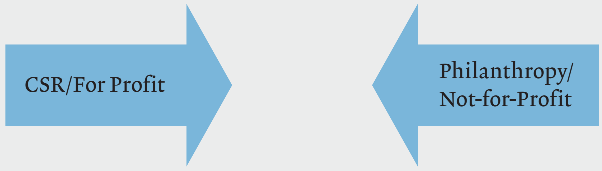
In this context, philanthropy is seen as giving money without any purpose other than funding NGOs or other social actors. The evolution towards CSR derives from the research of meeting social needs and assuming accountability for matching these needs. The duty (at least in a soft law form) to align with societal expectations makes CSR an evolution of philanthropy. This approach is illustrated by the layout proposed by Mark Kramer and Michael Porter in their award-winning article on Creating Shared Value *(Graph 2)* [34].

4.2 Philanthropy as part of the CSR bigger cake. Another approach is to consider philanthropy as a slice of the CSR

Graph 3: **PHILANTHROPY A SLICE OF THE CSR CAKE**



Graph 4: **PHILANTHROPY BEYOND CSR**



bigger cake. Using the notorious CSR Pyramid of Archie Carrol [35], Geoffrey Lantos [36] developed the distinction between three kinds of CSR: (i) ethical CSR, (ii) altruistic CSR and (iii) strategic CSR.

While strategic CSR is linked to the accomplishment of strategic business goals, and ethical CSR is morally driven to prevent possible harm, altruistic CSR, in Geoffrey Lantos' view, goes beyond ethical CSR towards alleviating public welfare deficiencies, regardless of whether or not there will be a benefit for the business [37]. It is not a passive position (not doing harm), but an active one (doing good).

With such a perspective, in common with philanthropy altruistic CSR has the will to improve human welfare. Philanthropy is then one of the tools used to implement CSR. Some consider philanthropy as the noblest part of CSR. Others see it only as a necessary but not sufficient part of CSR [38]. Under this approach, philanthropy is a slice of the cake but not the cake itself because of its voluntary dimension and relationship towards profit *(Graph 3)*. Contrary to CSR actors, philanthropists are not required to implement a management of environmental, social and governance (ESG) risks and factors within their organisations and outside (over subsidiaries and commercial partners). Contrary to philanthropy, CSR actors may not spend all the funds for a cause or project, which does not bring minimum financial returns.

4.3 Philanthropy beyond CSR. Another approach is to consider that philanthropy surpasses CSR, as the two notions do not share the same objectives. In this perspective, CSR activities are inevitably restrained by a target of profit due to the "natural" purpose of companies, whereas "pure" philanthropy has no such limitations [39].This approach can be illustrated by two antagonist arrows *(Graph 4)*.

Instead of focusing on the convergence possibilities (see the green boxes in Graph 1), this approach stresses the limits of CSR for the common good (the need to ensure some profit).

5. DISRUPTIVE NOTIONS OF CORPORATE PHILANTHROPY AND STRATEGIC PHILANTHROPY

5.1 Corporate philanthropy: philanthropy by the private sector. Beyond simply being considered a type of corporate contribution [40], corporate philanthropy is itself an approach to philanthropy.

When CSR transcended from a triple-bottom line approach to the quintuple-bottom line approach – promoted by the SDGs – corporate philanthropy went through an internal shift, resulting in two main corporate philanthropy attitudes called *strategic corporate philanthropy* on one hand and *corporate philanthropy* on the other [41].

Strategic corporate philanthropy is a means for a corporation to exercise philanthropy with a tie to the business of the company. Such philanthropy is tainted by the ultimate pursuit of an increase in financial capital, be it directly or indirectly (higher knowledge, major brand exposure, new customers, etc.).

Corporate philanthropy is a means for a corporation to exercise philanthropy without a tie to the business of the company. In other words, it is a "pure" exercise of philanthropy exercised by a corporation.

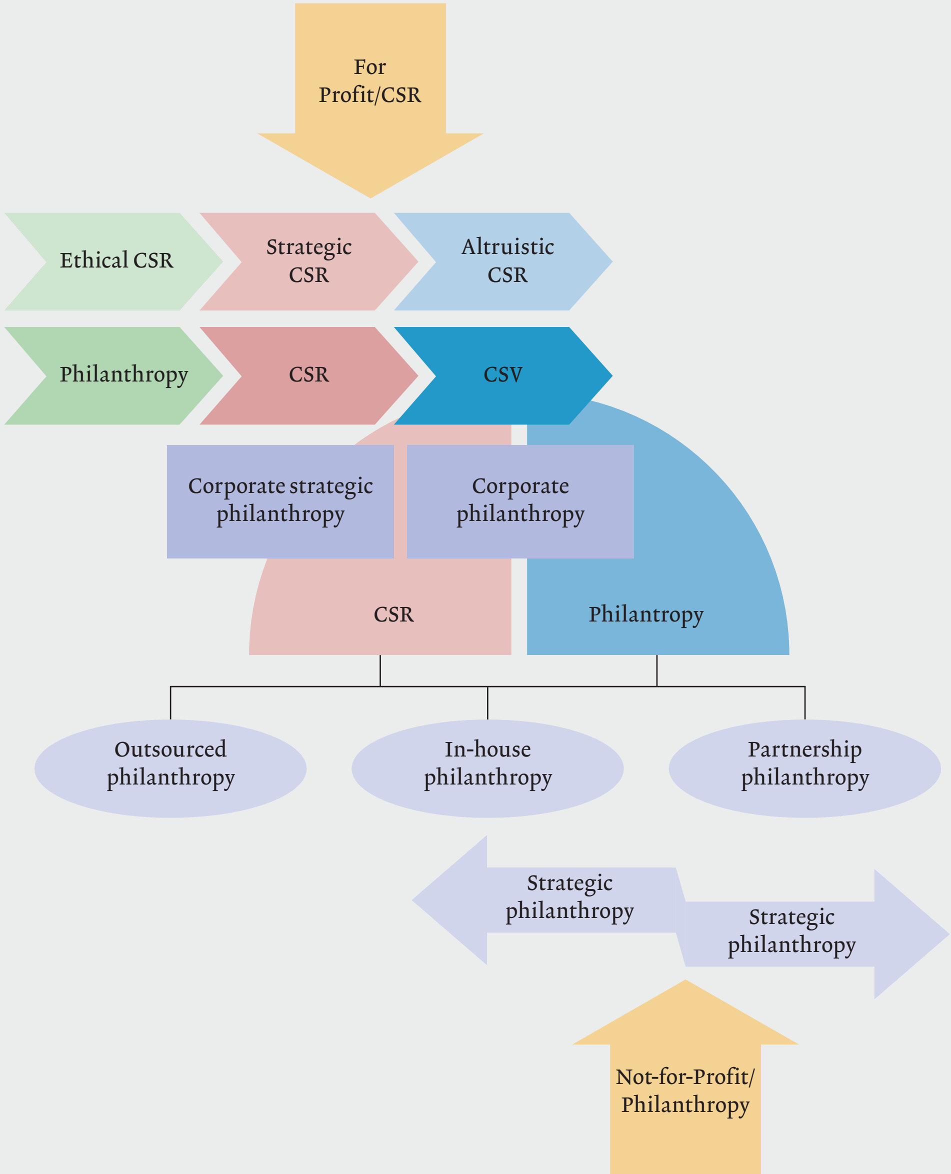
> *"Both the nature of impact researched today by global philanthropy and the size and organisational structure of philanthropic entities further increase the financial bias."*

Corporate philanthropy thus mitigates the difference between CSR and philanthropy as to the quest for profit, since it may be selfless. A critical view would be that there is no pure corporate philanthropy, as corporate philanthropy is always by essence tainted by the pursuit of an advantage for the company, be it the sole brand exposure and reputation in a world were reputation is the major asset. A possible answer would be that philanthropy is never wholly selfless, as it can be "driven by anything from a sense of religious obligation to fear" [42].

5.2 Strategic philanthropy: social efficiency and business practices in philanthropy. Strategic philanthropy is both a quest for more social efficiency and the integration of business practices in philanthropy.

Following the old short-term, non-global and undisciplined philanthropy in the early stages, a more long-term vision in philanthropy, called "scientific philanthropy" emerged as an answer in the middle of the 20th century [43]. With scientific philanthropy, the debate and activities focused on the causes

Graph 5: **HOW DO CORPORATE PHILANTHROPY AND STRATEGIC PHILANTHROPY FIT INTO THE APPROACHES TO INTERACTIONS OF CSR AND PHILANTHROPY?**



of the problems, rather than on addressing the global issues themselves. This way of practicing philanthropy has fallen short on effective results. Consequently, the concept of impact has risen to the point of becoming the new mantra of the social sector. Strategic philanthropy (defined by some as the new scientific philanthropy) has decided to focus on the impact of activities on the short, medium and long term, as an answer to poor efficiency, including poor social efficiency [44].

In order to achieve its impact objective, strategic philanthropy applies the same mechanisms derived from the private sector (in particular in terms of understanding and meeting needs) [45]. The overlap with the private sector not only relates to the mechanisms but may touch the targeted objectives. This, for two main reasons:

→ First, financial outcomes are the most easily measurable results, thus there a risk to prioritising financial objectives. Pressure for clear figures from donors or investors further influences the valuation method towards a financial approach.

→ Second, strategic philanthropy is often realised on a global scale ("global philanthropy") by sizable philanthropic entities with involvement of various actors (Member States, NGOs and the private sector). Both the nature of impact researched today by global philanthropy and the size and organisational structure of philanthropic entities further increase the financial bias. During the time of Henry Dunant, Andrew Carnegie and John Rockfeller, impact was reached through the creation of global governance mechanisms [46]. Today, global philanthropists target impact on the field, as global governance has reached its limits and non-governmental actors have expanded. With public funding lacking, the quest for private funding is increasing as are the number of partners from the private sector. The challenge is to identify the partners' true targets, respectively their undisclosed targets, among which there might be a pursuit of financial returns [47]. Besides, most of the philanthropic entities committing to strategic philanthropy programmes have reached a size and organisational structure similar to that of some companies. They care for their survival, not least because

"Convergence between CSR and philanthropy is possible in their actions for the common good, both with activities where there is no financial return and where there is some."

they care for their employees. Therefore, they are more and more interested in positive financial returns to ensure their survival and even their growth.

Strategic philanthropy thus represents a shift by philanthropy towards CSR as it alleviates the difference between the two notions at the level of alignment with societal expectations (through its quest for more social efficiency) and questions the absence of research of profit by the philanthropic sector. It also represents a move from philanthropy for the public good to philanthropy for the common good.

5.3 Disruption as a convergence and divergence point. All three models are correct as in some cases there might be convergence and in others divergence between CSR and philanthropy.

A corporation may donate part of its profits to third parties for the public good (or the common good) without assuming direct accountability. A typical example is a corporate donation to an NGO. This act of corporate philanthropy is not as evolved as CSR and takes the form of an outsourced philanthropy.

As part of its CSR efforts, the same corporation may permit its employees to offer their services during paid time for the public good. This *in-house corporate philanthropy* then becomes part of the company's CSR bigger cake efforts.

If a similar form of philanthropy is performed through a corporate foundation, it is either in-house corporate strategic philanthropy or in-house corporate philanthropy, depending on whether the cause pursued by the corporate foundation is determined on the basis of the business activities of the founding entity (i. e. business corporation), with a target of increasing the capital or not. If in the affirmative and the focus is made on impact, one can say it is (in-house) *strategic corporate strategic philanthropy*. If in the negative, it is (in-house) *strategic philanthropy* performed through a corporate foundation (i. e. corporate strategic philanthropy, not to be confused with strategic corporate philanthropy). The same applies if the corporation decides to enter into partnership with other actors. The illustration below shows how the concepts of corporate philanthropy and strategic philanthropy fit into the approaches to interactions of CSR and philanthropy *(Graph 5)*.

6. CONCLUSION

Convergence between CSR and philanthropy is possible in their actions for the common good, both with activities where there is no financial return and where there is some. In the absence of a legal duty to maximise profit, managers of CSR-compliant companies may sacrifice the profit for goods with high (perceived or effective) social value as long as the survival of the company is guaranteed. They may even do so to keep the social licence to operate and ensure the survival of the company on the long term. Considering the shareholders' right to revoke the managers and their usual one-year re-election term, the corporate managers' margin for sacrificing profit may in practice be reduced, depending on the type and nature of the shareholding. If CSR-compliant managers may not sacrifice the profit in any and all situations, this may also be true for managers of philanthropic entities, especially in those foundations that are not limited in time or may not use part of the assets for the mission. With the fall in public funding, philanthropic entities are attracted by projects with a financial (even low) profit.

Corporate philanthropy can be both an example of conversion and an example of divergence between CSR and philanthropy, depending on whether it is strategic corporate philanthropy or pure corporate philanthropy. In the latter case, corporations may even practice a philanthropy for the public good.

The rise of strategic philanthropy shows that business practices are encroaching more and more on philanthropic territory, aided by the rise of rich capitalists converted to philanthropy and the decrease of public funding pushing philanthropic entities towards new sources of funding. In parallel, as stated by Objective 17 of SDGs, the private and social sectors are being asked to further pair together for sustainable development. This reality, coupled with the focus of philanthropy on impact, is pushing all actors towards the economic dimension of sustainable development and changing the trajectory of philanthropy from a public good orientation to a common good orientation. ■

Notes: 1) Adopted at the International Conference on Financing for Development in 2002. **2)** Agreed in 2015 as part of the UN resolution A/Res/69/313. **3)** Signatory States committed to allocating 0.7% of the gross national income and between 0.15 and 0.2% to least developed countries. **4)** The Sustainable Development Goals were adopted following Rio + 20 Summit's decision to re-draft the Millennium Goals of 2000. **5)** Third financial target of Goal 17 of the SDGs. **6)** See for instance Oxford dictionary's definition of philanthropy "the desire to promote the welfare of others, expressed especially by the generous donation of money to good causes". **7)** Robert H. Bremmer, American Philanthropy, University of Chicago Press, 1988, pp. 2–3. **8)** Robert L. Payton/Michael P. 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Basel: CEPS, 2015. **23)** A typical example is private schooling companies with an educational purpose (ideal purpose) and a commercial purpose (subscription fees, summer/winter camps etc.). **24)** See Delphine Bottge, Shareholder Foundations (Holding Foundations) in Switzerland, published in the same edition of Expert Focus, p. 180 ff. **25)** Stephen Schwarz/James Fishman: Taxation of nonprofit organizations, cases and materials, 3rd edition, Foundation Press, 2010. **26)** Giulia Neri-Castracane, Does the Business Judgment Rule Help Promote Corporate Social Responsibility?, in: Frontiers of Law in China, volume 10, no. 1. March 2015, pp. 8–23; Giulia Neri-Castracane, les règles de gouvernance comme moyen de promotion de la responsabilité sociale de l'entreprise. 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Basel: CEPS, 2015 (and references). **40)** Corporate philanthropy is also a company's way of giving back to community through financial donations and non-cash contributions, and which can take the form of outsourced philanthropy, in-house philanthropy or partnership philanthropy depending on the level of externalisation of the philanthropic activity. **41)** Klaus Leisinger/Karin Schmitt, Corporate Responsibility and Corporate Philanthropy, Novartis Foundation for Sustainable Development, 2012. **42)** Jeremy Youde, The role of philanthropy in international relations, in: Review of International Studies, 2018, p. 3 (and references). **43)** Helmut Anheier/Diana Leat, Creative Philanthropy: Toward a New Philanthropy for the Twenty-First Century, London, Routledge, 2006. **44)** The academic notion of impact must be distinguished from the common notion of impact, which is evaluated in practice and focuses on outputs and outcomes in the short and medium term. **45)** John Kania/Mark Kramer/Patty Russell, Strategic Philanthropy for a Complex World, in: Stanford Social Innovation Review, Summer 2014. **46)** Nathalie Monnet/Ugo Panizza, A Note on the Economics of Philanthropy, Graduate Institute of International and Development Studies International Economics Department Working Paper Series, September 2017, p. 5. **47)** See contribution of Henry Dunant to the Red Cross, Andrew Carnegie to the Peace Palace and John Rockfeller to the League of Nations.