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Making More Profitable Community Investments

In our increasingly global culture and workplace, one of the challenges many corporations face is that of reconnecting with their communities of place in ways that are both profitable and sustainable.

Why should companies want to do this? There are a number of cogent reasons, apart from the fact that many individuals in companies -- from CEOs on down to the workers in the office or on the shop floor -- feel that it is the right thing to do.

For one thing, there is growing evidence that successful community involvement is an important part of a sustainable corporate culture -- one that builds loyalty, commitment, and long-term profitability. It provides employees with an opportunity for meaningful work -- which Margot Murphy identifies in a forthcoming *Businessweek* article as "the new leadership imperative" -- as well as the development of important interpersonal skills and the enhanced communication of the corporate vision. From a purely self-interested view, even a modest level of community involvement and contribution can serve to offset many of the negative consequences of more market-driven corporate actions, a kind of inoculation against the toxic publicity associated with externalizing the human and environmental costs of their production.

Before the rise of the Internet economy, and the wave of "irrational exuberance" that crested into the mountain of "infectious greed" that left us with a backwash of financial collapse and corporate scandals, there was a gathering movement toward increasing social responsibility on the part of corporations. In *What Matters Most: How a Small Group of Pioneers is Teaching Social Responsibility to Big Business, and Why Big Business is Listening*, Seventh Generation CEO Jeffrey Hollender recounts the history of the movement toward greater corporate social responsibility (CSR), and the growing evidence for its correlation with TSR -- Total Shareholder Return. Contrary to the arguments of laissez-faire economists from Adam Smith to Milton Friedman, books like *From Good to Great* and *Built to Last* demonstrate that ethical, visionary companies consistently outperform their less responsible counterparts.

> Contrary to business school doctrine…"profit maximization" has not been the dominant driving force…through the history of visionary companies. Visionary companies pursue a cluster of objectives, of which making money is only one -- and not necessarily the primary one. Yes, they seek profits, but they're guided by a core ideology, values and a sense of purpose beyond just making money. Yet, paradoxically, the visionary companies make more money than the more purely profit-driving comparison companies.
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> -- Jim Collins & Jerry Porras, *Built to Last*

A number of studies have also shown that, given the same product or service, consumers will choose to buy from companies they see as more generous, more responsible, or more committed to social and environmental values. For many companies, public philanthropy and social responsibility can be viewed as the “enlightened” part of “enlightened self-interest.”

Social responsibility is not just about contributing to the community where a company or its corporate headquarters happens to be located. But it is about being conscious of its impact on all of the communities where the company operates, where its employees live and reside, and where it provides products and services to its customers. As General Robert Wood Johnson, founder of Johnson & Johnson, was one of the first to recognize, healthy companies need healthy communities in which to operate successfully.

But if greater community involvement is a desirable goal, what are the criteria that should shape it, and how can companies evaluate its effectiveness? Is it simply a matter of supporting local charities, and hoping to get a little good PR out of it -- or are there other ways of achieving a greater impact at a lower cost to the organization?

Companies need to ask these questions -- and measure the effectiveness of their community investments -- even when times are good. It may seem like the company is doing positive things in the community, and getting recognized for them; but could it be getting a greater return on its investment, and doing more with its philanthropy dollars?

By itself, charity is not a truly sustainable approach, even though sometimes it is the only one available. As Lynne Twist argues in *The Soul of Money*, charity is often a way of getting ourselves off the hook, of relieving our guilt, and of separating ourselves from those who need not just our help but our partnership. In the long run charity is not necessarily optimal for either the giver or the receiver, since it can create a dependency relationship to which both parties remain insecurely anchored. A true win-win relationship, by contrast, is a partnership in which the parties are committed to enhancing each other’s development on an ongoing basis.

This mean re-examining the model of traditional philanthropy; and doing so may open up an opportunity for the company to greatly expand its community investment and involvement. Currently a mere 6% of all charitable giving comes from corporations and corporate foundations, and even that relatively small amount (given the capital resources available within the corporate environment) is subject to proof that, at a minimum, it does not detract from shareholder value.

By making real investments in community-based nonprofits that also provide a benefit back to the corporate partner, the company can get a double benefit, and help to make the nonprofit more sustainable in the long run. The return may be in the form of lower-cost or more reliable services; in adding research, marketing, and other capacities; or in opening up new markets, products, or opportunities. And in all cases, the nonprofit brings a special intangible asset to the transaction, which is its unique social mission, which translates into additional good will for the corporation. By creating such win-win deals, nonprofits can bring not just guilt or an appeal to social causes, but tangible value to their corporate partners, and share in the rewards as genuine partners, in a manner that serves to sustain its social goals.

This type of mutually-beneficial relationship has been recognized and promoted by the Ford Foundation since 1996. By highlighting these relationships it hopes to foster more of them in the business community, and also to make nonprofit organizations more resilient in the face of shocks like 9/11 and the collapse of the stock market. By leveraging real corporate investments, nonprofits can not only gain greater direct revenues but also in some cases materially change the conditions of its target populations. For example, partnering with companies to hire more of the disabled can serve to fulfill the nonprofit's goals and have an impact on the entire community while saving the corporation money or adding productivity. Partnering with a bank to provide credit-counseling in low-income communities can also build successful micro-loan programs and generate community economic development.

Investments that are profitable, even modestly so, are also much easier to justify to shareholders. With many smaller companies, who might not even consider making purely philanthropic contributions, they can be a way to have a significant and visible community impact. And for companies moving toward measuring themselves in terms of multiple bottom lines, such investments can often add significantly to more than one component.

So if these kinds of community investments are desirable, what is holding back a tide of such initiatives? Partly, no doubt, it is a lack of awareness of such opportunities. Nonprofits are traditionally attuned to the charitable model, and do not think in terms of exploitable economic opportunities. And corporations have been taught to think in terms of giving priority to quickest route to profits, not necessarily to the one that also accomplishes other objectives at the same time.

A new project that is designed to identify and promote these opportunities -- initially in the central region of New Jersey, but perhaps later in other areas as well -- has recently been launched by the Center for Business Excellence, an educational nonprofit startup that is seeking to model as well as to advocate this approach. Called "Beyond Philanthropy," this initiative is designed to foster and support for-profit/nonprofit partnerships and advance other new models of community investment.

The program manager, Joyce Wackenhut, who has a background in traditional nonprofits as well as in advertising and marketing research, is currently focused on identifying needs and finding case studies of successful win-win relationships that already exist in the community. "We are looking for great stories that are inspiring to others, and then working to get these stories out to the business community," says Wackenhut.

Examples offered at a recent meeting included the Midland School, an educational institution for the developmentally disabled that also provides an onsite retail store for

MetLife employees; and the proposed temporary placement agency being created by First Baptist Community Development in Somerset as an outgrowth of its workforce development programs.

“A few people have still had difficulty grasping the concept,” says Wackenhut. “Basically we’re talking about creating more sustainable models for nonprofits, whether these are specific partnerships with for-profit entities, or creating for-profit subsidiaries of the nonprofit organization, or other models. The challenge is to leverage more corporate dollars and other resources for community needs, and this is not likely to come from larger philanthropy budgets. So community organizations need to come up with new models to sustain themselves.”

What few people realize is just how important the nonprofit sector really is. Worldwide, the nonprofit sector engages nearly 40 million people and has annual expenditures of $1.3 trillion, larger than the gross domestic product of all but the six largest countries, according to a report released by Johns Hopkins University in 2003. In the US, it now represents close to 10% of total GDP and accounts for approximately 10% of total employment, figures that have been accelerating over the past several decades. It is growing faster than many other sectors of the economy, and over the next several years will likely grow faster still. Total charitable contributions increased by 2.8% overall in 2003, according to the most recent report from Giving USA.

Moreover, an increasing number of wealthy individuals are establishing funds and trusts to manage their assets for the public good, while benefiting from more favorable tax treatment. As Curt Bassett of Princeton Social Capital points out, “Many high net-worth individuals do not want to pass on extraordinary wealth to their children. They would rather see them do moderately well, and give the larger portion of their equity back to the community.” Some of these investments are also going into for-profit ventures that are designed to accomplish the community’s goals in a sustainable way.

Other new approaches are being tried by community foundations which seek to pool large and small philanthropic funds, and become an administrator and a funding vehicle for important community programs. Such foundations, of which over 600 exist in the U.S. but are still relatively limited in New Jersey, are some of the most innovative organizations. And United Ways and traditional charities, both faith-based and secular, continue to provide for the least sustainable needs, such as sheltering the homeless and feeding the hungry, half of whom -- even in the most affluent counties -- are children. Many community needs exist that simply cannot be met in a profitable manner, at least under our current system. Helping battered women, rehabilitating ex-prisoners, and housing the elderly indigent are not tasks that readily lend themselves to making a financial profit. And efforts to privatize such functions, as has partly been with the prison system, have not been socially profitable.

But in many other areas, such as the arts, recycling, renewable energy, and developing affordable housing there are profits to be made. And if we want less government involvement in these sectors because we mistrust the efficiency of programs funded by tax dollars, then we need more businesslike approaches and more corporate investment.

In the end it does come down to getting more money flowing to the right causes, and placing the incentives where they will produce the outcomes that we want. It is pointless to complain about the irrationalities that are produced by investor short-sightedness, or by the “externalities” that unprincipled companies are able to foist on the rest of us, or by foreign policies based on fear and ideology -- when the real interest of business, which is to expand the level of prosperity for everyone, is not being harnessed to create and support the development of new social and economic opportunities. We need to use the resources we already have to meet our most important challenges.

The Center for Business Excellence was created to provide a vehicle for fostering innovation, sustainable growth, and environmentally- and socially-appropriate economic development. In association with other regional institutions and initiatives, it seeks to focus the resources of the wider business community by promoting social responsibility, fulfilling work, and visionary leadership in the corporations, and providing opportunities for social contribution to businesses of all sizes and kinds. By doing so it seeks to create a unique and dynamic regional business culture that can serve as both a magnet and an inspiration for others.

Win-win partnerships, social enterprises, and other models of sustainable community investment are a new frontier for both corporations and communities. Building on existing successes, identifying new opportunities, and building the capacity to facilitate and support such opportunities is an important part of the CBE’s mission.

For the companies in the region, the payoff is both long-term and short-term. In the immediate business environment, there is an opportunity to expand the flow of desirable deals while enhancing the quality of life and promoting social innovation. In the long run, there is an opportunity to create a unique regional identity, based on support for entrepreneurship, for technological breakthroughs, for building emotional intelligence and spiritual awareness into workforce development, and for more livable communities in this diverse, cosmopolitan and yet highly fragmented state.

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For more information on the Beyond Philanthropy program, contact Joyce Wackenhut at jwackenhut@cbe-nj.org or at 908-526-2278.

For more information on the Center for Business Excellence, visit our web site at www.CenterforBusinessExcellence.org.