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Impact of Social Context on Strategic Philanthropy: Theoretical Insight

Jolita Vveinhardt[a]*, Rasa Zygmantaite[b]

[a]*Vytautas Magnus University, S. Daukanto Str. 28, Kaunas 44246, Lithuania*
[b]*Marijampole College, P. Armino Str. 92, Marijampole 68125, Lithuania*

Abstract

Although the construct of corporate social responsibility has been on the agenda of academic research for more than five decades, it is obvious that with global challenges putting pressure on organizations to modify their *modus operandi*, interest in this domain is apt to grow. Organizations are pushed to shift from the formal CSR model to implementation of strategies, aimed at specific social targets and expectations. For many years the debate between society and business has had an antagonistic character, at the same time economic and social objectives were regarded as competing. However, in the modern world this perspective has been qualified as a false dichotomy, and the correlation between corporate goals and values, and societal achievements has been acknowledged. With legions of studies and theories in the field, the academic society is stuck in *omnium-gatherum* of terms, concepts, definitions and classifications. In this article we present an overview of the achievements of recent researches in the field, focusing on the influences of social context on managerial decisions in favour or against strategic philanthropy. We lay special emphasis on distinguishing between philanthropic activities and strategic philanthropy.

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1. Introduction

Here Relevance of the research. The concept of corporate social responsibility can be viewed from two different perspectives, i.e. CSR as a philosophic-ethical dimension, arguing that "business corporations have an obligation to

* Corresponding author. Tel.: +370-698-06668
E-mail address: j.vveinhardt@evf.vdu.lt

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work for social betterment" (Frederick, 1994, p. 151), and its empirical side, as a summation of tools and instruments, which companies should apply in trying to respond to the pressure, placed on them by the social environment. Today's research in organization theories is unimaginable without holistic sustainable development approach, which is perceived as an integral theory of societal development, covering all economic, legal, environmental, and social issues in all levels of society in short and long term. From the empiric perspective on CSR, the first three its' constituents fall into the field of governmental regulations, whereas the social aspect at a great degree depends on managerial decisions, which "are applied more or less voluntarily by a company's management" (Steurer et al., 2005). Philanthropic initiatives, as a constituent of CSR strategy, are embraced by enhancing numbers of top management, however, though classified as philanthropic, they, as a rule, are associated with specific short term business targets and objectives. Thus the issue remains ambiguous: where short targeted philanthropy or cause-related marketing ends and strategic philanthropy starts. This cannot be answered without macro perspective, and cross-sectorial analysis, because, according to Granovetter (1985) e.g. in European tradition (stemming from Max Weber) "economic action is seen only as a special, if important, category of social action", economic prosperity is no longer possible without regard to macro phenomena and societal objectives.

The problem of this research is the influence of social context underpinning strategic philanthropy of organizations, ascribing themselves to the category of socially responsible ones. Which factors of the social context make impact on socially responsible organizations, determining to embed macro social goals into corporate development strategies? Are the societal and organizational goals reconcilable? How they are perceived and delineated by the academic society, theoreticians and empirical researchers?

The level of problem exploration. The concept of CSR (Ackerman, 1973, 1975; Sethi, 1975; Ackerman & Bauer, 1976; Frederick, 1994; etc.) has undergone a long evolution since the famous Davis' (1960) phrase "can business afford to ignore social responsibilities" to Carroll's "Pyramid of Corporate Social Responsibility" (1991), however, according to Wood (1991) the construct has remained controversial, fluid, ambiguous and difficult to research. Carroll's concept of CSR offers a four- domain CSR paradigm, consisting of economic, legal, ethical and discretionary (philanthropic) categories, defining company's obligations to operate in the society abiding to its rules and regulations (economic and legal) as well as societal expectations and desires (ethical and philanthropic). This model, with more or less quantity of criticism has been cherished by scholars until nowadays (Wood, 1991; Weiss, 1994; Pinkston & Carroll, 1996; Keinert, 2008; etc.). However, later Schwartz and Carroll (2003) modified this model, acknowledging its ambiguity and in ways misleading nature, as they discovered, that Carroll's pyramid may be perceived as proposing the hierarchy of values within the concept, suggesting that economic component of the CSR construct is the most important or highly valued domain (Reidenbach & Robin, 1991, p. 274; also see Schwartz & Carroll, 2003). The evolution of CSR concept and related terminology, e.g. CSR-1, CSR-2, CSR-3, CSR-4, corporate citizenship, corporate responsibility actions "beyond compliance" (Griffin & Prakash, 2013) made a pathway to research and definitions of corporate philanthropy, strategic philanthropy, philanthropic responsibility (Carroll, 1991), in other words at defining a model of corporate social performance (CSP), which should aim to increase the benefits and reduce or eliminate the harms resulting from their activities (Wood, 1991). The domain of philanthropy has recently been extended with the term of corporate citizenship (CC), which is used to define a broader range of business- society relations (Waddell & Brown, 1997; Altman & Vidaver-Cohen, 2000; Logsdon & Wood, 2002). Many theoreticians try to bridge the gap between economies and societal expectations while exploring this concept, suggesting that CSR and its derivations should be replaced by corporate citizenship, because it is more specific from the perspective of management, action and goals (McIntosh, McAntosh, Coleman, Jones, Leipziger, 1998; Waddell, 2000, p. 58, 107; Post, Preston, Sachs, 2002; McIntosh, Thomas, Leipziger, Coleman, 2003; Wood, Logsdon, Lewellyn, Davenport, 2006; etc.). However, a great degree of confusion remains in terminology, with some scholars using the term corporate social responsibility (CSR) and corporate responsibility (CR) synonymously with strategic philanthropy.

The aim of the study is to revise the scholarly research in the construct of corporate social responsibility up to date, with the focus on the domain of strategic philanthropy. We try to identify existing theories and insights on behaviour of organizations in response to the factors of social context, capable of making impact on philanthropic initiatives of the organizations, with long term strategic targets. The datum line for the investigation is Archie Carroll's approach of the four domain CSR concept, with his further developments of the theory, stressing philanthropic domain of the concept.

2. Strategic philanthropy or cause-related marketing

The discourse of corporate philanthropy or strategic philanthropy focuses on motivation (Barone, Miyazaki, Taylor, 2000), outcomes, implementation strategies, on measuring benefit and impact (MacKenzie, Garavan, Carbery, 2011; Navickas & Kontautiene, 2011; etc.). Moreover, some scholars make a distinction between "strategic philanthropy" and "philanthropic strategy" (Post & Waddock, 1995; Fombrun, Gardberg, Barnett, 2000), stating that philanthropic strategy is a formalized and well organized process, aimed at elaborating the strategies and procedures of donating. Such actions usually aim at fulfilling the societal expectations of "richer giving to the poorer", and include participating in philanthropic initiatives and activities, donating to charity, support for employees who volunteer their time, any kind of marketing to benefit key stakeholder interests (Carroll, 1991; Mcalister & Ferrell, 2002), supporting education, arts, culture, medicine, science, environmental protection and human services (Seifert, Morris, Bartkus, 2004). However, the motivations for strategic philanthropy go much further than mere giving. According to Fioravante (2010), who proposes an equation between philanthropic activities and added value (concept of a philanthropy value proposition equation - PVPE), corporate philanthropy is a phenomenon linking the business sector with the social sector. If it is "strategic", it has to be identifiable and synergistic with the company's mission, goals and objectives, become a part of the company's code and culture (Vveinhardt & Andriukaitiene, 2014). In this case strategic philanthropic activities are typically managed professionally and regularly evaluated and measured against stated objectives just like other business activities in the organization (Smith, 1994; Saiia, Carroll, Buchholtz, 2003; Hemphill, 2004; Foster et al., 2009; Liket & Maas, 2015; etc.). Though, according to Hemphill (2004) strategic philanthropy has a dual purpose: support for charitable causes and benefits for the corporation, scholars argue, whether strategic or planned philanthropy truly falls into the definition of philanthropy, as it has economic interest encoded in itself, thus the morale and economics has to be differentiated. Carroll's four-folded conceptual model with his division of CSP into economic, legal, ethical, discretionary (philanthropic) domains (1976; 1991; 1993), suggests that on the whole responsibility is a moral category and voluntary, and thus cannot be measured. Frederick (1994) built a clear boundary between the philosophical-ethical concept of CSR-1 and CRS-2 of another school of thought (Ackerman, 1973, 1975; Sethi, 1975; Ackerman & Bauer, 1976), offering a more practical and instrumentalist concept of CSR. According to Frederick's (1994) CSR-1, "business corporations have an obligation to work for social betterment", while CSR-2 suggests more pragmatic view on methodologies and tools, how companies actually respond—or ought to respond—to tangible forces in their social environment (Frederick, 1994, p. 155). Liket & Maas (2015) suggest that from the societal expectations point of view, the consolidation of these two concepts (strategy and philanthropy) is a priori taken as a promise to benefit business and society simultaneously. According to their revelations, strategic philanthropy might be characterized as a "happy marriage" of corporate social responsibility behavior and corporate financial performance, though it is important to understand to what extent empirics support the actual practice as well as value of a strategic approach, which creates both business and social impacts through corporate philanthropic activities (Liket & Maas, 2015). With this view in mind many researches attribute philanthropic strategies to cause-related marketing (Barone, Miyazaki, Taylor, 2000; Ricks, 2005), because philanthropic deeds are directly associated with benefits in financial performance through consumer's positive response to brands and sales (Drumwright, 1996; Webb & Mohr, 1998; Barone, Miyazaki, Taylor, 2000; Dean, 2002, 2003; Yechiam, Barron, Erev, Erez, 2003). Ricks (2005) draws a distinction between philanthropy that is directed toward and benefits a specific business target, and activities that are more general in nature and not associated directly with a specific strategic segment. In any case, philanthropy, according to many scholars (Varadarajan & Menon, 1988, p. 60; Mescon & Tilson, 1987) is an important element in strategic management, as it provides a range of benefits to the corporation including increasing sales and/or profits and enhancing corporate reputation and/or brand image (Varadarajan & Menon, 1988; Barone, Miyazaki, Taylor, 2000). From the perspective of implementation scholarly authors distinguish between reactive philanthropy, when companies react to specific events and situations and proactive philanthropy, aiming at raising corporate image and the general reputation of the organization as a good corporate citizen (Ricks, 2005). Developing this idea Ricks (2005) investigates how different perspectives affect specific indexes of company performance and brand in particular. According to his findings, although traditional giving may positively affect brand image, it does not necessarily increase sales. From his perspective, CRM has a more dramatic impact on sales because the link between the cause and the brand is stronger in the minds of the purchasers.

Regardless approaches and perspectives to philanthropic activities, funds for CRM activities are often part of the marketing budget rather than the corporate donations or philanthropy budget (Smith & Higgins, 2000).

3. Strategic philanthropy and social context

Until recently the predominant cause-related marketing perspective appeared to be sufficient for defining company strategic philanthropic performance. However, with global challenges putting more and more strain on business performance and accountability, shareholders' and owner's perspective in company management becomes too narrow. Corporate responsibility needs to be re-evaluated in the broader context of societal values and needs. According to Drucker (2004) "an important task for top management in the next society's corporation will be to balance the three dimensions of the corporation: as an economic organization, as a human organization and as an increasingly important social organization". CSR concept puts a strong demand on companies to formulate new perspective in the spheres of their operation, related to public relations, public interest, ability to have a broader perspective on societal needs and expectations, in other words, to diversify managerial decisions in regard to their impact on society (Black & Härtel, 2004, p. 127; Epstein, 1987). Thus the focus of academic research from vague and ambiguous moral field is shifted towards the sphere with tangible empirical interest. According to Strand (2012, p. 17), CSR is an umbrella construct, including sustainability, corporate citizenship, business ethics, stakeholder engagement, thus tuning the goals of the organization with the social context is not a matter of commonplace discussion, it belongs to the field of academic research. From the perspectives of UN Global Compact 2000, the principles of social responsibility are universal, and very few would doubt the correlation between strategic choices made by firms in this direction and company managerial elements (culture, techniques, tools and mechanisms, etc.) and the operation field, i.e. social context and social environment of a company. Wood (1991, p. 700, 712) argues the universal dimension of these principles, stating that they are neither unique nor universal in their meaning; they depend on given cultural or organizational context and are operationalized through the political and symbolic processes of that context. In other words, the main variables in this discourse are not only individual values of top managers and other decision makers, but factors of social context in particular (Wood, 1991; Athanasopoulou & Selsky, 2015). In this context Streuter et al. (2005) conclude that the (SD) model "is a well-known societal guiding model that asks for integration of economic, social and environmental issues in all societal spheres and levels in the short and long term". This perspective emphasizes the important role which social context plays in companies' choice for strategic philanthropy in communication with society as the most significant stakeholder. Despite its importance few researchers lay emphasis on social dimension of CSR construct. Moreover, until recently, social context was treated by most scholars "as a background noise" (Johnson, 1987), and not as a central constituent of the problem. Conceptual research classifies three dimensions of the social context: individual, organizational and external (environmental) (Athanasopoulou & Selsky, 2015). Each category requires a separate study, and in this paper we don't aim at fundamental studies of each field, on the contrary, we maintain that these three dimensions in reality intermingle and manifest themselves in specific empirical macro-organizational phenomena, depending on the social context in which they operate, because organizations are under such great pressure of social reality, that to view them as a unique phenomenon would be simply a misunderstanding (Granovetter, 1985). Referring to social context, Hansen (2010) broadens the conceptual borders of CSR with the dimension of corporate community involvement (CCI), and, depending on the implementation strategies, classifies its instruments into sponsoring, cause-related marketing, foundation, partnerships with NGO, employee community involvement, corporate community roundtable (italics in the original). Porter & Kramer (2002) concentrate on the competitive social context, where they distinguish four elements: factor conditions, demand conditions, context for the strategy and rivalry, related and supporting industries. Some of these elements may be directly associated with strategic philanthropy, as, for example, supporting education in the field of their business, companies invest in long-term targets, related to the benefit not only for company, but for society as well. Zadek (2004) presents a slightly broader perspective on corporate philanthropy as he links corporate social responsibility initiatives with larger changes in organizational learning, in other words, with strategic changes in the organization itself. He distinguishes five transformational stages, related to implementation CSR strategies in organization, transmuting its performance from defensive reaction to a responsible citizen: (1) defensive; the organization denies its responsibility for societal shortcomings and only acts to defend reputational attacks; (2) compliance; the company sees CSR activities only in the context of protecting its reputation, reducing the risk of litigation and the cost of doing business; (3) managerial, responsible business practices become embedded into core management processes; (4) strategic; being socially responsible is viewed as a competitive advantage and is integrated into core business strategies; and (5) civil; the organization becomes an advocate for CSR in the broader marketplace. According to Griffin & Prakash (2013), firms philanthropic activities are usually determined by the institutional and cultural context, where tithing and charitable activities aligned with religious beliefs are often considered expressions of corporate obligations and duties to others. They support Wood's (1991) idea about corporate social responsibility values and principles being not universal, but rather depending on social and cultural context. The content of CSR concept, as it is understood in industrial countries of Western democracies may sound as the celestial choir in countries with deep gaps between societal groups. They maintain that firms' CR portfolio and its beneficiaries is likely to vary across industries, time, and institutional and cultural contexts (Prakash & Potoski, 2011). Mainly the differences of social context determine approach and strategies of organizations. Many giant companies invest in community programmes (education, self-governing structures, creating networks of local NGO's) in underdeveloped countries, and thus social context of underdeveloped countries is the determining factor of such company's "overseas" philanthropic activities, which can be classified as strategic, i.e. aimed at long-term targets, related to development of societies, and not usual cause-related marketing. Namely in such countries global companies' investments don't conclude with image and sales related donations. However, such type of strategic philanthropic initiatives, when oriented not to local societal needs, but to the benefits of other countries, even though important in company's economic goals, contribute to the target country's strategic development, not those of the company itself and of its home country. According to Bruch & Walter (2005), "although the relevance of corporate philanthropy is widely accepted, few companies achieve significant, lasting societal impact because most lack a cohesive strategy. Effective philanthropy must be run no less professionally than the core business". Their research (2001) of philanthropic activities of seven major global companies (ABB, Alstom Power Service, Lufthansa, Hilti, RWE, Tata Steel and Unaxis) and a dozen small and medium-sized enterprises, produced a classification of companies' approaches to corporate charitable activities, consisting of four types: peripheral philanthropy, constricted philanthropy, dispersed philanthropy and strategic philanthropy. They stress the importance of strategic philanthropy as the most efficient type, pointing substantial benefits from such activities to both, company, stakeholders and society on the whole. However, motivation and potentialities of global companies or small and medium enterprises in one of the richest parts of the world, even from Western capitalist welfare perspective, doesn't usually make impact or stimulate philanthropic choices of smaller companies, or those, functioning in even slightly different social context. In the capitalist markets of the Western democracies companies seldom demonstrate systematic approach in harmonizing their strategic philanthropy to the goals of society, as the common view prevails, that businesses contribute to the societal goals through the system of taxation. However, the social context and societal needs in the Western type of economies are changing faster than human intelligence and reasoning, thus the leaders of organizations should change not only their managerial techniques, but their paradigm of relations with their environments as well. Foster et al. (2009) maintain, that depending on motivation, response to social context and with regard to community goals of philanthropic initiatives, companies can be classified into donors, sponsors, and partners. The findings of their research support Porter & Kramer's (2002) and Bruch & Walter's (2005) view of the objective of strategic philanthropy going beyond public relations activities and CRM and involving societal impacts, when the relationship between the corporation and the nonprofit sector is focused on building multiplexed partnerships to address widely recognized social problems—problems beyond the scope of any one sector to solve (Foster et al., 2009).

Theoretical and empirical research as well as empirical data suggests that corporate social responsibility as an organizational model is not a commonplace paradigm of corporate strategies, otherwise, why not all companies join the "club by default"? For example, according to the data of unglobalcompact.org, only 72 companies, registered in Lithuania, are members of UN Global Compact, with just half of which being private equity companies, and most having joined the organization not earlier than 2011-2012. Lithuanian Association of Socially Responsible Business (LAVA), established in 2013, has only 34 members. According to Navickas & Kontautiene (2011), strategic activities of Lithuanian enterprises are determined by corporate policies, culture and other factor, and not by increase in revenue.

4. Discussion

Companies, abiding to CSR principles and declaring strategic philanthropy as part of their managing portfolio, are influenced by the volatile social context, on the other hand, an individual is concurrent with his own context, integrated in the cultural environment of the organization. Investigation of scholarly papers and publications in the field shows that empirical research and theoretical insights in the construct of strategic philanthropy have been extensive, however, it is evident, that the problem of social context and its influences on organizations' choices for strategic philanthropy is lacking academic attention. In their insights on strategic philanthropy as an important segment of corporate social responsibility concept most scholars focus on motivation, implementation strategies, benefits to society, and on the added value for the company's revenue (Barone, Miyazaki, Taylor, 2000; Dean, 2003; Drumwright, 1996; Webb & Mohr, 1998; Yechiam, Barron, Erev, Erez, 2003) and image or reputation (Varadarajan & Menon, 1988; Barone, Miyazaki, Taylor, 2000). Although institutional philanthropy can be an engine of significant social change, often this possibility is not realized (Sandfort, 2008) and many companies are stuck in the model of CSR where social interest is in periphery, not in the centre (Porter & Kramer, 2011). Nowadays nobody would deny the importance of top managers' and owners'/shareholders' position in decision making and their influence on macro-organizational processes (Vveinhardt & Zygmantaite, 2015), in particular those related to transforming the company into a socially responsible one de facto. According to Bruch & Walter (2005), most managers and executives in favour of philanthropy maintain, that a company's level of giving is all that matters, rather than its level of strategic engagement with philanthropic activities. Thus, even though the empirical evidence shows, that top managers lack systematic approach to strategic philanthropy, there are no relevant researches in this area. In other words, the area of cognitive managerial perspective on CSR and strategic philanthropy, and their response to social pressures (positive and negative), still needs to be explored. How managers in different social/cultural environment react on specific social targets and societal needs? How the correlation of the three layers (individual, organizational, environmental) of the CSR concept react to the factors of social context, transmuting into tangible managerial decisions and choices for strategic philanthropy. And what factors of the social context- economical, geographical, cultural, religious, demographical, organizational, legal, etc., as well as stakeholder groups: shareholders, employees, communities and others- make influence on managers' philanthropic choices, related to strategic objectives of organizations and society. Social context and its multiple factors as determining variables for philanthropic initiatives of companies should be investigated transversely, "for companies do not function in isolation from society around them, and their ability to compete depends heavily on the circumstances of the locations where they operate" (Porter & Kramer, 2002). According to Friedman (1970), "the desired benefit is enhanced goodwill, (…) and true strategic giving addresses important social and economic goals simultaneously, targeting areas of competitive context where the company and society both benefit because the firm brings unique assets and expertise". Another significant gap in the studies of CSR and strategic philanthropy is the exceptional focus of most researchers on giant companies or brand names (Bruch & Walter, 2005; Liket & Maas, 2015; MacKenzie, Garavan, Carbery, 2011; Snider, Hill, Martin, 2003; etc.). According to EU Annual Report on European SMEs 2013/2014, more than 20 million SMEs in the EU represent 99% of businesses, and are a key driver for economic growth, innovation, employment and social integration, however their perspective on strategic philanthropy is not investigated, as philanthropy is traditionally attributed to the sphere of the rich, the big and the famous. Thus the SME's, operating nationally, regionally or locally, though can make biggest impact on communities and on the betterment of society, are excluded of scholarly research focus. On the other hand, smaller companies argue, that due to their size and insufficient recourses, they can‘t afford investing in social projects, however, many of them benefit from social funds, while participating in social programmes for creating new jobs or employing people with different kinds of physical or social disadvantage, they benefit from tax reduction, different grants etc. Sometimes they „throw a bone“ to a charity project or a school basketball team, but such philanthropic activities are mainly oriented to gaining a better position within their competitive environment. Their philanthropic engagement is usually unrelated to their core activities, and they are merely attempting to translate positive reputation effects into concrete bottom-line impacts (Bruch & Walter, 2005).

In his insight on strategic philanthropy in „Capitalism and Freedom“ (1962), Friedman regrets that „few phrases are as overused and poorly defined as “strategic philanthropy”. Indeed, as has been stated above, the term has been confused and mixed with any charitable activity, philanthropy, and act of doing good. This study contributed to bringing additional lucidity on the development and evolution of CSR concept and terminology, and scholarly approach to the construct of social responsibility and strategic philanthropy. However, disregarding differences of approach and focus on different domains of the CSR construct, it is obvious that most academic findings agree on the impact of social context of companies' choices for philanthropy.

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