Key Takeaways – ESG Center

Beyond Traditional Philanthropy: Corporate Citizenship Investing

Roundtable for ESG Center Members Held Under the Chatham House Rule

Thursday, February 24, 2022

Earlier this year, the ESG Center held a Roundtable on “Beyond Traditional Philanthropy: Corporate Citizenship Investing,” attended by 57 executives from ESG Center Member organizations. The Roundtable discussion was not intended to provide a comprehensive overview, but to address emerging trends, best practices, and timely learnings in this vibrant arena.

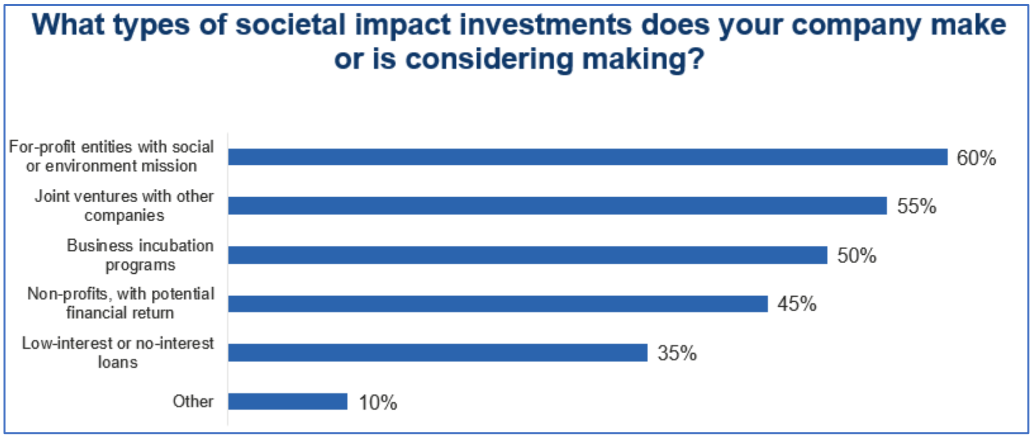
The Roundtable focused on 1) ways companies’ corporate citizenship is going beyond traditional donations and philanthropy to serve a societal good, with a particular (but not exclusive) focus on “societal impact investing”; 2) why and how companies are doing so; and 3) approaches to reporting on the impact of these efforts. These innovative efforts are part of a larger picture of how companies are addressing environmental and social issues through their products and services, their operations and workforce, and their engagement with stakeholders.

Since the Roundtable, the Conference Board has conducted a series of interviews with leading firms and experts in the field. Those interviews, along with the Roundtable discussion, will serve as the basis for an upcoming Conference Board report.

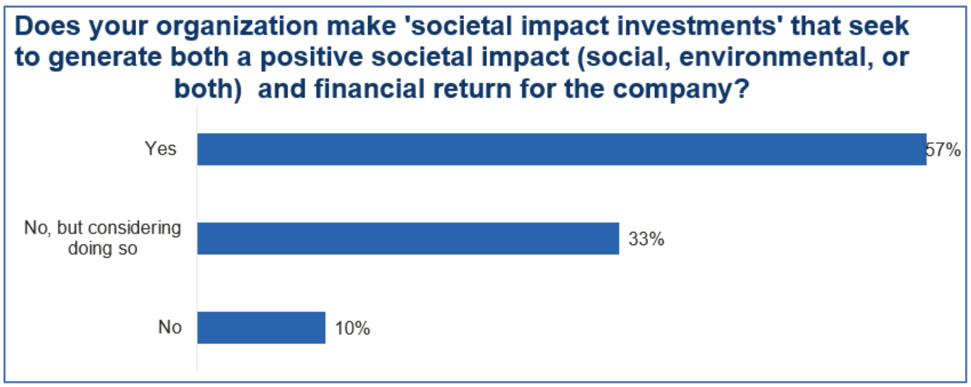
The key takeaways from the Roundtable are below.

Ways that Corporate Citizenship is Going Beyond Traditional Philanthropy

1. **Corporate Citizenship teams are deploying a wide array of non-traditional programs to address societal needs.** These include investments in for-profit entities, joint ventures, business incubation programs, and non-profits that seek both societal impact and a financial return. This menu of ‘societal impact investments’, however, is not the full picture. A powerful tool for companies to use is their own procurement program, especially when focusing on social (including diversity) and environmental sustainability. In at least one case, a company has embedded its own employees in the local school district system to build capacity for diversity and inclusion initiatives:



2. **While some companies have a long track record in societal impact investments, it is still an emerging frontier for others.** Pre-roundtable survey results indicate a majority of companies are already making such investments (57%), or are considering doing so in future (33%):



3. **Some firms have shifted their focus from societal impact investing to an even broader, company-wide approach.** A recent example is AT&T pivoting its business strategy to prioritize broadband and internet communications and, as part of that transition, focusing the entire company on bridging the digital divide in underserved communities. This kind of pivot can strengthen the alignment of corporate citizenship programs with wider business goals and extend their internal influence.

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Why Corporate Citizenship is Going Beyond Traditional Philanthropy

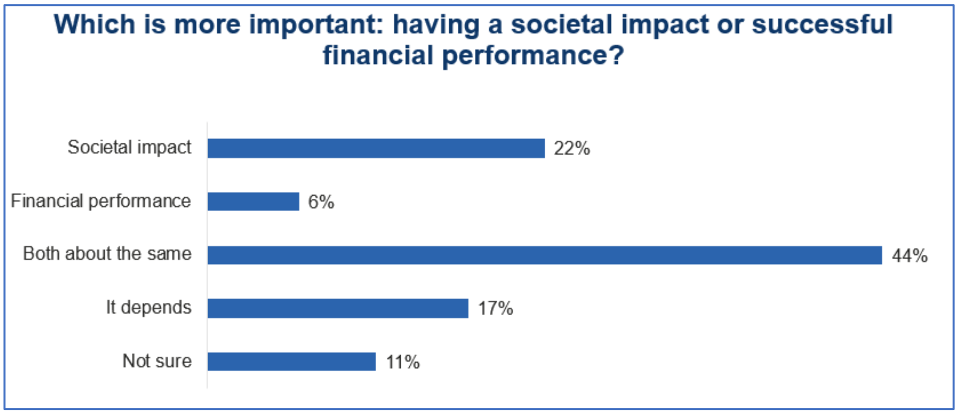
4. **Firms that are going beyond traditional philanthropy are seeking to have greater societal impact in a manner that is sustainable and efficient. This aspiration plays out in a number of ways:**

   - By leveraging other parts of the company's business operations – whether procurement or venture capital units – corporate citizenship can have a greater impact than traditional philanthropy. Procurement is a particularly powerful way to sustainably improve economic opportunity and security in disadvantaged communities.

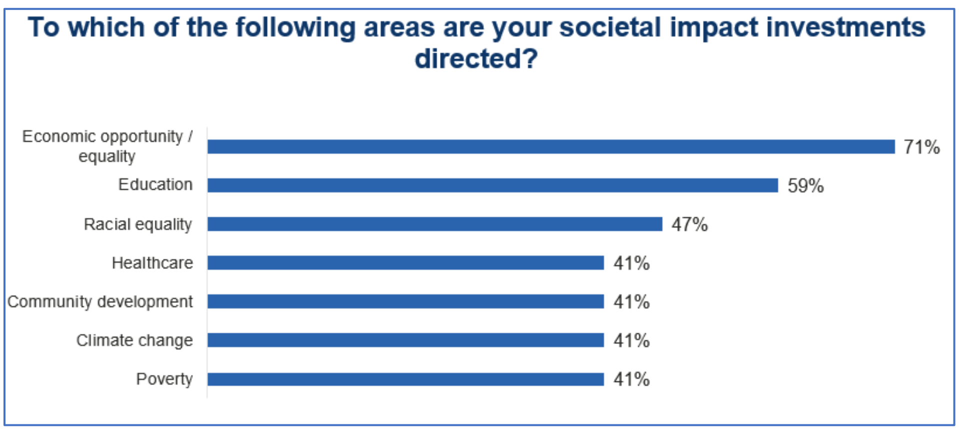
- By providing a financial return to the company, societal impact investments can be inherently more sustainable than those that simply involve writing checks. Crucially, the returns on societal impact investments can be recycled into new opportunities – granting a second bite at the impact apple.

- The market discipline of seeking a financial return can also help ensure funds are invested efficiently. Pre-roundtable survey results indicate 35% of firms are looking for a market- or above-market financial return.

5. **Along with amplifying impact, companies are also seeking commercial benefits.** For 44% of firms already making societal impact investments, the social impact and financial return are equally important. These investments can create new commercial opportunities, through such pathways as developing new innovations and products, reaching new market segments and improving the state of infrastructure.



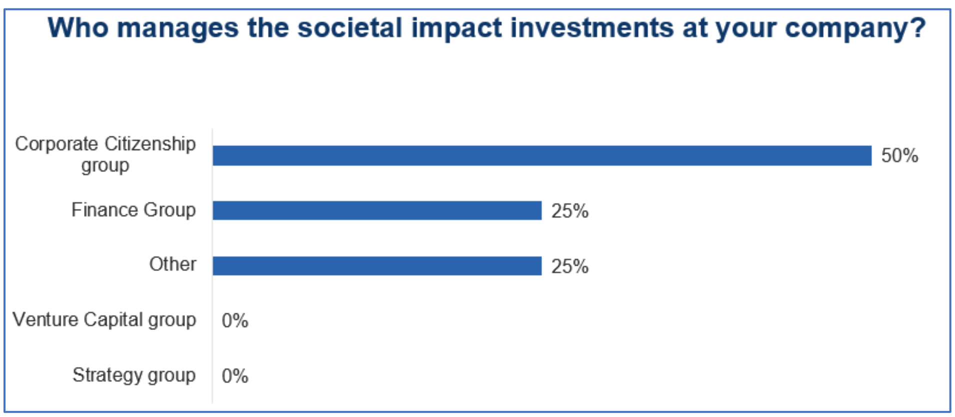
6. **Companies are primarily investing to advance economic opportunity and equality, according to survey results**. Education and racial equality are also prominent focus areas. These findings correlate with prior research that CEOs and C-suite executives have designated economic opportunity and equality as their top-ranked ESG-Social priority. These focus areas reflect companies' roles as both economic engines and societal stewards, and consistently attract broad public support.



How Are Companies Executing their Programs in this Area?

7. **Most firms do not expect that increasing levels of corporate societal impact investments will lower the level of traditional philanthropic giving.** This suggests that impact investing is not a ‘zero-sum’ game. At the same time, a substantial minority of firms are not sure what the allocation of their investments and traditional giving will be:

8. **Organizationally, corporate citizenship is playing a leading role in societal impact investments.** When it does not take the lead, it is usually consulted, maintaining clear accountability for another function while ensuring corporate citizenship is fully engaged.



9. **Company mission and purpose should be the guiding principles for companies entering the societal impact investment space**. Investments are most impactful, and pose the least risk, when aligned with the company’s strategic priorities and market position. For example, multinational company Merck harnesses core competencies in biopharmaceutical innovation to impact invest in improving access to healthcare for underserved populations, in the US and globally.

10. **Conglomerates that combine multiple business entities may encounter challenges when articulating a company-wide purpose or societal impact strategy.** A common way forward is to

coalesce around cross-cutting themes. For example, Caterpillar focuses on building resilient communities through such pillars as workforce upskilling, environmental resilience, and community engagement.

11. **Companies can benefit from familiarizing themselves with the global impact investing landscape, prior to developing new funds and deploying capital**. It may be useful to develop an investment approach and policy in dialogue with ecosystem stakeholders, such as relevant UN agencies or the Global Impact Investing Network (GIIN).

12. **It's effective for corporate impact investments to focus on *ecosystem building*: targeting capital to develop new markets and commercial opportunities while advancing social and environmental objectives, with a systems thinking mindset**. Merck's impact investing arm exemplifies this approach: deploying venture capital in initiatives that collectively mold a more sustainable, resilient global health ecosystem.

13. **When deploying venture capital for societal impact, companies may consider establishing a cross-functional investment committee to govern and oversee strategy**. Investment Committees typically draw on relevant senior leaders to assess pitches, undertake due diligence, and review and approve new investments in line with strategy. Investment Committees mitigate risk, maximize effectiveness, and embed impact criteria.

14. **Internal investment committees often develop and use scorecards when evaluating potential investment opportunities**, to scrutinize and weigh up various financial and social elements. A sample Investment Committee scorecard is reproduced below, based on an example from Merck:

Investment Criteria: Financial	Investment Criteria: Social Impact
Investment type (direct / fund)	Impact type
Track record of general partner	Framework
Proposed capital allocation	External validation
Company position as a percent of total fund / vehicle	Transparency
Size of fund / vehicle (projected total)	Sustainability
Current capital committed from other investors	Geographic focus
Timing of capital calls	Thematic focus
Expected rate of return	
Other committed investors / limited partners	

15. **Developing a robust pipeline of investments is important for impact at scale**. Pipeline building requires a rational approach to investment strategy: steering credible opportunities through due diligence and disbursement, incubating for scale and impact, and positioning for sustainability and exit. The graphic below summarizes this journey.

16. **Pursuing non-traditional means of philanthropy, including societal impact investing, is challenging and poses risks as well as opportunities**. These risks include:
    a. Pre-existing nonprofit partners not aligning with a change in strategic direction.
    b. Company reputation negatively affected if philanthropic contributions are reduced to popular community programs, or if philanthropic money flows into for-profit or 'unproven' enterprises.
    c. Inclusive procurement plans that prioritize sourcing from (for example) minority- or women-owned enterprises, but may not fully evaluate if these enterprises are operating in ways and locations that truly benefit disadvantaged communities.

17. **As corporate citizenship becomes a more important element in corporate business and ESG strategies, CEOs often become more involved in the function's oversight and decision-making**. The CEO is critical in determining whether to engage in societal impact investing, where it is managed in the organization, and the balance of objectives (as between impact and financial return, and the degree of financial return). It's important to ensure that the process leading to the CEO's decision includes input across functions (legal, finance, communications, strategy, business units, etc.), as multiple departments will be involved in the execution and communication of the program.

18. **When corporate citizenship is integrated with company business strategy, new governance and management practices are often required.** In addition to having an investment committee that focuses on societal impact investing, as outlined in prior ESG Center research, it may be helpful to establish an internal steering committee led by corporate citizenship and including other functions (sustainability, legal, finance, communications, business units) to formulate and oversee citizenship strategy.

Leveraging People along with Investments

19. **Leveraging a company's people, as well as its financial resources, is another approach that goes beyond traditional philanthropy.** 3M's flagship Impact Program translates business priorities into action by allowing employees to dedicate weeks at a time to social endeavors. This provides an outlet for impact, while improving the creativity and problem-solving capability of 3M's workforce. Corning's Office of Racial Equality and Social Unity hired former educators to lead diversity, equity and inclusion efforts in Corning's home community in West New York – embedding in the local school district to build capacity and drive change.

20. **When companies possess a physical presence in underserved communities, these sites of commerce may themselves be on the front lines of social inequality challenges** – including homelessness, mental health, and substance abuse. Innovative company-wide corporate citizenship approaches to such challenges can address critical societal issues while safeguarding employees and customers, such as Starbucks' ongoing efforts to address chronic homelessness. Recognizing the particular challenges its customer-facing retail employees confront in high-incident areas (for example, in stores near a homeless encampment), Starbucks deploys outreach workers to regularly check in with store partners and engage people who are marginalized or at-risk.

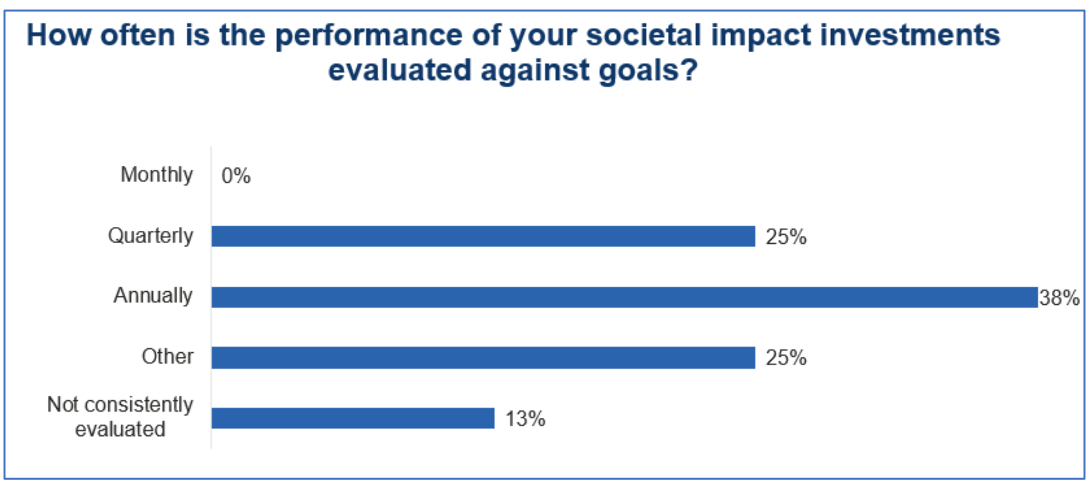
Measuring and Reporting Impact

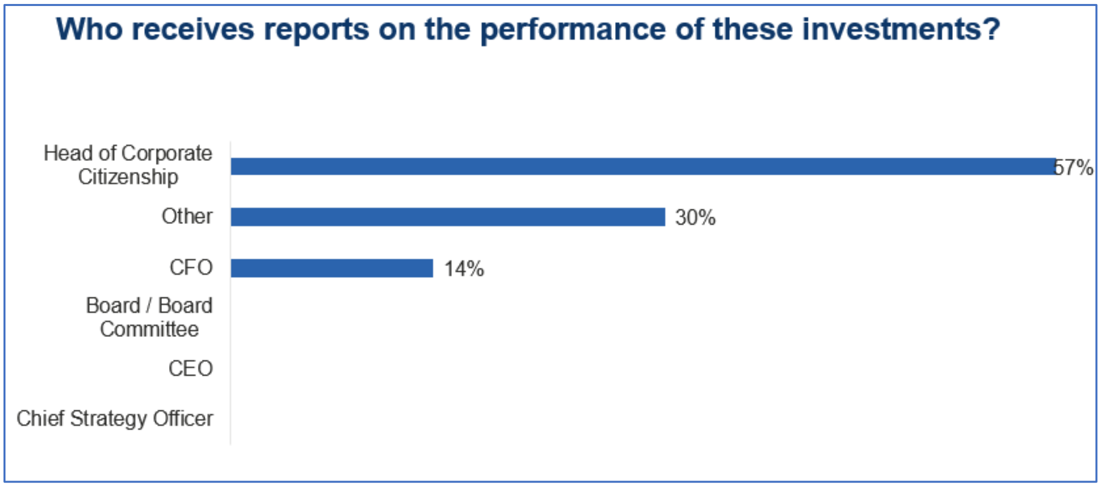
21. **Companies making societal impact investments can draw upon a wide range of industry frameworks, tools and systems to measure and report impact performance**. These commonly include the UN Sustainable Development Goals (SDGs), the IRIS Catalog of Metrics, IRIS+ Core Metrics sets, the UN Principles for Responsible Investment, and the Impact Management Project's five dimensions of impact.

22. **All corporate citizenship initiatives should be anchored in robust capacity for measurement and evaluation**. Common elements for success include:
    a. Credible strategic vision and long-term outlook.
    b. Coherent theory of change, which charts how inputs of funding and resources lead to tangible impact and real-world results.
    c. An appropriate and effective choice of measurement framework, with relevant metrics and indicators.
    d. Capacity for collecting and processing relevant data.
    e. Expertise to undertake analytics, distill learnings, and feed back into programming.

23. **Companies typically measure their corporate citizenship programs in terms of the number of people reached, employee hours dedicated to social issues, jobs created, and improvements in access.** While these are vital indicators, they may also reflect intent and outputs more than impact. Demonstrating true impact often requires going further, to show what behavioral changes, life improvements and new social value were catalyzed as a result.

24. **Most company societal impact investments are evaluated annually, with performance reports sent to the Head of Corporate Citizenship and Chief Financial Officer**. At all times – and especially during an economic slowdown when competition is fierce for internal resources – corporate citizenship executives should ensure the CEO is aware of the performance of societal impact investments and other forms of non-traditional philanthropy. While corporate citizenship efforts in general can translate to a positive return on investment for shareholders, societal impact investments are a direct way to do so.




Who receives reports on the performance of these investments?
Head of Corporate Citizenship
Other
CFO
Board / Board Committee
CEO
Chief Strategy Officer
57%
30%
14%