# WHICH TYPES OF STRATEGIC CORPORATE PHILANTHROPYLEAD TO HIGHER MORAL CAPITAL?

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**Abstract:** The purpose of this research paper is to identify which types of corporate philanthropy (CP): cause-related marketing (CRM) or sponsorship, create higher moral capital under two conditions: proactive or reactive (following a scandal). Results showed that CP created higher moral capital for a proactive company than for a reactive company. BothCRM and sponsorship were perceived as more sincere in the proactive company than the reactive company. However, CRM was seen as self-serving in the reactive company, but not the proactive company. The study demonstrated that companies need to take into account the different types of CP, as it has an effect on their moral capital. Socially proactive firms should engage in both CRM and sponsorship philanthropy, as both types can generate high moral capital, which creates better company reputation. However, CP may not be the most effective or appropriate strategy for creating moral capital following negative publicity.

**Keywords:** corporate philanthropy, moral capital, reputation

**Introduction**

With the growing significance of corporate social responsibility (CSR), organisations are expected to be of service to society in addition to their aim of maximizing shareholder value. Research shows that these aims are not divergent, as strategic corporate philanthropy can combine the interest of shareholders and society (Porter and Kramer, 2002). It has been argued that corporate philanthropy (CP) leads to better corporate reputation through the creation of moral capital (Godfrey, 2005); however, for some types and contextual conditions, CP can backfire on the firm reputation. The concept of moral capital was more fully explicated and defined in a sister paper (Baden *et al*., np), and a moral capital scale was devised to measure this concept, which includes five questions pertaining to reputation, trust, feelings about the company, beliefs regarding whether the company benefits society and behavioural intentions (likelihood of recommending the company). This study examined consumer perceptions of two different types of CP: sponsorship philanthropy and cause-related marketing, when carried out in reactive and proactive conditions.

**Literature review**

**Strategic Corporate Philanthropy**

Strategic CP is defined as “a discretionary responsibility of a firm that involves choosing how it will voluntarily allocate resources to charitable or social service activities in order to reach marketing and other business related objectives for which there are no clear social expectations as to how the firm should perform” (Ricks, 2005: p.142). Thus, strategic CP aims to align business goals with societal ones.

How the companies give can have a substantial impact on the firm’s ability to achieve competitive advantage (Porter and Kramer, 2002). Businesses proactively engaging in strategic CP have been shown to have a higher reputation in the eyes of the public (Fombrun and Shanley, 1990; Brammer & Millington, 2005). Ricks (2005) distinguishes between proactive and reactive CP, based on whether it is in reaction to negative publicity or not. In line with expectations, Ricks found that corporate associations, brand evaluations and patronage intentions were higher for a proactive company than a reactive company. Rick also predicted that CP in the reactive condition should still result in more positive consumer perceptions than no CP at all. However, other studies have found the opposite – CP can actually be counter-productive in reactive conditions. A recent study found that if a firm is involved in strategic CP while exhibiting socially irresponsible behaviour in other corporate areas; its motives become highly questionable (Gao, 2009).

Attribution theory (Kelley, 1967) provides a basis for understanding how consumers make sense of philanthropic activities and attribute motives to them. The outcome of these deliberations depends not just upon existing information, for example, the firms prior reputation, but also the level of elaboration or cognitive effort engaged in. Where the discrepancy between two sources of information is great, for example a firm with a negative reputation donating to a good cause, this has been proposed to lead to greater elaboration, and more negative evaluations (Meyers-Levy and Tybout, 1989; Stayman *et al*., 1992).

There is evidence showing that negatively publicized companies can lack consumer trust (Till and Nowak, 2000). Consequently, if consumers believe the company uses strategic CP to cover information about its social responsibility violations, it may result in failure to achieve the desired corporate reputation (Godfrey, 2005). For instance, several studies have found that find that consumer perceptions of CP are modified by the perceived sincerity of the donation (Bae & Cameron, 2006; Barone *et al*, 2007; 2007; Dean, 2003; Yoon *et al*., 2006). Therefore, companies involved in significant corporate scandals run the risk of their philanthropic programmes backfiring. For example, Bae and Cameron (2006) found that public attributions regarding CP depended upon prior reputation, whereby participants inferred the donation to be mutually beneficial for companies with a good reputation, but self-interested for companies with a bad reputation. In turn, these attributions affected attitudes, whereby attitudes were positive towards companies perceived to have altruistic motivations for giving, but negative towards donations perceived to be self-serving. Several studies have also found that consumers respond positively to CSR initiatives judged to be motivated by values but negatively to those perceived to be ‘strategic’ (Becker-Olsen *et al*., 2006; Ellen, *et al,* 2000; Walker *et al*., 2010). These attributions affected both consumer patronage and the organisation’s reputation.

**Types of CP: Sponsorship and CRM**

The type of CP may also affect attributions, for example consumers may be more sceptical of philanthropic initiatives that are conditional upon customer purchase. One type of strategic CP is corporate sponsorship, which is a direct donation by a company to a cause and which is not conditional on customer sales (Barone *et al*., 2000). Therefore, this type of strategic CP may have lower associations with pure business self-interest than CRM (Dean, 2003). The only pre-requisite of sponsorship type of strategic CP is that the giving is associated with the company name in public promotions. This can in turn reap large marketing benefits for the business, through providing visibility among its key target market segments, brand recognition and differentiation from competitors (America, 1995). Therefore, sponsorship is both philanthropic and an effective marketing tool. It supports social causes, which might otherwise cease to exist, while making the best use of opportunities to enhance the company reputation and brand appeal (Bloom *et al*, 2006; Harvey, 2001).

**Cause-related Marketing (CRM)**

CRM is a related phenomenon and has an even more direct link to marketing (Casson, 1995). The aim is to attract customers through linking product purchase with a worthy cause. An additional desired benefit is reputational due to the association of the company with such causes. However, Polonsky and Speed, (2001) question whether CRM is a victim of its own success. For example, following the success of CRM by American Express, the use of CRM grew rapidly increasing eightfold between 1990 and 2004. This rise was however, accompanied by a corresponding rise in consumer scepticism (O’Sullivan, 1997; Webb *et al.,* 1998), which can negatively affect consumer purchasing (Rogers, 1998). For example, Mekonnen *et al* (2008) in a study of consumer perceptions of credit cards linked to a non-profit organisation, find “evidence among such consumers of a degree of scepticism over the real value of the functional benefits to the affinity group of affinity card schemes….Central to this questioning of the functional value of affinity cards to the affinity groups was the sense that such schemes, despite making a certain contribution to the affinity group, were ultimately exploitative of the affinity group. Such perceived exploitative relationships arguably undermine the credibility of the core value proposition on which affinity cards have been developed” (p.144).

Literature depicting consumer attitudes towards CRM has generated mixed findings. The Cone/ Roper Study (1999) showed that 64% of consumers were favourable towards companies regularly practicing CRM. The same study showed an even more favourable approving towards CRM among young people with 89% showing a brand preference and 80% having higher level of trust towards companies for companies involved in CRM. Ross *et al*. (1992) also found positive consumer attitudes towards Proctor& Gamble CRM campaign which donated a fixed amount towards Olympics for those with intellectual disabilities. However, the Cone/Roper study also found that consumers are beginning to question business motives, with only 12% believing the philanthropic claims to be “highly credible,” and also that the public is likely to be cynical towards donations, which are perceived to be hypocritical. Webb and Mohr’s study (1998) showed that 58% of the 1981 consumers surveyed perceived CRM to be solely benefiting the company, through image enhancement. Such corporate giving can be seen, to benefit the business disproportionately more than the cause (Smith and Stodghill, 1994; File and Prince, 1998). As a result, CRM can often lead to sceptical customer attitudes, which can damage the company’s reputation.

While there is plentiful literature on consumer responses to CP, thus far a direct comparison of the level of moral capital generated by CRM and sponsorship for proactive and reactive companies has not been carried out. The closest study we found was by Deans (2003) which presents results that are inconsistent with the majority of the literature. Deans found that firms with a good reputation suffered decreased customer favour following conditional philanthropy (CRM), whereas both conditional and unconditional types of philanthropy improved company image for a firm with a prior reputation for irresponsibility (Dean, 2003). Another related study is that of Ricks (2005), which examined the effects of previous scandals on perceptions of directed and non-directed target groups of strategic CP.

We address some of the limitations of both of these studies i.e. fictional companies and student only sample, and propose a two x two classification schema that compares two different existing brands within the clothing retail sector. The CRM stimuli presented in the case-study will be based on a donation of a percentage of profits, similar to that of Paul Newman’s Own food company donating 100% of all profits from its line of product towards education (Kotler and Lee, 2005). The types of donation will also be presented in two different situations: one for a firm having been involved in a corporate scandal, termed as ‘reactive’ as opposed to a company which has not been publicised for any major CSR violations, whose philanthropy is termed as ‘proactive’.

**Methodology**

The study focuses on two established clothing brands: Nike and River Island. The River Island case study looks at the proactive condition of CP, where the company does not have a negative track record, but chooses to engage in CP. Alternatively, the Nike case study looks at the reactive condition, where the company engages in CP, after being implicated in sizeable public scandals. These case- studies were based on real-life media news releases, ranging from June 2009 to November 2009, which were made more concise in order to draw the participant focus to the core construct of strategic CP. The information was largely equivalent for both case-studies, in order to avoid bias, e.g. percentage of profits donated. The questionnaire used is shown in Appendix I.

**The *Sample***

The sample involved 203 respondents from the South of England. Non-probability sampling was used in order to select the respondents, including convenience, snow-balling and self-selection. After the manipulation check answers were assessed (question 13, see Appendix I), 18 responses were discarded, leaving 185 usable entries. The gender division was almost identical, with 93 men and 92 women. In order to increase the relevance of the research, we aimed to obtain a sample of a similar age composition to that of the clothing retailers target market. Stock Analyst Willard Brown states that Nike’s target market is 18-30 year olds (Janofsky, 1993) and Richard Bradbury, River Island’s CEO, confirms that the company’s target market is 18-24 year olds (Alexander, 2005), although both companies also have customers from other age groups. Therefore, in our sample, 54% of respondents belong to the 18-24 age group with the remaining 46% spread across other age groups, see Table 1.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Age range** | 18-24 | 25-29 | 30-34 | 35-39 | 40-44 | 45-49 | 50-54 | 55-59 | 60-64 |
| Participantfrequency | 54.05% | 7.03% | 3.24% | 4.32% | 4.32% | 5.41% | 7.57% | 5.95% | 8.11% |

**Table 1. Age Range of Sample**

**Results**

*Hypothesis 1: Strategic CP will create significantly higher overall moral capital for a proactive company, than for a reactive company.*

Five questions assessed the level of Moral Capital for the companies (see Appendix 1, question numbers 4 - 8). The responses to these were averaged to form a composite Moral Capital score, ranging from 1 (low Moral Capital) to 7 (high Moral Capital). A repeated measures ANOVA with two levels (Proactive and Reactive) indicated that the Proactive company scored significantly higher on Moral Capital than the Reactive company (Table 2).

**Table 2. Difference between Moral Capital Scores for Proactive and Reactive Company**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Question | Proactive company (River Island) | Reactive Company (Nike)  |   |  |   |
|   | Mean | SD | Mean | SD | F  | P | η2 |
| Benefits society  | 4.71 | 1.37 | 3.29 | 1.36 | 146.03 | <.001 | .44 |
| Trustworthy company | 4.33 | 1.15 | 2.98 | 1.26 | 145.49 | <.001 | .44 |
| Reputation | 4.77 | 0.94 | 3.2 | 1.14 | 218.16 | <.001 | .54 |
| Feelings towards company | 4.94 | 1.11 | 3.25 | 1.38 | 212.41 | <.001 | .54 |
| Recommend company | 4.7 | 1.56 | 3.26 | 1.72 | 104.02 | <.001 | .36 |
| Total moral capital (mean of above) | 4.69 | 0.93 | 3.2 | 1.1 | 267.54 | <.001 | .59 |

*Hypothesis 2: Both CRM and sponsorship will be perceived as more sincere in the Proactive Company than the Reactive Company.*

Data was subject to a 2 x 2 Repeated Measure ANOVA. The factors were company type with two levels:1. Proactive (River Island) and 2. Reactive (Nike) and type of CP with two levels 1. CRM and 2. Sponsorship. With both types of CP (CRM and sponsorship), the donation was seen as significantly more sincere in the Proactive Company compared to the Reactive Company, and the magnitude of the effect is larger for CRM than for sponsorship. Specifically, with respect to CRM, the donation is seen as more sincere for the Proactive company (M = 4.62, SD = 1.39) than the Reactive Company (M = 3.29, SD = 1.43) *F*(184) = 138.40, η2 = .43. Similarly, with respect to sponsorship, the donation is seen as more sincere for the Proactive company (M = 4.32, SD = 1.37) than the Reactive Company (M = 3.62, SD = 1.40) *F*(184) = 32.26, η2 = .15.

*Hypothesis 3: Conditional philanthropy (i.e. CRM) will be perceived as more self-serving (i.e. of greater benefit to the business than the cause) in the Reactive Company, but not the Proactive Company.*

With respect to the question whether participants believed CRM and Sponsorship benefited the business, the cause or both, there was a different pattern of responses for the Reactive and Proactive Companies. Participants were significantly more inclined to believe CRM was self-serving (i.e. benefited the business) in the Reactive condition, (M = 1.74, SD = 0.71) than the Proactive condition (M – 2.14, SD = 0.70) *F* (184) = 40.52, p < .001, η2 = .18. However, there were no significant effects with respect to perceptions of sponsorship between the Reactive and Proactive conditions. This supports the general hypothesis that there is greater cynicism regarding the motives of reactive companies, particularly in the case of CRM where the donation is conditional upon customer purchase.

**Demographic Variables**

**Age**

Age showed a weak non-significant correlation with ratings of importance of CP such that older participants were more likely to say CP is important (r = .18, p = 0.12).

**Gender**

There was a significant effect of gender regarding ratings of importance of CP, with female participants stating CP to be more important (M = 1.78, SD = 1.08) than male participants (M = 2.42, SD = 1.42): *F* (1,184) = 11.74, p < .001.

Female respondents gave significantly higher Moral Capital scores (M = 4.89, SD = .86) to the Proactive company than male respondents (M = 4.49, SD = .96), F(1,183) = 8.82, p = .03. However, there was no significant effect of Gender with respect to difference in Moral Capital scores for the Reactive company. When Gender was treated as a between subjects factor on a repeated measures ANOVA there was a significant interaction between the level of Proactivity (Proactive v Reactive) and Gender, F (1, 183) = 5.32, p = .02 with female respondents making a greater distinction between their responses to the Proactive and Reactive company in terms of Moral Capital than male respondents (Figure 1).

**Limitations**

The stimulus material, which presented four different initiatives alongside each other, is quite unrealistic. Normally consumers would be exposed to one message at a time. Also the study was only able to measure the perception just after reading the news releases. A longitudinal study looking at the changes in consumer perceptions would show if the opinions change over time. Further research is needed to see whether moral capital can be sustained in the long term. It is also not clear whether the results of this study can be generalised to other industries.

**Figure 1. Effect of Gender and level of Proactivity on Moral Capital**

**Discussion**

The results of the study support Hypothesis 1 that proactive strategic CP generates significantly higher moral capital than reactive philanthropy. All moral capital scores for the reactive company were below the mid-point of 3.5 on a 7 point scale and scores for the proactive company were all above 3.5. This supports our hypothesis that the context of corporate giving may determine whether it leads to positive or negative moral capital.

Hypothesis 2 was supported, with both types of CP (CRM and sponsorship) being perceived as significantly more sincere in the proactive company than the reactive company. The difference is most marked in the case of CRM, where scores are well above the midpoint for the proactive company, but below the midpoint for the reactive company. This contrasts with sponsorship, where scores were still just above the midpoint in the reactive company. These results indicate that when the donation is conditional upon purchase and made following negative publicity, the consumers are more suspicious of the company motives behind CP.

Hypothesis 3, that conditional philanthropy (i.e. CRM) will be perceived as more self-serving (i.e. of greater benefit to the business than the cause) in the reactive company, but not the proactive companywas supported. In the proactive company, 49% of the respondents believed the CRM benefited both the business and the cause, and 33% thought it benefited the cause, and only 18% believed it benefited just the business. This compares to 41% of respondents believing the CRM benefits just the business in the reactive company, and only 15% believing it benefits the cause. This result is consistent with the literature that consumers are more likely to attribute self-serving motives to CP that follows negative publicity. Our findings indicate that this is particularly the case with CP that is conditional upon purchase, as there were no significant differences in the sponsorship condition. The results also indicate that respondents are willing to acknowledge the role of CRM in helping the cause when the business is socially proactive.

Females perceived the proactive company and its sponsorship and CRM types of giving more favourably than males. Previous studies have also shown that gender is a consistent variable in explaining the appeal of philanthropic giving, where women are more enthusiastic about philanthropy than men (Andreoni*et al*.,2003; Rooney *et al*., 2005**).** However, female enthusiasm did not transfer to reactive philanthropy. While men and women did not differ in terms of moral capital for the reactive company, women rewarded the proactive company with higher moral capital scores than men.

In summary, the company’s previous involvement in corporate scandals had a strong effect on whether the company’s CP was perceived as self-serving, which is supported by existing literature (Bae and Cameron, 2006). The results suggest that respondents are not sceptical towards CRM motives, when the company has not been involved in a major corporate scandal. However, respondents attributed CRM mainly to business self-interest when it followed negative publicity. This may be due to the direct link to revenue-generating customer transactions in the CRM condition which is perceived to benefit the business first. On the other hand, the results showed that sponsorship philanthropy initiatives are perceived as more sincere and of greater benefit to the cause than CRM for the reactive company. Additionally respondents believed that the reactive company’s CRM campaign mainly benefits the business itself more than sponsorship. These findings are consistent with existing research, which show that CRM campaigns are often seen to achieve gains for the company itself (Webb and Mohr, 1998).

This finding opposes the results of a similar study, using fictional companies, which found there were no significant differences between the two types for companies who’ve exhibited social irresponsibility, such as those feature in the corporate scandals (Dean, 2003). Conversely, the results of the present research indicate that for companies involved in corporate scandals, non-transaction-based sponsorship philanthropy leads to better corporate reputation than CRM, consistent with the literature showing more positive consumer perceptions of CP, which is not based on product sales (Cui et al, 2003; Webb and Mohr, 1998).

**Conclusions**

This study demonstrates that companies need to take into account the different types and conditions of CP before investing their resources into particular initiatives. It has shown that companies will not always be able to generate higher moral capital through strategic CP. Firstly, they need to assess whether a better investment would be in improving its CSR in other areas, such as the core operations. This should aim to address the ethical violations publicized by the media, NGOs and other pressure groups. However, when companies wish to donate after negative publicity, these results suggest that choosing sponsorship philanthropy will lead to better reputation among consumers than CRM as it is not attached to direct revenue generation therefore conveys greater benefit to the cause, and results in less cynicism.

For socially proactive companies, more should seek ways to engage in strategic philanthropy, as both types of CP generated high moral capital among respondents, which acts as a valuable intangible asset. Therefore, it should be seen as a long-term investment into good corporate reputation, which can lead to competitive advantage (Vaughn, 1999). This would apply in particular to companies who have predominantly female customers, as our female respondents demonstrated a greater discrimination between proactive and reactive companies than male respondents in their responses.

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**Appendix I**

**Questionnaire**

This study looks at the public perception of the activities, which involve companies making a donation to good causes.

Top of Form

1. Gender *(Male/Female )*

2. Age range:

 *18-24 25-29 30-34 35-39 40-44 45-49 50-54 55-59 60-64*

3. Please indicate, in your judgement, how you perceive corporate philanthropy (companies donating money, time and other resources to good causes).

 *Important 1 2 3 4 5 6 7 Unimportant*

## River Island

Please read the news releases before answering the questions. All of the news releases describe real-life activities of the two companies.

***1st News release***

November 2009- River Island has teamed up with music celebrities to create an exclusive range of T-dresses and T-shirts “T’s for the Trust”, in aid of youth charity The Prince’s Trust. Hundred percent of the profits are going to help change young lives. The CEO Richard Bradbury says: “The Prince’s Trust’s commitment to support young people very much reflects our aim at River Island”.

***2nd News release***

June 2009- For the 5th year running, River Island is sponsoring Graduate Fashion Week, which showcases graduate fashion talent in the UK. The CEO Richard Bradbury says the reason is part good business sense, part philanthropy. “It involves a valuable discovery of young talent and a chance to put something back into the industry”.

While considering the information in the above News Releases, please answer the following questions:

1. River Island is a company, which benefits the society.

*Highly disagree 1 2 3 4 5 6 7 Highly agree*

1. River Island is a trustworthy company.

*Highly disagree 1 2 3 4 5 6 7 Highly agree*

1. I believe River Island’s reputation, compared to other clothing retailer companies is:

*Significantly worse 1 2 3 4 5 6 7 Significantly better*

1. Rate your feelings toward the company that was discussed in the article.

 *Favourable 1 2 3 4 5 6 7 Unfavourable*

8. Rate the probability that you would recommend River Island to a person, who would find the style and quality of their clothing appealing.

 *Highly unlikely 1 2 3 4 5 6 7 Highly likely*

9. In the 1st News release, I see the main beneficiaries as:

* *Business*
* *Both*
* *Cause*

10. In the 2nd News release, I see the main beneficiaries as: \* 2nd News release

* *Business*
* *Both*
* *Cause*

11. To what extent do you think the philanthropic donation by River Island in the 1st News Release was sincere?

 *Highly unlikely 1 2 3 4 5 6 7 Highly likely*

12. To what extent do you think the philanthropic donation by River Island in the 2nd News release was sincere?

 *Highly unlikely 1 2 3 4 5 6 7 Highly likely*

13. In the 1st news release there was a donation to the Prince’s Trust from all profits made from the “T’s for Trust” collection and in the 2nd News release there was a sponsorship of the Graduate Fashion week.

 *True /False*

**Nike case study.**

***Nike Inc***

Nike Scandals- Nike was the subject of considerable scandal in 1997, when workers were exposed to toxic fumes at up to 177 times the Vietnamese legal limit. In 1998, 3,000 Chinese workers went on strike, because of low wages and hazardous working conditions. Nike has made considerable progress in improving health and safety. However, it has a long way to go to satisfy the anti-sweatshop drive for a living wage, reduce overtime and address factory monitoring and worker’s right to unions.

***3rd News release***

November 2009- World class football players were at the announcement of partnership between NIKE and (RED). The Nike and (RED) concept invites people to “Lace Up. Save Lives” by purchasing a pair of NIKE (PRODUCT) RED™ laces. Hundred percent of the profits will be split between The Global Fund and Nike football-based initiatives, both for HIV/AIDS education and prevention.

***4th News release***

June 2009 – NIKE, Inc. (NYSE:NKE) today announced that its retail division has launched a U.S. based national grant programme known as Back Your Block to support community and school groups, which aim to unlock the potential of young people through programmes that focus on sport.

Questions 4-13 are then repeated, but with reference to Nike instead of River Island. The order is counterbalanced.