Developing a Conceptual Framework for Understanding the Use of a Commitment Device in a Philanthropic Business Model

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Abstract

In the past 100 years, the manner in which for-profit entities support social causes has evolved considerably. In the early 1900’s, many stockholders viewed efforts to operate in a socially responsible manner as contrary to the firm’s profit motives. Now, several states authorize a new legal structure for companies that place support for social causes at the core of their business strategy.

The purpose of this paper is to review recent literature relating to social responsibility and outline the distinction between various forms of corporate engagement with social causes. The author presents a historical review of methods by which corporate support for a social cause has shifted and examines how businesses that choose to function in a socially responsible manner operate. This article makes a contribution to the area of social responsibility by providing an alternate framework that accounts for social consciousness of for-profit businesses and their use of a commitment device. The framework can be utilized by academics and practitioners seeking to delineate between for-profit enterprises that operate with a degree of social consciousness and those that do not. Finally, the author highlights recommendations for further research in the field of social responsibility.

Keywords: cause related marketing, entrepreneurship, social responsibility, double bottom line, Benefit Corporation

JEL Code: M14, L21, G32
Introduction

The notion of integrating social causes into a corporate philanthropic structure is not new. There are biblical references in both Jewish and Islamic religious documents that encourage the support of social and ethical causes through commercial practices (Blount & Offei-Danso, 2013). Despite these historic linkages, it has been within recent years that the activity surrounding social responsibility has grown considerably. For instance, the number of Fortune Global 250 firms filing voluntary corporate social responsibility reports increased from 35 percent in 1999, to 92 percent in 2015 (KPMG International, 2015). Even academic stalwarts like Stanford and the Harvard Business School have established academic centers dedicated to the application of innovative business practices to address social needs (Harvard Business School, 2016; Stanford Graduate School of Business, 2016). Developing a stronger understanding of the interplay between traditional business practices and the advancement of social causes, is not only an important endeavor for academics, it can potentially impact a firm’s performance. A strong appreciation for the infusion of the advancement of a social cause into the core aspect of a business can foster growth in several key attributes of performance including consumer loyalty and profitability (Calabrese, Costa, Menichini, Rosati, & Sanfelice, 2013; Cummings, 2012).

The purpose of this article is to foster an appreciation for the role a commitment device can have on a firm’s business strategy and to shed light on the growing influence social responsibility can have in business operations. The article sets forth a framework for clearly delineating the role philanthropic support plays in the development of a for-profit business venture.

This study explores the use of a commitment device as a business strategy and how the use of such a tool can vary by the degree of social consciousness a firm has toward a particular cause. The article outlines several philanthropic business models (PBM) and provides a review of the differing dynamics a
firm uses to engage consumers. In this article, PBM is used to describe a business approach that incorporates the support of a social cause into their core strategy.

The goal of this article is to move beyond looking at the individual entrepreneur and their motivations for launching a social enterprise or supporting a social cause and look into the structure of the organizations that adopt a PBM strategy. By doing so, readers will be presented with a unique framework for categorizing firms based on their degree of social consciousness. This framework should assist researchers, business professionals and entrepreneurs to determine whether a significant difference exists between the double bottom line performance of organizations that use a commitment device, as well as those firms that support a social cause.

**Historical Overview of Corporate Support for Social Causes**

Though private sector support for social causes has lengthy history, it is only within the last century that the notion of corporate responsibility entered the business vernacular (Carroll, 2008). From philanthropic donations to donations based on sales activities to legal structures that formally combine commercial aspects with social support, throughout this time corporate support for social causes and the manner in which charities generate revenue has grown and evolved. The following section provides a brief historical and contextual review of the varying forms of corporate support social causes.

*Corporate Social Responsibility*

Before the 1900’s, CSR was viewed in primarily in negative terms. Corporations saw managers’ CSR efforts as “giving away stockholders’ assets without their approval” (Carroll, 2008, p. 23). This view was illustrated in the 1919 Michigan Supreme Court case, *Dodge v. Ford Motor Company*, where the court ruled that Ford must operate in the interest of stockholders rather than to the benefit of employees or customers. In that case minority shareholders John F. Dodge and Horace E. Dodge,
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successfully argued against Henry Ford's ability to lower consumer prices while raising wages by asserting that it was function of the shareholders to maximize value (Clark & Babson, 2012). However, the court did give latitude to the firm to operate within its best judgement without having to explicitly define what that meant. This gave firms the ability to support efforts to benefit employees, consumers and the greater society at-large, provided they could demonstrate that doing so enhanced the positioning of the firm (Clark & Babson, 2012). Though Ford Motor Company lost the case by not delineating how a firm chooses to allocate resources and affording managers the flexibility to determine the best course of action, the case helped lay the foundation for the modern era of corporate responsibility.

The proceeding decade influenced how businesses viewed their role in supporting social causes (Carroll, 2008). From this era came the birth of the community chest movement. The most notable of which eventually became the United Way. Community chests were organizations that collected money from businesses and redistributed resources to various social agencies (Carroll, 2008).

Through community chests, businesses leaders had the opportunity to interact with social service organizations. They were exposed to issues and challenges faced by these organizations and came in direct contact with well-respected individuals that could champion social causes. This interaction helped shape the role businesses saw themselves playing in larger society. Though the first community chest was founded in 1913, the movement quickly grew. From 1919 to 1929, the number of community chests rose from 39 to 353 (Carroll, 2008).

By the 1930’s, corporations were being viewed as institutions with a social obligation (Carroll, 2008). This view proliferated over the next few decades eventually giving way to an era of corporate social responsibility that manifested in not only a significant rise in corporate philanthropic giving, but also a flurry of academic research on the subject (Carroll, 2008).
With notable research by Morrell Heald, Harold Johnson, George Steiner and others, the period of the 1960’s and 1970’s helped define modern CSR (Carroll, 2008; Heald, 1970). During this period, CSR became less about philanthropy and more about supporting social issues and fulfilling a social contract between the corporation and society at large (Carroll, 2008). The obligation of the corporation extended to society and not just stockholders.

**Cause Related Marketing**

Around the time CSR was being formalized, American Express introduced a new concept for supporting social causes. In the mid 1970’s, American Express developed the idea of linking customers use of their credit cards to the support of a social cause (Rentschler & Wood, 2001). These cards have since become known as affinity cards (Rentschler & Wood, 2001). The most notable use was in 1983, when American Express helped raise funding for the preservation of the Statue of Liberty and Ellis Island (American Express, 2017). In just three months, the company saw a nearly 30 percent spike in usage and helped raise over $1.7 million (Gottlieb, 1986). This helped pave the way for a promotion strategy known as cause related marketing (CRM).

CRM differs from CSR because it is transaction-based as opposed to company donated sponsorship (Rentschler & Wood, 2001). CRM strategies are designed to improve sales, enhance brand and differentiate products (Adomaviciute, Bzikadze, Cherian, & Urbonavicius, 2016). CRM is defined as the joint effort between a for-profit corporation and a charity with the purpose of increasing sales and generating awareness of the charity (Rentschler & Wood, 2001).

Several researchers have pointed to the positive benefits of CRM (Sana & Tracza, 2015; Adomaviciute, Bzikadze, Cherian, & Urbonavicius, 2016; Borghesi, Houston, & Naranjo, 2014; Cummings, 2012). Apart from increasing awareness and revenue, advocates of CRM view it as a market-based revenue generating approach that enables charities to combat donor fatigue (Eikenberry, 2013;
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Despite the apparent benefits associated with CRM there are some concerned that profits, not ethics are driving decisions to be socially responsible (Eikenberry, 2013). CRM is about sales not philanthropy. It is a way for corporations to increase sales under the vail of social responsibility (Rentschler & Wood, 2001). Some companies adopting a CRM campaign use it simply to improve their image (Minton & Cornwell, 2016).

CRM is a marketing strategy that requires a strategic alliance between a for-profit corporation and charity. For the corporation, CRM can be viewed as a form of social responsibility with the added benefit of increasing sales and brand image (Eikenberry, 2013). For the charity, a successful CRM campaign can help raise awareness, volunteer hours and revenue (Eikenberry, 2013; Rentschler & Wood, 2001). Missing is the direct link between the beneficiaries of the social cause and the desire of the corporation to make a difference in society.

Hybrid Business Model

The next evolution in corporate social responsibility seems to have emerged as a hybrid business model that extends beyond CRM by marrying support of a social cause with profit making motives. The development of a hybrid business model that weds economic, market-based goals with societal benefits has been in response to pressure from both public and private sectors (Cummings, 2012). As distrust in government and concerns over the ethical practices of large corporations and their ability to operate in a socially responsible manner remains high, entrepreneurs will continue to use philanthropic innovation to redefine the social responsibility structure (Miller, Grimes, McMullen, & Vogus, 2012; Rana, 2013). It was this growing dissent and a strong desire on behalf of consumers and entrepreneurs to operate in an altruistic manner that fueled the use of the PBM and led to the passage of the Model Benefit
Corporation and creation of the Benefit Corporation or B Corp (Miller, Grimes, McMullen, & Vogus, 2012; Blount & Offei-Danso, 2013).

The B Corp, is a hybrid structure that legally binds a for-profit corporation to pursue a public benefit (Hiller, 2013). Enacted in 2010, the use of the B Corp as a legal entity is still in its infancy. Thus far, 31 states have passed legislation authorizing its use and seven additional states are working on legislation (Benefit Corporation, 2016).

In addition to the B Corp, some states allow for the creation of Low-Profit Limited Liability Corporations (L3C). L3Cs operate in a similar capacity to a Limited Liability Corporation (LLC), yet must support education and/or charitable goals with profit as a secondary objective (Rana, 2013; Cummings, 2012). Unlike the B Corp, only eight states currently authorize this corporate structure (Latest L3C Tally, 2016). Because of the nascent nature of these corporate structures and their limited use, it is unclear if the new B-Corp and/or L3C structures will satisfy growing market demand for a new corporate structure that enables for-profit entities to operate in support of social causes (Cummings, 2012; Blount & Offei-Danso, 2013).

**Conceptual Framework for PBM**

In seeking to develop a mechanism for identifying social entrepreneurs or social enterprises, some researchers have used a profit motive as a determinant in categorizing a firm as a social enterprise (Massetti, 2008; Spinelli & Adams, 2012). By focusing on whether or not a firm requires profits, these efforts result in a matrix that accounts for nonprofit organizations (Massetti, 2008; Spinelli & Adams, 2012). Because nonprofit organizations have the ability to solicit donations and operate outside traditional economic parameters, their inclusion in research regarding organizational performance on the basis of double bottom line benefits is contradictory to notion that performance be measured in terms of both economic and societal benefits. For this reason, some researchers have utilized a broad
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definition of social enterprise and limited their research to for-profit enterprises (Peris-Ortiz, Rueda-Armengot, & Palacios-Marques, 2016).

The implications of understanding (and measuring) the role support for a social cause can have on the long-term viability and effectiveness of a for-profit venture can be significant. For instance, if consumers prefer to purchase products that go on to benefit social causes and there is growing public demand for corporate structures that encourage firms to operate in a manner that benefits society, then it is reasonable to assume that the number of firms and the performance of firms operating with a PBM should be increasing in comparison to traditional ventures. But measuring performance between firms is difficult (Calabrese, Costa, Menichini, Rosati, & Sanfelice, 2013). Some research suggests that by attempting to achieve both social and economic goals, social entrepreneurs face a very difficult task (Neck, Brush, & Allen, 2008). Because it blends two, often contradictory, positions (i.e. market-based values vs. social-based values) a social entrepreneur needs to address the challenges that both a traditional entrepreneur and a non-profit executive must confront. This creates the potential for a dual mission dilemma (Reiser, 2012). It is this dilemma that has led many researchers to question whether the engagement in CSR or CRM is a matter of a manager operating in his or her self-interest, or does it lead to the enhancement of market-based values of the firm through the generation of goodwill, attraction of top talent, or increase in customer loyalty (Borghesi, Houston, & Naranjo, 2014; McWilliams & Siegel, 2001; Miller, Grimes, McMullen, & Vogus, 2012).

This article was developed to try and further academic thought by proposing a conceptual framework that centers on whether or not a firm employs a commitment device as a sales technique and their degree of social consciousness. By using these two dimensions, the following matrix is proposed as typology for categorizing entrepreneurial firms.
The Y axis represents whether or not a firm employs a commitment device or formal mechanism that predetermines support for an activity or cause. The X axis indicates the degree by which a firm is either socially conscious or individually focused. The result is a four quadrant system that categorizes a new for-profit venture on the basis of its inward or societal focus and its formal adoption of a business model to commit resources to an activity. A description of each quadrant follows.

Quadrant I:

The PBM, or Social Purpose Venture, occurs when a for-profit entity employs the use of a commitment device to formalize corporate support on the achievement of social goals (Massetti, 2008; Spinelli & Adams, 2012). This commitment may extend beyond CRM in that it is not a marketing campaign but defining business model that places support for a social cause as a defining business characteristic. Whether a percentage of revenue, a stated donation, or support of sustainable activities in their business practices, this commitment device is the basis for PBM. The use of PBM enables a firm
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to differentiate itself from competitors by engaging the consumer in the process of supporting a social cause, thereby creating a unique value proposition that is difficult for a firm operating under a conventional model to replicate. The following table contains a list of companies that employ a PBM.

Table 1

<table>
<thead>
<tr>
<th>Company</th>
<th>Year Founded</th>
<th>Industry</th>
<th>Philanthropic Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dayton Hudson</td>
<td>1902</td>
<td>Department store</td>
<td>Consistently ranked high on CSR. Since 1946, Target has given 5 Percent of profits to communities it serves.</td>
</tr>
<tr>
<td>TOMS Shoes</td>
<td>2006</td>
<td>Apparel</td>
<td>Buy one, give one model. Every sale of shoes, eyewear, bags and coffee results in a person in need being helped.</td>
</tr>
<tr>
<td>FEED</td>
<td>2007</td>
<td>Apparel</td>
<td>For each bag purchased, a portion of sales goes to the UN World Food Program to feed needy children.</td>
</tr>
<tr>
<td>Warby Parker</td>
<td>2010</td>
<td>Eyewear</td>
<td>Buy one, give one model. For every pair of glasses purchases, one is given to a needy person in a developing country.</td>
</tr>
<tr>
<td>Ten Tree</td>
<td>2012</td>
<td>Apparel</td>
<td>For every purchase, the company plants ten trees.</td>
</tr>
<tr>
<td>Ivory Ella</td>
<td>2015</td>
<td>Apparel</td>
<td>Ten percent of profits are donated to Save the Elephants and other charities.</td>
</tr>
</tbody>
</table>

Perhaps no one embodies the essence of the Philanthropic Business Model as Blake Mycoskie (founder of TOMS). Since its founding in 2006, TOMS has given away 10 million shoes to children in need using their “one for one” concept (Chu, 2013). For each shoe a customer of TOMS purchases, TOMS donates a shoe to needy child in one of 59 countries (Chu, 2013). Through the use of this “buy one, give one” business model, TOMS has successfully built in sustainability that connects consumers with a social cause. Unlike traditional corporate philanthropy which, at best, has a tangential connection to a social cause, this PBM makes the consumer an active player in the support for the social cause. This
connection is a critical and, often, identifying factor in the purchase decision. TOMS has managed to use the individual consumer’s desire to feel as though they are directly supporting a social cause as a competitive advantage. For Mycoskie, TOMS’ business model is less about shoes, and more about making a difference.

Social enterprises, like TOMS, operate with a PBM by committing a portion of revenue or profit to advancing a particular social cause. Using data from U.S. Survey in Global Entrepreneurship, researchers identified that five percent of new ventures utilized a structure similar to a PBM (Neck, Brush, & Allen, 2008). They essentially link the ongoing support of a cause to the revenue generating capabilities of the business enterprise.

By integrating the support of social causes into the purpose of their new business venture, these entrepreneurs are selling more than goods and services. By tapping into a consumer’s innate desire to make a difference, these entrepreneurs are not only developing product differentiation strategies but are also developing a revenue model that is fueled less by the tangible product and more about an extrinsic motivation to feel good by helping others.

Quadrant II:

These include Growth Ventures that utilize a commitment device but often as a vehicle to promote firm growth. Firms in this quadrant commit funding to organizational values that drive corporate performance, such as innovation, quality, workplace safety, etc. The funding to support these values is clearly articulated and determined prior to revenue being generated.

There are several examples of firms that have made a concerted effort to commit a set amount of resources toward advancing a corporate value (Spencer, 2012). Perhaps the most recent phenomena are firms that employ a challenge model to fuel innovation. Historically, firms have relied on internal
research and development laboratories to generate innovation (Brown & Hagel, 2005). The technology developed at the firm is later “pushed” to the market. Recently, several firms have begun using an open source process or “pull system” to mobilize resources for innovation (Brown & Hagel, 2005). In certain cases this commitment of resources to innovation is manifested through the offering of a challenge competition (Brown & Hagel, 2005; Spencer, 2012). The dedication of funds to a particular problem operates as a commitment device that engages the larger network of developers and engineers in the firm’s innovation pipeline. A prime example of a firm’s use of a challenge model is Netflix. In 2006, Netflix committed a $1 million prize to anyone that could improve their algorithm for predicting viewer preferences by 10 percent. By 2009, Netflix announced that it was awarding the prize to a team of engineers and statisticians from the United States, Canada, Austria, and Israel (Lohr, 2013). Though Netflix never employed the winning algorithm, citing high engineering cost, the firm does utilize an algorithm from an earlier competition (Johnson, 2012). Other new ventures, such as Kaggle, a competition platform to drive open source research and development, and Ayasdi, a company that uses data mining techniques to perform topological data analysis, are utilizing similar commitment mechanisms to drive innovation (Metz, 2013; Lohr, 2013).

**Quadrant III:**

Socially Aware Businesses incorporate CSR practices, however they have no formal commitment device to support their efforts. The specific cause and the amount of the contribution is determined by management and set after revenue is generated. With Socially Aware Businesses, the motivation to engage in CSR activities is dependent on the motivations and characteristics of the manager (Borghesi, Houston, & Naranjo, 2014).

There is strong support for firms engaged in CSR practices. Even as far back as 1974, the McDonald Corporation took a strong interest in helping families of ill children stay together as their
children sought medical treatment through the creation of the Ronald McDonald House Charities. Not only is the Ronald McDonald House Charities providing a direct benefit to families in need of assistance, it is helping to strengthen the McDonald’s corporate brand and generate goodwill (Ettorre, 1995). This strategy proved successful, particularly to those consumers that sought to support companies that operate in a socially responsible manner (Cone Communication & Echo Research, 2013).

Table 2

<table>
<thead>
<tr>
<th>Company</th>
<th>Year Founded</th>
<th>Industry</th>
<th>Philanthropic Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Levi Strauss</td>
<td>1853</td>
<td>Apparel</td>
<td>A long history of supporting social causes, such as the fight against HIV/AIDS, workplace discrimination, racism, etc.</td>
</tr>
<tr>
<td>AT&amp;T</td>
<td>1882</td>
<td>Telecommunications</td>
<td>Supports arts, community, education, as well as health and welfare.</td>
</tr>
<tr>
<td>Coca-Cola</td>
<td>1892</td>
<td>Beverage</td>
<td>In 2016, gave more than $100 million to over 200 charities around the world.</td>
</tr>
<tr>
<td>Walt Disney Company</td>
<td>1923</td>
<td>Entertainment</td>
<td>In 2015, donated more than $820 million and cash, goods and services.</td>
</tr>
<tr>
<td>Nationwide</td>
<td>1926</td>
<td>Insurance</td>
<td>Since 2000, donated more than $390 million to community organizations in areas services by Nationwide.</td>
</tr>
<tr>
<td>McDonalds</td>
<td>1940</td>
<td>Food</td>
<td>Supports children and families through the Ronald McDonald House while the health care needs of the child are being serviced at a leading hospital.</td>
</tr>
<tr>
<td>Microsoft</td>
<td>1983</td>
<td>Software</td>
<td>Donates roughly $2 million a day in goods and services to nonprofit organizations.</td>
</tr>
<tr>
<td>The Honest Company</td>
<td>2011</td>
<td>Ecommerce</td>
<td>THC has created a giving culture. It sells chemical free health and beauty products.</td>
</tr>
</tbody>
</table>

Since the early 1990’s companies like Levi Strauss, AT&T, and Dayton-Hudson have been using corporate giving as a key component of their business strategy (Smith, 1994). Many other corporations started adopting an aggressive social agenda in hopes of demonstrating a differentiation strategy to
attract employees (Blount & Offei-Danso, 2013). In certain cases, this strategy prompted businesses to alter their culture to be more reflective of the new agenda (Cummings, 2012). These companies didn’t just view social responsibility as an incidental outcome to profit making. Instead they started to view the support of a social cause as fundamental to their ability to maximize their financial performance (Cummings, 2012).

**Quadrant IV:**

This quadrant is represented by Traditional Business Enterprises. These firms make no commitment to supporting a social cause nor do they employ a commitment device to drive social or firm value. The primary focus of firms in this quadrant is on their survival in a competitive market place.

These firms are more likely to mirror the Dodge brothers’ interpretation of the role that management ought to play in driving shareholder value. They often take a more simplistic view that the purpose of the for-profit corporation is to benefit the stockholders.

**Recommendations for Further Research**

How firms perform within these quadrants relative to each other, is an area of future research. Research that controls for industry, competitive environment, firm’s age, firm’s advertising to sales ratio, product line diversification, and geographic concentration will be important in determining how these variables impact double bottom line performance. Research should be performed that is primarily focused on the following research questions:

1. Do new ventures that utilize a commitment device outperform (in terms of double bottom line measures) firms that do not operate with a commitment device?
2. Do new ventures that operate in a socially conscious manner outperform (in terms of double bottom line measures) firms that do not operate in a socially conscious manner?
In addition, there appears to be a temporal dimension to a venture’s appreciation of social responsibility (Neck, Brush, & Allen, 2008). Entrepreneurs in business for more than 42 months were discovered to place a greater weight on the support of social causes than new entrepreneurs suggesting that older ventures may adopt a more social consciousness as they mature (Neck, Brush, & Allen, 2008). To control for this bias, firm performance will be recorded by length of time in business. Therefore, future research should explore the effects of operating under a PBM over the organization’s life cycle. How does the use of a PBM change throughout the organization’s life cycle and what affect might that have on double bottom line performance? Does the degree of social consciousness have an impact on double bottom line performance? Is it better to utilize a commitment device in serving the needs of customers and/or beneficiaries? In addition, the research will explore the interplay between organizational social consciousness and the use of a commitment device. What affect does the level of social consciousness have on the decision to use a commitment device? How does the use of a commitment device impact firm growth?

By researching the relationship between the use of a commitment device and double bottom line performance, an understanding can be developed as to how social enterprises perform against similar firms that operate without advocating their desire to help support a social cause.

Conclusion

The use of a philanthropic business model is one of many ways in which entrepreneurs are using integrative thinking to address social problems through the use of market-based conditions. The recent adoption by states of a new corporate structure that embraces the essence of this dual or hybrid model is a signal of its growing influence on not just social enterprises or causes they address, but on society at large.
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The potential implications of this approach are intended to extend beyond the entrepreneurial discipline and have an impact in other fields such as marketing, law, finance, economics, sociology, and psychology, to name a few. By studying the manner in which entrepreneurs use a PBM to differentiate their company, a clearer picture may be drawn as to the influence values such as social consciousness and innovation can play in the success of an entrepreneurial endeavor.
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