Can Welfare Economics Justify Corporate Philanthropy? Proposing the Philanthropy Multiplier as a Metric for Evaluating Corporate Philanthropic Expenditures

William English
Georgetown University, USA

Much business ethics and corporate social responsibility literature suggests, implicitly or explicitly, that firms ought to engage in activities that can be characterized as philanthropy, namely, expending resources beyond what is required by law and market norms to promote others' welfare at the expense of firm profits. However, this literature has struggled to provide a normative framework for evaluating corporate philanthropy, although scholars have noted that such expenditures can potentially remedy market failures and provide public goods more efficiently. I articulate two specific rationales that can justify corporate philanthropy based on considerations of welfare economics: 1) firms making strategic but high-risk investments in activities that are likely to generate positive externalities even if they prove unprofitable and 2) firms possessing a strong comparative advantage in their ability to address a social problem at lower social cost. Moreover, these rationales can be evaluated by a concept I develop called the *philanthropy multiplier*, indicating the ratio of net positive externalities to net costs. I suggest that firms consider publicizing their philanthropy multipliers, and I discuss theoretical and practical implications.

Key Words: corporate philanthropy, welfare economics, effective altruism, corporate social responsibility, market failures approach to business ethics

Do businesses have an ethical obligation, or even an ethical justification, to engage in philanthropy, and if so, what is its basis? Many of the most cited exemplars of socially responsible business initiatives appear to involve philanthropy, understood in the technical sense of expending firm resources to promote social ends beyond what would be in the strict business interests of the firm. For example, the shoe company TOMS historically pledged to match every pair of shoes it sold with a new pair donated to a child in need and now donates one-third of its profits to grassroots organizations (see Hessekiel, 2021; TOMS, 2022), Patagonia donates 1 percent of sales to preserving and restoring the natural environment (Patagonia, 2022), and XEROX's Community Involvement Program provides funds to local teams of employees to select and work on community projects that they

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identify (Xerox, 2022). However, philanthropy occupies a peripheral and ambiguous role in accounts that have attempted to define business ethics and corporate social responsibility (CSR) at a normative level. Indeed, the greatest theoretical weakness in business ethics literature arguably lies in its vague normative justifications for corporate philanthropy. In part, this is because much beneficent corporate activity is often not characterized or understood as philanthropy, a term more commonly used to describe donations to charitable causes by private citizens, wealthy individuals, and foundations. However, this article argues that some of the most significant activities in which businesses can engage are, technically, forms of philanthropy and that clear analytic logics can justify such activities under certain circumstances from a social welfare perspective.

In the first part of this article, I examine classic debates about the nature and purpose of corporate philanthropy, concluding that, although these can help clarify key questions, they have not succeeded in establishing a clear rationale for firms to engage in philanthropy. In essence, although a large range of literature has examined circumstances under which CSR-type activities can be advantageous for firms, the apparent gratuitousness of truly philanthropic expenditures has made them easy targets for Friedmanesque critiques. However, two significant theoretical insights have emerged in recent years that have the potential to transform these debates, while also offering practical guidance to managers.

First, Heath (2004) and Norman (2011) have called attention to ways in which a "market failures" approach can be used to ground business ethics, providing a rationale for costly, voluntary self-regulation by firms that improves overall social welfare. Second, Bénabou and Tirole (2010), Kaul and Luo (2018), and Morgan and Tumlinson (2019), among others, have called attention to circumstances in which firms are able to provide public goods more efficiently than governments and nonprofits. Taken together, I argue that these insights can form the basis of a theoretical framework that resolves long-standing gaps in business ethics debates, including questions of normative justification, while also generating concrete, practical standards for evaluating corporate philanthropy.

In the second part of this article, I draw on these theoretical insights to argue that at least two specific rationales can justify certain types of corporate philanthropy based on considerations of welfare economics—rationales that can be evaluated by a concept that I introduce called the *philanthropy multiplier*, which indicates the ratio of net positive externalities to net costs. The first rationale arises in cases in which firms make strategic (i.e., profit-seeking) but high-risk investments in activities that are likely to generate positive externalities (or rectify negative externalities) even if they prove unprofitable for firms. The second arises in cases in which a firm has a strong comparative advantage in its ability to address a social problem such that alternative mechanisms of resolution would generate significantly higher social costs. The reason that firms can have a positive philanthropy multiplier in either case is ultimately because of information asymmetries, transaction costs, and uncertainties that exist in the real world, consistent with insights developed by new institutional economics (Alchian & Demsetz, 1972; Coase, 1984; Dorobantu, Kaul, & Zelner, 2017; North, 1986; Ostrom, 2005; Williamson, 2000). I discuss

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qualifications to each rationale as well as their potential broader implications for theories of business ethics, CSR, regulation, and politics. One implication of this analysis is that the activity mostly commonly associated with corporate philanthropy, namely, corporate donations to third-party nonprofits, may not be the most socially beneficial way for firms to make a positive impact. In conclusion, I suggest that firms should consider calculating and reporting the philanthropy multiplier of their philanthropic expenditures to justify those investments and their benefits to shareholders and the larger public.

THE PUZZLE OF CORPORATE PHILANTHROPY

Philanthropy has historically not been a central focus of normative business ethics literature, nor is philanthropy commonly associated with corporations in popular discourse. Rather, philanthropy is often presented as something in which primarily wealthy individuals and large foundations engage, with an understanding that small donors can contribute to philanthropic causes as well. The standard vehicle for translating resources into some philanthropic endeavor is a nonprofit organization. Individuals and foundations who may have made money as shareholders in private enterprises decide whether to donate to churches, schools, relief efforts, museums, medical research, or other activities commonly pursued by nonprofit entities. It's also possible for corporations to give directly to nonprofits, and many corporations have set up tax-advantaged foundations as a way to guide donations to nonprofits. Corporate philanthropy, thus understood, consists of a company making a profit through its core business activity and then donating some portion of these profits to organizations set up for explicitly philanthropic purposes. This sort of corporate philanthropic activity has been widely considered and highly praised in the CSR literature, although normative justifications for such activity remain underdeveloped and contested.

One implication of the main arguments of this article, however, is that this conventional practice of transferring resources to nonprofits does not come close to exhausting the ways in which corporations can expend resources to benefit others and improve social welfare. Rather, corporations make choices with regard to how they deploy resources within their core business areas that can have the formal properties of philanthropy, that is, expending money with no expectation that it will increase firm profitability, and these expenditures can potentially generate large social welfare gains. Note that *social welfare* here is used in the technical economic sense, referring to the overall value that accrues across all of society, and the arguments of this article are completely orthogonal to political debates about the role of states in providing social services.

The puzzle of corporate philanthropy is that this activity and its potential for generating social value have been relatively neglected in business ethics and CSR literature, particularly from a normative perspective. A brief examination how corporate philanthropy has been conceptualized in the contributions of key theorists is helpful for illuminating the reasons for this neglect and as well as the contribution of the main arguments of this article.

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The philosophical problem that looms in trying to present philanthropy as a responsibility is an old one, concerning the relationship between the just and the good. Theories of justice that aim to delineate obligations or duties are not well suited to justifying or motivating good actions that go beyond the basic requirements of justice. Moral philosophers have long debated how to define and understand so-called supererogatory actions—good acts that go beyond the call of duty (Tencati, Misani, & Castaldo, 2020). Though insightful, these debates have not brought much theoretical innovation or clarity to business ethics and CSR literature.

In Archie Carroll's (1979, 1991) classic formulation, CSR has four components: economic, legal, ethical, and discretionary or philanthropic. Regarding the final component, Carroll (1991: 42) has argued that "the distinguishing feature between philanthropic and ethical responsibilities is that the former are not expected in an ethical or moral sense.… In a sense, philanthropy is icing on the cake." Although this may seem to ascribe a marginal role to such discretionary spending, Carroll (2008: 23) later notes that "philanthropy, or corporate contributions, have assumed a central role in the development of CSR." This seems to beg the question why corporate philanthropy has assumed such a large role in practice, while the normative justifications for it have placed it at the margins.

It is understandable why business ethics literature has emphasized the primacy of economic, legal, and ethical considerations. These can be more readily grounded in logics that generate clear obligations if research suggests that certain empirical conditions are satisfied. However, this focus has left the widespread practices of corporate philanthropy undertheorized and begging for clearer justification.

Ironically, the scholar who most closely identified CSR with philanthropy was Milton Friedman. His classic essay "The Social Responsibility of Business Is to Increase Its Profits" begins by noting the "analytical looseness and lack of rigor" in discussions of the social responsibilities of business (Friedman, 2007: 173). Friedman's own approach is to analyze the use of corporate resources through the lens of ownership and responsibility. Owners of a firm (stockholders) are welcome to use any wealth that they derive from a business for philanthropic purposes (and nonprofits can be organized to pursue charitable objectives in a collective manner through voluntary donations). However, corporate managers are agents of owners and have a duty to run a business for the purpose that the owners intend, which is paradigmatically to make a profit. Spending firm resources on philanthropic activities that do not increase the profitability of the firm is, in effect, imposing a tax on shareholders (spending their money in a manner they haven't chosen). Moreover, firms that expend resources on unprofitable philanthropy will be at a competitive disadvantage over time, potentially compromising their viability. Finally, Friedman emphasizes that people differ in their assessments of what social objectives are most valuable, arguing that political processes and individual judgment are better suited to adjudicating these questions than are corporate executives.

Friedman (2007) acknowledges that some ostensibly philanthropic expenditures may help generate greater profits. However, in that case, there is nothing to object to, because this would simply be good business strategy. His iconoclastic conclusion follows from the basic premises of his analysis: "There is one and only one social

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responsibility of business—to use its resources and engage in activities designed to increase its profits, so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" (178).

Crucially, Friedman (2007: 173) does believe that firms have an ethical obligation to conform to the "basic rules of society, both those embodied in law and those embodied in ethical custom." Precisely what these rules are, or should be, is open to debate, and scholars have developed persuasive critiques of the particular understanding of laws and ethical customs that Friedman endorses. However, note that at the general level of principle, Friedman's commitment to profitability, law, and ethical custom corresponds almost exactly to the foundational three components of Carroll's (1991) CSR pyramid (the economic, legal, and ethical). It would seem that the only thing separating Friedman from one of the most prominent accounts of CSR is the issue of philanthropy—the component that Carroll suggested is the least important to his account and yet dominates many discussions of CSR in practice.

The analytical clarity of Friedman's (2007) essay is helpful for formulating a more precise definition of corporate philanthropy, namely, *expending resources in a manner that is unlikely to be profitable and beyond what is required by law and market norms to promote others' welfare.* There may be some uncertainty about what profit, law, and others' welfare require in detail, but their general meaning is clear. Market norms is a trickier concept, and it's important to distinguish it from Carroll's (1991) account of societal expectations, which he invokes as a justification for philanthropy.

The key difference is captured by another word that Carroll (1991) uses in his discussions of philanthropy, namely, desire. He explains that "communities desire firms to contribute their money, facilities, and employee time to humanitarian programs or purposes, but they do not regard the firms as unethical if they do not provide the desired level" (42). Strictly speaking, philanthropy is desirable and thus desired, but generally not expected, either as a prediction or as an ethical obligation.

By contrast, market norms do function as expectations grounded in ethical legitimacy. Perhaps the most recognizable example is tipping 15 to 20 percent at restaurants in the United States. This is a well-established, socially recognized norm to which most patrons adhere, despite being voluntary and not legally required. It is an integral part of the calculus that allows waiters and restaurant owners to make predictions about wages and the financial viability of their enterprise. Tipping also functions as a way to reward or penalize a waiter for the quality of service. For all these reasons, tipping commensurate with service is properly regarded as a market norm and something that one ought to do (for an extensive examination of the nature and place of norms, see Bicchieri, 2016). Conversely, tipping is not regarded as a form of philanthropy, and one cannot claim one's tips as charitable deductions for tax purposes. It's just part of the cost of doing responsible business (as a customer).

Although this familiar example functions at the individual level, there are analogues at the corporate level. We expect corporations to keep agreements with business partners even if not formally contracted, to abide by standards promulgated by certain industry associations even if not sanctioned by law, to apply policies in an equitable manner even if a potentially aggrieved party does not have legal standing

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to sue, and so on. Friedman and Carroll agree that these norms can be ethically binding, but neither views abiding by them as a species of philanthropy.

There are other explicit discussions of philanthropy within business ethics and strategic management literature, but they tend to fall within the following themes, none of which offers a satisfactory normative account.

First, a large amount of research has explored the potential strategic value of philanthropy (Barnett & Salomon, 2006, 2012; Cheng, Ioannou, & Serafeim, 2014; Eccles, Ioannou, & Serafeim, 2014; Flammer, 2015; Hawn & Ioannou, 2016; Margolis, Elfenbein, & Walsh, 2009; Porter & Kramer, 2002; Saiia, Carroll, & Buchholtz, 2003). Although the wider benefits to society are often noted, insofar as philanthropy pays, the case for it is fundamentally instrumental to a firm's economic aims.

A related literature has examined ways in which philanthropy can be a rational response to a firm's regulatory environment, particularly with regard to tax incentives and the avoidance of legal liability (Halme & Laurila, 2009). Again, the ultimate rationale for philanthropy is instrumental to the firm's private ends.

Philanthropy has also been criticized because of the objectives for which it is instrumentally deployed. Jennings (2006), Derry (2012), and Luo, Kaul, and Seo (2018) suggest that corporations may engage in philanthropy to offset, or distract attention from, their bad behavior in other domains. Bénabou and Tirole (2010) consider whether corporate philanthropy is merely a way for managers or directors to funnel money to causes they personally support at the expense of shareholders. Thiel and Masters (2014) have even suggested that high levels of corporate giving indicate that a firm lacks ideas for productively investing capital and has become stagnant, preferring to mobilize donations to buy goodwill for the purpose of creating rents.

Finally, an extensive empirical literature has sought to *explain* particular CSR initiatives based on shareholder or stakeholder preferences (Bansal, 2005; Brower & Mahajan, 2013; Ioannou & Serafeim, 2015; Servaes & Tamayo, 2013), ways to improve employee governance and motivation (Bode, Singh, & Rogan, 2015; Carnahan, Kryscynski, & Olson, 2017; Flammer & Luo 2017; Turban & Greening, 1997), and specific opportunities to improve stakeholder relationships (Barnett, 2007). Although many of these investigations offer persuasive explanations, they generally do not encompass questions of normative justification and net economic impact. Meanwhile, some formal models of these processes have cast doubt on whether they are always desirable from an economic perspective (Besley & Ghatak, 2007; Kitzmueller & Shimshack, 2012).

A large literature in moral philosophy has argued for philanthropic obligations derived from utilitarian considerations (e.g., Singer, 1972, 2015a). However, this literature is primarily concerned with obligations that an individual has to help others and seldom considers the implications for corporate giving. Shaw and Post's (1993) "A Moral Basis for Corporate Philanthropy" is perhaps the most ambitious attempt to ground corporate philanthropy as a moral obligation. On the basis of loosely argued rule-utilitarianism, they conclude that "corporations do have a moral duty to advance the public welfare," because "when there is an irreconcilable opposition

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between self-interest and utility … the good of the whole prevails" (750). At this level of generality, their conclusion is not very persuasive.

Part of their argument is the claim that businesses benefit from the larger social structures of a society and thus have a responsibility to contribute to their improvement as a matter of reciprocity. Moreover, the authors quote approvingly a passage by Morrissey (1989: 749) that expresses a common supporting argument made by those who favor more corporate philanthropy:

> Government, burdened by continuing deficits, unfortunately lacks the resources to effectively address many pressing national concerns. Private individual efforts also fall short of the needs. Large corporations, on the other hand, are the dominant institutions in our economy and in that sphere are amazingly efficient organizations. Much of the nation's wealth lies in their treasuries. For both pragmatic and theoretical reasons, the law should require that they broaden their mission to promote the common welfare as well as their own profitability.

Although one may be sympathetic to the general principle that with great power and great resources comes great responsibility, this does not address Friedman's challenge regarding the proper locus of this responsibility—individual or corporate. Individuals who derive great wealth from corporate profits may have a philanthropic responsibility, but urging this responsibility to be discharged by corporations suggests that individuals will not in fact be willing or able to live up to this responsibility (and that state-based taxation is not a viable alternative). The idea that corporations can be more efficient than individuals, nonprofits, or the state is perhaps a relevant insight, but the implications have not been explored in a rigorous manner until relatively recently.

Another way of interpreting Morrissey's (1989) argument is as an analogue to the famous response that the bank robber Willie Sutton offered to FBI interrogators. When asked why he robbed banks, Sutton replied, "Because that's where the money is." Similarly, it's obvious why anyone who would like to see more resources devoted to philanthropy would turn to large corporations—that's where the money is. True as this may be, it does not address the deeper question of normative obligation.

A final difficulty with the moral basis for corporate philanthropy affirmed by Shaw and Post (1993) is that it offers no specific criterion or guidance for determining when or how corporations should engage in philanthropy. The authors do insist that companies should place the highest priority on remedying any harms that they have caused, although it's not clear why this should be considered philanthropy (rather than restitution as a matter of justice). However, the authors' ultimate conclusion is vague and provides little practical direction: "having consulted the available corporate resources, that is, the firm's time, talent, and financial capacity for doing good, and having balanced those resources against the magnitude of the social need, there may well be an obligation to go to the rescue" (750). There may be, but how would one know? This conclusion is typical of much business ethics literature that seeks to affirm the goodness of corporate philanthropy but does not articulate a rationale for deciding when exactly it is warranted.

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In recent years, scholars like Mejia (2021) have argued that, whereas wide duties of beneficence are untenable, there are narrow duties of beneficence that companies are required to fulfill. Like Hart and Zingales (2017), Mejia (2021) grounds the obligation to fulfill such narrow duties in the principal–agent relationship, arguing that this involves acting on behalf of the interests of (moral) shareholders. Mejia clarifies that his purpose is "not to lay out the precise conditions" (435) for such narrow duties but to establish their existence. However, he observes that when companies have key abilities and are uniquely well placed to act to achieve significant consequences with minor sacrifices, such circumstances could generate compelling moral warrant for action. These are promising suggestions that have yet to be formalized in a systematic way.

As mentioned at the outset, many firms do currently invest significant resources in CSR initiatives that appear to be philanthropic. However, the question is whether logics can be developed that both justify and provide guidance for such CSR investments. As Wang, Tong, Takeuchi, and George (2016: 534) observe in their recent overview of new research directions in CSR, this is a central question on the horizon of current CSR literature: "discussions of CSR have shifted from existential questions on organizational mission and shareholder value to the mechanisms and processes by which corporations conceptualize and enact their societal obligations."

In summary, then, there is broad consensus that socially responsible firms ought to be economically viable (a sign that they are creating value), follow the law, and abide by market norms. Philanthropy, however, is the elephant in the room. It plays a large role in what many consider CSR in the real world, but the lack of a compelling, articulate, action-guiding, normative rationale for philanthropy appears to be one of the greatest weaknesses of CSR and business ethics theories.

NORMAN'S WELFARIST APPROACH TO BUSINESS ETHICS

This problem has not escaped the attention of recent scholars. As Wayne Norman (2011: 43) explains in a seminal article proposing a "more unified normative theory of business obligation," existing CSR frameworks are widely attacked for their "vagueness and their disappointing inability to distinguish clearly between genuine beyond-compliance moral obligations, on the one hand, and charitable acts that are laudable but not morally obligatory, on the other." Although Norman doesn't use the term *corporate philanthropy*, it would seem to correspond to what he characterizes as "charitable acts that are laudable but not morally obligatory." From his review of the last two decades of business ethics literature, Norman concludes,

> The common shortcoming for stakeholder theories and theories of CSR and corporate citizenship is the lack of a clear, compelling normative methodology that would allow corporations, managers, or outside observers, to justify which beyond-compliance obligations must be met, and how business actors are to trade-off in a reasonable way the claims of competing stakeholders. Most crucially, what we still lack is compelling principle-based guidance for when exactly firms in competitive markets must constrain themselves from pursuing profitable opportunities (that is, genuinely profitable, all things considered) that are legal but possibly unethical or irresponsible (47).

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Norman aims to develop a normative methodology that can avoid these shortcomings. Moreover, he argues that a satisfactory account should be able to justify both legal requirements and “beyond-compliance ethical obligations” within a unified framework. The account that Norman proposes—“business ethics as self-regulation”—draws on and extends Joseph Heath’s (2004, 2006) “market failures approach to business ethics.”

The key starting point for both scholars is to consider the benefits of markets from the general perspective of social welfare. Indeed, this is an approach many leading scholars in business ethics share, although the terminology for expressing it varies (e.g., Porter & Kramer, 2011: 62, speak of shared value defined as the “total pool of economic and social value,” while Donaldson & Walsh, 2015: 188, write incisively about the purpose of business as “achieving collective value,” and both of these frameworks bear similarities with how others have conceptualized social welfare and social value). Heath (2004, 2006) draws on literature concerning market failures to identify specific conditions under which competition for profit generates bad outcomes from a social welfare perspective. Much of Heath’s work focuses narrowly on Pareto comparisons, while others have extended his framework to consider broader sorts of welfare improvements (Young, 2022).[1] For example, firms may be incentivized to pollute, generating negative externalities for others and failing to internalize the true cost of production, in the absence of well-designed property rights or regulations. The same cost–benefit logic that justifies (efficient) laws against excessive pollution also provides an ethical warrant for firms to self-regulate to reduce their pollution voluntarily. Though reducing pollution will lower the profitability of a firm, profiting from pollution that imposes costs on others is a perversion of the market system and generates inefficiencies and harms. Thus, from an ethical perspective, a firm has no right to profit from pollution (that is harmful on net).

The real challenge, though, is to determine which regulatory frameworks can best overcome the collective action problem generated by incentives to pollute, whether, for example, a ban on pollution accompanied by high fines, the assignment of property rights and ability to litigate tort claims, a cap-and-trade market for pollution rights, or an industry pact to refrain from pollution and ostracize violators.

This is the sense in which Norman (2011) conceives of business ethics as self-regulation. It involves a search for creative regulatory frameworks, which may require varying degrees of voluntary self-restraint, to help solve the same problems that we are justified in solving through law when cost–benefit analysis identifies an efficient way to do so. However, Norman expands Heath’s (2004, 2006) approach in two ways. First, Norman argues that it is not always unethical to profit from market failures, because failures of some sort characterize most markets in the real world. A detailed argument must be made for the costs and benefits at stake with any given

[1] As Young (2022) notes, Heath clarifies in a recent article that he is a proposing a Paretian standard. However, Young develops a thorough, albeit friendly, critique of this standard, arguing that Heath and the market failures approach should be committed to a broader conceptualization of welfare improvement akin to Kaldor–Hicks improvements. Because Heath’s commitment to a Paretian standard greatly limits the theoretical application of his thought to welfare considerations, I focus on Norman’s (2011) development of these concepts, which builds on insights that Heath originated.

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issue from a welfarist perspective, although the literature on market failures provides a model for doing exactly that. Second, Norman acknowledges that there may be objectionable business practices worth regulating whose wrongness does not concern market failures. Norman (2011: 55) summarizes his position as follows:

> We might say that the core of Heath's market-failures approach is that firms have obligations to observe certain beyond-compliance norms, and that these obligations are based on the same criteria we have for justifying legal "compliance" norms. And since those legal norms can legitimately be based on considerations that go beyond market failure, we should expect that the beyond-compliance norms can be as well. Taking the deliberately adversarial nature of the market seriously, we find it prima facie unethical for firms to try to gain competitive advantage by ignoring legitimate norms, whether they are grounded in market failure, government failure, considerations of justice, public decency, or what have you.

Note that Norman recognizes that there is room for disagreement about what constitutes legitimate norms, although the criteria will be broadly welfarist. However, when the case for a norm is well established, the regulatory question offers a clear research agenda that can raise specific empirical questions and generate specific guidance for action. Norman views this as a considerable benefit that stands in contrast to the vague platitudes of much business ethics literature:

> Careful analyses of the core concepts of "responsibility" or "citizenship" do not help us clarify exactly how far a given firm or manager should exceed legal standards of conduct, or in which cases they must be willing to sacrifice long term profits for the sake of beyond-compliance obligations. If anything, these core concepts confuse and obscure these issues. "Responsibility" is a notoriously vague and ambiguous deontic concept compared, say, to the concept of an obligation or a right; and what we quickly learn is that managers and firms have all sorts of competing and conflicting responsibilities with respect to different constituents or stakeholders (46–47).

By contrast, Norman argues that his approach provides clarity with regard to these vexing issues. Unlike much CSR literature, his approach promises to be able to draw "careful distinctions between, for example, (i) activities or omissions that are unfortunate but not ethically forbidden, (ii) activities or omissions that are either obligatory or forbidden, and (iii) activities that are permissible and beneficial, but not obligatory" (52). Put another way,

> Business ethics as self-regulation helps us to distinguish between what exactly we think firms are ethically obliged to do, above and beyond complying with laws, on the one hand; from what it might be nice for them to do, even if they are not obliged to do so, on the other (56).

By this point, it should be apparent that Norman (2011) thinks corporate philanthropy falls in the nice-to-do-but-not-obligatory category. Notably, none of the examples he considers throughout his article concern philanthropy. Rather, one might view philanthropy as a fundamental target of Norman's proposal. His point is that, although philanthropy may be "nice … to do" (56) and "laudable" (43), it lies beyond any concept of ethical obligation and should not be conflated with a serious business ethics research agenda.

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Norman's (2011) framework, which I consider (along with Heath's [2004, 2006]) the most promising theoretical advance in business ethics in recent years, seems to leave corporate philanthropy by the wayside. Again, we are confronted with the incongruity between the large role that philanthropy plays in CSR programs in practice and Norman's insistence that it does not touch the core of ethical obligation justified by the business-ethics-as-self-regulation approach. Norman may simply be right, and the prominence of corporate philanthropy a misguided distraction for the field, but I want to argue that Norman has not fully appreciated the implications of his welfarist approach, which can provide strong justifications for corporate philanthropy.

Here I can finally turn to the main constructive arguments of this article. Norman's (2011) framework is highly compelling. However, it is a mistake for him to place questions of philanthropy beyond business ethics in the nice-to-do category. Rather, the considerations of welfare economics on which Norman's and Heath's (2004, 2006) accounts are grounded can provide strong justifications for corporate philanthropy and do so in the detailed manner that Norman (2011) calls for. Given that he presents his account, in part, as a plea for a new research agenda and that he sees himself "preparing the way for a larger project" (44), I intend the following arguments as a friendly extension of Norman's and Heath's proposals.

ARGUMENTS FOR CORPORATE PHILANTHROPY FROM A WELFARE ECONOMICS FRAMEWORK

The theoretical apparatus of welfare economics, which provides the starting point for Norman (2011) and Heath (2004, 2006), does in fact provide compelling justifications for corporate philanthropy that yield specific guidelines for action. In what follows, I argue that at least two distinct rationales can justify certain types of corporate philanthropy based on considerations of efficiency, social cost, and market structure derived from welfare economics. The first arises in cases in which firms make strategic (profit-seeking) but high-risk investments in activities that are likely to generate positive externalities even if they prove unprofitable for firms. The second arises in cases in which a firm does not stand to make a profit but has a strong comparative advantage in its ability to address a social problem such that alternative mechanisms of resolution would generate significantly higher social costs. Moreover, the arguments for corporate philanthropy are so well supported by welfare economics that to reject them would require rejecting the larger welfarist grounding of Norman's project.

Rationale 1: Strategic but Risky Investments with Positive Externalities

Perhaps the greatest accomplishment of the CSR movement is that it has encouraged business leaders to think creatively and hard about ways to do well by doing good. That is to say that the CSR movement has encouraged entrepreneurs to search for ways of generating value by addressing social problems. As Drucker (1984: 62) put it, "the proper 'social responsibility' of business is to tame the dragon, that is, to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs, and into wealth." This vision gave rise to a vast literature investigating whether CSR pays; although as critics have pointed out,

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to the degree that it does, the socially responsible angle appears moot. However, the point of Drucker's exhortation is that profit opportunities in social entrepreneurship may not be obvious or without risk. Only once an innovation is discovered and proven does a clear business case emerge that leads other firms to adopt the practice.

This explains the time and context dynamic of CSR that Rivoli and Waddock (2011) have noted. Initially, only one or a handful of firms may be willing to take considerable risk investing in a business practice with positive externalities, in the hope that it will generate value for the firm. If indeed this proves successful in increasing consumer demand, improving employee morale, shifting industry norms, attracting support of investors, and so on, then other businesses may find it in their interest to follow suit. An important question, however, is what justifies the decision of a first mover.

Considered from the perspective of welfare economics, certain investments with positive externalities may yield a net gain for a society, even if their expected value is negative for a firm. Such investments are thus desirable from a welfarist perspective (they may provide tangible public goods as externalities, involve the prevention of negative externalities that would otherwise occur, or help with the entrepreneurial process of discovery). However, given the uncertainty surrounding the business case, early-stage investment looks more like philanthropy than strategy—but philanthropy that can be justified by overall welfare considerations.

From a welfarist perspective, a firm should invest if the expected value of the expenditure and positive externalities are, together, a net positive, all things considered.[2] However, from a profit-maximizing firm's perspective, the firm should invest only if the expected value of the expenditure is positive for the firm's bottom line. (Note that if the expected value is negative and large enough to offset the value of positive externalities, even the welfarist would reject an investment.) Given this analysis, a specific rationale for corporate philanthropy emerges: the larger the ratio of positive externalities to expected net costs for the firm is, the more justification there is for a corporation to make a philanthropic investment.

We can describe this as the philanthropy multiplier[3] and formalize[4] this ratio as follows:

$$\text{PM} = \text{PE}(I)/(C(I) - \mathbb{E}[I]) \text{ if } \mathbb{E}[I] < C(I)$$

[2] Although the examples of positive externalities in this article focus on the provision of public goods, the same logic applies to the prevention of negative externalities that would otherwise occur. For example, a firm's investment in a cleaner production technology that lowers its pollution beyond what's required by law should be understood as generating a positive externality, ceteris paribus.

[3] A multiplier has a technical meaning within economics, referring to an economic factor whose increase has an expansionary effect on other factors. The core idea of the philanthropy multiplier is that a philanthropic investment by a company can have an expansionary effect on overall economic welfare. Other scholars have, on a few occasions, used the word *multiplier* in discussions of philanthropy, but not in the sense proposed here. For example, in their analysis of distribution of personal charitable giving to different kinds of charitable institutions, Gottesman, Reagan, and Dodds (2014) use the term *multiplier* to describe the ratio of gift sizes to an institution normalized by the total donated by individuals. However, the concept of the philanthropy multiplier as developed here has not been previously articulated in the literature.

[4] The general intuition of the multiplier is that it is a benefit–cost ratio, with net expected benefits to society as the numerator and net expected costs to a firm as the denominator.

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where PE(I) is a measure of the positive externalities associated with an investment, $C(I)$ is the total cost of the investment, and $\mathbb{E}[I]$ is the expected value of the revenue from the investment for the firm, defined as the sum of the payoffs x of n possible outcomes multiplied by the probability p of each occurring, $\sum_{i=1}^{n} x_i p_i$.[5] Note that this applies only if $\mathbb{E}[I] < C(I)$, because if the expected value of the revenue from investment were equal to or greater than the cost, there would be a clear business case for making the investment, and the question of philanthropy would not arise (risk aversion could complicate this calculation but does not alter the underlying logic).[6]

For example, suppose that a company like Netflix, whose product is greatly enhanced by a high-speed internet connection, is considering whether to subsidize the installation of high-speed internet cables in rural towns at a cost of $100 million. For simplicity's sake, assume that reliable market research suggests that there is a 50 percent chance that this will greatly increase the number of subscribers, yielding the company an additional $120 million of net revenue. But there is also a 50 percent chance that subscriber growth will be more modest, yielding the company only an additional $60 million of net revenue. The expected value of this investment for the company is $90 million (0.5 * 120 + 0.5 * 60 = 90), which is $10 million less than the required investment of $100 million. A profit-maximizing firm would thus judge that it is not in its interest to make this investment because it leads to an expected loss of $10 million.

However, this investment would generate a positive externality of $100 million of additional internet infrastructure. To establish that this infrastructure is genuinely valuable but something that would not otherwise be provided, let us stipulate that 10 million people will experience spillover benefits from this infrastructure valued at, at least, $10 per person but that transaction costs make it infeasible to capture this value directly. Overall, the society would be much better off with the investment—some $90 million better—at an expected cost of ~$10 million to Netflix shareholders. From a social welfare perspective, the company should make the investment (assuming that there are no alternative ways to invest the money that would be

[5] Expected value has a clear definition within probability theory. There may, of course, be challenges to calculating it within particular real-world contexts, as the knowledge that informs probability estimates is ever changing. However, assessing the expected value of revenues from expenditures is a core activity of any company and involves estimating whether some activity will generate returns that are worth it compared to a company's next best economic opportunity, which is generally indicated by the cost of capital.

[6] The logic of the multiplier continues to apply even when the denominator is less than 1. For example, if a company truly could produce one dollar in positive externalities at a net cost of only one cent, this would translate to a large multiplier of 100 and be worthwhile from the perspective of social cost. However, to prevent gaming of this metric when costs and expected value are roughly equivalent and measurement is imprecise, a more robust restriction can be implemented, requiring that $\mathbb{E}[I] + 1 < C(I)$. This ensures that the denominator is greater than 1 and prevents miniscule differences in cost and expected value from inflating the multiplier. Put another way, if the cost to a company to produce a positive externality is effectively zero, no dilemma needs to be evaluated to conclude that the company should take such an action. From a welfare perspective, and an ethical perspective, it is a no-brainer. The preceding restriction is meant to prevent companies from competing on the basis of claiming arbitrarily low costs (e.g., one millionth of a penny) to generate inflated philanthropy multiplier estimates that would approach infinity as costs get closer to zero.

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expected to produce even greater benefits, something we ensure by including the cost of capital in our calculation of overall costs).

We arrive at a situation in which a corporate expenditure would generate large social welfare benefits at a comparatively small net cost and with a decent chance of being profitable for the firm. Because of the riskiness of the investment, there is not a solid business case for making it (again, preferences for, or aversion to, risk could complicate the underlying analysis but would not change the overall logic). However, there is a philanthropic rationale for making the investment, which derives from the perspective of overall social welfare.

Moreover, we can identify and quantify the relevant factors. The positive externalities in this case are estimated to be $100 million. Second, we need a measure of the overall cost. Here we need to include both the direct cost of building the infrastructure ($100 million) and the cost of capital for the firm, which captures the opportunity cost of deploying $100 million to this project rather than alternative investments. Public estimates suggest that the cost of capital for Netflix is about 11 percent, which means that by investing $100 million in infrastructure, the firm would be giving up an approximate $11 million return that it would have received if it had invested this money in other business operations. In total, then, the total cost of this investment to Netflix would be approximately $111 million. As mentioned, the expected value of the investment to Netflix is $90 million ($0.5 * 120 + 0.5 * 60 = 90$).

Thus the philanthropy multiplier—the overall ratio of benefits to expected costs—in this case is $100 / (111 - 90)$, or approximately 4.76. Put another way, this suggest that every $1 that Netflix invests in this project is expected to generate $4.76 of value for society at large. Granted, there is uncertainty as to whether this investment will ultimately yield a $40 million loss for the firm (if one scenario obtains) or a $20 million profit (if the other scenario obtains). However, in either case, the net welfare of society will have increased.

In cases in which a firm is presented with additional profit opportunities, the cost of capital may not be the appropriate baseline for calculating the true opportunity cost of an expenditure. If directing money to one strategy requires forgoing a more profitable (legitimate) opportunity, this means a company will be leaving money on the table, which must be considered as a genuine cost. For example, if a beverage company decides not to use a standard low-cost bottle adopted by most of its competitors but rather adopts a more expensive bottle that will end up costing the company $1 million more but will result in $3 million less of a negative externality like pollution, this would indicate a philanthropy multiplier of 3. Even if the company still makes profit on each beverage sale, it is incurring a cost (forgone profit opportunity) that it need not bear, and this cost rightly serves as the relevant baseline for calculating the philanthropy multiplier.

The higher the philanthropy multiplier is for a particular investment, the more compelling is the social welfare justification. We can debate at what level a serious ethical obligation begins to emerge, but the underlying calculus is clear. Also, from a comparative statics perspective, the philanthropy multiplier goes up as a company's cost of capital goes down, the expected value of an investment comes closer to the overall cost, and the positive externalities of an investment go up.

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Finally, note that a firm that engages in philanthropy according to this first rationale may be sufficiently motivated to do so by the *possibility* that an investment will generate profits for the firm. The payoff isn't certain, and indeed, the expected value doesn't justify the cost. However, the firm may wish to roll the dice on a risky investment with a high philanthropy multiplier, both because of the hope that the investment will prove profitable (firms that have an appetite for risk may be less averse to this uncertainty) and because the firm is aware that, even if the investment fails to be profitable, it will still be welfare enhancing for society at large. Estimating and publicizing the philanthropy multiplier for a project could be useful for justifying the investment to skeptical shareholders and for showing the larger public that the firm is engaging in welfare-enhancing activity.

However, the logic of the philanthropy multiplier can be extended to cases in which the expected value of an expenditure to a firm is zero. If, all things considered, the welfare benefit to society were large enough, this might warrant an expenditure, even if the firm does not stand to benefit by making a profit at all. This is the logic that grounds the second rationale for corporate philanthropy, which occurs when firms have a comparative advantage that enables them to address problems at a lower social cost than other alternatives.

Rationale 2: Comparative Advantage That Lowers the Social Cost of Addressing Problems

The second kind of welfarist justification for corporate philanthropy derives from the comparatively low cost at which certain firms can address social problems. Kaul and Luo (2018) and Morgan and Tumlinson (2019) have recently explored the implications of this insight in theoretical models. Focusing on the comparative efficiency of CSR, Kaul and Luo (2018) develop a model of a market for social goods that illustrates conditions under which for-profit CSR initiatives provide more social goods than nonprofits alone would have achieved. Their model suggests that when a firm pursues CSR activities that are closely related to the firm's core business and have little overlap with nonprofit efforts, these can be strongly Pareto optimal. The authors note that this insight is distinct from, yet potentially complementary to, an ethical rationale for CSR, and they propose their model as a "robust foundation for further theoretical and empirical work in this increasingly important area" (1653).

Morgan and Tumlinson (2019) propose a model of corporate provisions of public goods premised on the assumption that corporations can be more efficient than individual philanthropists, both in overcoming the collective action free rider problem and in preventing harms (e.g., pollution) ex ante rather than mitigating them ex post. In a frictionless world, the model suggests that firms will abandon profit/dividend maximization to provide public goods and/or refrain from public harms as a simple consequence of shareholder preferences if shareholders care about public welfare. However, the authors acknowledge that overcoming real-world frictions, particularly with regard to information, remains a challenge in practice.

At a more conceptual level, Bénabou and Tirole (2010) have developed the idea of delegated philanthropy to describe a situation in which stakeholders desire that a

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corporation sacrifice some profits to engage in philanthropy on their behalf (see also Mejia, 2021). This raises the question whether this is a rational approach for stakeholders to prefer. Bénabou and Tirole argue that it may be, given that firms possess a unique advantage in terms of information and transaction costs:

> One needs to explain why people would want corporations to do good on their behalf, rather than doing it on their own or through charitable organizations, churches, etc. Information and transaction costs are clearly important here. In theory, consumers could send money to directly supplement the income of workers in the coffee plantations supplying Starbucks. But they would have to be informed about the occurrence of individual trades and contracts, and their financial transfers would involve enormous transaction costs. Somehow, philanthropy must thus be delegated. It could perhaps be entrusted to some charitable organization, but transaction costs are still likely to be much lower if delegation goes through the corporation, which already is involved in a financial relationship with the workers (10).

Their key insight is that firms will have a comparative advantage in providing aid given the knowledge and efficiencies that accompany their business practices. Bénabou and Tirole suggest that firms engage in philanthropy in response to specific stakeholder demands, although it is unclear how these are expressed and how they then mobilize firms to action. However, from the perspective of social welfare, this mechanism doesn't matter. Rather, an analysis of the overall costs and benefits provides strong justification for corporate philanthropy on the basis of comparative advantage, defined as "the ability of any given economic actor to produce goods and services at a lower opportunity cost than other economic actors" (1).[7]

For example, consider a large bakery that closes at 5:00 PM. The bakery has to offer a wide assortment of freshly baked goods up until closing time to continue to attract and serve customers. However, at 5:01 PM, its excess inventory for the day becomes worthless (e.g., bread becomes stale and other products start to spoil, making them unsuitable for sale the next day). Suppose that on any given day, the bakery closes with $500 worth of baked goods still on the shelf and that for reasons of regulation (health codes) and transaction costs, it's most cost-effective for the bakery simply to throw these away. However, a local food kitchen has asked the bakery to donate these excess baked goods at the end of each day so that they can be served to poor families later in the evening.

The problem is that doing so will generate small, additional costs for the bakery that the food kitchen cannot cover. For example, employees will have to stay later to package and transport the food at, say, an overall cost of $50. We arrive at a situation in which, if the bakery were willing to expend $50, this would generate a $500 benefit for others. Moreover, if an independent philanthropist or nonprofit wanted to feed the hungry and did not know about the bakery's unique situation, it would cost $500 to purchase a similar amount of food at market prices. Thus letting the food go to waste arguably destroys $450 of value. Of course, if independent philanthropists

[7] I am indebted to Investopedia for this concise formulation: https://www.investopedia.com/terms/c/comparativeadvantage.asp.

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did know about the bakery's situation and the costs of donation, an advantageous deal could be struck. However, transaction costs and the localized nature of knowledge will often preclude this.

From a social welfare perspective, the bakery should donate the food at its own expense if there is no market mechanism to compensate it. Again, we can identify and quantify the relevant factors. Supposing the cost of capital is 10 percent, the bakery's overall cost is $55, and the overall welfare benefit is $500. Because there is no expected benefit to the firm, the expected value of the investment from the firm's perspective is zero. Thus the philanthropy multiplier—the overall ratio of benefits to costs—is 500 / 55, or approximately 9.09. Again, we can debate at what level a serious ethical obligation begins to emerge, but the underlying calculus is clear, as is the social welfare justification.

Finally, note that this expenditure does involve a comparative decrease in profitability, as was the case with the first rationale (from the ex ante perspective of expected value). This does not mean that the larger firm will cease to be profitable. Indeed, if such expenditures bankrupted or financially imperiled a firm, that would be a strong argument against them. However, what distinguishes these expenditures as being philanthropic is precisely that they involve a real opportunity cost for the firm. Compared to viable alternatives, the firm expects to lose money with these actions. What justifies the costs of such expenditures, however, is that they produce a much greater benefit in terms of overall welfare—thus the logic of the multiplier.

Calling attention to the normative import of this logic is not meant to discount or disregard many other laudable activities firms pursue that fly under the banner of CSR. For example, if a firm is able to capture sufficient value from externalities it generates or from its cost advantage to improve its own profits while contributing positively to social welfare, all the better. However, such win-win cases don't generate normative or economic dilemmas. The question is what justifies expenses that do involve a genuine opportunity cost in terms of a firm's bottom line. The philanthropy multiplier provides a compelling answer.

THE BENEFITS AND LIMITATIONS OF THE PHILANTHROPY MULTIPLIER

The philanthropy multiplier has distinctive benefits whose implications are worth highlighting and reflecting on; but it also has limitations, which must be acknowledged, some of which restrict the potential scope of its application.

Benefits and Implications of the Philanthropy Multiplier

The philanthropy multiplier has two main benefits. First, at a conceptual level, it clarifies the welfare benefits that philanthropic corporate investments can have and, in so doing, provides a justification for these expenditures in terms that are commensurable with the welfarist framework Norman and other scholars have advanced. In particular, the philanthropy multiplier provides a detailed rationale for corporate expenditures that go beyond compliance and profitability, while not falling prey to Friedman's critique that owners could do as well or better by making

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philanthropic investments on their own with the income they derive from a company (this is an important point that I will examine in more detail later). Although it remains an open question whether there is a threshold at which the potential for a large multiplier results in a philanthropic duty for a company, the underlying basis for the argument and evaluation is clear.

Second, at a practical level, the philanthropy multiplier provides a specific metric by which to assess the value of philanthropic corporate expenditures. The underlying calculus is transparent, generalizable, and comparable. Not only can companies calculate the multiplier and publicize it to justify expenditures to shareholders, stakeholders, and the public but those same audiences can use the multiplier to compare companies and their philanthropic activities. Indeed, the multiplier can serve as a mechanism to communicate information that would be needed to lower frictions in a manner needed to realize the optimistic implications of Morgan and Tumlinson's (2019) model.

In addition to traditional metrics of productivity and value creation (such as return on equity, return on capital employed, or earnings per share growth), the philanthropy multiplier serves as a means to indicate the value of a firm's philanthropic expenditures. So-called ESG investors (focused on environmental, social, and governance issues) are likely to be particularly interested in this metric, which can, in principle, capture a number of ESG concerns that are now reported on an ad hoc basis. However, equally if not more importantly, calculating the philanthropy multiplier can provide helpful discipline for a firm, leading it to make more socially valuable investments and to refrain from expenditures that do not provide efficient increases in welfare.

On this practical point, the philanthropy multiplier can help achieve many of the ideals of shared value that Porter and Kramer (2006, 2011) have lauded and advance an aim similar to that of the effective altruism movement, which examines how money can be deployed to do the most good (Singer, 2015b). A low multiplier suggests that there is not a strong rationale for a company to expend resources because the welfare benefits do not significantly outweigh the net costs as measured by the difference between the firm's expenditure and benefit. Moreover, just as a firm's cost of capital must be taken into account in calculating the philanthropy multiplier, so as to account for the opportunity cost of deployed resources, the effectiveness of individual philanthropy as evaluated by effective altruists—those who seek to ensure that charitable contributions are used most effectively—can serve as a sort of benchmark for valuable corporate philanthropic investments. This is because, as Friedman's critique reminds us, those who receive a share of a firm's profits can always deploy that cash toward philanthropy on their own. One way in which a firm's philanthropy multiplier can be particularly compelling is if it reveals greater efficiency than opportunities available to private philanthropy or concerns an opportunity that isn't possible for private philanthropy. Otherwise, Friedman's challenge looms: why should corporate philanthropy be preferred to private philanthropy if the latter can do as well or better?

Indeed, one implication of this analysis is that donating cash to other philanthropic causes may not be the most welfare-enhancing activity from an efficiency

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perspective. It's important to emphasize that the philanthropy multiplier does not enable us to adjudicate the ultimate worthiness of charitable causes but rather captures the efficiency of expenditures. Any positive multiplier has a prima facie claim to be a net improvement from an efficiency perspective because it means that we are getting more things of value at a lower net social cost than is otherwise possible.

One potential analogue within the traditional philanthropy space is a metric that the charity evaluator GiveWell calls "cost-effectiveness in multiples of cash transfers, after all adjustments," which indicates "how many times more cost-effective a program is than using the same amount of funding to deliver unconditional cash transfers."[8] Put simply, this is a measure of how much money (in terms of multiples of the amount expended by a charity) would have to be given to people to achieve the same outcome. For example, the Against Malaria Foundation (AMF) in Congo is estimated to have a cost-effectiveness multiple of 10.5, which is to say that a dollar given to the AMF is approximately ten times more effective in preventing malaria deaths than a dollar given directly to people in Congo for this purpose.[9] The multiplicative effect of such an expenditure could be a reason for a company to make a donation to this charity, particularly if a company has some special knowledge about this opportunity that it believes others are not aware of or have unjustly neglected. Incidentally, it is worth noting here that the most effective charities in the world as evaluated by GiveWell have cost-effectiveness multiples in the range of 5–15, which are rivaled by the multiplier of the foregoing simple bakery example (9.09).[10]

The analogy between the philanthropy multiplier and this metric of cost-effectiveness multiples for charities is not perfect, however. Although this metric indicates how much more effective a donation to a charity is than the next best option of a direct cash transfer, these sorts of charitable opportunities are open to all, which opens them up to the Friedman critique. Moreover, counterfactual considerations are more complex in these cases, and above a certain point, additional donations may not generate efficiencies at the same level.

The concept of a Kaldor–Hicks improvement further illustrates why the philanthropy multiplier indicates efficiency improvements that may be superior to many conventional opportunities for charitable giving. Consider the case of a large food retailer that could expend $1 million of its own money to conserve food that is close to its expiration date that would otherwise be wasted in the supply chain and, in so doing, save $3 million worth of food to feed the homeless. This would effectively add $2 million of value/resources to the world. In a world of perfect knowledge and

[8] For an explanation of this metric, see https://www.givewell.org/node/3320/.

[9] See the publicly available spreadsheet for a breakdown of GiveWell's analysis: https://docs.google.com/spreadsheets/d/1lTX-qNY1cSo-L3yZCNzMbzIM1kqWC1vSEhbyFAYr6E0/edit#gid=1364064522.

[10] To be clear, this example makes no determination regarding whether it is morally better to feed the homeless or to prevent malaria. Rather, the point is that, by expending $50, a bakery could effectively feed nine times as many people as would be fed by an independent philanthropist who donated $50 to this cause. Similarly, donating $50 to AMF could effectively protect ten times as many people from malaria as would be protected by an independent philanthropist who donated $50 to individuals for this cause.

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zero transaction costs, this could theoretically allow an extra $2 million to then be devoted to a high-impact charity like the AMF. This would clearly be twice as impactful as the company simply donating the million dollars it expended directly to the charity. Granted, Kaldor–Hicks reallocations often won't be negotiable in the real world, but the net welfare-enhancing logic underlying this economic point is clear and compelling.[11]

Finally, it's important to clarify that this does not preclude exercising judgment with regard to the worthiness of different causes. Expending $1 million to generate $3 million of food to feed the homeless (a philanthropy multiplier of 3) may be more compelling than expending it to enable $10 million of piano lessons for low-income children (a philanthropy multiplier of 10) if, for example, one believes learning piano is of little value or doubts that the resources saved will ultimately benefit more worthy causes. The philanthropy multiplier cannot tell us what we should value. Rather, it makes clearer how resources can be leveraged to obtain more than is otherwise currently possible and helps us evaluate the economic trade-offs between various outcomes that may be desired.

The value of corporate philanthropy ultimately derives from a firm's unique knowledge, market niche, and comparative advantages. When a firm finds itself in a situation where it can produce a welfare gain that no other entity could achieve with similar resources, there is the potential for a high philanthropy multiplier.

In the case of a strategic but risky investment with positive externalities, the potential for a company to capture some value from that investment is what raises the multiplier, whereas other entities would find the investment infeasible, yielding less expected benefits for the same cost. In the case of a firm with a comparative advantage that enables it to provide some welfare benefit at a lower cost than others, this will generally be due to the firm's specific technologies, capacities, and local knowledge, as well as transaction costs that make it infeasible for others to obtain similar knowledge or to contract on an independent basis. These two rationales are not meant to be exhaustive, and future work may identify and explore additional ones that are consistent with a welfare multiplier justification. However, these two rationales describe scenarios that are particularly important and common within business contexts.

Note that the examples provided earlier of hypothetical situations that a bakery or Netflix might face are neither rare nor far-fetched. Pharmaceutical companies and pharmacies routinely encounter situations akin to the bakery's on a much larger scale in dealing with expiring drugs (see, e.g., Bornstein, 2015; Marshall, 2017). More generally, many companies produce by-products or imperfect goods that have value but that are cheaper simply to dispose of rather than recycling them or performing costly searches for users who could benefit from them and figuring out transfer

[11] Although there will always be differences in how people value things, at any given moment, there exists an equilibrium of sorts that reflects current valuations. Part of the reason that the potential for Kaldor–Hicks efficiency improvements is valuable, even if a reallocation is not negotiated in a specific case, is that this provides prima facie evidence that more of something that is currently valued in the world is being provided at a lower net social cost than is otherwise currently possible.

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logistics. Under certain circumstances, such search costs, transfer costs, and/or recycling costs may pale in comparison to the welfare benefits that accrue from bearing them, in which case, a company may judge that the corresponding philanthropy multiplier justifies the expenditure.

Companies also routinely face opportunities similar to the hypothetical Netflix case. For example, Airbnb recently partnered with the Italian city Grottole to help revitalize the city. The arrangement is structured such that "the company provides funding for the city to buy three buildings to convert them to a new community center, owned by the city. It will also fund the sabbatical and local housing for four people" (Wilson, 2019:1). As the reporter covering the story noted, "these initiatives generate zero revenue for Airbnb. So is it a corporate social responsibility project? A business play? With Airbnb, those topics are bewitchingly intertwined" (Wilson, 2019: 1).

It's not hard to imagine the business interest that Airbnb would have in this project. If the company's investments in this city make the city a tourist hub, Airbnb can collect significant revenue from locals using its platform to host visitors. However, this payoff is far from certain. Even if the business case does not materialize (in part or in full), Airbnb's investments will have provided public goods of significant value to residents of Grottole. The potential for revenue and net profit is what makes the investment worth considering for Airbnb. However, even if the venture does not prove profitable, the revenues that Airbnb collects and the value of the community center are, when considered together, likely to indicate a large philanthropy multiplier.

Though any expenditure can be evaluated on an individual basis during the period in which it is made, over time, certain sorts of expenditures could see their philanthropy multipliers change or disappear altogether. If a beverage company invests in research and development in the hope of producing a plastic bottle that costs less to produce and is also better for the environment, the logic of the philanthropy multiplier could justify those R&D expenditures if the initial prospect of success is low. If, after a year of research, the prospect of success becomes high, then additional investment might be a financial no-brainer, easily justified by its economic benefits for the firm. Though still laudable from a CSR perspective, this final round of investment would no longer be characterized as a species of philanthropy, nor would other firms' adoption of the ultimate production process as a cost-saving measure. That outcome would, however, speak to the philanthropic value of the initial investment. Moreover, if the initial effort was not as successful and yielded a process that produces a bottle that is, say, 10 percent better for the environment but 1 percent more costly to produce, the company might then still choose to bear the higher cost (passing up a small profit opportunity) because of much larger environmental benefits, which could likewise be justified by its philanthropy multiplier.

The welfarist logic of the philanthropy multiplier can be extended to the domain of individual beneficence as well. It often happens that someone confronts a situation in which she can produce a large welfare gain for others by making a relatively small sacrifice of something to which she is otherwise entitled. To give a trivial but familiar example, imagine that you are pulling up to a congested airport during rush hour in

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an Uber, scheduled to be dropped off at Terminal 2. As your Uber approaches Terminal 1, you notice that the next passenger queued for the driver is located at the very end of Terminal 1. You realize that you could have the driver drop you off at that point, and it would take you only an easy, fifty-yard walk to get to your destination at Terminal 2. This would have the benefit of allowing the Uber driver to pick up the other passenger without any delay. However, you have every right to expect and demand that the Uber bypass the passenger and take you all the way to Terminal 2 as contracted. But this means that the Uber driver will have to loop around the entire airport, which is likely to take twenty minutes with current traffic. The other passenger will have his pickup significantly delayed and may even cancel and seek another ride. Either way, the Uber driver will waste twenty minutes, during which she could have otherwise been earning a fare. These nonnegligible costs could be avoided, however, if you simply speak up and offer to walk fifty yards. To put it crudely, you could effectively save two people a combined total of forty minutes if you're willing to take a four-minute walk—a philanthropy multiplier of 10 of sorts (if those minutes are all commensurable, which admittedly may not always be the case). Although you have no contractual or moral obligation[12] to do so, you may judge that the welfarist logic, and the ratio of benefits to others compared to costs to yourself, provides good reason for you to take the walk.

Note two conspicuous features of this example that likewise characterize corporate analogues. First, there is a knowledge problem that the agent is in a unique position to solve. Uber's app is not able (at least yet) to recognize the costs imposed by the original drop-off point and to propose a Coasean bargain that would be mutually advantageous for you, the driver, and the next passenger. The knowledge needed to realize value and produce a welfare gain is only available locally, by virtue of your unique position in the market. Second, there is no doubt that you have the right to complete your original trip as planned, which is to say that you have no obligation under law and/or market norms to accept an early drop-off. However, you have the authority to voluntarily propose and bear that small cost, which you may believe is worth the larger gains that you will generate for others. Similarly, a corporation's market niche or local knowledge is what generates the potential for a large philanthropy multiplier, and such expenditures go beyond the requirements of law and market norms, being properly characterized as voluntary.

These features counsel against instituting any legal mandate for companies to pursue philanthropic investments. Although it may be desirable, from a public policy perspective, for corporations to pursue projects with large philanthropy multipliers, the knowledge needed to identify such projects will be available only to insiders and is not something that public authorities will generally be in a position to evaluate (unless and until a company identifies and publicizes a worthy philanthropic investment). Furthermore, philanthropic investments do involve real costs, which many companies may rightfully be unwilling or unable to bear. However, for

[12] Strict utilitarians may argue that there is, in fact, a moral obligation in this case, whereas most moral theories would view this sacrifice as supererogatory.

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those companies that are able to bear such expenses, the ability to calculate and publicize their philanthropy multiplier can help incentivize a discovery process aimed at identifying the most valuable philanthropic investments and ensuring that those expenditures are disciplined and effective. This can also provide information to investors, donors, and customers who wish to support such efforts. Finally, the philanthropy multiplier is not intended to serve as a mindless decision rule that requires that a company always maximize the multiplier; rather, it is intended to serve as a tool to help companies evaluate and justify expenditures that can generate extraordinary benefits, making these more transparent and accountable. Companies may still wish to give to external charities, and such donations can be distinguished in reports and justified in terms of effectiveness. Likewise, companies may judge various projects worthy even if some have higher or lower multipliers than others.

The Uber example also raises a looming question about a potential difficulty with calculating and using the philanthropy multiplier in practice, namely, how is welfare to be measured? As with any utilitarian or welfare calculation, how one values benefits can be contested, and certain valuations may be incommensurable with others. However, this is true of all welfare considerations and has not prevented the informative use of cost–benefit analysis across the social sciences and policy world. Moreover, this is an area in which scholars are actively working to develop more informative methods of assessing welfare and social value (see Kroeger & Weber, 2014, for both an informative overview of existing approaches and an insightful proposal for comparing social value creation).[13]

Valuations do require justification, but corporations with local knowledge of their market niches will generally be in the best position to gather information and present the case for the value that a philanthropic expenditure yields. However, to provide a compelling estimate of a project's philanthropy multiplier, a firm will have to evaluate the actual impact of its investment. Encouraging such evaluation is another positive aspect of encouraging the use of the philanthropy multiplier. The need to quantify the benefits generated by a philanthropic investment is likely to lead to both more accountability and more insights regarding the best way to deploy resources.

For example, the TOMS shoe company has been a paragon of a successful social enterprise, having donated some 60 million pairs of shoes to children in need. However, when TOMS recently collaborated with economists from the World Bank to run a randomized trial to measure the impact of donated shoes, the results were less impressive than anticipated. As Wydick, Katz, Calvo, Gutierrez, and Janet

[13] Questions of valuation ultimately raise deep philosophical issues that are well beyond the scope of this article. One concern with conventional economic approaches to welfare estimates is that there are many worthy causes—for example, bringing joy to children who are terminally ill—that it would seem strange to try to value in monetary terms. This could lead to a neglect of truly valuable activities for which it is hard to ascribe monetary value. Although this raises genuine philosophical questions for anyone who wants to improve welfare, this is likely to be less of a challenge for corporations, as the business contexts in which they are involved and the opportunities they have to make welfare-enhancing expenditures are more likely to admit of economic commensuration. Moreover, this analysis is not meant to suggest that corporate philanthropy can adequately address all welfare concerns. Surely a large need will continue to exist for charitable nonprofits and government agencies to address vital concerns.

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(2018: 727) report, "in a context where most children already own at least one pair of shoes, the overall impact of the shoe donation program appears to be negligible." In response to the insights this study provided, TOMS has made significant changes to the way it targets recipients to ensure that the program has the greatest positive effect (Leigh, 2018) and recently pivoted to a much broader philanthropic strategy.[14]

A critic might object that firms may not always be able to accurately estimate the positive externalities created by their philanthropic expenditures or be motivated to report assessments accurately, but this is likewise true of many current ESG activities and traditional forms of corporate philanthropy, which are widely pursued. The systematic scrutiny that would likely accompany the formal reporting of philanthropy multiplier estimates could only improve the current situation.

Finally, if widespread consideration were given to the philanthropy multipliers reported by firms, and companies sought to compete and distinguish themselves on the basis of this metric, this could have profound implications for the larger political economy of market-based societies. As Matten and Moon (2008) have noted, countries have developed different institutional approaches to governing the relationship between business and society, and different national business systems have encouraged different types of CSR activities. Luo and Kaul (2019) have also observed that for-profits, nonprofits, collectives, and bureaucracies all have unique advantages in addressing social issues, based on the market frictions associated with them. However, there is a very specific challenge to the creation of social value that all market systems face and that Lazzarini (2020) has recently elucidated in an important article on the nature of the social firm, and that use of the philanthropy multiplier can potentially help resolve.

In brief, Lazzarini (2020) notes that different organizational forms will have different capacities and incentives to appropriate economic rents. In many cases, enterprises may find it in their interest to focus exclusively on customer segments that are highly profitable, while neglecting poorer segments, despite the fact that social value could be realized if those disadvantaged segments were served (and various problems of contracting, measurement, and enforcement were overcome). Lazzarini examines how public bureaucracies, public–private partnerships, and social enterprises can potentially address this problem through better organizational alignments of incentives. He concludes with a call for future research that explores specific mechanisms for incentive realignment to realize social value through a variety of organizational forms.

Within the domain of for-profit enterprises, consideration given the philanthropy multiplier can potentially serve as a powerful incentive for firms to expend resources in ways that create social value, even when that value can largely not be expropriated by firms. In effect, the philanthropy multiplier provides firms with a means of measuring and reporting the uncaptured social value they create. Competition among firms trying to distinguish themselves on this metric could thus provide an

[14] I am indebted to Alex Tabarrok (2018) for calling attention to this case as reported by Andrew Leigh (2018) in his book *Randomistas.*

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incentive for them not to neglect feasible, efficient opportunities for social value creation, adding to the reasons they have to behave in socially responsible ways (Campbell, 2007). The philanthropy multiplier can thus potentially serve as a mechanism that helps address a long-standing concern expressed by management scholars that businesses lack a meaningful framework for motivating and evaluating their contributions to social welfare beyond their profit-seeking activities (Jones et al., 2016; Walsh, Weber, & Margolis, 2003) and a mechanism that serves as a way of addressing voids in market-based institutions (Gatignon & Capron, 2020). Finally, note that these insights do not require taking any position on larger political debates about whether the state or private philanthropic institutions should shoulder more responsibility for providing welfare-enhancing social services; rather, the point is that to the degree that any business is engaged in expending resources beyond conventional profit-increasing strategies, we can investigate the social value of such expenditures and, in so doing, potentially encourage them to be deployed in more beneficial ways.

Limitations of the Philanthropy Multiplier

The foregoing considerations hint at both conceptual and practical limits to the potential usefulness of the philanthropy multiplier, and these limits merit clear articulation.

First, the knowledge needed to identify opportunities for a company to generate a large philanthropy multiplier will often not be public but rather will involve local insider knowledge. Thus, from an external observer's perspective, it generally won't be possible to monitor and penalize a company for failing to take advantage of such opportunities. Although this may not be a concern if one considers corporate philanthropy to be entirely supererogatory, to the degree that the ability to generate a large multiplier does indicate a compelling ethical warrant for doing so, this will often not be something that outsiders can observe and shame or punish companies for having avoided; rather, the hope is that companies can be incentivized to discover, execute, and report such activities because of the positive publicity that this can generate, buttressed by the ethical conviction that these activities are a justified use of resources.

Second, there are practical challenges to conceptualizing and measuring welfare, and thus the metrics used to calculate the philanthropy multiplier may be contested or gamed. Although this is not a new challenge, it is a serious one for anyone who wants to use the multiplier in practice. The burden of articulating and defending calculations should fall on the companies that want to publicize and claim credit for their philanthropy multipliers. This is not an exact science but rather an exercise in transparency and persuasion. Analysts and investors already scrutinize other claims that companies make, and these outsiders have an important role to play in keeping companies accountable for the claims that inform the reporting of their philanthropy multipliers. It is always possible that these claims will remain highly contestable and not persuasive to many market participants.

Third, and most important, the philanthropy multiplier cannot resolve questions about how to commensurate what is of ultimate value. The multiplier can help us

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make comparative assessments regarding the efficiency of expenditures, but in so doing, it can only be one tool among others in evaluating opportunities for philanthropy. Disagreements are likely to persist with regard to judgments about what are the worthiest ends for anyone to support—be they individual philanthropists or corporate executives. The fact that a corporation could, for example, provide $5 million of food for the homeless at the cost of only $1 million of its own resources does not necessarily mean that it should not spend those million dollars on something else if someone is convinced that something else is intrinsically more valuable. The philanthropy multiplier can bring better analytic clarity to such debates regarding what trade-offs are involved, but it does not resolve the question of value itself.

CONCLUSION

Despite the widespread practice of corporate philanthropy, accounts of CSR and business ethics have not provided a detailed, compelling, and action-guiding rationale for such philanthropy. Wayne Norman's (2011) proposal for "business ethics as self-regulation," which builds on Joseph Heath's (2004, 2006) "market failures" approach, is among the most promising recent theoretical advances in the fields of business ethics and CSR. However, this approach likewise says little about philanthropy, apparently relegating it to the domain of permissible but voluntary activities that are nice to do. Upon scrutiny, however, the social welfare criteria that ground Norman's approach can be shown also to justify certain forms of corporate philanthropy through a logic captured by the philanthropy multiplier. This occurs 1) when firms make strategic but high-risk investments in activities that are likely to generate positive externalities even if they prove unprofitable and 2) when a firm has a strong comparative advantage in its ability to address a social problem such that alternative mechanisms of resolution would generate significantly higher social costs.

This argument builds on insights developed by Bénabou and Tirole (2010), Kaul and Luo (2018), and Morgan and Tumlinson (2019) regarding the comparative efficiency with which firms may be able to provide public goods, articulating a metric that promises to indicate when, in fact, this is taking place. Moreover, it explains why firms will often be in such a unique position to create extraordinary value compared to alternatives because of information asymmetries, transaction costs, and uncertainties consonant with institutionalist perspectives.

If persuasive, the arguments presented herein can help resolve a lacuna that has plagued the CSR literature since its founding and been recurrently noted by management literature, while also providing practical guidance and a criterion of evaluation for corporate philanthropic expenditures. If not persuasive, these arguments provide reason to reject Norman's (2011) "more unified normative theory of business obligation" and the social welfare justifications that ground it, although I believe this would be a mistake.

The philanthropy multiplier encapsulates a logic that can provide a normative justification for corporate philanthropy when it produces welfare gains that significantly exceed the associated costs. Although estimates of welfare can be contested and require argument, the logic of the philanthropy multiplier is clear. Moreover, as

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an analytical framework, the philanthropy multiplier can provide guidance and accountability to companies, while also providing a metric that investors, stakeholders, and the larger public can evaluate. Indeed, the more attention that is paid to the philanthropy multiplier, the more companies will have an incentive to consider, pursue, and publicize philanthropic investments that have large and compelling net benefits.

The principal aim of this article has been theoretical and normative, proving a clear logic that can justify corporate philanthropy when particular, measurable conditions are met, while expanding the unified framework Norman (2011) called for, consistent with its guiding principles. If compelling, future research may explore potential challenges that arise in calculating and using the philanthropy multiplier in practice. However, at the level of practice, corporations are already making significant investments in philanthropy. The theoretical framework of the philanthropy multiplier can help ensure that these investments have the greatest impact in terms of efficiency, and, perhaps more importantly, this framework may create an incentive for more businesses to explore and discover new opportunities for creating social value.

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WILLIAM ENGLISH (william.english@georgetown.edu) is an assistant professor of strategy, economics, ethics, and public policy at Georgetown University's McDonough School of Business. He previously served as the research director of the Edmond J. Safra Center for Ethics at Harvard University and received his PhD in political science from Duke University.

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