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“How can strategic philanthropy contribute to innovation for companies?”

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## Introduction

As a specific component of Corporate Social Responsibility, philanthropy can impact strongly the ability of an organization to change and innovate on diverse aspects, a subject for which only a few researches have attended in the academic literature. This investigation proposes to explore the existing link between a strategic conception of philanthropy and innovation. Indeed, the nature of the research question relies on an unexplored field in the CSR and Innovation management academic literature. It starts with the interest to know which the benefits are for a firm encouraged to invest strategically in philanthropy. In this regard, the analysis contributes in fitting this gap by following different objectives in an exploratory perspective.

Throughout the research it will be analyzed the concept and the current and past contributions on the different branches of innovation (product innovation, managerial innovation, technological innovation), to accentuate the relation between an accurate strategic approach to philanthropy and the impact on the organizational value. Indeed, analyzing philanthropic innovation may provide insights about business opportunities and notions related to social investments and profit. That aspect includes the link between those strategic decisions that a firm can use to maximize those investments as it was part of their core business. It also proves the existing link between CSR and innovation, and the possibilities that the enterprises have towards this subject.

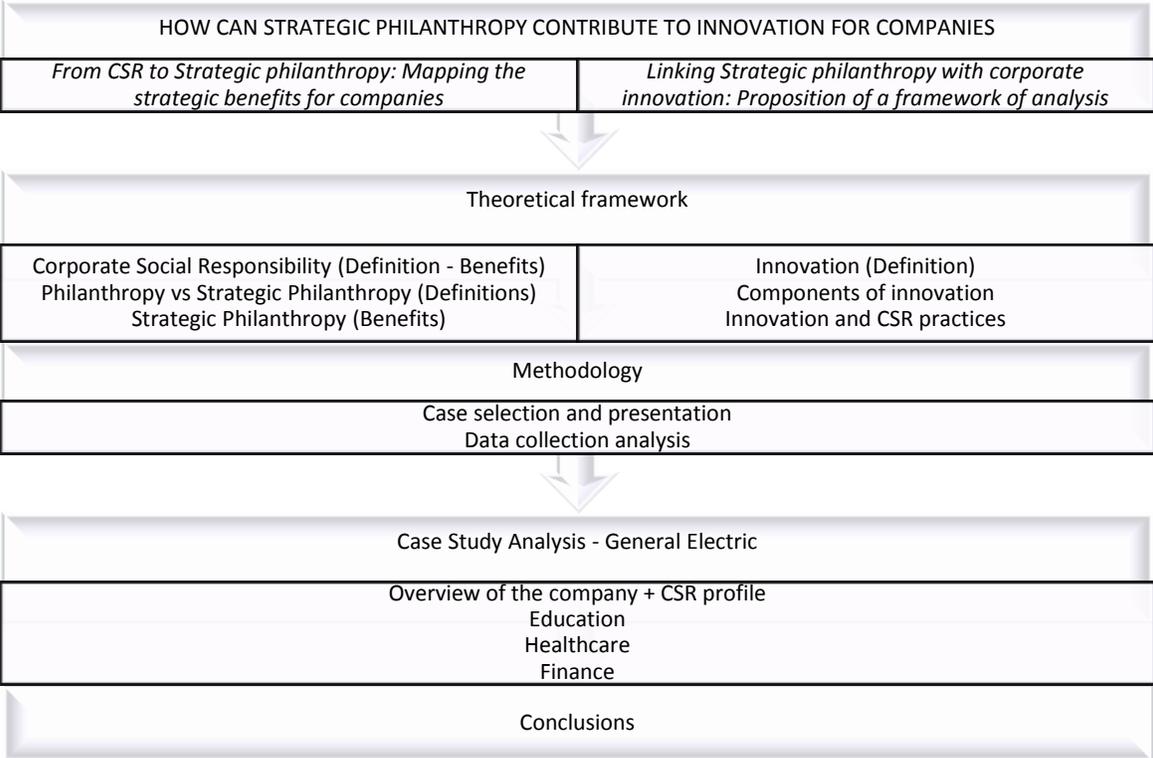
The text structure is defined by a literature review in which they will be defined the concepts of Corporate Social Responsibility, Philanthropy, Strategic Philanthropy and Innovation; followed by the analysis of the existing link of strategic philanthropy with managerial innovation or other types of innovation. To illustrate the theoretical results a case study will be analyzed to observe the process concretely.

As a result, two main objectives are settled in order to structure logically the text. On the first place it will characterize the existent links between strategic philanthropy and its outputs regarding various types of innovation (impacts). The

final objective is to provide a first understanding of the process through which strategic philanthropy can help boosting innovation, through a case study analysis.

Throughout the analysis of market experiences within an academic perspective, it is possible to establish relations between the address of social issues through philanthropy that can develop and increase the branding connotation, market share and corporate value of a firm. The case study analysis completed through the investigation, reveals the pragmatic recognition of the existent link between Strategic Philanthropy and Innovation performed by a multinational firm: General Electric. Indeed, the company has been constructing a competitive advantage on several markets, based on allocating resources for the resolution of social causes in innovative ways, aligned to its core business competences.

**Table 1: Thesis structure and topics developed**



## **Literature review**

### **First part - From CSR to Strategic philanthropy: Mapping the strategic benefits for companies**

The literature review conducted throughout the investigation will be divided in two parts. On the first, it will be developed an analysis of the concepts of Corporate Social Responsibility and Philanthropy. In this stage, it will be made an academic differentiation between philanthropy as a purely discretionary act of an enterprise and the strategic approach to the subject (Strategic Philanthropy). Afterwards, it will be listed the benefits that an enterprise can gain from engaging in strategic philanthropy.

For the second part of the literature review, an academic definition of the concept of innovation will be performed, passing from its different components and modalities. At that stage, it will be analyzed the existent relation between CSR and innovations in products and processes. This combination will provide the necessary tools to develop the case study.

### **Defining Corporate Social Responsibility**

An accurate characterization of Corporate Social Responsibility aims to be aggregated by the theoretical framework of different authors, as the subject has not found uniformity in the field. The general perception of the concept throughout the academy, prove that is complex and controversial to provide a single definition of CSR, as it is dynamic and evolving according to the context in which it is analyzed (Boulouta, I., & Pitelis, C; 2014). A shared estimation, however, is that the concept shapes the expectations of the customers and stakeholders globally, and firms are required to be responsive to that.

One of the most widely accepted approaches belongs to Archie B. Carroll. In 1979, he wrote an article entitled “A three dimensional conceptual model of corporate performance” in which he tried to establish a homogeneous definition of the

concept of CSR, which was vastly debated at the time. In this context, Carroll defines CSR as the “continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large” (WBCSD; 1998; p.3).

Indeed, the author’s contribution was significantly accepted by the academic community and therefore, he pursued his investigation on the field, developing theoretical concepts like the Carroll’s CSR pyramid. According to his investigation, the four main aspects of CSR are economic, legal, ethical and discretionary (philanthropic) (Carroll, 1991). These factors are not mutually exclusive and represent the market pressures that a firm has to respond in order to be competitive and sustainable. This approach is also based on the fact that each one of these components can be analyzed independently and affects in different ways and degrees the performance of a firm. However, even if they are ranked by relevance and impact, there are underlying relations amongst them which create tension between them. Therefore, a company needs to find equilibrium between these aspects in order to fully respond to the claims of its stakeholders.

One of the most important contributions of the Pyramid is the fact that inside each one of the factors identified, can be contextualized many academic theories about CSR that did not consider all the four components. The integrative approach of Carroll stands for addressing the obligations of a business society, including the economic, the most important for the author (Carroll, 1991). The author establishes at the base of the pyramid, and definitely as the most crucial, the economic dimension. The argumentation of this assertion relies on the fact that in the sustainability of the economical aspect depend all the other components, since the purpose of a firm is based maintaining a competitive position, maximizing profits and achieve operating efficiency.

For instance, the economic and legal approaches to a firm’s performance are generally intended in a pragmatic way, based on the results and profits that the market can force, but lack on analyzing the impact of a CSR strategy on reputation, marketing, corporate culture and innovation.

Some of the authors are engaged only by the economic aspect in a profit making only goal. Those who share this utilitarian view of corporate performance often perceive as a tension the Social and Philanthropy opportunities of the market. For instance, the conception of Milton Friedman towards this subject is based on the characterization of CSR as an opposite concept for economic performance: "Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible" (Friedman; 1970). In this context, the social issues of the society should not be considered in the agenda of the enterprises, but should be solved by the market as a natural way. The role of an enterprise is the one of maximize its operations while respecting the rules of the society embodied by the law.

Closely related to the legal aspect identified by Carroll, a license to operate according to the laws of each country is a factor achievable by CSR in terms of Porter and Kramer (2006). In this context, the permissions from local authorities are generally formal, but the authors also encompass an intangible component, that is the approval of the local communities, in which they appear as stakeholders that can claim legitimately for their needs. In terms of the authors these aspects combined are going to be useful for the enterprise in order to position its reputation within the market and even to establish branding campaigns associated to a clean CSR strategic development.

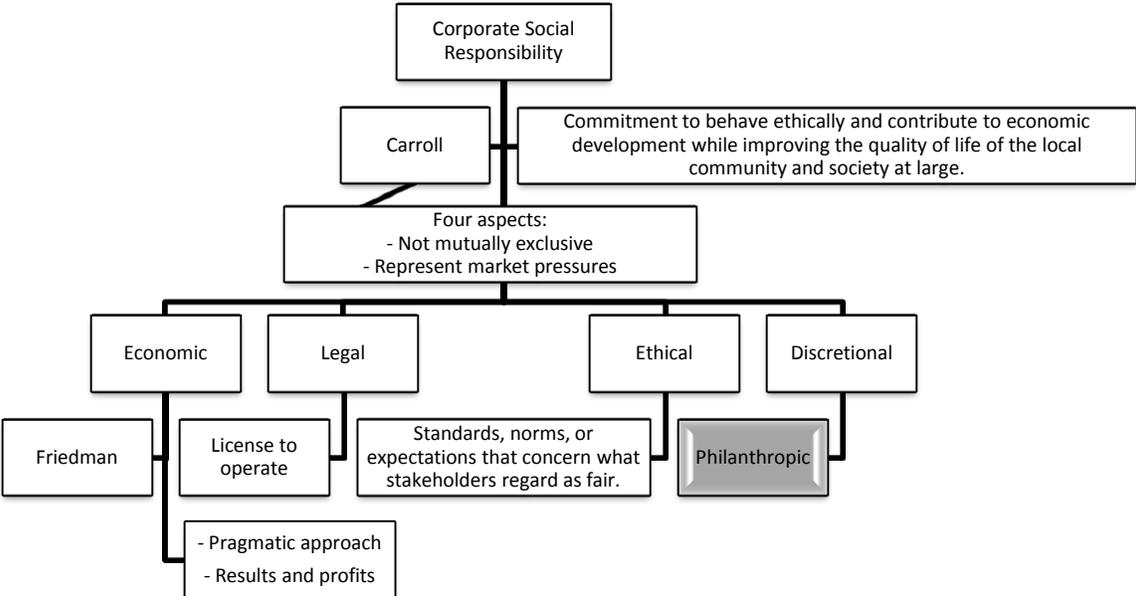
At the time, other authors pushed their investigations beyond profit making (Davis and Backman), but without establishing further categories. Therefore, inside the ethical component of CSR are located all those "standards, norms, or expectations that reflect a concern for what consumers, employees, shareholders, and the community regard as fair, just, or in keeping with the respect or protection of stakeholders' moral rights" (Carroll, 1991; p.41). Inside this category, there are interesting contributions that defined CSR considering an ethical framework, like the concern of the broader social system (Eells and Walton) or the responsibility of a firm in a number of social problem areas (Hay, Gray and Gates).

For example according to Hopkins the main purpose of CSR in a society is “to create higher and higher standards of living while preserving the profitability of the corporation, for people both within and outside the corporation (Hopkins; 2003).

Porter and Kramer (2006), pursue the previous debate on the importance of CSR strategies for an enterprise and its link with the development of a competitive advantage. For instance, they identified different justifications for a firm to develop a CSR program in order to resist the different related-pressures of the market. The first one relies on a moral obligation (Porter and Kramer; 2006) that a firm has towards its customers, in order to preserve a clean image and reputation. Also to be uninvolved from dilemmas or scandals that could affect their operations.

On the other side, an accurate administration of CSR can bring sustainability, as it involves self-conscious campaigns about the impacts with its social or natural environment and the creation of goals and strategies towards that. Additionally, sustainability can be intended as the condition in which an enterprise can guarantee the preservation of its market size or creating a new one.

*Table 2: Carroll conception of CSR*



## **Organizational benefits of CSR according to its diverse components.**

Those aspects that provide benefits to a company's performance acquire relevance when a firm's actions in CSR are aligned with its core values, and conceived in strategic terms, so that it will increase the value of the company, as any other investment of resources. The general academic conception is that most of the firms still see CSR actions against their mission, as a disposal of huge amounts of money or merely as a public relations tactic in some environments.

For instance, Burke and Logsdon analyze the strategic dimensions on how a company can invest in CSR activities to increase its value, identifying the most common oversights that derive is waste of resources. The first dimension that a firm should take into account is centrality, as the "closeness of fit to the company's mission and objectives" (Burke and Logsdon, 1996). This aspect relies on the logic that every single CSR action that a company performs should be driven by an accurate analysis of the impact on its environment, so that is measurable and linkable to its mission and values.

The second dimension identified by the authors is the level of pro activity that a firm has, in terms of the "degree to which the program is planned in anticipation of emerging social trends" (Burke and Logsdon, 1996), closely related to the Reactive-Proactive process identified by Ian Wilson in 1975. In this context, the ideal scenario would be one in which an enterprise is be able to identify and solve potential threats in times of stability, and thus, to steer the contingencies that can arise in the market.

Thirdly the authors refer to voluntarism, as the dimension of the "scope for discretionary decision-making and the lack of externally imposed compliance requirements" (Burke and Logsdon, 1996). This aspect takes into account the fact that each context comes along with diverse societal expectations towards the actions of a firm, and therefore, responsibilities that are not tangible but can impact their relations with the stakeholders. To complement voluntarism, the authors identify another dimension, the visibility of the actions that the firm takes, as the

capacity of be “observable, recognizable by internal and/or external stakeholders for the company” (Burke and Logsdon, 1996).

This assertion especially stands for the promotion or publication of the actions, in order to inform their environment about their commitment in determinant causes and the achievement of strategic goals. It can be translated into regular reports or through campaigns of marketing and advertising. Closely related, the authors finally analyze the dimension of specificity, intended like the “ability to capture private benefits by the company” (Burke and Logsdon, 1996), in which is located the focal point on measuring and encouraging different kinds of advantages related to the engagement towards CSR actions.

The main drivers of strategic CSR for a company are: Image/Reputation/Attractiveness, Productivity & Motivation, the development of Competitive Opportunities, a Cost and Risk Reduction, an increased perception of Altruism and Benevolence and Innovation. Related to this subject, a firm that recognizes the importance of investing in CSR, in terms of Porter and Kramer, will be successful when can intend the subject in a systematic way, putting strategy above the normal conception of a cost, a constraint or a charitable deed, and so, as a source for opportunities, innovation and competitive advantage (Porter and Kramer; 2006). The incorporation of these kinds of activities along the Porter value chain of an enterprise can enhance multidimensional benefits to an enterprise.

For instance, the Inbound-Outbound logistics and operations can be enriched by a cost saving policy, by controlling the emissions of transportation, processing, production and packaging (Cojocariu; 2011).

Additionally, activities related to waste disposal can improve the efficiency on storage and reduce the danger of hazardous materials. In terms of Porter and Kramer (2002), “reducing pollution and waste can lead to a more productive use of resources and help produce goods that customer’s value”. This factor also represents savings related to energy and water usage and at the same time that minimizes risk from contracting with suppliers that does not use quality standards or who don’t exploit resources in a sustainable way (Kisperska & Klosa; 2013).

Moreover, the marketing and advertising department can be boosted by the benefits of a strategic CSR plan. When it is accurate and relevant, a firm can develop a brand differentiation within its market, by creating a set of values that are aligned with the business model and transmitting them through the society (Siegel, D. S., & Vitaliano; 2007). A firm's attractiveness is related with the level of identification of the customers, and be a relevant factor in vitalizing brand awareness.

The pricing practices are also influenced by CSR, as a company can guarantee customer loyalty by committing to causes and actions which are approved by them. Additionally, when those CSR actions involve resource investments, it also changes the perception of price fairness inside the customers mind (Matute-Vallejo, J., Bravo, R., & Pina, J. M; 2011). Related to this aspect, Netemeyer (2004) found a correlation between the customers' perception of a "good corporate citizen" and the willingness to pay a first-rate price for a product or service.

In this sense, the customer information about the activities of a firm will be a key factor when to define the reputation that a firm has in the market. This context also enhances the creation of new niches in sector where the level of saturation and competition is been traditionally high (Boulouta, I., & Pitelis, C. 2014). The demand for responsible products and the response of the enterprises to these claims are a key factor to develop key customers, more sophisticated and which willingness to pay is higher compared to other segments.

### **Academic conceptualization philanthropy and strategic philanthropy**

According to Carroll (1979) philanthropy is intended as a discretionary factor that affects the CSR performance into a company. It is probably one of the most difficult aspects to assess strategically, and along the academy they are authors that affirm that it should not be considered as a related factor (Nick; 2010).

In fact, a study conducted among 250 business leaders that operate strategies of CSR within their firms, reveals that only 30% of them are focused on developing a

real impact towards the society (Pohle & Hittner, 2008), that means that their engagement is only on the surface. The debate turns around the difficulty that represents to identify the real constraints that an enterprise can undergo given by societal expectations. The crucial aspect is that philanthropy is closely related to the voluntarism, and therefore, to nominate as responsibilities the engagement of a company in social causes which are not mandated and expected is arguable, and might seem incongruous.

The academical conceptualization of the term is intended as the "society's expectation that businesses be good corporate citizens arts, education, or the community. 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." (Carroll, 1979). The concept around what the author defines as "corporate citizens" encompasses a humanitarian interaction of a company within its stakeholders, in a way that is meant to contribute by working extra to mark an impact in their environment.

An accurate administration of philanthropy, given its uninterested character, makes a difference among traditional dimensions of CSR such as economic and legal components, because those enterprises engaged on philanthropy projects have found in the possibility of improving their corporate image by investing resources destined to NGOs, Humanitarian organizations or creating their own social campaigns.

What is difficult for a firm is to assess the importance and the way to invest correctly the resources destined to philanthropic activities, as they can turn, as one of the general conceptions, into unrecoverable costs spent in the air. In terms on Porter and Kramer (2006) one of the most frequent errors in which enterprises incur is that they conceive philanthropy in terms of dollars or volunteer hours spent but almost never in terms of impact.

Another problem often identified by the academy is that even if the enterprises are investing in philanthropy, by different reasons they are not interested on getting

feedback and analyzing the impacts of the actions. According to Carrigan (1997), who conducted a study which revealed that in the UK, 75% of the firms do not monitor or see the importance of analyzing the results of their philanthropic investment, there is being lost relevant information that could be useful to enhance the results of the firm. In terms of the author, this reality implicates that “a huge amount of money and contributions go out without anyone really accounting for what becomes of it, or whether or not objectives, if there are any, are being fulfilled” (Carrigan; 1997). An accurate monitoring and tracking of the results obtained, it is part of a logical process, in order to manage the resources in a long term commitment that involves a tangible impact.

In this context the degree of engagement of an enterprise towards philanthropic activities can be classified in two different dimensions: uninterested charity actions or strategic investments. For instance, Godfrey (2005) defines pure philanthropy as a “nonreciprocal voluntary transfer of cash or other assets from one entity to another”. This concept does not include an explicit exchange of value between two parties, as the destination of the resources is merely based on non business related sectors or activities.

By operating purely focused in this logic, the firms are missing to conceive those resources as the channel for long term benefits, and therefore; their philanthropic actions are purely costs. However, companies have the possibility to let behind the purely discretionary and unconnected interpretation of philanthropy, to engage in potential investments within the society that can bring benefits to the enterprise in the long term. Indeed, the concept of strategic philanthropy goes beyond the purely discretionary approach to CSR, as voluntary, which means that is more complex than the dimension identified by Carroll in 1979 (Table 3).

Therefore, strategic corporate philanthropy can be defined as “a discretionary responsibility of a firm that involves choosing how it will voluntarily allocate its slack resources to charitable or social service activities in order to reach marketing and other business related objectives for which there are no clear social expectations as to how the firm should perform” (Ricks; 2002). This definition involves the fact

that when engaging in humanitarian activities, a firm should have clear objectives on the impacts of the actions in which is investing. And also be able to understand if those impacts are being perceived positively by its stakeholders, and/or boost innovation, processes or technology. Additionally, achieving strategic philanthropy, linked in terms of Mescon and Tilson (1987) will consist on “turning away from traditional giving toward a more market-driven strategic management, bottom-line approach to philanthropy”.

Strategic philanthropy has dual objectives according to Porter and Kramer (2006): benefitting social welfare and financial profitability. The concern of different managers is that some of those investments can be risky, as the short term results are not often visible, and nothing guarantees that the critics of a project are always going to be positive (Porter and Kramer; 2002).

Sanchez (2000), identifies three main approaches that companies can give to philanthropy: the altruistic model, the political and institutional model and the profit maximization model. Indeed, the analysis of the author goes beyond the simple differentiation of discretionary and strategic, as in determined situations, even an altruistic model can be employed for convenience or at least laundering image. The last two categories illustrated by the author are specialized on a rational and accurate investment of the resources, which can be defined as strategic philanthropy.

The altruistic model relies on the goodwill and disconnection towards business objectives by engaging in humanitarian actions. However, according to Ricks, (2002) these kind of strategies are used generally to respond to market pressures after negative events that can affect a company (Reactive philanthropy). The political and institutional model stands for the fact that a firm can gain advantages through philanthropies, maximizing political returns, engaging to participate in legislation or being an actor inside governmental decisions. This kind of model is achievable only when an enterprise has a serious credibility and has already developed a trajectory on philanthropy (Ricks, 2002).

The profit maximization approach to philanthropy relies on the strategic allocation of time and resources in projects that will derive in economic gain, market increase or different benefits to an enterprise. It encompasses a professional look at social investments, in which an enterprise is selective in the humanitarian actions that develop; analyzing the cost and benefits as if were part of its business strategy and maximizing the impact for any money invested. In terms on Weissman, former CEO of Philip Morris, the main objective to achieve in terms of philanthropy is to find an equilibrium between social and economics; therefore, develop “business activities with social sense, and social activities with business sense” (Weissman; 1982 in Mescon & Tilson; 1987).

According to Porter and Kramer a firm can enrich its competitiveness through philanthropic strategies in four dimensions: factor conditions, demand conditions, strategy and rivalry and related and supported industries (Porter and Kramer; 2002). Factor conditions refer to those areas related to education, trained workers quality technological institutions among others, which can derive from investments in philanthropy. In this context, most of the resources destined to humanitarian actions, especially in the field of education and quality of life, on a long term basis are translated into a new market full of opportunities in terms of supply and processes. The demand conditions are related to the market size, as expanding through philanthropy new potential markets, familiarizing with customers, increasing its brand awareness and sophisticating their tastes into the ones presented by the enterprise.

Derived from CSR theory, strategic philanthropy can be addressed in two dimensions, reactive and proactive (Ricks; 2002). The proactive philanthropy is intended as the strategy of an enterprise of engaging in humanitarian activities without any previous pressures in the market towards a subject. In this context, Harvey et al. (2011) is defining the term as the “pursuit by entrepreneurs on a not-for-profit basis of big social objectives through active investment of their economic, cultural, social and symbolic resources”, in which the entrepreneurial conception, will be intended as moving beyond the forces of the market in an active way.

They choose to develop activities in which they can obtain benefits and be pioneers. Reactive philanthropy is, on the contrary, often used by enterprises to cover mistakes or scandals related to their impact with the overall society. It is the most common answer that enterprises give to negative events in which they become involved. There are also companies which distance their philanthropic activities from the business, believing that will lead to greater goodwill in local communities. Normally those companies spend, according to Porter and Kramer (2002), more time and resources trying to publicize their clean image. On the contrary, in terms of the authors, the goal of an enterprise should be to maximize the cost of opportunity of investing in philanthropy. The goodwill value can be the same, but it is aimed to generate bigger impacts.

To achieve this objective, a firm should align below the same strategy all of its departments, in order to create a complex structure in which different forces of the organization will provide professional optimization. In order to do so, it has to integrate aspects of corporate communication, public relations, human resources, accounting and marketing; and relate/transform them into the philanthropic actions (Mescon & Tilson; 1987).

*Table 3: Differences between Philanthropy and Strategic Philanthropy*

Concept	Characteristics	Author	Year
<b>Philanthropy</b>	- Discretionary factor	-Carroll	1979
	- Corporate citizenship - Nonreciprocal voluntary transfer	-Godfrey	2005
<b>Strategic Philanthropy</b>	-Allocation of social service resources in order to reach business objectives. -Reactive or Proactive	-Ricks	2002
	-Turning away from traditional giving toward a more market-driven strategic management	-Mescon & Tilson	1987
	-Benefitting social welfare and financial profitability	-Porter & Kramer	2006

## Benefits of strategic philanthropy for companies

Varadarajan and Menon (1988) analyzed the main features in which a company can add value through campaigns and commitments in strategic philanthropy. The authors found results like: improving corporate image, increasing sales, avoid negative publicity, and facilitating market entry (Varadarajan & Menon 1988). Additionally, and main purpose of the present investigation, it will be analyzed the impact on innovation.

Regarding improving corporate image, Gabriel (1995) analyzes the figure of the Hero entrepreneur, as the personification of the manager or executive of an enterprise that can personify the philanthropic activity at that point that is seen as a hero, and consequently, the attractiveness of the enterprise increases. The existent relationship between the social conscience about a manager and the firm's reputation depends additionally in the capacity of storytelling that an organization has in order to present the philanthropic activities to its stakeholders. For instance, storytelling by engaged companies, serves as a powerful source of inspiration, and is key to the strategy to expand its reputation and donor base (Maclean; 2013). This is an instrument commonly used in public relations in order to create emotional connections with the customers and potentially critic stakeholders.

On the other side, cost reduction strategies are also implemented frequently by enterprises that engage in philanthropy in strategic ways. The most common practices used, analyzed by Mescon and Tilson (1987) are tax deductible actions complemented with marketing opportunities, by which the enterprise not only is having a pecuniary advantage by engaging in philanthropy but also can increase its sales. For instance, sponsorship in sports and arts play an important role when the company chooses right spotted participants. The use of gifts as promotions is regularly used, as in fundraisers and charity events they have a big place/stage to distribute merchandising that can be intended as donation but it has the logo of the company. Investments in education are closely related to the opportunity of

developing human capital, reputation and lead selection and recruitment processes. Porter and Kramer (2002) establish a link between strategic investments in philanthropy and a consolidation in the competitive context of a firm towards boosting productivity. In fact, their main argument relies on the fact that there is no contradiction between investing strategically in philanthropy and at the same time be committed to bettering society. Indeed, “the more closely a company’s philanthropy is linked to its competitive context, the greater the company’s contribution to society will be” (Porter and Kramer, 2002).

Additionally, social benefits that will help to forge partnerships that would be wary of collaborating on efforts that solely benefited a particular company. Developing corporate philanthropy is an opportunity for networking and to develop collective actions within a cluster or other partners. It is a perfect excuse to get in contact with key stakeholders or even to share costs with partners and competitors. The government can be one of the main actors involved in those processes, as the WBCSD Council Project of 2004 conclude, establishing that they can sometimes create the frameworks that in particular situations can encourage development. However, is the private sector that generates entrepreneurship, creates employment, and builds wealth in terms of strategic philanthropy.

*Table 4: Benefits of strategic philanthropy*

	<b>Argument / Fields/goal</b>	<b>How/ Vehicle</b>	<b>Author</b>	<b>Year</b>
<b>Corporate image</b>	Attractiveness Image of reliability and humanity. Branding	Hero entrepreneur Storytelling	Gabriel Maclean	1995 2013
<b>Increase sales Reduce cost</b>	Tax deductible actions Promotion Sponsorships	Sports fundraisers Charity Culture and arts	Mescon & Tilson	1987
<b>Avoid negative publicity</b>	Public relations Corporate Communications	Reactive philanthropy	Ricks	2002
<b>Facilitating market entry</b>	Creating a need Product development	Target specific demographic groups	Mescon and Tilson	1987
<b>Innovation</b>	Creating a new market E-Philanthropy Financial risk reduction	BOP strategies E-Philanthropy Moral Capital	Prahalad, Hart  Geofrey	2009  2005
<b>Networking</b>	Strategic partnerships Joint ventures Government support	Common targeting Clustering opportunities License to operate	Porter & Kramer WBCSD Porter & Kramer	2002 2004 2006

## **Second Part - Linking Strategic philanthropy with corporate innovation: Proposition of a framework of analysis**

### **Concept of innovation and its different components**

The concept of innovation started to be analyzed in terms of management around half of the twentieth century. Joseph Schumpeter (1942) defines it as the “engine of economic growth, which provides growth regardless of the economic cycle/conditions of the environment”. This definition included the whole process from opportunity identification, ideation, invention, prototyping, production, management and sales. In this context, the author proposed a three dimension model in which is possible to categorize the main stages to processes of innovation. This analysis was after re baptized as the Schumpeterian View (Acz, 1987), and is composed by the creative individuals, a firm’s operating functions and activities and a firm’s architecture and external linkages. Creative individuals provide the knowledge inputs for the scientific development, but are not necessarily related to the commercialization of the inventions. The firm’s operative functions and activities add value by providing the necessary processes and materializations of the inventions, connecting it with the society. The firm’s architecture and external linkages will represent the societal change and adaptations to the innovations proposed, creating demand and opportunities for business.

The actions taken by these agents are not mutually exclusive, as they can collaborate or be absorbed between them. According to the author it depends on the project the role that each of them can acquire, when three main steps are identified. This characterization is specially related to product innovation. In this context, the first is the theoretical conception, followed chronologically by the technical invention and then the commercial exploitation.

Between the theoretical conception and the commercialization of an innovation, a learning curve of processes, technology, services and managerial tools can be implied enlarging the course of action of the product development. Indeed, a modern definition given by Myers and Marquis (1969) illustrates the conjunction of

the different elements of the concept: “Innovation is not a single action but a total process of interrelated sub processes. It is not just the conception of a new idea, not an invention of a new device, nor a development of a new market. The process is all these things acting as an integrated fashion.”

Towards the implementation and development of an innovation there are two academic perspectives regarding the subject. On this subject, Porter (1980), approaches to innovation on a market-based view, in which the market forces make the enterprises to adapt to new innovation processes, and it will determine which firms are competitive:”The process of innovation cannot be separated from a firm’s strategic and competitive context”. Other authors such as Tidd subscribe to an characterization of a resource-based view of the firm, for which the resources provide a stable context in which it can shape its markets in accordance to its own view.

For instance Tidd and Bessant, 2001 define the four “P” (4Ps) that a company has to develop in terms of innovation in order to be competitive. The first one stands for product, therefore, about the improvements of the characteristics and uses of the offer of the organization in its market. The second “P” is process innovation, as changes in the ways that the products or services are created and delivered. It is about implementing improved production or distribution methods. The third stands for Position innovation, and refers to the changes in the context in which the product or services are introduced. The fourth and last “P” is Paradigm innovation, as the changes in the underlying mental models which frame what an organization does. This last characterization reflects the importance of reinventing for the enterprises, exemplified by business models that change even in the more stable or mature markets.

Apart from the fields in which firms have to deploy their innovations; on the other side, the innovation nature can vary depending on the impact that it has on a product of a market. Therefore, an innovation can be incremental, radical or disruptive (Trott, 2008). The incremental innovations are built on existing knowledge and occur continuously in the organization. This is due especially

because the market pressures of developing new and better products. These kinds of innovations lead to small improvements in products services or processes, without changing the customers' needs that they satisfy. Indeed, those needs tend to become more specialized and segmented by the flow of incremental innovations into a sector.

However, innovations can also revolutionize the "statu quo" of an industry, with products, services, business models or processes that produce fundamental changes in the way it used to operate (Trott, 2008). The last nature type is disruptive, characterized by being the most extreme form, when the innovation can even change the basis of societies and the way they interact with other industries that were not completely related to the innovation process (Trott, 2008). In this context, there are presented commonly the transformations resulting from the computing technologies in the current period. In terms of Charitou and Markides (2003), disruptive strategic innovation is a specific type of strategic innovation. It is a new way of competing in the industry that is both different from and in conflict with the traditional way. Online brokerage trading and Internet banking provide two good examples of disruptive strategic innovation.

Innovation is generally conceived as product development. However, inside a firm there can be fostered innovations regarding shifting managerial paradigms. The processes that a firm can optimize in changing environments are understood as managerial innovations, and relevant for the purposes of the present investigation.

According to Birkinshaw (2008) a managerial innovation is the generation and implementation of a management practice, process, structure or technique that is new to the state of the art and is intended to further organizational goals. Innovation management: is the discipline of managing processes in innovation. The focus of innovation management is to allow the company to respond to an external or internal opportunity and use its creative efforts to introduce new ideas, processes or products (Kelly P. and Kranzburg M. 1978).

Management innovation can be also defined as a difference in the form quality or state over time of the management activities in an organization, where the change is a novel or unprecedented departure from the past (Van de Ven & Poole, 1995). According to Birkinshaw management innovation can be driven by four different perspectives. The first, institutional relies on those preconceived conditions inside an enterprise, in a formal context, as part of the organization, that can boost innovations in processes or practices.

This perspective, conceives an approach of the enterprise that is observatory, and therefore, not based on the human improvisation and capabilities. The second one is the fashion perspective, which combines the trends on the market regards attractiveness, given by any specific context, and managers' new ideas and their way to spread them along an organization. The fashion and trendy aspect makes that each manager would adopt a particular strategy depending on his criteria and persuasion of the market forces. It is a process innovation in which the human instinct is relevant.

Another perspective relies on the cultural factors that can be affected and shaped by the introduction of new managerial practices. In this perspective is important the interaction between the individuals and closer stakeholders with the implementation made, and see the results that can affect the enterprise. The results according to this perspective are aimed to reveal whether a manager achieves its initial goals by implementing changes, or to analyze how established is the corporate culture of a company. It implies the contraposition of the innovation process against the inherent forces of the enterprise, and analyzing critically the result.

The fourth perspective is the Rational, based on pragmatic analysis that managers develop to solve any particular issue that the enterprise might have or to maximize the effectiveness of its strategies. To summarize, the impact that the institutional and rational approaches give to processes of management innovation are considerably higher than the one given by the two other perspectives. There are subsequent specifically links between this approach and technological innovation,

as they complement each other (Georgantzas & Shapiro, 1993). However, the managerial implementations are almost intangible and difficult to identify, and therefore, they can't be protected by any patents or laws.

Indeed, managerial innovation can be related to new financial services, products or ways of managing business operations, adapting to new circumstances and creating value (Downey; 2007).

### **Links between strategic philanthropy and managerial innovation (and/or other forms of innovation) identified in the literature.**

The link between CSR and innovation is given by the renewal and improvement of products, services, technological or organizational processes that not only deliver an improved economical performance, but also an enhanced environmental and social performance, both in short and long term (Bos-Browers 2010).

This management of innovation includes a wide set of activities that can derive from R&D initiatives or be related to production, logistics, packaging, etc. and help at the same time to solve social issue within a particular community or the society in general (Sanzo et al., 2012).

In this context, as for the firm and also the society, competition between firms through innovation brings more value than competition for price regarding social issues (Hart, 2005). Indeed, for the author: "the simplistic path of efficiency of competition puts us in a situation where operational problems are solved. However, innovation is closely related to the solution of actual needs of the markets."

As seen throughout the text, according to different actors, charitable activities take place typically outside of the firm's immediate business, as extra activities, not as the core, just to improve its reputation (Malme & Laulita). However, assessing the long term market opportunities that are related to a proactive and strategic approach seems to be an atypical but effective way in which the companies can create value. In this context, the most successful cases have introduced innovative strategies and approaches that establish a link between strategic philanthropy and

innovation. It differentiates those firms just engaging in philanthropy by signing a check or spreading donations towards NGOs and those who are innovative oriented, as the seconds have achieved win-win conditions regarding the communities, creating revenue for the enterprise and a true social impact.

One of the most reminded conclusions of the WBCSD Council Project of 2004 is that governments can sometimes create the frameworks that in particular situations can encourage development; but it is the private sector that generates entrepreneurship, creates employment, and builds wealth.

In this context, it is analyzed whether as an oxymoron or an opportunity to develop a win-win situation between strategic philanthropy and innovation of different forms. A company that engaged in strategic philanthropy will be provided with an “enlightened self-interest” by which they will be completely interested in creating a veritable impact through their philanthropic activities, but at the same time they choose to allocate their time and resources in places of the market where in the long term they can see potential benefits to their core business.

#### **Managerial innovation - Targeting new customers, creating new markets**

Prahalad and Hart (1997) revise academically ways to spend money in a strategic way, so that the impact within a social problem can be real. The first discovery made, is that those enterprises who have really achieved advantages from philanthropic projects are those who can take away the bureaucracy and transaction costs out of their activities. Indeed, the proper engagement of their employees and sincere relations with the communities will be success factors that are patron in the cases studied.

Regarding innovation, most of the successful experiences have been presented in the creation of new markets by the enterprises to target segment of customers of developing countries or lower income communities. A managerial perspective that includes philanthropic activities aligned with strategic objectives can derive in growth and profits if the enterprise knows how to adapt processes to the new

markets. In terms of Hart (2005): “Existing mainstream markets are the wrong place to look for major new waves of growth”. This argument aims for an integrative approach in which a firm should not have to choose between engaging with selected philanthropic activities and integrating its business activities because the customers are not ready for the products or cannot afford it. The answer to this dilemma is managerial innovation translated into the creation of strategies and business models that can integrate new markets into the area of influence of the enterprise.

The managerial innovations applied to philanthropy are based on the development of new business models for solving social and environmental problems by executing philanthropic activities (Halme Laurila 2009). Solve the problems of disadvantaged groups within a society while simultaneously creating new businesses. In terms of Srinivasan (2006) the innovation is the result from the willingness of a firm to engage with a plurality of stakeholders, in favor of “creative destruction” and innovation. Creative destruction is according to the author, the set of innovative processes through which it is possible to deconstruct successful business model in terms of already established distribution channels, customers and product development; in order to adapt to the needs of a segment not approached before. It manifests itself through the emergence of a disruptive managerial innovation. Indeed, disruptive innovations typically enable a larger population of less-skilled or less-wealthy people to begin doing for themselves things that historically could be done only through skilled intermediaries or by the wealthy.

Consequently, is the opportunity for a company to escape from mature and saturated markets at the same time that reducing poverty is a long term plan that hopefully will derive in the creation of a new market. In order to address strategically philanthropic activities, the WBCSD strongly recommends that companies should “engage the poor in a business relationship that relates directly to the companies’ core commercial operations.” This is in order to establish since

the beginning of the activities potential fluxes of know-how along the different actors interacting.

In order to maximize the impact of the activities performed by a firm in a certain community, the business interests have to be aligned with those of the poor and marginalized in developing countries, because if not, the business case tends to override the development case according to Browfield and Frynas (2005). This is the reason why it is not only an opportunity but also necessary to implement managerial strategies that can provide the alignment required. The classical managerial approaches to these subjects do not arrive to fulfill the requirements of the situation; while the necessity for managerial innovations towards philanthropy acquires relevance.

This approach has two main actors by which the enterprise can get benefits. First by targeting developing countries population as customers, that have needs to be satisfied with appropriate products and services at appropriate prices. This aspect required a revision of the product lines or services of the company to adapt them to lower market segments. The efforts can be divided by working on partnerships including NGOs and governments to increase the impact and get packaged solutions.

Second, after initiated philanthropic activities within a community, identify potential business partners, suppliers, employees and distributors. The strategic philanthropy can be addressed in a way that can help in the long term the organization to introduce SMEs into their value chains, creating employment (Browfield and Frynas; 2005).

In this context, solutions to social and environmental problems represent a starting point for planning new businesses, products or services. The base for solving those problems, in the lower segments of a society, is approaching it with strategic philanthropy activities. The conception of new business models that enable the interaction with lower segments of the market are a crucial part of the linking between strategic philanthropy and innovation. According to the WBCSD, the

innovative managerial approach relies on a short term not-for-profit investment in philanthropy, which should derive in the creation of a new market with its own needs. The company gain in that market, is that it has created its own niche, built up its own reputation, implemented a sustainable strategy for the long terms and escaped from saturated markets.

However, the concern of different managers is that some of those investments can be risky, as the short term results are not often visible, and nothing guarantees that the critics of a project are always going to be positive (Porter and Kramer; 2002). Is in this circumstance where the accurate and strategic allocation of resources represents for a firm an opportunity to invest or just a non refundable cost. A strategic philanthropic approach encourages the company's employees and managers to really engage with the results of the impacts. Depending on how strategic and accurate is the investment in corporate philanthropy the firm can cross the thin line of economic benefits. It will derive, therefore, according to the WBCSD in profit social ventures that still can have high social benefits, and represent a win-win situation for both of the sides.

After achieving the goals of impacting through philanthropy a vulnerable community, a company can keep improving processes of its business by benefit related activities like creating a supply chain that helps local business to increase its income, capacitating workforce or enriching distribution channels. The impact of an accurate investment in philanthropic activities can also develop into the creation of market data, labor and distribution networks and the potential creation of a market in which the company will be an undisputed leader.

Establishing itself as the only leader within a market throughout strategic philanthropy will provide to the enterprise additional benefits compared to its competitors. The problem of transaction costs related to the lack of information about distribution channels, pricing practices and customer behavior, according to Prahalad (2006), are aspects which condition the potential entrance of new customers in a market. However, a firm that has gathered information of the market, by developing strategic philanthropy know-how to reduce those cost to

minimum wages, so when the population will be ready to be potential customers, the company will have already won a competitive advantage.

*Table 5: Managerial innovation – Strategic Philanthropic – BOP approach*

Target segment of customers of developing countries or lower income communities		
Author	Benefit	Year
Prahalad & Hart	Transaction and bureaucracy cost reductions	1997
Srinivasan	Escape from mature and saturated markets	2006
Browfield and Frynas	Network creation - partners, suppliers, employees	2005
Prahalad	Information flow, distribution channels, market research	2006

### **Innovation through education and R&D**

Philanthropic investments on education can be performed by enterprises in two different ways. Each of these approaches target customers that can have completely different impacts on the firm's value. The first relies on the establishment of cooperation programs with educational institutions in order to provide scholarships or donations in different areas of research aligned with the core strategy of the enterprise "Close alignment with strategy builds internal momentum and facilitates appropriate external partnerships with supporters. The intersection of institutional aspirations with individual passions is fertile ground. When a university also invests in these projects, it demonstrates commitment to donors." (HEFCSE, 2012).

This aspect is closely related to prestige and enriches the possibilities of recruitment processes for the firm and allows the possibility of tax deductible resources. According to Kienzl (2011) the two outcomes that the enterprise will get by engaging in educational philanthropy are capacity building and workforce development. Those kinds of investments are destined to gain scientific outcomes that can be translated into internal R&D practices or outsourced ones, related to future technological, process and product innovations: "Key donors expect and deserve serious dialogue with universities as to the aim and use of their donations.

They seek a purposeful and business-like relationship with the institution and its leaders.” (HEFCSE, 2012).

On the other side, closely related to social engagement, education value investments stand for the capacity of developing business partners. For instance, the aimed result of investing in education in underprivileged areas relies on how those benefitted turn to provide important assets to the company.

Consequently, a company engaged strategically in philanthropy can improve educational standards, and therefore, create a new market of available workforce and potential local business partners. The WBCSD (2004) describes and Prahalad (2006) names “Inclusive capitalism”: “To go beyond charity towards education, create new markets and potentiate the entrepreneurial capabilities and value-consciousness of undiscovered segments of different markets.” (Prahalad; 2006, p.50). The value of local knowledge can be enriched by managerial tools that the enterprise can bring, and therefore, engage the communities upon the programs creating sustainable impacts.

As an example of the inclusive capitalism and entrepreneurial innovation is the DuPont case (WBCSD, 2004). After years of experience donating lunches in rural locations of Thailand, DuPont discovered an intersection between philanthropy, education and marketing, which was developed by the launch of a program destined for schools in which they approached teachers and local communities as agents for their farming program. The enterprise provided the seeds, materials and know-how, the community the labor and caretaking and the schools the land. Through the campaign, educational activities towards farming, environment and production were developed. Local dealers and sub-dealers who are also grain traders then bought the grain from the schools’ projects and sold it to feed mills.

The project augmented the coverage of the lunch programs and improved students’ nutrition. They were the only one to supply the corn seed used for the project. On harvesting, day farmers who participated had the chance to see how their products performed in the area. In their next purchase they often opted for

DuPont's seed varieties. Sales had exceeded forecast for the region and the turnover of small farmers increased, making them augment their orders of DuPont's products and tools. Related to this case, Prahalad and Hart (1997) see in the use of education in strategic philanthropy an opportunity to see potential new customers in lower targets as the "co-creators" to solve their own economic problems.

*Table 6: Innovation through education and R&D – Strategic Philanthropy*

Cooperation programs - Education institutions Scholarships or donations	Investing in education - Underprivileged areas Developing business partners
Aligned areas of research with the core strategy of the enterprise	Harvest future assets to the company.
Prestige Deductible tax Recruitment capacity building Workforce development	Entrepreneurial capabilities Value-conscience Investing in future workforce
Kienzl	Prahalad
2011	2006

### **Innovative financial indicators related to Strategic philanthropy**

The financial aspect related to philanthropy and innovation relies on the approach of qualifying the firms in terms of their risk management, which is highly appreciated in the market and can differentiate a firm that has a high performance related to this subject. This approach intends to analyze the relationship-based intangible assets as concrete financial criteria for taking decisions.

In this context, the concept of moral capital is explored by authors like Godfrey (2005) as it is relevant to minimize the risk for investing in a company and is achievable for those firms that perform impacting strategies of philanthropy within the market, involving their stakeholders and aligning the activities with its core strategy and competences. Indeed, strategic philanthropy is presented as a tool for

risk management that can have positive impact on the share value and attractiveness of the organization within the financial market.

This aspect has a two ways benefit regarding the link between the impact of the communities and the firm's capitalization. It can be enhanced by the decisions of shareholders in venture investment using entrepreneurial doctrines to develop projects that will have a philanthropic impact in order to increase their moral capital and enjoy the benefits already presented of philanthropy regarding other firms. Those actions on the market correspond to a utilitarian vision of how to invest and taking these criteria into account for qualifying firms represents an innovation in the financial market.

The other aspect contemplates two main actors, the managers, which allocate resources and decisions regarding philanthropy; and the stakeholders, that interact with the firms in their area of interest and as members of the communities that are affected by the philanthropic activities or observers. Stakeholders construct reputational assessments and evaluations of the firm's various activities that generate positive or negative reputational capital.

Godfrey (2005) conceives a model that integrates financial results with a strategic use of investments in philanthropy as risk reducers within potential threats that can occur in the market. The first transition goes from corporate philanthropy to moral capital and then to shareholder value.

In this context, the moral capital relies on the positive evaluations given by the affected communities. It is the reputation quantified, which itself has no value, but it disposes shareholders to engage in the company's activities, supporting actions that could potentially create wealth.

Moral capital is intended as "the outcome of the process of assessment, evaluation and imputation by stakeholders and communities of a firm's philanthropic activities" (Godfrey, 2005); thus it is, at the core, a construct based on perception that highly contributes to the firm's general reputational capital. Those positive perceptions of the stakeholders are due because they share the same moral values that those

who proved the firm by engaging in one or another philanthropic activity; and therefore, will align their values according to those of the enterprise, even with the firm's strategy, creating loyalty, support and engagement. The firm's strategic philanthropy should try to approach and enhance the community values in which are intervening.

Consequently, a positive moral capital can derive in insurance on the financial market, as it helps to mitigate stakeholder negative assessments and related sanctions when bad acts occur. Indeed, it protects the firm's assets from losses arising from business operations. The assessments of this kind of analysis, that can be quantified, represent an innovation in how to invest and measure the risk that is to engage as a shareholder in one enterprise or another. Additionally, it encourages firms to engage on activities of philanthropy, conceived in a strategic way.

For example if an involuntary bad act impacts negatively the stakeholders of a firm, the moral capital mitigates the potential assessments of a bad mind. It helps to reinforce the firm's reputation even when the bad act was not unconscious. Address the relevant issue of a firm's history of moral behavior will consent to fewer or less severe remedial, compensatory or punitive sanctions by stakeholders (Godfrey, 2005), and therefore, to reduce the risk of investment in the company.

Godfrey (2005) calculates a new equation in which takes into count value-creating assets of the firm that can have risk of loss (due to natural disasters, thefts, violence). Then it establishes the variable of investment (premium) required to insure the asset against loss. The investment has to generate enough moral capital in order to reduce the risk related. That aspect will decrease the uncertainty perceived by the market, constituting the achievement of a level of relational wealth and stability. In this context, managers should analyze which stakeholders relationships significantly contribute to the firm's stock of relational wealth; and therefore, target philanthropic activities in order to enhance the level of positive moral capital among these and attract additionally those shareholders that share and represent the communities view or values.

*Table 7: Strategic philanthropy boosting financial innovation- Godfrey*

Moral capital: minimize the risk for investing		
<b>Shareholders</b>	<b>Managers</b>	<b>Stakeholders</b>
Venture investment	Philanthropic project allocation	Reputation assessments
Premium: Reduce uncertainty and risk related		

### **E-philanthropy as technological innovation**

Technological innovation related to corporate philanthropy has gained new fields to be analyzed by the immersion of internet activities. On a first perspective, NGOs and NPO's have found new channels in order to find contributors from all over the world. However, enterprises have opened their portals to allow their customers and stakeholders to engage simultaneously in the activities of philanthropy that they perform. It additionally enables the donors to follow regularly the improvements of the activities and in some case how the resources are being invested. In this context, strategic philanthropy involves cash contributions, grants, donations, or investments in philanthropic organizations with another perspective.

The aspect that represents disruptive innovation is based on the speed and scope as "E-philanthropy replaces time and resource-consuming processes, and provides a new architecture to an existing service, emphasizing different product or service attributes" (Rana, 2013). This allows those enterprises which raise fund resources to find potential donors and save transaction costs to reach their target clients.

As seen throughout the text, disruptive innovations enable a larger population of less-skilled or less-wealthy people to begin doing for themselves things that historically could be done only through skilled intermediaries or by the wealthy (Christensen; 2003). In this context, E-Philanthropy represents a disruptive innovation, as it involves new stakeholders to be part of the strategic philanthropy process. Indeed, diverse societal actors can be protagonists on engaging into causes, at the same time that they have have more alternatives according to those

organizations that share and correspond to their values and conceptions: "The increase in options for both organizations and users, along with the flexibility, speed, and fee alternatives, also brings to market a very different value proposition than had been available" (Rana, 2013).

Through the literature review is has been approached a conception of philanthropy that as a component of CSR should not be considered a purely discretionary act. Indeed, Strategic Philanthropy can be used as a tool for an enterprise in order to increase a company's value, as long as it is aligned with the company's mission and core competences. An innovative managerial approach, with an R&D department and leaders that understand the needs of different markets can lead strategies in which engaging into societal actions and value creation are not opposite concepts. The academic review developed is short of concrete evidences and case studies that reflect the existing link between Strategic Philanthropy and Innovations, and that can encourage further interest on the subject. The second part of the present investigation will be centered on the context of a specific company, General Electric Co, in order to provide clear and empirical exemplification on the subject.

## **Methodology**

This research applies the theory of Corporate Social Responsibility and Innovation management to investigate an existing gap in the academic literature and to analyze possibility of undertaking larger research studies on the subject. As mentioned before, empirical studies that can provide data about the link between Innovation and Strategic Philanthropy are not abundant in the existing literature, and are indispensable for the purposes of this investigation. For this matter, a case study analysis (Huberman & Miles, 2001) was selected, in order to provide an insight about the practical application of the theoretical framework presented earlier in the literature review. In terms of Gummesson (1988) what is intended to perform is a holistic view of the research topic presented early, illustrating the different processes and behaviors of the conceptual link (Philanthropy-Innovation) identified.

This case study has two purposes: first, to identify the already existing activities of General Electric regarding strategic philanthropy and analyze those who have contributed to innovation in its different forms and shapes. In order to that, to systematize the framework for thinking through not only but the solving of the social issues faced, but also the managerial response patterns to perform those actions. Secondly, to provide an example of strategic philanthropy as a managerial tool in order to guide in formulating criteria to assist those organizations that want to take an advantage on the subject.

### **Case selection and presentation - General Electric (GE)**

Diverse authors have proven the existing link between Strategic Philanthropy and Innovation with particular enterprises. However this particular case study has not been treated as one that can integrate different aspects of the existing link. General Electric is an example of how can those academic hypothesis can be analyzed in a company that can develop large scale activities of philanthropy and that has relied on innovation for the development of its core competences within the market. In this context, the chosen subject corresponds to contemporary

phenomena that require real life to provide example of its effectiveness in a dynamic way.

Indeed, this company has been selected specifically because it allows characterizing the different components of CSR in its wide range of market fields. For starters, its history is closely related to the United States economic development on the XXth century, in which the first strategic investments in humanitarian activities were developed and where the culture of philanthropy in enhanced by the academic world and highly awarded by the market. In fact, the analysis made about the activities of the company, is definitely related to the context in which it has been created and grown; therefore, a historical component of the firm has to be included.

Additionally, a wide range of economic sectors, public engagement and media covering of its CSR actions, make out of General Electric an example and a clear and strong case study to analyze. The company's activities go from energy to transportation, health, finance, technology infrastructure and industry among others; for what they have identified which are the markets and sectors relevant for investing specifically money and resources in humanitarian activities. This aspect is useful to analyze what is the company's strategy behind corporate philanthropy, and illustrate in which of the activities they have obtained relevant results; added to the way in which they have published those, whether by annual report, advertising campaigns or public relations.

In order to that, General Electric is subject of the case study because it has particular distinctiveness that enriches the analysis framework. On the first place, the firm has a defined and recognizable identity. Secondly, it has been historically a pioneer investing on reaching new markets and attracting new customers within its different brands and segments; which reveals a clear identification of the interest/power relation of their stakeholders for each of their business units. We can define the strategy of the company as a proactive one, anticipating potential pressures and leading its different markets in terms of CSR. Additionally, it counts with an R&D department on each of its areas characterized by large amounts of

investments destined to innovation, as it is one of their core competences and symbols.

On the other side, General Electric counts with the necessary infrastructure and financial muscle to invest in Corporate Social Responsibility with the possibility of creating massive global and local impact. In fact, they have adapted themselves to different communities, focusing on their particular needs and specificities.

### **Data collection analysis**

The data collection analysis will be based on gathering of secondary data, an overview of what has been researched before. It is based on a previous search of academic articles and books that provide a theoretical framework on CSR, Strategic Philanthropy and Innovation. It was constructed by the most important debates on each of these subjects, analyzing the arguments of the most influential authors. Regarding the specific links between Strategic philanthropy and Innovation, more relevant literature was found using specialized data bases and the relevant bibliography of the texts that were used before to construct the early literature review. The annual reports, the CSR publications, media releases and official sources' news of General Electric bring the material to analyze within the academic framework. Additionally, existing literature about the company's engagements towards philanthropy is revised in a constructive position.

### **Overview of the company - Profile**

As mentioned before, the main products and services offered by the company can be divided in six major categories: Energy Infrastructure, Aviation, Healthcare, Transportation, Home & Business Solutions and GE Capital. Before 2011, Aviation, Healthcare and Transportation were part of one single category named Technology Infrastructure, but were divided because of the size that each of them represented, compared to their single and particular needs to manage. The company accounts for the acquisition of more than 100 enterprises through its history, annual

revenues of USD 70 Billion before tax, presence in over 160 countries and more than 305,000 employees (GE Fact Sheet; 2014). Regarding financial indices, the company is listed on the New York Stock Exchange (NYSE), Euronext Paris, London Stock Exchange and Frankfurt Stock Exchange (GE Fact Sheet; 2014). The R&D budget is currently USD 4.5 Billion which has increased more than 40% since 2008 (GE Citizenship; 2014a).

### Company activities overview

<p><b>Energy Infrastructure</b></p> <ul style="list-style-type: none"> <li>• Wind, oil, gas and water energy production, distribution and management.</li> <li>• Wind turbines and Solar technology - renewable energy</li> <li>• Gas turbines - Power plants for generation of electricity</li> <li>• Nuclear reactors, fuel and support services</li> <li>• Water treatment solutions and purification systems</li> <li>• Oil &amp; Gas supplies for refineries and petrochemical plants.</li> <li>• Production systems for subsea drilling and platforms</li> </ul>	<p><b>Aviation</b></p> <ul style="list-style-type: none"> <li>• Jet engines and related services</li> <li>• Related replacement parts - military and commercial aircraft.</li> <li>• Engines for: fighters, bombers, tankers, helicopters and surveillance aircraft.</li> <li>• Global aerospace systems and equipment</li> <li>• Airborne platform computing systems, mechanical actuation products and landing gear.</li> </ul>	<p><b>Healthcare</b></p> <ul style="list-style-type: none"> <li>• Patient monitoring systems, disease research, drug discovery and biopharmaceutical manufacturing technologies.</li> <li>• Diagnostic imaging systems: Magnetic resonance, computed tomography, PET scanners, X-ray, nuclear imaging, digital mammography, and Molecular Imaging.</li> <li>• Hospitals, medical facilities, pharmaceutical and biotechnology</li> </ul>
<p><b>Transportation</b></p> <ul style="list-style-type: none"> <li>• Technology solutions for railroad, transit, mining, oil and gas, power generation and marine industries in more than 100 countries</li> <li>• High-horsepower diesel-electric locomotives.</li> <li>• Drive technology solutions to the mining, transit, marine and stationary, and drilling industries.</li> <li>• Electrical drive systems for large haulage trucks used in the mining industry to transit cars and drilling rigs.</li> </ul>	<p><b>Home &amp; Business Solutions</b></p> <ul style="list-style-type: none"> <li>• Home appliances: refrigerators, electric and gas ranges, dishwashers, clothes washers and dryers, ovens, air conditioners, water systems for filtration, hybrid water heaters.</li> <li>• Finished product and component - third-party global manufacturers.</li> <li>• In-home repair and aftermarket parts.</li> <li>• Lamp products for commercial, industrial and consumer markets</li> <li>• Hardware, software and embedded computing systems</li> </ul>	<p><b>GE Capital</b></p> <ul style="list-style-type: none"> <li>• Commercial loans and leases, fleet management, financial programs, Credit cards, leases.</li> <li>• Strategic partnerships and joint ventures.</li> <li>• Assets: industrial-related equipment; vehicles; corporate aircraft, and equipment used in construction, transportation, media, communications.</li> <li>• Real estate - Equity capital, floating rate mortgages, re-capitalizations</li> <li>• Infrastructure private equity fund, including gateway airports.</li> </ul>

Source: Data compilation (General Electric, 2014; Reuters; 2014)

Throughout the six main economic sectors where the company is present, there can be identified the most important poles of CSR strategies driven inside the company.

For starters, from the Energy infrastructure sector are derived the initiatives conducted for clean and green energy, boosted over the last ten years by the Ecoimagination project. The efforts made by the company on this field are meant to consolidate GE as the world leader and most sustainable actor in terms of its energy sources: wind, oil, gas, water and nuclear. Transversally, the project involves the product development of a wide range of industrial machines and components that are closely related to Home & Business solutions, Aviation and Transportation production and engines performance. The related CSR projects represent for General Electric the development of a new competitive market niche, in terms of targeting new clients interested on the development of sustainable energy, leading to a global market shift.

Healthcare, on the other side, is one of the most important poles of CSR for the company, in which are being conducted considerable actions of Strategic Philanthropy relevant for the purposes of this investigation. The launch of the Healthymagination added to the donations and volunteering hours of the employees and collaborators of General Electric represent the biggest impact outcome for the firm in terms of benefitted populations and innovation.

Regarding the GE Capital sector of activities, even if it represents the most important part of the incomes perceived by the company, is one of the sectors in which CSR engagement is in a very early stage and the company has not a position to develop direct strategies in it. However, it exists a significant association between Finance and CSR for GE that relies on the sustainability and long term reliability that the brand represents. In accordance with the new proliferation of Social Indices and a shareholders general apprehension about investing in sustainable industries the Moral Capital (Godfrey; 2005) of the firm has been

boosted. This means that the company's successful engagement on societal causes is a factor that affects the reduction of the perceived risk on investment, and increases the company's reputational and quantitative value on the stock market.

Furthermore, besides from the activity sectors identified, GE is investing across all of its departments through the GE Foundation, large amounts of money and resources in its future workforce, through projects and campaigns of education, especially on the fields of mathematics and science. Through these initiatives, which have started in their main communities of activity in the United States, the company has developed strategic philanthropy investing on future innovation.

### **CSR fronts covered by General Electric**

With the purpose of providing a historical context on the beginning of the societal engagement of the company, it is necessary to go back to 1956, when Richard Eells, Consultant on Public Policy for General Electric wrote an article addressing the rational Corporate Philanthropy, setting up scenarios in which he nominated the necessity of global companies in engaging with philanthropic actions that could impact their environment and stakeholders. The rational approach to the subject referred to the idea that the company would benefit significantly from the outcome of successful strategies.

However, General Electric's engagement into philanthropic activities started only started since 1981 with volunteering actions, and reached its major state since 2005 employees and retirees have given more than 9 million hours of their time on more than 30,000 projects spanning 55 countries. Employees volunteered for a total of 1.3 million hours in 2012 (GE Citizenship report, 2014).

Nowadays, the company is listed as one of the Civic 50, an index of fifty S&P500 enterprises that are awarded for improving the quality of life in the communities where they operate. What is interesting to assess is the fact that the index has

revealed that all those enterprises that get into the list are achieved real shared value through their CSR campaigns. For the year 2013, General Electric was considered the Top Ranked Industry of Industrials sector. The criteria of selection for this award are based on the policies to institutionalize community engagement, their workforce participation in community enlargement efforts and the capacity of tracking the impact of corporate civic engagement on sales, recruitment, retention and skills development (The Civic 50; 2014).

Throughout the text has been discussed the importance of aligning CSR objectives with the core business of a company for developing a competitive advantage through the implementation of social activities (Mescon & Tilson, 1987; Burke & Logsdon, 1996; Porter and Kramer, 2006; Siegel, D. S., & Vitaliano, 2007). In this context, the CSR actions driven by General Electric as a conglomerate group covers activities that are correspondent to the economic sectors in which they are present. Therefore, it is possible to identify an alignment between the strategies and the core businesses of the enterprise for each one of the markets that they have. The three fields of action identified that complete the most this association are clean energy and water, education and health and improved hospitals (GE Citizenship report, 2014).

Regarding energy and water, as mentioned before, General Electric has launched a successful campaign that has been recognized globally, named Ecoimagination. This activity is meant to be a social and technological innovation related to the company's slogan: "Imagination at work". Indeed, it stands for all those activities that the company performs in the fields of product development, R&D and managerial innovation in order to reduce the footprint on the environment at the same time that attacking the market with new marketing strategies.

Ecoimagination, and therefore eco business, has proved to be an effective and integral strategy, creating massive revenues from environmental alike markets of the company. In fact, the company has reinforced sustainable solutions such as solar energy, hybrid locomotives, fuel cells, lower-emission aircraft engines,

efficient lighting and water purification technology to the company (Ellis; 2010) that have been successful within the market not only in revenues but also in brand awareness and good will perception. Since the launch of this business strategy, General Electric has invested more than USD 6 Billion in R&D, four of them allocated in strategies of clean energy (Ellis; 2010).

The Ecoimagination strategy impact between 2004 and 2010 reveals an augmentation of revenues, which have passed from USD 10Billion to USD 20 Billion (Tham; 2013). For 2012 the revenues of Ecoimagination were USD 25Billion, (GE Global Impact Report; 2012).

The other two fronts covered by General Electric through strategic CSR are the developing of Health Programs and the strategic interventions and improvements on Education. These two activities are particularly characterized by large investments in philanthropy that the company is supporting in order to build reputational value and trust in different places around the world (Corcoran, in Gunther; 2008) and achieve further benefits from innovation and marketing,

For General Electric, philanthropic activities are conducted under the strategy of localizing communities' needs and finding sustainable solutions to the particular context that they are addressing. Moreover, some of those activities and strategies have reached global impacts and have been adapted to several countries. The objective of General Electric behind the investing on philanthropy relies on the strategic interest of the firm towards the development of good will, market presence and share in regions that have potential growth into global relevant markets. In terms of Jeff Immelt, general CEO of the company "That knowledge gained from working in poor countries might pay off in unexpected ways for GE" (Immelt; in Gunther, 2008).

For achieving those purposes, more than 1.3 Million hours of volunteering have been contributed by General Electric employees (GE; Sustainable Growth Report;

2012). One of the most effective management of the company's resources destined to philanthropy has been the implementing Six Sigma appliances in order to develop a rigorous statistical quality control mechanism, which main objective is to monitor the effectiveness of the philanthropic activities developed by the company. Additionally, Lean manufacturing combined with Six Sigma can optimize processes to reduce patient wait times and increase efficiencies at community health centers (GE Citizenship; 2014b).

This strategic approach represents a new way of addressing corporate giving and in its beginnings formed debate. For instance, in 2008 the President of the GE Foundation replied to the question of a CNN reporter about the topic: "Some might say there's a contradiction between Six Sigma applied to, say, taking out the cost of a tenth of a cent on a filament in a light bulb, and giving away \$20 million in Africa. But I don't see it that way. In the end, both are done to be responsible and increase shareholder value" (Corcoran in Gunther; 2008).

### **Developing Futures in Education philanthropic program**

General Electric investments on education are part of the responsibilities of the GE Foundation, which has been working for twenty five years encouraging the improvement of the academic standards and skills of American students. The first two programs were launched in 1989 prioritizing efforts on college access and preparedness (GE Foundation, 2014). Since that moment, the objective of the company has been to develop a workforce aligned with corporate and industry needs, especially in the fields of science and mathematics in order to prepare for the future their core business functionalities. In terms of Bob Corcoran: "Our supply chain of knowledge workers has severe holes in it [...] this means that GE (and others) can't find enough smart, well-educated employees, particularly scientists and engineers." (Corcoran, in Gunther; 2008). Additionally it has been a Human

Resource tool in order to strengthen their relations with their employees, as most of the activities performed touched directly them and their families.

Since 2005 the program Developing Futures on Education has the mission to “improve student achievement scores in math and science, close achievement gaps, and increase the number of students entering college”; and since 2007, more than USD 100 Million have been invested on the “GE communities” (GE Foundation, 2014). These communities are chosen according to the degree of influence on the impact that the company can have, especially where many of its employees and stakeholders are present (USA Funds; 2008). The program has three main pillars, which are: managing systemic change, building internal management capacity and leadership development and supporting district math and science initiatives.

Additionally, the company is engaged with improving the management capacity and uses of its resources, with actions such as naming a full time program manager at each community in order to serve as a corporate representative coach and encourage better accountability. At this stage, volunteering of GE employees is crucial to appreciate closer the challenges faced by the scholar system and to personalize the giving back to the communities in terms of motivating personnel (USA Funds 2008). GE has partnered with the National Science Teachers Association to create an online professional development tool for teachers in the communities, (USA Funds; 2008); the partnership relies on the interest of the two parts in boost future competitiveness of the country.

On a global framework, General Electric has performed philanthropic activities in developing countries in order to foster the integral BOP strategy for the creation of viable and sustainable markets in the long term. As the American investments in public schools are aimed to reinforce the future direct workforce of the company, the education programs are complimentary actions designed to find new market opportunities. The interventions are spread globally and some of them have been recognized internationally for their impact among the communities (GE Citizenship;

2014). In the first place, over the last five years there has been a primary and secondary school enrichment in sub-Saharan Africa, in countries where the company is already investing through its health care programs and searching for new market opportunities. Additionally, in terms of Prahalad and Hart (1997), it could open the possibility of finding/developing potential suppliers, collaborators and co-creators to the enterprise's economic and commercial activities.

Another of the strategies of the global mission on education has been the creation of English learning programs in the Middle East, in order to reduce the cultural and language barriers towards access to workforce in countries where the company has large investments especially in the Energy sector, like Iraq and Egypt. On the third place, the company aims to reinforce its workforce through diversity, headhunting talent in Eastern Europe and Asia, offering merit based scholarship support for outstanding students of developing countries.

These three projects, among others, reveal a clear approach from GE towards innovation, meant as a strategic allocation of the resources into activities that can benefit the firm, are aligned with the core business vision and whose impact affect positively the community and the company; indeed, a proper characterization of strategic philanthropy.

The long term impact of the invested resources and time into the education programs of GE is not tangible, but correspond to a direct innovation regarding the preparation, on one side, of their workforce for the enrichment of their core competences, especially regarding the United States schools programs. On the other side, the global campaign dedicated to developing countries is part of the integral development of populations by which the company is aimed to create new markets.

## **GE Healthcare: Developing of a global project**

The global project established by General Electric towards Health programs was launched in 2004 under the name of Developing Health Globally. It is composed by strategic contributions in order to improve healthcare of vulnerable people in targeted communities across the developing world (GE Citizenship; 2012). Developing Health Globally combines GE people, processes, and technologies to achieve strategic philanthropy in healthcare, partnering with ministries of health, public and private health facilities, NGOs, and academia in targeted countries. The local employees of GE participate volunteering, training and consulting the activities in order to support the program's success (GE Citizenship; 2012).

The program is combined with a strategy of technological innovations meant with social purposes, under the name of Healthymagination. This part, has touched more than 1.5 Billion lives around the world and the investment on 2012 reached USD 3.5Billion (GE Global Impact Report; 2012). The program is present in Africa, Latin America and Southeast Asia, adding up in total 14 countries: Ghana, Rwanda, Uganda, Kenya, Tanzania, Malawi, Senegal, Mali, Ethiopia and Nigeria; Honduras and Haiti; and Cambodia and Indonesia (GE Citizenship; 2014b). Throughout these 14 countries, 222 hospitals and health centers have been intervened and treated by the project (GE Citizenship; 2014b).

The operating strategy of the Healthymagination project is based on three pillars: quality, access and affordability. Quality is intended as the technologies that are meant to be created in order to solve doctors and patients' needs. Access is related to the communities or countries, on how the firm can solve the delivery channels that affect those stakeholders in a systematic way. In terms of affordability, the project contemplates individuals' empowerment (related also to the Education program) to overcome barriers of life standards, especially through philanthropic campaigns and price reductions (Healthymagination, 2014). In terms

of access and affordability, General Electric has donated ultrasound equipment, X-rays, patient monitors, incubators, refrigerators, and general equipment to hospitals and clinics in targeted countries. In some occasions, given the wide range of activities of the company, even energy-generators and water-treatment systems before starting the philanthropic activities related to health.

In quantitative terms the project direction of GE has established that each Healthymagination product must have the potential to improve these three pillars at least 15%. For this purpose Oxford Analytica Validation method is adopted by the firm, an aspect that includes a global internal analysis and the presence of an external advisory firm that validates the solutions and progresses. Therefore, the logical process of development will start with a problem or unsatisfied need identifications and subsequently the development of the required technology to address those needs. Afterwards, the processes of generating evidence about quality, access and affordability, the commercial development of the products and services approved and the further launch will be object of the Oxford Analytica Validation (Healthymagination, 2014). This method will filter those projects that have the most potential for impacting positively the communities, and is a clear example of how a firm can use managerial tools in order to boost the efficiency of its philanthropic campaigns.

### **Link of the Health activities with innovation**

The combination between Strategic philanthropy and Healthyimagination is encouraging processes of innovation that address social issues. Indeed, the firms' philosophy towards the subject is to develop innovations focused on reducing costs, increasing access and engaging into humanitarian causes around the world through philanthropy. The role of technology is intended as a vehicle to achieve sustainability. The company counts with a workforce of 36.000 technologists and

researchers, and 3.000 of them are spread around the world in the Laboratories of Bangalore, Shanghai, Munich and Rio de Janeiro (GE Healthcare; 2010).

The combination of these two activities have a Base of the Pyramid managerial approach (Hart, 2005; Browfield and Frynas, 2005; Srinivasan, 2006) in the fields of energy, water and healthcare, by which the company is developing integral strategies, complementing the three sectors committed to the development of targeted countries or regions. This approach to strategic philanthropy allows the company to develop competitive advantages in undiscovered markets, which can benefit from all the range of products of General Electric. For this purposes, the company has established a global network of local growth teams, joint venture partners; partnerships with national labs; universities and startups and environmental and civil society organizations (GE Healthcare; 2010).

Two success stories can be highlighted from the combination between Healthyimagination and Strategic Philanthropy: the Lullaby warmer and the Mac 400 ECG, to characterize the existing link societal actions and innovation. What is remarkable about these two cases is that the philanthropic approach boosted the development of new products and services in order to address two social issues, turning later into business opportunities for the firm. Additionally, the innovations transformed into products were utilized for specialized niches also in developed countries, generating unexpected profits.

### **The Lullaby warmer and The MAC 400 ECG case analysis**

In synchrony with the United Nations' Millennium Development Goals, GE's philanthropic campaigns are aimed to reduce the under-five year's mortality rate around the globe. For instance, the company engaged with the fact that 50% of global births occur in underserved urban settings where access to affordable technology remains limited (GE Citizenship, 2012). Indeed, the particularity of this

issue is that the most critical moments are the first hour of the first month of life, starting the problem from the very early stages. General Electric is working in partnership with Ministries of Health of targeted countries in order to coordinate efforts together to solve the problematic.

The low cost infant warmer developed by GE, named Lullaby system, was created in India in order to address neonatal hypothermia particularly among low-birth weight and pre-term infants (GE Citizenship, 2012) but has been exported in more than 100 countries. It is an easy to use device, which can be used without any specific knowledge in public hospitals and rural clinics in development countries. The integral strategy is composed by not only the donations or low cost sells of the products, but also with volunteering hours of General Electric employees for training in processes and how to operate and maintain the equipment. This campaign is complemented with the recording of training videos that can be accessed globally and capacitate caregivers.

The demand of these products is guaranteed in developing countries, as the partnerships with the government ensure public investments in healthcare that will benefit progressively the company's profits, as most of these countries have a growth of population. Additionally, the product has been part of a process of reverse innovation, as it has moved from developing countries to developed countries, as independent doctors and low budget clinics have adopted the system, which combines quality and price.

The MAC 400 is another example that facilitates to illustrate the outcomes of Strategic Philanthropy and innovation within a firm. The case study started with the resolution of a health problem in India, through which it was needed rural poor population access, capacitating and coverage. The R&D and volunteer department of the Bangalore Laboratory of General Electric transformed the societal need into a successful small-size, low-price handheld electrocardiogram device that ended to

be a market winner in more than 120 including the United States, although these machines were originally developed for rural India, China and other developing countries (Ellis; 2010).

A research made by Wharton – University of Pennsylvania reveals that heart disease is the number one killer globally, and 60% of cases are from India. On the other side, 75% of India's population lives in rural areas and 80% of India's health care providers are clustered in urban centers; for a large part of the population, first-level screening is expensive when it is accessible at all (Wharton – University of Pennsylvania; 2010).

For preventing heart malfunctions the most critical exam should be conducted by an ECG machine, in order to assure an early and accurate detection of potential problems. In this field, General electric was already one of the market leaders selling these devices, but the product development was characterized by being expensive and requiring highly specialized staff to operate and maintain it, (Wharton – University of Pennsylvania; 2010).

General Electric R&D department of India developed in 2007 a machine named the MAC 400, in order to solve the problematic of the Indian context. The device has three main challenges to solve in order to be successful: To be price competitive, portable to be carried to the most inaccessible regions and uncomplicated to operate, not necessarily by cardiologists.

The path designed by General Electric to increase the market did not rely specifically on pushing customers' elasticity, as they discovered after a market research that the willingness to pay was approximately 1\$USD (With a former regular price of 20\$USD) and for hospitals the buying capacity was around 700\$USD, while the average price point of ECG was 2000\$USD (Bansal & Goyal, 2009). Instead, it involved a BOP approach which was coordinated with the

government and local civil society organizations through assimilation campaigns and direct interventions through volunteering in rural areas. The government was targeted as the medium term client, after the company proved through philanthropic activities and campaigns the necessity and physical advantages of the product. Afterwards, the equipment started to be sold to hospitals and clinic centers all around the country. In terms of Porter and Kramer 2002, the strategic partnerships and joint ventures with governments helped General Electric to develop its license to operate capabilities, without counting the tax reductions that could have benefitted from the aligned work and donation.

The machine can be carried in a bag, bringing modern diagnosis to rural villages and dealing with power outages in many parts of India for only one third of the normal former price of the machine in developed countries (Wharton – University of Pennsylvania; 2010). Additionally, it can complete 100 ECGs on a single charge (GE Annual Report; 2007). It can be operated by a general physician or employees of GE. For these purposes, volunteering hours and training by the General Electric employees were crucial to develop a strategy in which the company explored and penetrated the market. The result after one and a half years of operation consisted on sales of 5,000 units in more than fifty countries, including some in Europe, with an Indian demand of 20%.

Furthermore, the company decided to translate the manufacturing operations to China, where the demand is growing rapidly and the wanted platform for international expansion purposes can offer a competitive advantage in price and logistics (Wharton – University of Pennsylvania; 2010). The niche market that the company discovered later in developed countries was based on independent doctors, low budget clinical centers and particulars who did not have the resources to buy the machine at the former regular price and that were interested in performing along with the quality standards offered by the ECG created.

Throughout both of the success stories of General Electric combination of Strategic Philanthropy and Innovation, technological through investments in R&D translated into product development (Prahalad and Hart, 1997; Kienzl, 2011; HEFCSE, 2012) and managerial in terms of targeting new customers as a part of the reviewed BOP approach (Hart, 2005; Browfield and Frynas, 2005; Srinivasan, 2006).

Further managerial innovations can be identified on the shift on the approach given by the director of the project MAC 400 Ashish Shahs, who sent market researchers, engineers and doctors to underprivileged communities to discover to conditions of the unsatisfied needs and to address scientifically the measures of the problematic (Bansal & Goyal, 2009). Also it enabled to possibility of implementing local tactics of costs reduction. This approach was replicated for the initial stages of the Lullaby project.

Additionally, both of this products have been characterized by their international expansion, first to developing countries with similar conditions to the Indian context and then to market niches in developed countries. This effect is a prove of reverse innovation, that derives from the process of expanding globally a product by understanding that buyers in developing countries not always respond to adaptations of developed countries products or services. However, these two examples prove that price-quality curve of ultra-low costs and good enough quality can be replicated in specialized targets in traditional developed markets (Govindarajan, 2009).

The local approach of the company, even though its global presence is another success factor linked to a managerial innovation relative to the practice of designating local employees and resources to causes that could be easily understood and addressed by strangers, and correspond purely as local need identification. Indeed, before 2001, the company's international policy was characterized by its propensity to send in mid-level executives from other markets

to head the developing countries businesses (Bansal & Goyal, 2009). These emerging markets have proved to be complex and are characterized by unsatisfied customer needs and opportunities that require a contextual knowledge.

### **Responsible investment and creating shareholder value - The role of capital markets**

The trend initiated with the adherence of investors worth more than USD 30Trillion in assets to the UN's Principles for Responsible Investment and the Indices that focus on companies that exhibit a "Best-in-class" reliability, are awarding companies like General Electric in the stock market (GE Citizenship; 2014a). This phenomenon is due to a risk adjusted mentality of the investors, ensured by the corporate citizenship and the ethical pursuit of those businesses based on solutions to sustainability challenges while incrementing revenues.

This new approach of finance, that derives from the successful management of Moral Capital (Godfrey; 2005), reflects a changing selection criteria towards long term investments and value-creating opportunities, especially during times of financial volatility. Indeed, one in five dollars under professional management in the U.S. is already invested with some application of social responsibility criteria (GE Citizenship; 2014a).

In this context, it is significant the reputational and practical approach that the CSR actions can provide to General Electric's moral value. In current situation of the company towards this subject, they seem to have the required capabilities to increase their share value for the next years: "Investors are increasingly interested in well-managed companies that will create shareholder value over long periods of time, while contributing positively to the society and communities they operate in. GE's products aim to meet many of tomorrow's pressing needs, from clean energy and energy-efficient transportation and infrastructure equipment to clean water and affordable healthcare." (Schauenberg in GE Citizenship; 2014a)

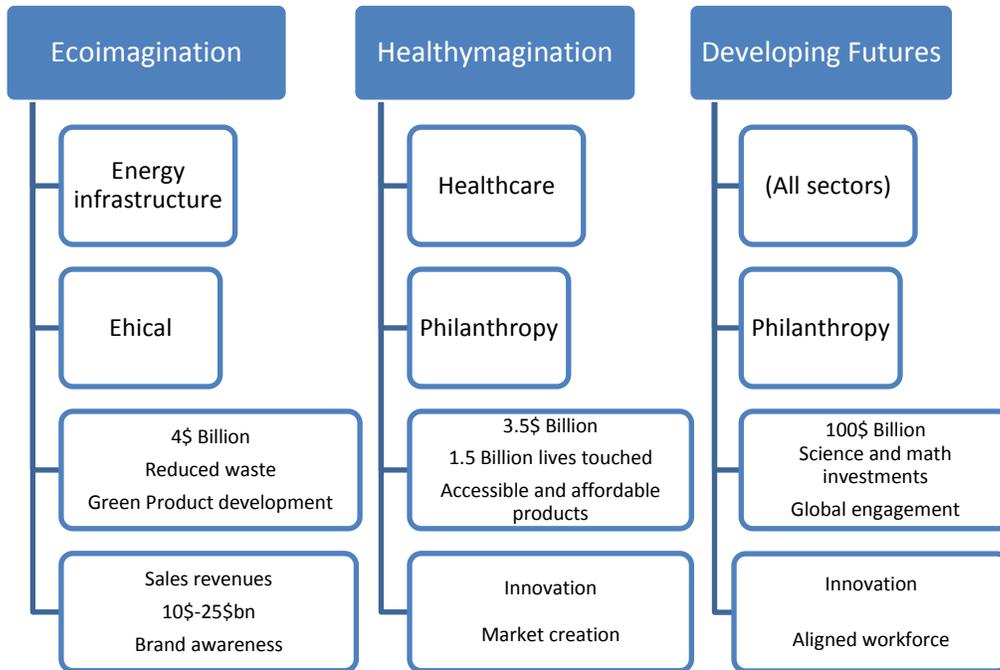
As mentioned throughout the text, the company's R&D budget has increased by more than 40% over the last five years, especially to embrace the growth potential of the Ecoimagination and Healthymagination projects. This aspect is the proof that General Electric's engagement of billionaire investments in sustainable projects and corporate philanthropy, even if considered frequently as a purely discretionary act, is being conducted with optimal processes and results. Indeed, it has also been a possibility to reveal integrity and integrality in project management and strategic investment through fostering humanitarian causes. Furthermore, the success of those projects has represented the creation of products and services that improve the world's energy footprints and improve the accessibility and quality to healthcare in developing countries; at the same time involving the creation and development of new markets and engrossing Moral Capital (GE Citizenship; 2014a)

The minimization of the risk relies on how General Electric has been able to involve inside the philanthropic activities their stakeholders and social and governmental allies, aligning the activities with its core strategy and competences. It is indeed, attractiveness within the market combined with real impact. Financially, what the company is offering through its economic sectors, is a portfolio of infrastructure businesses and fast-growing emerging markets, combined with the disciplined management and culture of compliance needed to manage the corresponding risk and complexity (GE Citizenship; 2014a).

Being a good corporate citizen is a critical driver of shareholder value for GE, and it will continue to be an important differentiator to investors in the future. Indeed, the company has adopted the strategic path of developing and starting projects which can contribute to GE shareholder value, boosting innovation, addressing customer needs and promoting reputation.

Today's capital markets are in the early stages of responding to such signals. The challenge is not to measure the financial return for doing good, but rather the financial rewards of successfully addressing global challenges with profitable products and services. GE expects to play a prominent role in this evolutionary

process, as it continues to generate value and solid returns for its shareowners (GE Citizenship; 2014a).



## Conclusions

Throughout the text it has been remarked the fact that companies are nowadays highly encouraged to address societal challenges as an alternative to respond to potential stakeholder pressures or increase their reputational value. In this context, investments in philanthropy should be strategic, aligned with the core competences and aimed to generate impacts within the activities performed. On the contrary, not be conformed to a resource transfer or public relations maneuvers, which are only in the initial stage of the benefits that a company can achieve from humanitarian activities.

The Strategic approach should be based on a win-win relation, by which real and quantifiable impacts can traduced in increased value for a firm, especially in terms of innovation, which concerned the present investigation. Through the General

Electric case study it can be analyzed how a company can engage into philanthropy targeting objectives in the fields of HealthCare and Education, developing new markets and increasing its reputational value.

The managerial orientation of the company is based on a global framework of influence but in local and adaptable models of CSR, product and market development. This is encouraged by the opportunities given from Base of the Pyramid approach for developing countries, shifting towards the development of inexistent market, satisfying particular needs and adapting philanthropic strategies to the integral consecution and development of pace growing niches.

The cases of the Lullaby warmer and The MAC 400 ECG reveal that Healthcare is the field of economic activity where the company has developed the deepest and more effective engagements on strategic philanthropy, boosting innovation processes. These innovations can be understood in terms of product development, new markets and the managerial approach. In this sense, the objectives achieved can be quantifiable not only in economic terms, as the products have been successful not only in their initial markets but on a global scale. Indeed, the social impact in developing countries, preventing heart diseases and fighting child mortality, has touched according to the company more than a million lives.

Some other philanthropic investments are intangible, if we considered for example the case of the Developing Futures in Education program, which does not guarantee in quantitative terms the development of a specialized workforce or the effective role of GE in recruiting those future professionals. However, the company's coherence is remarkable in terms of developing an integral plan of creating conditions for a profitable market, provided with concrete supply and demand. It consists on a long term investment that will prove its results after the college graduation of the students that were part of the first generation of Developing Futures. At that point, statistical analysis will be made in order to investigate the impact of the company's investment on the fields of math and

science, and if the number of graduates with major in these fields has augmented after the creation of the program in the chosen strategic areas.

Through the literature review is has been approached a conception of philanthropy that as a component of CSR should not be considered a purely discretionary act. Indeed, Strategic Philanthropy can be used as a tool for an enterprise in order to increase a company's value, as long as it is aligned with the company's mission and core competences. An innovative managerial approach, with an R&D department and leaders that understand the needs of different markets can lead strategies in which engaging into societal actions and value creation are not opposite concepts.

In this sense, the two main objectives established since the beginning of the investigation intended on a first place to characterize the existent links between strategic philanthropy and its outputs regarding various types of innovation. Secondly, provide an illustration of the process through which strategic philanthropy could boost innovation. The theoretical framework for the first objective reveals existing notions of literature around the topic. The case study, demonstrates the possibility that companies like GE have regarding their environment, in terms of philanthropy. Those companies are already responding to market and stakeholder pressures to engage into CSR practices, so the objective is turning to perform real work, with real impact towards the society and associated with the core competences of the firm, investing in long term projects that could benefit not only the current PR department and marketing strategies on the firm, or just concentrating in reactive strategies, but also to innovate and open options towards new products and target markets.

General Electric has proved to be a company that understands which its areas of influence are, and how to address social issues with managerial tools expecting not only impacts but to increase its core competences as a conglomerate. The high recognition of the corporate strategy is making the company to be seen as an international example of sustainability and perdurability.

The key factor to success of the company for boosting innovation through strategic philanthropy relies on the fact that they have aligned their social impact with their economic sectors and core competences. Indeed, the social strategies are conceived as long term investments for solving concrete solutions that global stakeholders demand. In developing countries particularly, this is turning into real markets that need suitable products. Additionally, the use Six Sigma or the Oxford Analytica Validation method in order to assess, control and evaluate philanthropic project lets them to invest strategically time and resources maximizing the benefits. In this context, it has been indispensable to have a clear engagement towards philanthropy, that involves studying and analyzing the needs and allocating enough resources to them. The synthesis of all those factors is that GE is looking the global market with a vision that is proactive, and does not have purely as objective to advertise its philanthropy, but it goes further unto real impacts and market development.

As remarked throughout the research, the General Electric case has been approached towards an academic study of the theoretical framework relevant to the company's activities and goals regarding philanthropy. One of the strengths of the research, in these terms, is based on the quality of the authors and the holistic approach to the theory of CSR and Innovation. The academic revision provides the necessary tools to analyze the case study objectively and according to proved theories and categories of knowledge. For developing the case study, secondary data from writers, analysts, governmental agencies and from official sources of General Electric has been collected according to the established methodology. Indeed, it was developed according to reliable sources and transparency, and reveals a clear overview of the company and its strategies towards CSR and specifically philanthropy. Additionally, the approach given by combining elements of philanthropy and innovation has not been studied before by other authors regarding the analysis of the company's activities, according to academic criteria and adapting them to the theory.

However, the limit of creating science about this topic relies on the diversity of particularities among the enterprises in terms of context, economic sector, stakeholders and capabilities to finance the philanthropic activities that firms different than GE can have. To overcome this boundary and establish real patterns to be extrapolated, it would be required, on the first place, to compare the case study with other enterprises that have not the economic power or the particularities of General Electric. On the second place, in order to deepen into the particularities of each of the philanthropic projects and activities of GE, gathering more detailed information; additional research could stand for contacting personally the directive responsible personnel, in order to provide primary inside data to the case study. Primary data can reveal further benefits or costs for the company by engaging into strategic philanthropy, such as tax deductions and increased licensing to operate given by official authorities after or during the philanthropic projects.

The positive results of the present academic investigation aim to provide and invitation to develop further research on a topic that can be very interesting regarding sustainability and revenues, in a world that is changing towards new ways of consumption and whose markets are growing in developing countries. In that context, new business opportunities even in mature sectors, will be profited by those who have entered or developed the markets in innovative and alternative ways.

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