PART ONE

Background

CHAPTER 1

Philanthropy and Corporate Citizenship

President Calvin Coolidge stated that "The business of America is business." The truth of that statement has been debated on various levels ever since it was made. What follows is the question, "What is the purpose of business?"

Depending on your point of view, the answer can be either "To improve the conditions of the entrepreneur and the investor who created the business" or "To improve the condition of society in general." Some argue that the latter will flow from the former. Others point out that raising the general condition of society creates an atmosphere that will be better for business in the long run.

It is the rare business owner who doesn't recognize the value of meeting social responsibilities by making donations or contributing volunteer time. Charles Dickens knew that his readers would find it amusing for Scrooge to reply, "Let them die, then, and decrease the surplus population," to his associates who asked him for alms for the poor at Christmastime. Victorian England knew that charity is a part of good citizenship. Today's Americans know it just as well.

Why conduct a corporate citizenship program? Simply put, it's good for business. According to Brian O'Connell, in his 1999 book *Civil Society: The Under-pinnings of American Democracy,*[1] companies that received the Ad Council's Public Service Award showed annual growth in profits of 11 percent compounded over 30 years. That is three times better than the growth of the Gross National Product during the same period!

Michael E. Porter, a Harvard professor, and Mark R. Kramer, a business consultant and cofounder of the Center for Effective Philanthropy, present compelling evidence that proves the effectiveness of good corporate citizenship in "The Competitive Advantage of Corporate Philanthropy."[2] In this report, published in the *Harvard Business Review,* the authors stress the importance of strategic philanthropy in creating value in the act and process of giving. Through strategic philanthropy, a company can influence what Porter and Kramer call the "competitive context" of its home and market communities.

Competitive Context

Four elements compose what Porter and Kramer call the *competitive context* for business:

1. *Available inputs of production:* employees, material resources, infrastructure for delivery (such as roads, electricity, etc.), tax structure, and so on.
2. *Demand for your company's products or services:* a healthy economy that can consume them.
3. *Healthy competition:* to assure that there is continuous improvement and innovation.
4. *Related and supporting industries:* from parts suppliers to office suppliers.

Giving to improve the competitive context is what creates the value that translates into improved profits. Your ability to compete depends heavily on the competitive context of each location where you do business.

Beyond the competitive context, having a product or service that fills a need at a reasonable price is key. The product or service functions within the competitive context.

Affecting Your Competitive Context

There are many ways of affecting competitive context. The tax environment is one available input of production. Our many chambers of commerce lobby hard at the legislature level to create a tax code that is favorable to business. This is an exceptionally long process for effecting change. The results are measurable in terms of legislative sessions or executive terms.

In terms of creating demand and participating in healthy competition, billions are spent on advertising in our economy. Whether your company places advertising in the mass media or in trade publications and shows, this is an expensive proposition.

What produces better results? The Harvard report concludes that "[p]hilanthropy can often be the most *cost-effective way* for a company to improve its competitive context, enabling companies to leverage the efforts and infrastructure of nonprofits and other institutions."[3]

Porter and Kramer pinpoint three distinct advantages that business earns by using philanthropy to affect competitive context:

1. *They can use the existing programs and networks of nonprofits and educational institutions.* Supporting nonprofit housing programs in inner cities helps to provide a workforce for downtown industries, such as hotels and restaurants, that have need of unskilled workers. Commercial banks and law firms support organizations such as Habitat for Humanity not because *they* particularly need low-skill workers, but because *their business clients do!*
2. *They can leverage the collective actions of other companies that donate to nonprofits, enabling costs to be spread over multiple donor businesses.* Capital campaigns—from giants like

those at major public and private research universities to build new, state-of-the-art facilities, to small ones like the efforts of a fledgling private elementary school to purchase an inner-city landmark building for expansion—demonstrate the power of cooperation. Although the sign over the main entryway may bear the name of a beloved and respected member of the faculty, the plaques on the interior classrooms and auditoriums tell the real story of dozens of enlightened companies that pulled together to erect the infrastructure of tomorrow's corporate community.

3. *They can forge partnerships among cooperating companies and nonprofits or government units.* This is likely to happen because it removes the appearance of favoritism for one particular company on the part of the charity. In almost any well-designed project for nonprofit enterprise, the costs will be shared among multiple donors, and often with governmental or quasi-governmental units, in *public-private nonprofit partnerships.*

Strategic Philanthropy

The Harvard report stresses the importance of strategic philanthropy to maximize the effectiveness of efforts to affect the competitive context. Porter and Kramer recommend several points to include in a strategic plan: selecting the best grantees, signaling other funders, improving performance of grantees, and advancing knowledge and practice. Companies developing these plans must weigh the benefits of concentrating their energies on any of these points.

Where most companies go wrong in planning, Porter and Kramer say, is in placing too much money and emphasis strictly on the public relations benefit of their contributions. I carry an old cause-related ad from my local newspaper in my portfolio: it certainly cost the advertiser (a public utility company) several times more to produce and print than the amount of the donation made to the charity being promoted. Often the public can see through these self-congratulatory displays, negating the good will that the donation was meant to build in the first place.

A strategic plan for corporate citizenship requires balance between communal obligation, goodwill building, and strategic giving in order to build competitive context. Improving that context, though, is the best long-term strategy to build long-term profits for business.

Understanding the Philanthropic Roots of Corporate Citizenship

Corporate citizenship goes far beyond philanthropy. Good citizenship includes things that are mandated or just good sense: paying taxes equitably and on time; providing fair benefits to employees, providing a safe and healthy workplace, and so on.

To understand corporate philanthropy, let's look briefly at the origins of philanthropy itself. Philanthropy has been around ever since humankind evolved beyond tribalism. Philosophers as far back as Aristotle in the time of classical Greece observed that giving money away is easy, but making a difference with such expenditures can be a challenge.

Magnanimity is a big word. For most of us, when we really think about it, it means making sacrifices for worthy ends. That sacrifice is usually money.

Philanthropy itself is a big word to wrap our minds around. Going back to its Greek roots, it's simply love of our fellow persons. I'm always reminded of the film version of *The Wizard of Oz*. When the Wizard presented the Tinman with the testimonial for his great heart, the Wizard talked about people who were "philan . . . philly . . . phitha . . . good deed doers." The Wizard knew how to get to the "heart" of the subject! Before we talk about corporate philanthropy, let's examine philanthropy in general and how it differs from charity.

The Eight Steps on the Ladder of Charity

As we just discussed, philanthropy has been around a long time. One of the most quoted thinkers on the subject is the medieval Jewish sage, Rabbi Moses ben Maimon, commonly called Maimonides. Maimonides wanted to help those who would do good to go on to do the best they possibly could. He likened charity to a ladder. At the bottom rung was a level of charity that even Scrooge could reach. The top rung could be reached only by those who stretched not only financially, but also philosophically in their philanthropic climb.

Step One: Giving Charity Grudgingly

We can only hope that in 21st-century America, this scenario would not happen, but picture this: You are walking on a downtown street and you are approached by a sad-looking woman with a child in tow. She asks you for spare change so that she can pay for a bus ride to the social services office.

You are skeptical. Is she really going to use the money for the bus, or is she going to head straight over to the liquor store and drink up your hard-earned coins? You look at the child and decide to hand over whatever is jingling in your pocket. "I'm going to stand here and wait until you get on that bus!" you say. You watch her with a scowl on your face until the bus arrives and she boards.

Yes, you gave. But it was not with a great deal of charity in your heart or your pocket.

Step Two: Giving Less than You Should, but Giving Cheerfully

Try this exercise: Think about the last check you wrote to a charity that was not your church or your alma mater. Think about the amount of the check. Now double that amount. Would it have hurt you or your lifestyle to write a check for that sum? Now double *that* amount. Hurting yet? Probably not. Keep doubling the amount until you think that it would bite into your weekly grocery budget, or your monthly mortgage payment. Most of us give far less than our true capacity, whether we give grudgingly or cheerfully.

Step Three: Giving Directly to the Poor upon Being Asked

In our day and society, we are rarely asked directly for charity by a poor person. But we *are* asked to give indirectly all the time. In fact, most of us, in both our personal and business lives, are *constantly* being asked to help the poor or some other worthy cause.

Professional fundraisers know the statistics: It takes 11 asks to get a first donation from a new prospect. Even with donors who have already given, it takes seven asks to get each additional contribution. They also know that most people will *not* give unless asked.

Business owners get requests from every corner of their operation: employees, customers, suppliers, partners, community organizations. It boggles the mind to think how many times a week the owner of a $30 million business gets asked for contributions. And you will continue to be asked until you give or you say a definite *no* for all time.

Step Four: Giving Directly to the Poor without Being Asked

Having taken us this far on the ladder of charity, Maimonides now puts us in a position to look at three different modalities of giving: Reactive, Active, and Inactive.

Step Three demonstrates the Reactive Mode: You are asked to give, and you react by giving. The way in which you are asked can vary tremendously. You may get a phone call (and we all know how irritating it is to get a telemarketer's call right during dinner, or even the Super Bowl!), or a letter in the mail. The explosive growth of the Internet has brought a concomitant explosion in online solicitations, many of which are scams. You can respond cheerfully with a few coins when you see your fellow Rotarian volunteering at the Salvation Army's red kettle at Christmastime. You may give more generously when that same Rotarian comes knocking on your door for the Rotary Scholarship Fund. All this giving is the *reaction* to being asked.

Step Four addresses the Active form of giving: giving without being asked. There are a lot of reasons why people give this way. One great reason is to avoid the necessity of being asked. If you intend to support an organization such as your alma mater anyway, by making an open-ended pledge and asking to be removed from the solicitation list, you can accomplish your dual goals of supporting a good cause and avoiding calls and letters.

The last giving mode is what many call "Inactive." Inactive giving means that you choose *not* to give when asked (Step Three) and do not engage in Active giving (Step Four). But Inactive giving does not necessarily mean that you will not be giving at all.

Inactive givers allow *others* to make their donation decisions for them. Those others are (most often) bureaucrats in the federal, state, and local governments.

When you make a voluntary donation, it is tax deductible. *You* decide where the money will go, and often how it will be used. Inactive givers forfeit that choice. They may be pleased with how some of the tax dollars they pay are distributed: scientific research at universities or the National Institutes of Health, support of the national park system, and so on. But the bitter debates over too many issues, such as defense or the environment, may give others pause about allowing the government to direct their dollars to questionable projects. There's no avoiding taxes, but philanthropy is one way of counterbalancing political decisions that contradict your interests and values.

Steps Five and Six: Indirect Giving

In Step Five, indirect giving, the recipient knows who the giver is, but the giver doesn't know the identity of the recipient. On Step Six, the giver knows who the recipient is, but the recipient doesn't know the identity of the giver.

We're now getting more into how modern charities are organized: namely, through nonprofit organizations that mediate between donors and beneficiaries. These two steps assure that the dignity of the beneficiary is maintained. A recipient of charity should not feel that he or she is less of a human being merely because he or she is receiving aid.

Even in situations such as these, there are some benefits to the donors and recipients knowing each other. Let's take the case of a college student who receives a named scholarship donated by your company. Students are thrilled to receive grants and scholarships that they do not need to repay financially. Most students receive their scholarships in one check, along with money from other financial aid sources. They may or may not be aware that some of the money comes from "Your Company's Scholarship Fund." To them, it's all one big financial aid kettle in the sky.

When they have a chance to meet you and others from your company, though, several very positive things can happen:

- It can be the start of a professionally and personally satisfying, long-term relationship that might lead to the student eventually working for your company.
- The student and her network of family and friends get a wonderful insight into your company. This can lead to them becoming new or better customers, or lead to others taking employment with you.
- The student comes to realize that the money didn't come out of some mysterious pool, but rather from real people who chose to make a difference in her life. The light goes on—which shows the student that someday she, too, can be a donor.

In these situations, no one is insulted or humiliated. This can be an enlightening, educational experience for all involved.

Step Seven: Anonymity

With true anonymity, neither the donor nor the recipient knows the identity of the other. Here's where today's charity stands, for the most part. Unless the recipients look at the organization's annual report list of donors, they have no idea of who is supporting the program that provides aid to them. Yes, the artist is often asked to attend a special reception before or after a museum show or concert with major donors. Seldom, if ever, is a resident of a battered women's shelter asked to meet with donors while she is in crisis.

Step Eight: Helping a Person to Avoid Needing Charity

Step Eight can be a pre-need step to help persons avoid situations in which they will need help in the first place; or a curative step, giving the persons the means to lift themselves out of the condition requiring charity. Grants to medical research might fall into this category, because the intent is that disabling or life-threatening diseases might be cured or eliminated. Education, job training, and even free or low-interest business loans fall into Step Eight. Self-sufficiency is its defining trait. It is Step Eight that distinguishes charity (making a gift) from philanthropy (making a difference).

Few companies in America are as admired as Johnson & Johnson. The Robert Wood Johnson Foundation is a direct outgrowth of J&J. The foundation concentrates on making grants in health care, a natural focus for a business that deals in that area. Time has already proved the value of the Robert Wood Johnson Foundation's focussed philanthropy. Research from its sponsored scientists has resulted in important breakthroughs in improving health for those who suffer from numerous conditions.

It would be impossible to name all of the companies, which employ millions of workers, that were started as the result of discoveries in American university laboratories, supported by research grants from other companies. Medtronic, one of the world's largest manufacturers of cardiac pacemakers, was founded by an eternally-grateful alumnus of the University of Minnesota, Earl Bakken. Medtronic and its foundation give back in the form of scholarships and research grants. Medtronic will never recapture most of that "social investment" in philanthropy. Earl Bakken is just fine with that situation.

The Minnesota Principles and the Caux Round Table

In 1981, a group of far-sighted business leaders calling themselves the Minnesota Business Partnership (MBP) organized to address issues relating to corporate citizenship, and in 1992 they took a daring step. (Earl Bakken was not in the MBP, but it's clear he shared their vision.) The MBP developed a set of five propositions, with two purposes in mind:

1. To describe a system of ethics for international trade.
2. To develop a universally acceptable standard of business behavior.

After the organization of the Minnesota Business Partnership, in 1986, an international group of business leaders (with some crossover from the MBP) formed the Caux Round Table. Based in Switzerland, the Caux Round Table's aim is to address the role that business plays in identifying and promoting solutions to problems that stand in the way of advancing a more prosperous, sustainable, and equitable world society.

The Caux Round Table also developed and issued a set of *Principles for Business,* based in part on the Minnesota Principles. The final point on the Caux Round Table agenda calls for a company adhering to these principles to "be a good corporate citizen through charitable donations, educational and cultural contributions, and employee participation in community and civic affairs." They saved the best for last.