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Why Should a Business Give at All?

This is what Nestle SA Chairman Peter Brabeck said during a London television interview:

> ''I am personally very much against corporate philanthropy. You shouldn't do good with money that doesn't belong to you.''

Brabeck is not alone in his thinking. Far from it. His reservations were echoed in a prominent *Wall Street Journal* article written by a University of Michigan professor who argued ''The Case Against Corporate Social Responsibility.'' Aneel Karnani undoubtedly struck the right chord with some business leaders when he wrote:

> Managers who sacrifice profit for the common good also are in effect imposing a tax on their shareholders and arbitrarily deciding how that money should be spent.

There is no denying that a contingent of company senior executives would just as soon see corporate philanthropy disappear. But there are also CEOs who are willing to go along with company grant making if the level of giving is kept *way* under the radar. In my own unscientific surveying, I have found that most business leaders fall into a third category: company executives who think corporations should have the latitude to support charitable programs and causes but are looking for clear-cut guidelines to justify such expenditures and a framework for deciding what the most appropriate level of giving should be.

A lot of people have asked me, ''Is corporate philanthropy something CEOs and other top executives actually even think twice about?'' With everything that gets thrown on an executive's plate, it is difficult to conceive that grant-making issues could possibly work their way into the front office. But surprisingly they do.

''It's not that charitable contributions rank up there with mega-merger decisions or figuring out how to shut down a plant,'' one CEO told me. ''But you can't escape them. People or organizations looking for donations eat up time and attention. And because solicitations are often made by friends or even family members, it's easy to get backed into a corner.''

Most high-level company executives I have met over the years share the same complaint. They can't escape being hustled by family, friends, business acquaintances, golf club members, high school alumni—all of whom assume the executive should have no trouble putting a hand into the company's very deep pocket.

Executives don't relish being pestered (sometimes plagued) by unsolicited requests for company donations. But even more troublesome is dealing with an unhappy shareholder, a laid-off worker, or an inquisitive journalist looking for an explanation of why the company is making a charitable contribution when money could be used for so many other purposes seemingly more important to the corporate P&L.

The ''Why?''

It is this last concern that brings us to the lead question drawn from our baker's dozen list:

Question 1: Why should a company give at all?

Answer: There are three primary reasons.

Moral and Social Responsibility

With all due respect to Peter Brabeck and the University of Michigan professor who views corporate social responsibility as deeply flawed, businesses do have an elemental obligation to do the right thing. And acting philanthropically is proper business behavior *if* a company is following the three principles for conditional grant making as outlined in our introduction.

This answer gets easier to grasp if you think about the similarities people and businesses have when it comes to philanthropy. People generally support causes and programs that are most meaningful to them. Corporations should do the same. Consider this: Americans who make charitable contributions each year donate 2.7 percent of their adjusted gross income to charity (for those over age sixty-five, the average giving level jumps to over 3 percent). Is it too much to expect a business to donate 1 percent to 2 percent of its profits (not its income)? The answer is ''no—it's not'' as long as a company's giving is directed toward business-relevant programs and activities.

To Benefit the Company

To some, this answer to ''Why?'' may not make sense. How can a charitable commitment benefit a donor and still be a legitimate contribution? The U.S. tax laws seem to make this kind of *quid pro quo* impossible. The Treasury Department says companies or individuals wanting to take a charitable tax deduction must make sure funds or properties are ''transferred to a qualified organization without the donor's expectation that there will be a financial or economic benefit commensurate with the donation being made.'' So what benefit(s) can a company accrue without violating the tax code?

Properly directed, company donations can be used to affect conditions that influence a corporation's ability to function. Examples include enhanced company or brand name recognition, basic research that is a door-opener to discoveries that may have long-term commercial potential, community services that improve a plant location so it becomes a more desirable site for new hires, and the list goes on. The direct benefit a corporation receives may not be ''commensurate with the donation being made.'' But the *indirect* advantages that come from making the right kind of contribution can be substantial.

In 2007, McKinsey & Company surveyed 721 executives to get a better perspective as to what business benefits should accrue from social efforts carried out by a corporation. Only 12 percent of respondents said there should be no business goals linked to a company's philanthropy activities. What executives *did* say they wanted from a corporation's social spending were

- Enhanced reputation for the company, brand, or both (70 percent)
- Bolstering of employee skills (44 percent)
- Improved employee respect and pride for the company (42 percent)
- A differentiation from competitors (38 percent)

If answering the ''Why?'' doesn't include an explanation about how corporate philanthropy affects a business, then we are circumventing our conditional grant-making principles. There *has* to be a defined connection between a gift and a business. Otherwise it probably shouldn't be made.

To Benefit Society

Businesses aren't exempt from playing a role in addressing social problems and challenges. So ''Why?'' has to include a statement that corporations are committed to leveraging contributions to make a difference to society. But the key is to aim donations of cash, product, and even employee time at causes and issues relevant to the company.

Go back to our company-is-like-a-person analogy. If you or a loved one is unfortunate enough to have cancer, you're inclined to make a donation to one of the more than seven thousand nonprofit organizations in the United States that work to prevent or cure cancer. In making the donation, your hope isn't that the gift will lead to a treatment breakthrough that will be helpful just to you. The contribution comes with a hope that it will be advantageous to anyone suffering from cancer. Apply that same line of thought to a company.

For example, during the 1990s, Johnson & Johnson, along with dozens of other pharmaceutical companies, put a high priority on finding a drug that would slow down or prevent Alzheimer's disease. But research was stymied because there were no mice that had the genetic make-up needed to carry out essential experiments. J&J awarded ''basic research'' grants to medical schools—funds used to breed mice that had the characteristics necessary for Alzheimer's research.

Because basic research findings are non-proprietary, whatever discoveries the grant produced would be in the public domain. Certainly J&J had a strong interest in developing mice that would move its own research forward. At the same time, the company recognized how important these mice would be to an array of other scientific experiments totally outside its commercial interests. The grants were legitimate charitable contributions that turned out to be a win for the corporation and a win for society.

Corporate Social Responsibility—A "Why?" or a "Way Out?"

Missing from our list of answers to ''Why give?'' is a call for businesses to live up to their corporate social responsibility (we'll call it CSR). The omission might seem strange to some. After all, CSR is a widely touted business notion that on the surface seems to be a bugle call for an increase in conditional grant making. In reality, too often CSR has had just the opposite effect on corporate philanthropy. With some exceptions, it has been a drag on the growth of smart giving. To understand why this has happened, here is a brief explanation of the often-confusing concept of CSR.

The idea that businesses have responsibilities that transcend their corporate walls has been around a long, long time. But during the 1970s, the concept began a more open relationship with business ethics, and by the 1980s and 1990s, the two had coupled and became all the rage—particularly in the academic community.

In the classroom, CSR (also called corporate citizenship, sustainable responsible business, and a host of other terms) is a thing of beauty. Public interest blends with corporate decision making and gives an added zing to the ''triple bottom line'': people, planet, and profit. When CSR hits the road, though, things change.

Over the years, I have pressed dozens of corporate executives to give me their take on CSR. ''What does it mean to your company?'' I would ask. Here are some of the answers I jotted down:

- Mainly showing we have decent environmental standards
- First, you have to be responsible to your own employees—reasonable labor practices
- Just doing the right thing all the time
- Quality control for whatever products we make
- Sustainable development
- Live up to fair trade policies
- Worker health and safety—mainly safety
- Ethics training for all employees

In other words, CSR has no consistent definition within the real corporate world. Attempts have been made to bring some agreed-upon clarity to the concept. For example, the Geneva-based International Organization for Standardization has come up with a proposed global set of standards for corporate responsibility called ISO 26000. And a few companies hold up ''Deming's 14 Points'' as the recommended standard for CSR. (Deming was an American statistician whose fourteen management action points became the foundation for the TQM or Total Quality Management movement.) But in spite of these efforts, CSR is largely amorphous and assumes different shapes and sizes depending on a company's interpretation of the concept.

One of the more comprehensive CSR reports that at least tries to link general CSR activities with contributions spending is produced annually by ExxonMobil (the company calls its statement, which usually runs fifty pages or more, a *Corporate Citizenship Report)*. The central theme is ''sustainability,'' which ExxonMobil defines as a balancing of economic growth, social development, and environmental protection. But what exactly does that mean?

ExxonMobil uses a third party (Lloyd's Register Quality Assurance) to validate its efforts to address several ''citizenship focus areas.'' These include

- Corporate governance
- Safety, health, and the workplace
- Environmental performance
- Managing climate change risks
- Economic development
- Human rights and security

Part of the company's report is a breakdown of its philanthropy (what it calls ''community investments''). In 2009, ExxonMobil awarded $235 million in grants, or about seven-tenths of 1 percent of its pretax profits—about the average level of giving for larger companies that year. The report attempted to show how these contributions as well as employee volunteerism intersected other CSR categories throughout the year. The attempt fell short in a few areas—but ExxonMobil deserves credit (as do a few other businesses) for at least trying to demonstrate what should be a connection between contributions and other CSR interests.

The BP Case

CSR critics complain that too many companies use corporate responsibility rhetoric as a cover—that words and hype mask genuine commitment and meaningful action. (In his *Wall Street Journal* article, Professor Aneel calls the tactic ''greenwashing.'') Nothing helped that argument more than the Gulf of Mexico crisis that vilified the oil giant BP as the culprit most responsible for America's worst environmental disaster.

Ironically, years before a series of accidents that led up to the Gulf pipeline calamity, BP had branded itself as a global CSR leader. Lord John Browne, who led the company from the mid-1990s until his resignation in 2007, promoted BP as the leading ''green'' energy business. The corporation developed a green logo and produced slick publications that trumpeted its CSR advocacy.

In addition to numerous inside-the-company CSR initiatives, BP also ballyhooed its external social responsibility efforts. Here are excerpts from a 2002 speech by the company's VP for global social investment:

> Today the over-arching social goal that inspires us everywhere is the concept of sustainable progress. Clearly the definition of this progress can vary. In some places it means supporting capacity building. In others it means helping education or health care reform. Or it may mean underwriting job creation schemes or conservation projects or moves to achieve greater self-sufficiency.
>
> Last year we invested nearly $95 million on social initiatives globally... One-third of BP's contributions went to community development, 30% to education and 15% to environment and health.
>
> The range of projects is vast—everything from aiding small farmers in Colombia to underwriting female adult literacy in Angola, heightening environmental awareness among children in China, teaching corporate governance in Zambia, encouraging clean business in Poland and comforting cancer patients in Egypt. Not to mention scores of initiatives in Europe and North America.

Sounds good, right? With a $95 million contributions program, no wonder BP cited itself as a frontrunner in the CSR field. But let's add some perspective to this story. BP's contributions payout for 2001 equaled seven-tenths of 1 percent of the $13 billion in pretax profits it earned for the year. The payout wasn't that out of line with what many other mega-sized corporations were spending on philanthropy that year. But note that this was about *half* the average level of corporate giving for 2001 (the business community in total donated around 1.3 percent of its aggregate pretax net income).

For those looking to debunk CSR, BP served (and still serves) as a classic case. When a company shouts about its response to social challenges but doesn't even make par with its social investments, then it has wandered into risky territory. Of course, BP could probably point to other CSR projects conducted outside the contributions arena that probably cost more than $95 million. And that comeback is exactly why CSR has contributed to the downward trend in corporate grant making.

CSR "In Lieu Of" Corporate Contributions

CSR efforts that are largely internal in focus—for example, employee ethics training, environmental improvements, diversity outreach, workplace safety changes, and so on—can be expensive. A business can easily rationalize that these often costly initiatives have just as much value—maybe even *more* value—than any program folded into its contributions program. ''We need to ensure the safety and well-being of our employees before we worry about funding the local symphony so it can add a bassoonist,'' the corporation might conclude.

And that's the CSR jab to the corporate contributions jaw that's been a problem over the years. I have had conversations with executives who complain they are under so much pressure to pay for CSR-prompted internal changes that even thinking about a hike in corporate giving borders on absurdity.

My counterpunch to these statements is that when considering what to spend on grant making, don't lump corporate contributions with whatever else a company may have bundled under the CSR umbrella. Most all the internal CSR-related adjustments are carried as usual business expenses and taken into account before a company figures out its profit and loss for the year. A company's conditional grant-making payout should be tied directly to a company's pretax earnings—earnings that are calculated after all other internal CSR expenses have been paid.

Smart Giving and CSR

Where corporations too often fall short in their CSR strategic planning is to overlook how grant making can be used as a fuel line for at least some of the firm's most important social responsibility activities. It would behoove any company to identify all its CSR objectives and then think creatively about how smart giving could address those goals. For example, suppose BP had spent more of its annual contributions on funding environmental protection methods and standards at universities and research institutions known for their expertise in oil and mineral exploration. Such basic research grants may have generated information useful to the petroleum industry as a whole—and who knows, they possibly might have prevented the crisis in the Gulf of Mexico.

BP's retort might be that the company *does* make these types of grants. True—*after* the Gulf oil spill, the company pledged a half billion dollars for a Gulf of Mexico research initiative, including three grants totaling $25 million to southern universities working on oil and dispersant technologies. But a review of the company's publicly reported giving *prior* to the Gulf crisis shows similar commitments to be relatively minor.

''But had this kind of sharply focused conditional grant making been going on before the oil spill, it might have resulted in a reduction of BP support for adult literacy programs in Angola or projects to help farmers in Colombia,'' some would complain. If the company had kept its giving level at a comparatively low level, yes, that's probably what would have happened. It's the reality of any kind of philanthropy—choices have to be made. For businesses, smart giving means making smart choices.

So CSR *could* be added to our list of answers for ''Why give?'' *if* companies (a) clearly identify what those CSR objectives are; and (b) use conditional grant-making principles to find ways of directing resources (contributions and employee time) to address those CSR issues.

When ''Why?'' Goes Awry

There's a right answer to ''Why give at all?''—

> We carefully manage our corporate philanthropy as a unique type of business resource. We use cash and product donations to address critical problems and quality-of-life issues and to advance important opportunities that have a clear relevance to our business. Managed this way, our philanthropy is beneficial to both society and our company.

And there's a wrong answer—

> We support causes and organizations on behalf of our senior management and other employees. We view contributions as an added employee benefit with special consideration given to our highest-level executives.

The ugly truth is that the ''wrong answer'' is sometimes the dominant (albeit nontransparent) answer within certain businesses. The corporate giving pot sometimes gets turned into a slush fund for top-tier executives and on occasion even outside board members. The rationale is that contributions become inducements for retaining high-quality talent.

The slush fund shouldn't be confused with set-aside funds for employee matching gifts—limited and controlled commitments that ride on the back of employee or retiree donations. These are vastly different from free-standing $25,000, $50,000, or $100,000 unrestricted gifts that are fired off to the CEO's alma mater as a way of giving the executive added status (plus a V.I.P. box seat at the fall homecoming game).

Peter Brabeck has every right to be critical of a corporate philanthropy program that in essence is a CEO's personal cash drawer. His displeasure with corporate philanthropy is also understandable if a company simply ''gives for the sake of giving'' and doesn't have a conditional grant-making management model in place.

Even for smaller businesses, a corporate philanthropy program doesn't have to be (and shouldn't be) a private cash register for upper-tier management. It can be (and should be) a much more powerful resource that brings added value to the company and society.

Widget Worldwide and the "Why?"

In running workshops and speaking to both business and nonprofit audiences, I have used a brief quasi–case study to underscore two points: (a) how top corporate executives sometimes are driven to the brink by—of all things—corporate contributions and (b) how to come up with an acceptable answer to the question ''Why give at all?''

The following case is an amalgamation of many experiences I have had with senior managers over the years. The company is a fictional *Fortune* 500 manufacturing firm with its headquarters in New York City. But the business could be just about anywhere in the United States, and the CEO you will meet next could be Peter Brabeck or maybe the frazzled, pressured individual running a company you work for.

THE WIDGET CASE

''Do we have to?'' Charles ''Chuck'' Gilfant asked me. Six months in the hot seat at Widget Worldwide, Inc., and a profit squeeze had the CEO bottom feeding for nickels and dimes.

''Nope, you don't have to,'' I answered. ''This isn't a tax.''

''Isn't it?'' Chuck wasn't buying it. ''As far as I'm concerned, it's a self-inflicted tax. Businesses making gifts to charity—I mean, what the hell is that all about? We're *not* philanthropists, you know. So why is it that every Mr. Good Shoes running a charity thinks companies should be giving the store away?''

There was a reason Chuck Gilfant wasn't in a benevolent mood. Widget hadn't met analyst expectations for the second quarter in a row. Sales were flat, and profits, although still respectable, weren't respectable enough for analysts, which meant Chuck had to start cutting costs even if it meant looking for loose change in all the wrong places.

''Your top line hasn't been growing the way you might like, but you're still making money and a lot of it,'' I reminded Gilfant. Widget had pretax profits of $940 million last year.

''Not enough,'' Chuck responded quickly. ''Since sales are going nowhere, I need to cut costs to move my next quarter's profit in the right direction. And I'm talking about *all* costs. Corporate contributions won't get a pass. No matter how pretty you package them, donations are still expenses, and they're on the block.''

''Suppose contributions were expenses that improved the business?'' I asked. ''Suppose they helped put into place the right conditions so Widget had a better shot at improving sales?''

''Yeah, right,'' was the comeback. ''And suppose Wall Street starts regulating itself. Some things aren't meant to happen. Fact is, we've got hundreds of charities sucking millions out of us each year. I want as many of those hustlers as possible to get their fingers out of my cookie jar. Can that be done?''

''Sure,'' I advised. Like most consultants, I learned long ago never to say no to a client. ''But how about taking a breath before swinging the hatchet?''

Widget's top dog gave me one of those looks usually reserved for McKinsey or Booz Allen Hamilton when they pushed for more billing hours.

Why Should Widget Give at All?

''A couple of minutes ago, you asked if Widget had to give to charity. Rephrase the question: *Why* should Widget Worldwide be making any tax-deductible charitable contributions?''

''*Exactly!*'' Chuck yelped. ''*Why?*''

''Once you tackle that question, it will be easier to sort out what donations you should be making and what others should be dropped.''

Gilfant asked what needed to be done to answer the ''why.'' A two-hour meeting with senior managers from line operations, R&D, public affairs, legal, tax, and public relations would be a good way to start, I told him.

''My office?'' Chuck wanted to know.

''Nope,'' I said. ''You're not involved.''

Gilfant looked apprehensive but relented. Two weeks later, I was sitting in a conference room with nine of Widget's top-drawer executives. After a few preliminaries, I walked to a flipchart and drew four imperfect squares. I spelled out one word in each panel. Strengths. Weaknesses. Opportunities. Threats.

There were a few muffled moans, and it was obvious that a couple of managers were about to run for a pee break. The group was being subjected to another ''SWOT'' exercise—the over-used management analytical process developed by a Stanford University professor back in the sixties. SWOTs were as commonplace to seasoned executives as internal audits—and sometimes just as aggravating.

''Sit through this and you get to name Chuck Gilfant's next grandkid,'' I joked, and the room relaxed.

The ``SWOT'' Exercise

''Top of mind, give me a few items to fill in the squares,'' I requested. In less than five minutes, the squares were full.

SWOT

Strengths

- Widget number one in sales in three product categories
- Strong brand recognition
- Solid senior management leadership

Weaknesses

- New product development—lackluster pipeline
- Attracting/retaining high-caliber workers

- Lack of respect (not on *Fortune*'s "Most Admired Companies" list)

Opportunities

- Business growth outside the U.S. (especially China)
- Expanded U.S. government contracting
- Second-generation product launch of Widget's most popular product

Threats

- Competition
- Government regulators
- Environmental restrictions

"Tell me what corporate contributions have to do with anything you see on the flipchart," I said.

A chorus of "absolutely nothing" filled the room. I ripped off the SWOT page and taped it to the conference wall. "So if Widget Worldwide's contributions program has nothing to do with this—" I waved at the sheet, "why does the company keep mailing checks to a slew of different charities?"

I used a blank flipchart sheet to catch the responses until I ran out of room:

- Dinner fundraisers
- Golf outings
- CEO and outside board member pet causes
- Appeals made by big customers
- United Way arm twisting
- Employee matching gifts
- Other local CEOs make the "ask"
- Meeting diversity obligations
- General public relations
- Tax deductions

I pulled the second sheet from the flipchart easel and taped it next to the SWOT page.

"Any connection between one page and the other?" I asked.

"Maybe a little," the marketing VP answered. "But not much."

I nodded in agreement and sat down.

''Now let me ask each of you something personal,'' I said. ''What's your favorite charity?''

A flurry of reactions came from all parts of the room. American Heart Association. M.I.T. Kit Carson Museum. Habitat for Humanity. I stopped them when the list grew to fifteen organizations.

''What about making personal contributions to other causes that aren't at the top of the list?'' I asked.

There was another volley of responses.

''Church.''

''Salvation Army''.

''Red Cross—if there's a disaster.''

''Boy Scouts.''

''My kid's school fund-raisers.''

I could have scribbled for another five minutes. But I had culled enough information to get to the point.

''Each of you has a pretty solid answer to *why* when it comes to your personal charitable giving. Your highest priority is connected to something you define as very important to your own life and interests. Then there's a second tier of giving that's triggered for different reasons—like a sense of obligation or maybe a neighbor who won't take no for an answer.''

There were chuckles, nods, and shrugs. I stood and walked back to the two taped flipchart pages hanging on the wall. ''But when you look at these two sheets, priorities and giving practices don't line up the same way,'' I stated. ''The *why* isn't at all clear for Widget Worldwide except when the company caves in to an obnoxious customer every once and awhile.''

No one argued the point.

''So other than a nice thing to do for a few folks inside the company—including your CEO, I might add—or trying to make a customer or two feel good, we come up short on figuring out *why* Widget is spending money on contributions at all.''

This was a group of high-level execs who probably gave corporate philanthropy no more than five minutes' worth of attention during the course of a year. As expected, there wasn't a single person in the room who pushed back.

''Since the *why* is fuzzy at best,'' I continued, ''it's not surprising Chuck Gilfant is ready to do major surgery on the company's giving program. Right?''

Widget's philanthropy spending was no skin off anyone's nose in the room. As long as the corporation's gifts and grants had no direct impact on an executive's own budget, the general attitude was one huge *''Who cares?''*

Inserting Business Relevance into the ``Why?''

Now it was table-turning time.

''But suppose Widget's contributions program *did* happen to be connected to the company's business mission,'' I conjectured.

''Then it wouldn't be charity,'' the VP of finance contended.

''Charity's always been a loose concept,'' I replied, glancing at the tax man seated at the end of the conference table. ''For example, in the eyes of the IRS, a donation that adds to Harvard's multibillion-dollar endowment is charity. It gets the same charitable tax deduction benefit as a gift to a nonprofit that feeds the poor. See what I mean?''

Widget's top financial guy scrunched his eyebrows. He wasn't quite sure if I had just insulted his alma mater or was simply making the point that the IRS definition of a public ''charity'' was akin to the wide open spaces where a million education, religious, scientific, literary, public safety, and even some amateur sports organizations dotted the crowded landscape.

''What if we put together a contributions strategy that points Widget's donations—or at least a good chunk of those donations—toward its biggest problems or its best opportunities for growth?''

Skepticism took over the room. I grabbed a Sharpie marker and drew a thick line under the SWOT subhead ''Weaknesses,'' and then another line under ''New Product Development.''

''If you had a million dollars a year to spend on research in the product development field,'' I asked the R&D head, ''could you use it?''

No hesitation. ''Yes.''

''What if the money had to be used for *basic* research, which the tax law says is the advancement of scientific knowledge not having a specific commercial objective? Now, understand—basic research means that whatever discoveries are made are up for grabs. Everyone and every company gets a crack at what comes out of the lab. Absolutely no proprietary rights for the company making the donation. Even under those conditions, could you still use the money?''

''Definitely,'' the R&D chief nodded. ''The trick is to use basic research as a kind of scan. You get a first-hand look at what's promising, and if you find something interesting, switch gears. Shift from basic research to contract research. Once you get protected rights, start massaging a discovery into a commercial opportunity.''

''You think you could find universities and nonprofit research institutes interested in doing the kind of basic research that might eventually open up new business avenues for Widget?''

''I already have a couple of candidates in mind.''

The Earmarking Process

For the next half hour, the group pulled apart the SWOT list and mapped out a contributions option for each entry under the ''Weaknesses,'' ''Opportunities,'' and ''Threats'' listings on the flipchart.

- Weakness: attracting/retaining high-caliber workers

Widget Worldwide consistently had trouble getting first dibs on recruiting the best and brightest graduates from targeted universities. Widget's attractiveness as an employer could be affected by a few strategically placed donations, the HR vice president predicted. As for retaining workers, employee-centered programs such as matching gifts could make a difference if they were more widely promoted. Right now, the VP acknowledged, matching gifts were mainly perks for upper management.

- Weakness: Absence from *Fortune*'s ''Most Admired Companies'' List

A company can't buy its way onto this oft-referenced list using contributions. However, by getting information about Widget's contribution accomplishments to the hundreds of executives annually polled by researchers on behalf of *Fortune,* Widget might be able to climb its way up the magazine's sub-category list of companies admired for their ''social responsibility.'' Funding the right programs and communicating Widget's efforts at the right time to the right audience is what it would take, I advised the group.

- Opportunity: Business growth in China

Calling on qualified nonprofit organizations in the United States as funding conduits, Widget could underwrite programs (approved by appropriate government ministries) in key locations within China that would build company name awareness ahead of planned product launches. The executive vice president charged with international market development asked for organization examples. ''King Baudouin Foundation, Charities Aid Foundation, U.S. Committee for UNICEF and a long list of others all have tax standings in the United States that will allow Widget to route a donation to another country and still get a domestic charitable tax deduction,'' I answered.

- Opportunity: Expanded U.S. government contracting

In developing and launching an awards-based programming strategy, Widget could acknowledge high-performing nonprofits that would be recognized at ceremonies in Washington or at selected state capitals. The events would give Widget significant exposure in front of key government decision makers, with award recipients reminding elected officials and their staffers that Widget is a decent corporate citizen. The government relations and public affairs director looked intrigued.

- Opportunity: Second-generation product launch

By capitalizing on liberal tax deductions that come from donating certain products to qualified nonprofit groups, Widget could get around disposal and inventory carrying charges if the company contributed first-generation products prior to the introduction of a new line.

With only a few minutes of meeting time left, I polled the room. ''What do you think?''

''If our contributions program actually looked like this, it shouldn't be cut,'' the CFO stated. ''But the problem is, your whole scenario is fiction.''

''Doesn't have to stay that way,'' I replied. ''And frankly, it shouldn't.''

The PR vice president had been unusually quiet throughout the meeting—maybe because the corporate contributions administrator was his direct report. ''You forget that we're already making contributions to hundreds of charities. They may not line up with our business goals, but to chop them off at the knees will stir up the kind of community stink that can hurt us big time.''

''You're right,'' I conceded. I had learned long ago that you don't argue publicly with a public relations pro. ''So let's not chop. Instead, why not ask at least some of these organizations to come to Widget with requests that are consistent with a new set of contribution guidelines—guidelines that mesh with the company's business priorities.''

''And if they can't?'' the chief counsel, and the only woman in the room, asked.

''Then in the kindest and sometimes most gradual way possible, they should be moved off the list.''

I could tell the PR vice president had the feeling I was chewing away at his authority. After all, corporate philanthropy was supposed to be his domain. And here I was, Chuck Gilfant's alter ego, revamping the rules of the philanthropic game. The ball had to be bounced back to PR—and fast.

''What I'd like to tell Chuck is before anyone tampers with Widget's giving program, your department should have a shot at piecing together a plan that ties philanthropy to the company's business priorities. What do you think?''

Clout Trumps a Cut

A month later, Chuck Gilfant called me to his office. ''This is freakin' unbelievable!'' he squawked. ''PR turned in spending projections for next year and they've got corporate contributions up by 20 percent!''

''Terrific work, isn't it?'' I volleyed back.

''You were supposed to help them *cut* contributions!''

''They made some cuts,'' I confirmed.

''Yeah, but they *added* a boatload of new donations!'' Gilfant whined.

''All hooked up with some of Widget's most important business goals.''

''Look what's happened!'' Chuck gritted his teeth. ''You've pushed our contributions total to nearly 1 percent of this year's pretax profit forecast!''

''And well worth the investment,'' I said.

Here's the moral of this purposely exaggerated story.

Answering ''Why should a company give?'' makes a lot more sense if the corporation's philanthropy relates to its own interests and purposes. If a company's policy is to simply ''give for the sake of giving'' or makes donations based on the personal inclinations of its management, board of directors, or others, then it is far more difficult to make a case that justifies a corporation allocating resources for outside nonprofit organizations.

This statement does, however, need a caveat.

Company Size and Structure Have an Impact on the ''Why?''

If a company is solely owned or closely held, contributions might legitimately reflect the personal interests of the owner(s). In effect, a corporate donation becomes an extension of (or, in some cases, a substitution for) a direct personal gift. The early days of Paul Newman's company, Newman's Own, is a good example. The company started as a garage operation by Newman and his friend, author Aaron Edward Hotchner. The pair decided that all profits from the sale of products ranging from salad dressing to spaghetti sauce would be given to charity. Most of the organizations picked to get Newman's Own donations were those charities favored by the owners. This is not that hard to do when those who control the company can fit around a kitchen table.

But when a corporation expands its owner base, trying to satisfy the charitable interests of its shareholders gets challenging. Warren Buffett's company, Berkshire Hathaway, is a classic case study of a business that went overboard in trying to accommodate the philanthropic concerns of its multiple owners. The company ran a ''shareholder-designated'' contributions program from 1981 until 2003. Under the plan, holders of the company's class A shares could designate a per-share amount that the business then donated to up to three 501c3 organizations each year. Nearly $200 million was distributed through the program, with funds going to a diverse assortment of nonprofits. With no ability to control where shareholder-designated donations were directed, Berkshire eventually stepped into quicksand—notably the pro-choice, pro-life squabble. After coming under fire from protestors, Berkshire announced that it was shutting down the program.

Businesses that have a multitude of shareholders typically make an extra effort to navigate away from donations to controversial causes or organizations. Given what happened to AT&T in 1990, it's understandable why businesses are gun shy about taking chances with their contribution dollars. The giant phone company had been a long-time supporter of Planned Parenthood until pressured by pro-life groups to cease and desist. When the company cut its $50,000-a-year grant, Planned Parenthood awakened the pro-choice forces with full-page ads that read, ''Caving in to Extremists, AT&T Hangs Up On Planned Parenthood.'' Pro-life advocates fired back and the company found itself caught in a crossfire. The episode has become an epic case study of how businesses need to circle around groups or projects that have the faintest scent of controversy.

The Doing Good–Business Success Link

Since 1935, when Congress gave businesses the prerogative of taking a charitable gift as a tax write-off, some philanthropy advocates have contended that a company's generosity can and often does have an impact on its overall P&L performance. A lot of anecdotes have been used over the years to back up that point of view. But in 2006, researchers dug deeper to find if there really is a correlation between philanthropy and business achievement.

When a trio of accounting professors from New York University and the University of Texas conducted a study encompassing 251 businesses to test the theory that philanthropy had an effect on sales and earnings, a lot of corporations and charities paid attention to the findings and continue to do so. As well they should.

Using a kind of credible scientific data analysis rarely applied to the corporate contributions field, here is the key take-away from the study:

> The analysis we perform supports our conclusion that charitable contributions by U.S. companies enhance future revenue growth.

Predictably, the study found consumer companies benefit the most by ''doing good.'' Consumer-focused businesses (particularly retailers and financial services) tend to leverage contributions in a way that promotes revenue growth. The researchers found less evidence that philanthropy has any significant impact on the financial performance of business-to-business corporations. By my observation of scores of companies, this is largely because B-to-B firms simply do not work as hard as consumer businesses to wring value out of their philanthropy programs.

Harvard Business School's Rosabeth Moss Kanter, a long-time corporate researcher, has come to the conclusion that business performance and societal contributions are intimately connected. In her book *Supercorp,* Kanter says this:

> Societal initiatives undertaken largely without direct profit motives are part of the culture that builds high performance and thus results, ironically, in profits.

Kanter calls corporations that have figured out the value of hooking business practices with social responsibility *the vanguard.* I call them *comprehensive corporate citizens.* Regardless of the label, the point is that top-performing companies have figured out how to marry social responsibility—including an acceptable level of conditional grant making—with their pursuit of revenue and earnings.

''Why give at all?'' prompts many valid answers that debunk Peter Brabeck's aversion to corporate philanthropy. Frankly, there simply is no excuse for a company to circle around corporate giving if it adheres to our conditional grant-making principles. Far more challenging questions include ''How much should we give?'' and ''How can we get the most bang for our buck?'' Check the following chapters in *Smart Giving Is Good Business* for answers.

IN SUMMARY

Question 1: Why should a company give?

Answer: Like any concerned and responsible citizen, a corporation has a moral obligation to support charities and socially important initiatives. However, businesses must meet this obligation by making philanthropy decisions based on conditional grant-making principles. When doing so, corporations will address those social needs that are aligned with the company's purposes and interests.