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CORPORATE PHILANTHROPY

The role, effectiveness, and even appropriateness of corporate philanthropy has long been debated. Economist and Nobel laureate Milton Friedman argued in 1970 that "the only 'social responsibility of business' is to 'increase its profits.'"[1] He also said, "The corporation is an instrument of the stockholders who own it. If the corporation makes a contribution, it prevents the individual stockholder from himself deciding how he should dispose of his funds."[2] Thus, charitable contributions should be made by individual stockholders, not by corporations.

Indeed, until 1953 companies believed they were legally prohibited from making gifts that did not result in a direct company benefit. In that year, the New Jersey Supreme Court ruled that the A.P. Smith Manufacturing Company did not violate the law when it made a $1,500 donation to Princeton University.[3]

The term "corporate philanthropy" covers a wide range of company programs, but as a whole these were in decline through the 1990s. Philanthropic giving from corporations and corporate foundations in 2001 totaled slightly over $9 billion, or 1.3 percent of pretax profits. This was a drop of 12.1 percent from the total corporate giving in 2000.[4] In late 2002, Porter and Kramer reported that, "Over the last 15 years corporate giving as a percentage of profits has dropped by 50 percent."[5] They noted that investor pressure for short-term profits inhibited charitable spending, while critics demanded higher levels of social responsibility from corporations. Even when companies made donations critics expected more, resulting in a no-win situation from the perspective of corporate executives.

So, why do companies give? In 1996, Young and Burlingame identified four ways of thinking about this question. The "neoclassical/corporate productivity model" is based on a company's

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[1] Friedman article in the *New York Times Magazine*, quoted in Michael E. Porter and Mark R. Kramer, "The Competitive Advantage of Corporate Philanthropy," *Harvard Business Review*, December 2002, p. 6.
[2] Friedman, Capitalism and Freedom, as quoted in Porter.
[3] Dwight F. Burlingame and Craig Smith, "The Future of Corporate Giving," *New Directions for Philanthropic Fundraising*, No. 26, Winter 1999, p. 61.
[4] *Giving USA 2002* (Indianapolis: AAFRC Trust for Philanthropy, 2002), p. 91.
[5] Porter, p. 5.

David Hoyt prepared this note under the supervision of Laura Arrillaga, Lecturer in Business Strategy as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

profit motive, and in which charitable gifts are made when those gifts can improve the company's financial results. The "ethical/altruistic model" is based on the belief that a company is given power by society, and thus has a responsibility to benefit society. The "political model" suggests that a company build relationships with nonprofit and nongovernmental organizations in order to maintain corporate power and as an alternative to the growth of government. Finally, the "stakeholder model" is based on the concept of the corporation as a complex entity with many constituent groups, all of which must be satisfied by the company.[6]

Regardless of the motivating factors, corporate philanthropy comes in many forms, including:

1. Cash donations. Donations made from corporate operating groups, a corporate philanthropy organization, or through corporate foundations.
2. Matching employee gifts, providing time for employee volunteering, or facilitating employee giving through organizations such as the United Way. Such employee-based programs offer the potential to enhance morale, while benefiting causes of interest to employees.
3. Social sponsorships, such as sponsoring sporting events, art exhibitions and cultural events. This form of corporate philanthropy provides a method of increasing a company's exposure and entertaining customers.
4. Cause-related marketing. These are activities in which a company supports a cause viewed as worthy or popular, expecting that its association with the cause will increase the company's visibility and public acceptance. This form of philanthropy includes promotions in which a portion of the purchase price of a company's products was donated to a nonprofit organization.
5. In-kind donations. A popular and cost-effective form of philanthropy is donation of a company's products. For instance, a computer company might donate products to help a nonprofit improve its efficiency, or a food producer might donate product to a food bank.
6. In-house training. Companies provide training to employees on subjects such as personal philanthropy, serving on nonprofit boards, or other philanthropic issues.
7. Staff training. Some companies assign staff members to work with nonprofit organizations as part of their professional development process. Lessons learned working in the nonprofit environment can be brought back to the company at the end of the assignment.
8. Consultancies, and *pro bono* expertise. Professional organizations such as law firms frequently have programs in which they provide free service to those who cannot pay for it. Some management consulting firms have similar programs to provide *pro bono* services to nonprofit organizations.
9. Policy marketing. Corporations can generate grassroots support for social causes through a combination of donations and lobbying.
10. Patents. Companies develop patents, from which they have commercialized products. Some donate these patents to universities or think tanks. The university or think tank then receives a royalty based on product sales.

[6] D. Young and Dwight Burlingame, "Paradigm Lost," in D.F. Burlingame and D.R. Young (eds.), *Corporate Philanthropy at the Crossroads*, (Bloomington: Indiana University Press, 1996)

Despite the overall decrease in charitable giving cited by Porter, cause-related marketing increased from $125 million in 1990 to well over $800 million in 2002. Sponsorship of the arts also grew, totaling an additional $589 million in 2001.[7]

There has been debate over whether corporate philanthropy actually works, or whether it is ineffective and raises questions about company motives. For instance, the tobacco company Philip Morris made charitable contributions totaling $75 million in 1999, and spent an additional $100 million on an advertising campaign to publicize its charitable program.[8]

In some cases, corporate philanthropy consists of unfocused giving to a wide range of causes viewed as worthy by company executives. Such efforts may have little to do with the company, and might be viewed cynically as a way of using corporate money to fund the executives' personal interests. Even programs in which companies match employee charitable donations have been questioned. Employee-matching programs have been justified on the grounds that employees are important stakeholders in the company, and support of charities of interest to employees through matching donations results in improved morale. However, it has also been argued that morale might be improved even more by using these funds to increase employee pay, and letting the employees use the increased pay to make larger charitable donations on their own, if that is their desire.

In addition to the question of whether such expenditures are an appropriate use of corporate funds is the concomitant question of whether they are effective philanthropy. If a charity receives only cash, it makes little immediate difference whether that cash comes in one large check from a company, or in the form of many small checks from individuals.[9]

Peter Drucker challenged Friedman's assertion that profits were the only responsibility of a company, stating that:

> It is futile to argue … that a business has only one responsibility: economic performance. Economic performance is the *first* responsibility of a business. Indeed, a business that does not show a profit at least equal to its cost of capital is irresponsible; it wastes society's resources. Economic performance is the base without which a business cannot discharge any other responsibilities, cannot be a good employer, a good citizen, a good neighbor. But economic performance is not the *only* responsibility of a business.[10]

The challenge for a company in deciding whether to engage in philanthropy, and if so, what form that effort should take, is to develop a philanthropic program that provides both meaningful social benefits and at the same time enough benefits to the company to justify the cost. Such programs have been termed "strategic philanthropy," but creating programs that are both effective philanthropy and truly strategic is often difficult in practice.

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[7] Porter, p. 5.
[8] ibid.
[9] However, if a charity depends on a few large corporate donors, whose businesses later suffer downturns, the charity may find itself in a difficult situation.
[10] Peter Drucker, "The New Society of Organizations," *Harvard Business Review*, September-October 1992, p. 99

ASSIGNMENT

Prepare a four page written analysis of one example of corporate philanthropy. Your analysis should be an example of philanthropy that you feel is successful. Please consider the success based on corporate motivation, consideration of stakeholders, diversity and types of philanthropy, and results both in terms of philanthropic effectiveness and benefits to the corporation. Justify your selection. Please do not use an example that has already been discussed in depth in class.

Prepare four pages of exhibits (frameworks, diagrams, charts, etc.) that present the written analysis in an innovative way.