CURT WEEDEN

SMART GIVING IS GOOD BUSINESS

HOW CORPORATE PHILANTHROPY CAN BENEFIT YOUR COMPANY AND SOCIETY

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Introduction

Why More Corporations Are Giving Less

"Don't tell me how much we have to give because that turns charity into a tax. Tell me what's worth giving to and why. If you can sell me, we can start talking dollars and cents."

During my ten-year stint with Johnson & Johnson, my CEO was what I called a yardstick kind of guy. If you brought a proposition to Ralph Larsen, it had to measure up. It didn't matter if it happened to be a business opportunity or a plan to help the company meet its social obligations.

"Make the case," Ralph would demand. Then the yardstick would come out.

When it came to corporate philanthropy, Ralph measured twice before cutting (a check) once. First, he wanted assurance that company contributions were legal and ethical and would be going to the most appropriate charitable organization possible. And second, a proposed cash or product donation was subjected to this sometimes gut-churning question: "Why is this contribution relevant to the company?"

An outsider might come to the wrong conclusion that Ralph used his yardstick to suppress Johnson & Johnson's giving. After all, how many contribution recommendations could stand up to this double-barreled type of scrutiny—particularly question number two? As it turns out, many requests can and do. Ralph's intent wasn't to use his yardstick to stifle philanthropy. Rather, he used it like a shepherd's staff to guide a potentially undisciplined outpouring of gifts into a more logically directed stream of social investments.

Over the years, I have worked with dozens of senior executives charged with running some of America's largest businesses. Only a few have been as demanding as Ralph Larsen in requiring that corporate contributions have social value *and* have clear relevance to their businesses. CEOs who don't insist on keeping charitable commitments close to a company's mission and business objectives represent the first of three reasons why American corporate philanthropy has periodically been stuck in neutral or, even more troublesome, has edged downward for nearly three decades in a row.

The "Big Three" Trouble Spots for Corporate Philanthropy

1. *CEO myopia.* Business leaders at the top of the private sector food chain who simply don't get it.
2. *Muted middle management.* Company personnel charged with planning and carrying out philanthropy activities who don't have or who are prevented from using a loud enough voice to be effective.
3. *NGO misfires.* Proposals or "pitches" by nonprofit organizations that lack the "business relevance" factor.

There's a reason why CEO near-sightedness makes it to the top of this list. If chief executives don't recognize the potential of creative and conditional grants as resources to enhance a company's mission and business objectives, then corporate philanthropy drifts into a "difficult to justify" zone. Ralph Larsen didn't let that happen. He understood it wasn't his money he was doling out to charity—it belonged to shareholders. Hence, each contribution decision had to be footnoted with a logical, persuasive *business* rationale.

As the "Big Three" list points out, corporate philanthropy is plagued by other problems aside from narrow-thinking or totally clueless CEOs. The men and women who have line management responsibilities for planning and executing corporate giving too often aren't given a long enough leash to do their jobs—or, in some cases, are simply not prepared or competent enough to turn a gift into an impressive business social investment.

Then there are the nation's one million-plus 501c3 charities parked at the receiving end of the corporate giving continuum. How could these non-private-sector entities share a portion of the blame for a slowdown or decline in corporate philanthropy payouts? Answer: when nonprofits use a tin cup approach to companies—when they beg for money without remembering that businesses are not set up to be charitable wellsprings—their "same old, same old" fundraising tactics usually fall short of prompting a business to be more responsive to social challenges. Far too few nonprofit groups have come to understand that it makes more sense to approach a company with a *deal* rather than an *appeal*.

The Decline of Corporate Philanthropy

This book opens with a claim that corporate charitable giving has been heading south for years, interrupted only by a few brief periods of stagnation. How can that be? What about all those generous and well-publicized donations companies pump out after a natural or manmade disaster? One case in point is the huge corporate response to the 2010 earthquake in Haiti.

Within forty-eight hours after the 7.0 magnitude earthquake shook much of one of the poorest countries on the planet into ruins, businesses responded with over $100 million in charitable contributions. The first wave of donations came fast, and many business gifts were larger than even those made to the three other most devastating catastrophes of the twenty-first century's opening decade: 9/11, Hurricane Katrina, and the South Asian Tsunami. The cruise company Carnival donated $5 million. Deutsche Bank gave $4 million. There were million-dollar checks from Google, Hess, UPS, MorganStanley, and a host of other businesses. ADM supplied seven hundred tons of rice, and a million cans of water came from Anheuser-Busch. Donations included medical supplies, water filters, Crocs shoes, backpacks, solar lights, mattresses—a mind-boggling inventory of donated goods and services.

This extraordinary benevolence was indicative of the ongoing philanthropic practices of the nation's largest corporations. Right?

Wrong.

Actually, the response to the tragedy in Haiti was more a blip on a not-so-stellar corporate philanthropy continuum. Here's a reality check: when measured as a percentage of profits, business grant making has actually been on a bumpy decline for well over two decades.

The erosion in corporate giving runs counter to the assumption many people have that companies are more supportive of nonprofit causes and programs now than they have been in the past. That's understandable, since the mainstream media include news stories and advertisements that point to businesses positioning themselves at the front of the line to provide help after some notable crisis. And in many instances, corporations do stand tall with their philanthropy. But too often, appearance looms larger than a company's actual responsiveness.

Even during the recession that officially began chewing up the U.S. economy in 2007, corporate grant making—with some notable exceptions—was notoriously sluggish. Although an abundance of companies (especially many of the 5.7 million smaller, privately held corporations that employ one or more workers) sustained or even increased their contributions during the two-year recession, many larger corporations—including highly profitable businesses—pulled back their philanthropy.

For companies that collapsed or operated in the red, it was reasonable to expect grant making to come to a halt (although some businesses such as Chrysler continued their philanthropy even while experiencing prolonged losses). But the recession didn't wipe out the earnings of the vast majority of U.S. corporations. Quite the contrary: in 2008, the nadir of the recession, U.S. companies earned $1.3 trillion in pretax profits, which gave them the capacity to be far more generous than they were that year. Instead of ramping up their giving to meet the mounting needs of those communities where they had a presence, too many of the country's largest businesses used the recession to challenge the fundamentals of corporate philanthropy by asking questions such as

- How can we possibly defend making charitable donations when we're laying off our own workers?
- Why should we continue matching employee (and sometimes, retiree) gifts when we are cutting other benefits?

- What's the point of supporting the United Way when we hear how many United Way organizations are dysfunctional or are overpaying their staffs?
- Why promote employee volunteerism when we need all hands on deck to keep our business afloat?
- Recession or no recession, why should corporations be making charitable contributions at all? We're in business to make a profit—shouldn't we be passing along our earnings to shareholders and owners so they can make their own donations?

These are not new questions for American businesses. They have lingered below the surface for decades and may help explain why over the past twenty-five-plus years, America's private sector *cut its charitable giving as a percentage of its profits by half.*

For some highly profitable businesses, the recession became a handy excuse to make even deeper cuts in their giving. Other companies were not as quick to slash their contribution budgets but became genuinely confused about what the appropriate level of charitable support should be.

A Stronger Business Case

The recession made it more obvious than ever before that a much more compelling *business* case for corporate contributions is badly needed—a case that definitively addresses the following:

- *Why* a business should carve out a portion of its earnings to assist nonprofit causes and programs
- *How much* of a company's pretax profits should be used for such purposes
- *What conditions* should be in place in order to justify the use of corporate resources for support of nonprofit organizations

In other words, a case that will measure up to Ralph Larsen's two-sided yardstick.

This is the underlying intent of *Smart Giving Is Good Business*—to give businesses a roadmap that will enable them to make a convincing case for corporate philanthropy—one that legitimizes when and how a company should use profits to pay for strategically positioned "conditional" contributions.

While doing consulting work for companies such as General Motors, Merck, Xerox, and Bank of America, I made a curious discovery. Top executives were struggling with several questions about corporate philanthropy—and most sounded remarkably similar. After I hired on with Johnson & Johnson to run its philanthropy program in the 1990s, the same questions surfaced. When I left J&J to launch a national trade association of corporate contributions professionals in 2000, ditto. Identical questions again flew over the transom from 150 different member companies. More recently, having returned to the corporate consulting world, I field inquiries from client companies such as Target, Novartis, Bausch & Lomb, Starbucks, and several others that all are echoes of the past.

I realized that whether a corporation is a huge multinational with revenues in the billions or a small mom-and-pop operation, executives tend to have very similar inquiring minds when it comes to framing a plan—*a case*—for giving away money, products, or employee time. Business leaders want concrete answers that will allow them to

1. Determine why a company should be in the corporate giving "business" at all
2. Decide what the minimum price of entry should be (assuming corporate philanthropy can be justified as a generally accepted business practice)
3. Identify value-added options for going beyond the "minimum" and the risk-benefits of being more than marginally generous

As noted, these are hardly new concerns. One of my first consulting clients, Tom Donohue, who managed the U.S. Chamber of Commerce Foundation, voiced them loud and clear. Tom would eventually leave the Chamber to climb the executive ladder at other trade associations and then return to the Chamber as its president and CEO. Tom presented me with a chance to get a crow's nest view of the private sector, and even thirty years ago, it wasn't hard to spot trouble brewing. The business of corporate philanthropy, it seemed, wasn't a business at all—it was too often viewed as a bottom-drawer function that rarely got much attention or respect by a company's line and staff. Yet Donohue, who has a tough exterior that covers up a goodly amount of compassion, thought corporate philanthropy deserved better. He helped me see that when effectively managed, the donation of company money and employee time could be more than a social tonic—the resources could also help a corporation advance its own business interests.

That perspective took on greater clarity during my many years of consulting when I worked with a mix of businesses in different industry sectors, including the health care giant Johnson & Johnson. At the time, J&J was among the most respected companies when it came to philanthropy. And for good reason. The corporation's simple but profound four-paragraph mission statement called its *Credo* mandated philanthropy as a business requirement. One of those paragraphs read (and still reads):

> We are responsible to the communities in which we live and work and to the world community as well. We must be good citizens—support good works and charities and bear our fair share of taxes. We must encourage civic improvements and better health and education. We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.

It was J&J's strong commitment to the "support of good works and charities" that convinced me to join the corporation as a V.P. charged with handling its contributions program. I signed on for a five-year tour of duty, but nine years later, I was still at the company's impressive I. M. Pei–designed headquarters in downtown New Brunswick, New Jersey, managing a $150 million contributions budget, trying to fend off up to a hundred unsolicited donation requests a day, and having the time of my life.

The Tide Is Still Out

Just before the start of the new millennium, my professional conscience nagged me out of one of the best jobs in America. At about the same time my career clock was winding down, something else was inching downward as well. From 1990 through

1999, corporate contributions in the United States were shrinking. During the 1980s, corporate charitable giving was averaging about 2 percent of pretax profits (the decade-long range ran from 1.5 percent to 2.3 percent of before-tax earnings). When the 1990s arrived, business generosity started slipping until it nosedived to around seven-tenths of 1 percent. To put things in a more emphatic perspective: *on the basis of a percentage of earnings, for every $2.50 a company set aside for corporate philanthropy in the early 1980s, only $1 was earmarked for giving at about the time the new millennium arrived.*

It was time to at least try to turn the tide.

I left Johnson & Johnson the same year my book *Corporate Social Investing* was released. The book got a fair amount of attention thanks to prefaces written by legendary investment guru Peter Lynch and the late actor and entrepreneur Paul Newman. If the philanthropic world had a Hollywood Boulevard, these two men would be immortalized on the contributions Walk of Fame. When it comes to figuring how symbiotic corporate philanthropy can be to corporate success, these two truly understood the connection.

A year after the release of the book, it was apparent that the power of the pen had its limitations. Corporate giving—again, as a percent of profits—continued to sink. Paul Newman decided enough was enough. He joined with retired deputy secretary of state and retired co-chair of Goldman Sachs John Whitehead to launch an organization more exclusive than Augusta National Golf Club. Open only to corporate CEOs or chairmen, the group's purpose was to move the corporate contributions needle in the right direction.

I sat in on one of the earliest meetings of the Newman-Whitehead organization, where the still strikingly handsome movie star and king of his own line of salad dressings wondered out loud why his business (Newman's Own) could direct *all* its profits to worthwhile causes but U.S. corporations on average could barely scrape together 1 percent of their pretax profits for charity. For a time, Newman's new organization pondered setting a contributions spending target for U.S. companies but abandoned that idea when several CEOs pushed back. That development came as no surprise because almost every industry captain I have come to know sings the following refrain: don't turn charity into a tax.

Although Newman had to be disappointed that businesses couldn't agree on a minimum level of annual giving, he and Whitehead, along with the cadre of other CEOs who joined the organization (now called the Committee Encouraging Corporate Philanthropy), did manage to move the issue a little closer to the front of the stove.

Capacity Building Where It Counts the Most

While Newman and Whitehead were working the front office, I went about testing a different theory. Maybe, I thought, if the staffs charged with overseeing corporate contributions programs were afforded more business management skills, they could become more influential in convincing companies to increase their annual giving. The theory rested on a few untested suppositions:

- Suppose corporate philanthropy and community relations managers were to be put through a mini-MBA program customized to meet their particular job requirements?
- Suppose these staffers were given the kind of leadership skills that would amplify their voices and give them added standing so as to get senior management's serious attention?
- Suppose these middle managers could demonstrate how to leverage social investments to generate as much or more business benefit as advertising or marketing initiatives?
- Bottom line—suppose these people became such polished business professionals that they wouldn't be viewed as extraneous to the P&L interests of the corporation?

That theory and its interconnected suppositions led to the launch of the Contributions Academy—a venture that brought together small clusters of corporate giving administrators and pushed them through an intensive three-day program that included everything from budgeting to evaluation methodology, from strategic planning to leadership development.

Five years after the Academy was born, a group of graduates proposed recasting the loose-knit enterprise into a stand-alone, independent professional organization. Executives from Hasbro, Sony Electronics, Tupperware, Boeing, Northwestern Mutual, Becton Dickinson, Verizon, Johnson & Johnson, Novartis, and Chrysler took the lead and hammered together the framework for the Association of Corporate Contributions Professionals (ACCP). The organization grew with extraordinary speed, and within two years its membership stood at over 150 businesses representing more than $20 billion in annual cash and product contributions. I left ACCP in 2008 to return to the consulting world, but the organization continues to provide unparalleled professional training thanks to an exemplary board of directors and an outstanding management team.

With Newman and Whitehead working the top tier of business and ACCP grooming the professional staffers within the ranks of larger corporations, one would think companies would push the pedal on their philanthropy programs.

Such was not the case.

Questions: A Baker's Dozen

Just before the economic upheaval struck the United States and the world in 2007, business contributions continued to slip downward. In spite of Newman, Whitehead, and ACCP; in spite of philanthropy programs sponsored by the Conference Board, U.S. Chamber of Commerce, and the Council on Foundations; and in spite of higher education programs that addressed corporate giving issues at schools including Indiana University, Boston College, and UC-Berkeley—company grant making stayed stuck in low gear. Only because profits took such a beating in 2008 and 2009 did corporate philanthropy consume a slightly larger chunk of company earnings—but clearly that was an unintentional "benefit" of the sub-prime fiasco and the crumbling of Wall Street.

So where are we? With the exception of a few blips, businesses have fallen into a comfort zone where an acceptable level of corporate giving equates to doling out around 1 percent of before-tax profits. But here's the kicker—larger businesses are often spending *far* less than this on average. Yes, there were—and are—noteworthy exceptions. Some sizeable companies continue to spend 2 percent to 5 percent of their profits for good works. But these corporations are truly outliers. What has become obvious is that most U.S. businesses have not taken to heart what former Chase Bank chairman and CEO David Rockefeller told the New York Economic Club in 1996:

> "Business leaders appear to have devoted themselves to making more and more money and find themselves with less and less time to devote to civic and social responsibilities and to sinking roots in their communities. . . ."

What appears to be standing in the way of a serious corporate philanthropy turnaround are a cluster of those previously mentioned hurdles that can so easily put a damper on efforts to bring the level of company giving back to where it once was. There are thirteen of these hurdles, a baker's dozen that *Smart Giving Is Good Business* has translated into the following questions:

1. Why should a company even consider making a charitable contribution?
2. Assuming a case can be made for corporate philanthropy, how much should a company give, minimum and maximum?
3. Who should decide which nonprofits get funded, and what criteria should be used to make those decisions?
4. What's the most effective role for a CEO when it comes to grant making?
5. Where should a company's contributions program be parked inside a company, and who should have the day-to-day responsibility of overseeing the giving process?
6. Should a company have a foundation?
7. Should corporations be donating products, services, or both—possibly as a preferred form of giving over cash donations?
8. How should businesses handle the onslaught of dinner and special event (such as golf outing) requests?
9. Should a company fund the United Way, or are there better options?

10. How should a company respond to a natural or manmade disaster?
11. Is it possible to measure the impact of a grant—including its impact on the company?
12. How much should a company say about its contributions, and when does promotion morph into out-and-out bragging that triggers negative public reaction?
13. How should a corporation handle its philanthropy if its profits tank?

Conditional Grant Making

Many of the answers to our baker's dozen hinge on a concept that for the past few years I've been calling "conditional grant making." The premise is based on this fundamental principle:

> Businesses have an obligation to shareholders, employees, and other stakeholders to be exceedingly careful and responsible in any contributions decision they make.

As Ralph Larsen was prone to remind me—when a company hands out a contribution it's doing so with someone else's money. A corporation could use those funds for an array of other business purposes. In some cases, that would include hiking a dividend to shareholders so *they* could make their own charitable choices.

But how can a company best ensure that its philanthropy is properly aligned with its business purposes? As a starter, make certain three basic *conditions* have been met before even thinking about making another contribution. These are the three essential lynchpins that can make the difference between a lackluster, largely irrelevant giving program and a vibrant, meaningful social investment venture.

Conditional Grant-Making Requirements

1. A crystal clear strategy and process that ensures corporate contributions are relevant to both society *and* the company (Ralph's yardstick)
2. A CEO and other senior executives who openly endorse smart giving—the donation of cash, product, and employee time

that yields a beneficial return on investment for society *and* the business itself
3. A day-to-day administrative system that provides for competent oversight of company contributions to ensure good intention doesn't dissipate into a bad outcome

By meeting these conditions, a company builds itself a platform for the kind of corporate philanthropy program that is more likely to expand than contract.

Intervention Time

The past couple of decades provide us with plenty of evidence that the future won't bring about much change in how the private sector thinks or acts in respect to corporate philanthropy. Corporate giving probably will stagnate at its current low level or possibly sink even lower. Unless—

- Forward-thinking CEOs rally for change. We need a new crop of David Rockefeller–type business leaders who will take the lead in advocating for responsible (a.k.a. conditional) corporate philanthropy on the part of all companies large or small.
- Businesses fully commit to smart giving. Adopting the principles presented in this book will get companies past the thirteen impediments that too frequently stand in the way of a corporate philanthropy rebound.
- Nonprofit organizations solicit businesses differently. Nongovernmental organizations (we will call them NGOs throughout this book) can do a lot to prime the corporate philanthropy pump if they come forward with the right kind of business-relevant proposals.

If corporate giving is resuscitated, businesses will be in a position to mine the benefits of a resource that regularly gets underused or totally ignored. NGOs will stand to gain big time. If *Smart Giving* funding recommendations are widely implemented, an estimated *$8 billion in cash* will get added to what companies annually allocate for nonprofit programs and activities.

But these end benefits won't be realized if the hurdles in our baker's dozen loom large and aren't cleared. If company leaders conclude that corporate giving really is nothing more than a self-imposed tax, game over. If the validity of corporate philanthropy is challenged more aggressively and executives don't have the right defense in place, for sure there won't be a surge in philanthropy spending. If NGOs pepper companies with generic appeals that have nothing to do with the business, don't look for a wave of new company contributions.

America's corporate philanthropy is currently mired in a not-so-impressive place. To get it unstuck, thirteen irksome questions need thirteen persuasive answers.