

Philanthropy, Inc.

How today's corporate donors want their gifts to help the bottom line

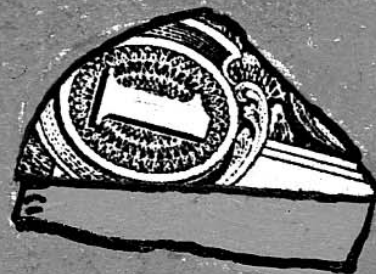
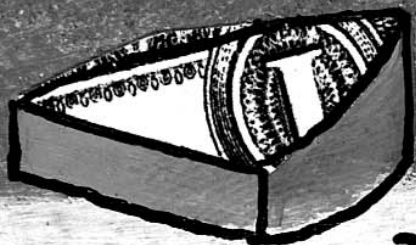
By Keith Epstein

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by KEITH EPSTEIN

FOR DECADES, the first stop for anyone in southern Arizona who wanted to raise funds for almost any good cause was the Hughes missile factory in Tucson. Since its founding by billionaire Howard Hughes in 1951, the place had always been associated with big money – both profits and a sweeping civic generosity. The company funded everything from the local symphony to the children’s museum, from the preservation of tribal lands to disaster relief.

Today the weapons complex is part of Raytheon, the fifth-largest defense contractor in the land, and Tucson’s largest employer. It also is still the area’s preeminent philanthropist, but the nature of its giving has undergone a profound transformation. That’s because about seven years ago Raytheon executives acted to realign their philanthropy more closely with the company’s commercial and strategic needs.

Why the change? “We were unfocused. We used to do a shotgun approach,” explains Diane H. Bissell, Raytheon’s community relations manager in Tucson. “It made a great number of people happy. But it didn’t force systemic changes in community programs or organizations important to us. We wanted to effect some change.” Specifically, the company decided to concentrate on efforts to improve math and science education throughout the region. Its reasoning was simple: Most of the people who work for Raytheon are engineers and scientists, and most of the people hired in the future will need these skills as well. “We’re building the workforce pipeline that will ultimately provide the whole region with economic stability and jobs,” adds Bissell. “It just makes good business sense.”

Today, Raytheon’s Tucson division gives away more money than ever, about \$13 million each year, but not much of it goes to traditional causes like healthcare, social services, the arts, or the search for cures. While the children’s museum still gets some support, now it is for a hands-on exhibit on

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math and science. “We have engineers and scientists, and we need engineers and scientists,” explains Carol Ramsey, Raytheon’s corporate contributions director. “Why would we fund a program for nurses aides?” Adds Bissell just as bluntly, “We don’t do funding for the arts.”

Tying Community Gifts to the Corporate Bottom Line

According to industry experts and the best available statistics, what’s happening at Raytheon in Tucson is one facet of a broad, historic shift in the nature of corporate philanthropy nationwide – and beyond. Although it goes by a variety of names – strategic philanthropy, cause marketing, values-led marketing, or just plain corporate citizenship, what is happening here is clear: In an attempt to become more strategic in their philanthropy, corporate donors are tying their gifts more closely to their company’s business objectives, short-, medium-, and long-term. “Where ten years ago a corporation might fund just about anything the office felt was a good cause, now they tie the giving directly to the bottom line,” observes John Harvey, executive director of Grantmakers Without Borders, a global network of donors and foundations.

Recently the pace of change has become quite dramatic, according to the Committee to Encourage Corporate Philanthropy (CECP), whose 100 CEO and chairperson membership represents companies that account for about 45 percent of reported corporate giving.¹ Between 2002 and 2003, for example, “traditional” charitable philanthropy by CECP members declined from nearly 60 percent to the low forties; “strategic” giving rose 15 percent, and “commercial” – strictly sponsorship – doubled, from less than 10 percent to nearly 20 percent.

Many reasons are cited for this trend: At a time of heightened competition, economic downturn, corporate scandals, and belt-tightening that reduces money for advertising, companies are seeking to differentiate themselves as they woo customers and attract and retain employees. In addition, corporations that until a decade or so ago still considered themselves to have a local base *somewhere*, increasingly are seeing themselves as global entities with global audiences. Since social needs, and the nonprofit organizations set up to meet them, are local by nature, it can be harder to make their case to a corporation that

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Raytheon’s support for the Tucson Children’s Museum is now limited to the hands-on math and science exhibit.

no longer considers itself so much a member of the local community as a citizen of the world.

In addition, corporate philanthropists, like many other types of donors, are becoming more focused on having a measurable impact with their gifts. In a recent roundtable with SSIR, several corporate CEOs pointed to the importance of having a focus to their company’s philanthropy in order to achieve results (see sidebar, p. 24).

Not surprisingly, this broad change in corporate giving patterns is starting to ring alarm bells throughout the nonprofit world. “Companies are giving money for sexy cause-marketing on the issues of the day, and to that end are very savvy about publicity,” says Steven A. Rochlin, director of research and policy development at Boston College’s Center for Corporate Citizenship. “Meanwhile, they are leaving out groups that are doing critical work but are not grabbing the headlines.”

Mary Biasotti, economic development director for Harbor House Ministries Inc., a small Oakland, Calif., nonprofit that offers English classes to immigrants and emergency food to the hungry, agrees. “Corporations want to attach themselves to an entity that is regionally or nationally known,” laments Biasotti, leaving organizations such as hers to fend for themselves.

“It’s like it’s got to be Mom or apple pie – cancer research, the homeless, or food for the hungry,” complains David A. Nuttle, president of Needful Provision Inc., a small nonprofit in northeastern Oklahoma engaged in a variety of local projects such as supporting Laotian refugees. “We’re trying to do niche areas, but it’s tough. Smaller causes like ours just can’t get that corporate support. I sometimes worry the steamroller will just run over us.”

Even though corporate foundations account directly for only about 6 percent of overall philanthropy in the United

PHOTOGRAPH COURTESY OF TUCSON CHILDREN’S MUSEUM

States, the disruption for community groups who depend on it is real. “Even people in corporations who we know well and are devoted to the orchestra are telling us quite honestly, ‘I have to listen to my marketing director,’” laments Susan Franano, executive director of the Tucson Symphony Orchestra, which formerly benefited from Raytheon’s largesse. “Nowadays if you don’t – or can’t – offer concrete ways for businesses to connect with your audience or your cause, your chances of funding from corporations are probably not really very good anymore.”

For Some Execs, Philanthropy Is Just Another Word for PR

The changes in giving patterns are engendering controversy inside the corporations as well as the nonprofits. “There is a large, extended community of people within the world of corporate philanthropy who are absolutely fed up and have had it with this,” said the director of philanthropy for a major technology corporation.

“Does it actually help anyone but the corporation? How many times does it even cover the cost of sponsorship, when you take out base pay and other costs? Do corporations support groups that are part of the solution – or Band-Aids?”

Indeed, not all corporate philanthropists are joining the trend – several high-profile firms such as Goldman Sachs and eBay continue to make a broad array of donations to groups unrelated to their specific business objectives (sidebar, above).

Taking a Broader View

Even as the trend toward cause marketing and other versions of strategic giving deepens in the world of corporate philanthropy, there are exceptions to this rule. One is the Goldman Sachs Foundation, formed around the time of the firm’s IPO in 1999, when its partners set aside \$200 million for an education endowment that does not really track directly in any but the broadest sense with the company’s business activities.

The foundation’s educational endowment has three main initiatives:

- 1) Developing high-potential youth, with a special emphasis on underserved and underrepresented groups in the African-American, Latino, and low-income communities.**
- 2) Advancing academic achievement through improving teaching in schools.**
- 3) Promoting entrepreneurship in business education.**

One example of an impact from its grants to date is a partnership with the Center for Talented Youth (CTY), which is based at Johns Hopkins University. When Goldman became involved with CTY in 1999, less than 1 percent of the students were African-American or Latino; today the proportion is more than 10 percent.

Chris Williams, communications officer for the foundation, acknowledges that one reason for the firm’s relatively nonstrategic approach to giving is that “they have no retail customers, which limits the drive for cause marketing.”

The company’s explanation for their priority on education is refreshingly simple: “We feel that education serves as one of the best ways for people to move to the next level in their development.”

The many quiet contributions by corporate foundations in years past to a variety of deserving corners have, in many instances, given way to the publicized marathon, glitzy charity ball, the star-studded golf tournament, and even, in one instance, a national bake sale designed to promote products and brands on network TV and in national magazines.

The chosen ones – causes and organizations selected by corporate foundations in longer-term marketing relationships –

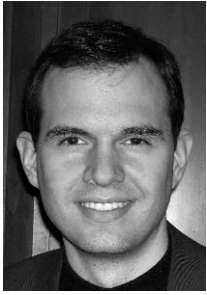
“We have engineers and scientists, and we need engineers and scientists. Why would we fund a program for nurses aides?”

–Diane Bissell, Raytheon

Nevertheless, the overall trend line seems well established. Doug Guthrie, an economic sociologist at New York University who specializes in organizational theory and corporate giving, says: “Philanthropy is increasingly related to the bottom line. There’s a market logic that has really won the day. The fact that corporations define whether or not they should be positively engaged with communities as being a business issue is very problematic for the whole field.”

sometimes reap huge rewards, and still more support, from their participation and increased visibility. The companies, meanwhile, believe these gifts enhance revenues and reputations, distinguish themselves from competitors while building customer and employee loyalty, solidifying relationships with business partners, selling more goods, and spreading goodwill.

Corporate executives realize, of course, that this approach overlooks many worthy causes. “There are some incredible



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needs out there,” acknowledges Anita Wheeler, president of the ConAgra Foods Foundation: “Physical suffering, human disease, social services, domestic violence, research needs – so much.” But she concedes that her company’s donations do not directly address those needs. Rather, ConAgra, which is among North America’s largest packaged foods manufacturers with annual rev-

enues of \$14 billion² (and brands like Butterball turkeys, Orville Redenbacher popcorn, and Chef Boyardee), devotes the majority of its philanthropy to one cause – albeit an important one – combating childhood hunger.

ConAgra underwrites 130 afterschool “cafés” in 37 states that serve hungry children hot meals,³ and a program that con-

PHOTOGRAPH COURTESY
OF STEVEN ROCHLIN

CEOs Believe Focused Giving Yields Greater Impact

Some CEOs point to a different reason for why corporations are more strategic in their corporate philanthropy. SSIR talked with CEOs who are members of the Committee to Encourage Corporate Philanthropy. Michael Roth is the chairman and CEO of the Interpublic Group of Companies; Sanford Weill is the chairman of Citigroup; Harold McGraw III is chairman, president, and CEO of the McGraw-Hill Companies; Jean-Pierre Garnier is the CEO of GlaxoSmithKline; Arthur Ryan is the chairman and CEO of Prudential Financial; William Parrett is the CEO of Deloitte; and Eugene O’Kelly is CEO of KPMG U.S.

Q What changes have you made to the corporate philanthropy program at your company?

Michael Roth: We have 850 reporting units, and I felt it was important to look at philanthropy from a total corporate perspective to make sure that it’s directed on some logical basis, as opposed to catch as catch can. So I think the most significant thing that I’ve done so far is to put an organized approach into look-

ing at corporate philanthropy from all our various business units to make sure that it’s consistent with the overall corporate objectives [of the company].

Sanford Weill: When I was the CEO of the company, I recognized two things – the need in the not-for-profit sector for really competent people and that there are very bright people that work in the corporate sector. The question is how can we marry those two?

For example, our partnership with the public school system in New York: I approached the Board of Education in New York to partner in creating a curriculum for financial education.

The program started in one school in Brooklyn in 1982. And it’s now in about 680 schools in 40 states with about 50,000 students. Around 90 percent of our students go on to higher education.

Harold McGraw: The two things that we have brought to our program

are focus and engagement. We were doing an awful lot of things, a lot of which was New York-centric, and we were also doing so many things that you didn’t have a clarity, nor could you leverage – as Sandy was just talking about – a particular area where you could really significantly make a difference.

So we were doing a lot of check-book philanthropy and lots and lots of giving, and there was no attachment to the rest of the organization. Now, financial literacy is one of the biggest components that we focus upon. Also, we insist upon engagement, both in terms of programs like volunteer day, as well as a volunteerism project throughout the organization. When we focus, we can be more involved.

Jean-Pierre Garnier: What I took over, I really felt that even though we were pretty generous, we could do more. Now, we spend more than \$500 million a year on philanthropic activities.

But more importantly, we also

tributes hundreds of thousands of pounds of food to America's Second Harvest, the nation's largest hunger-relief organization, through a network of over 200 regional food banks.⁴ The company's name is prominently displayed in the cafés and in media coverage of its efforts.

"What do we hope? That over time consumers will think: 'Oh! ConAgra Foods! I really like their products and they are doing some good things and that makes me feel good about their company and want to buy their products,'" explains Wheeler. "It's about reputation." It's also about sales: Just one cause-and-marketing promotion involving ConAgra's County Line cheese in the fall of 2000, in which customers who bought cheese were told they were also helping feed hungry children, exceeded sales expectations by 16 percent.⁵

Critics of tying philanthropy too closely to short-term objectives such as sales increases include Michael E. Porter, a Harvard Business School specialist in competitive strategy, and Mark R.

Kramer, managing director of the Foundation Strategy Group, who are also co-founders of the Center for Effective Philanthropy in Cambridge. "What passes for strategic philanthropy is almost never truly strategic, and often isn't particularly effective as philanthropy," they wrote in the *Harvard Business Review*. "Increasingly, philanthropy is used as a form of public relations or advertising."⁶

Blending Philanthropy With Core Business Strategies

One promoter of the changing emphasis in corporate giving believes that nonprofits will eventually benefit from greater corporate investment in what she calls "cause branding." "It's not about pure philanthropy anymore, quietly giving," says Carol Cone of marketing consultant Cone, Inc. "It's about business strategy, attracting the best employees, earning the license to operate, differentiating your brand in a competitive environment,

wanted to do programs that were inspiring to our own people. We have 120,000 employees, many idealistic scientists. So they had to be big, they had to be sustainable and make a tangible difference in the world.

Arthur Ryan: Our headquarters are in Newark, New Jersey, and Newark has not always had the greatest reputation in the world. So we've done a lot on urban education not only here, but elsewhere as well.

We engage employees. About two-thirds of employees are involved in some form of volunteer work. Lastly, we just crossed \$1 billion in what we call social investment loans. And it's either not-for-profit or for-profit startup, and generally in urban centers.

When you bring the three together, you get a lot more than the sum of the parts. That's what I've learned out of it, is that you really need to bring all of the resources that you have.

William Parrett: One challenge we have, being a partnership in [150] countries around the world, is that we tend to be very short term

focused. So we have to go back to the two assets we have, which is intellectual capital and the economics of the organization, and really put something in place that's appealing to the masses. So we've focused on things like trying to zero in on things where our people can make a difference, impact throughout 150 countries.

Q To what extent is your company's philanthropy aligned with its business interests? There are some nonprofits that say that because they're too small or they don't represent a very sexy cause, that it's hard for them to get corporate foundation support.

William Parrett: I think some of this is a bad thing, and some of it is good, and it's the free market system working. Some of the not-for-profits either don't have the resources, the capability, or frequently the cause no longer is a valid cause. There are more important causes. I think it would be helpful if there were a process for organizations that could focus upon the more important areas.

Sanford Weill: But there is a problem in what you're talking about because there are some very good small organizations that do really good work. And the way Sarbanes-Oxley is being interpreted has made it more difficult for companies to be involved in a small nonprofit. If somebody on the board of the company wants to be involved and goes on the board of this little organization, Sarbanes-Oxley says that his company either can't give any money to that, or they'll limit it to 3 percent or 5 percent of, you pick the number where they say the threshold is, which is so tiny that you can't make the contribution to the little cause anymore.

Eugene O'Kelly: One of the ways to combat this problem is not from a standpoint of starting with the money. But starting with getting our people passionate about it, because the money follows the people. So I think the strategy sometimes tends to be driven by a monetary approach as opposed to – if our people get involved, we'll get involved from a financial standpoint.

deepening relationships with core stakeholders. It's no longer a 'nice-to-do.' It's a 'have-to-do.'"

A November 2004 analysis in *Business Week* cited evidence in support of this view: "Supporting a popular cause is no longer optional. It's what you have to do just to get to the starting line with the newest generation of customers."⁷ Spending on cause marketing has risen from \$835 million in 2002 to perhaps \$1.08 billion this year, up 58 percent from 1999, according to estimates by the *IEG Sponsorship Report*, a Chicago trade



"In many cases today, the business objective is the primary motivation and the philanthropy is secondary."

—Howard Byck, Share Our Strength

publication.⁸ Back in 1990, IEG tallied cause sponsorship spending at only around \$120 million.⁹

There is some evidence that the strategy works to build brand loyalty among consumers. In a 2003 survey of teens by Alloy Inc., a youth marketing firm, 60 percent said they were more likely to buy from brands that support charitable causes they care about.¹⁰ When price and quality are equal, 86 percent of Americans would actually switch brands to help support a cause, according to a December 2004 Cone study.¹¹ A 2001 study estimated that 88 percent of employees aware of cause-related programs at their companies feel a "strong sense of loyalty" to their employers, while 53 percent chose to work there *because* of the programs.¹²

This modern marriage between marketing and social beneficence involves longer-term alliances that reinforce business relationships, enhance sales, and draw new customers using a wide range of integrated tactics, from enlisting business partners and employees as volunteers to major media campaigns.

Each year, a group called Share Our Strength organizes a "Great American Bake Sale" involving *PARADE Magazine*, ABC News, and the Betty Crocker division of General Mills. Stars from shows like "George Lopez," "Hope & Faith," "Married to the Kellys," and "Life With Bonnie" participate on the shows.¹³ For its part, Betty Crocker wants to drive sales. ABC wants more peo-

ple watching its network. The magazine, meanwhile, seeks to reinforce advertising relationships. Ordinary people do a lot of the heavy lifting, or baking—Girl Scout troops, college students, and others. Proceeds from their bake sales since 2003, sent to Share Our Strength, have amounted to \$2.7 million.¹⁴

"In many cases today, the business objective is the primary motivation and the philanthropy is secondary," explains Howard Byck, Share Our Strength's chief director of creative enterprise and marketing. Byck says that means that many companies

will no longer contribute or enter into partnerships without being convinced that four conditions can be met: The cause must be relevant to the company's services and products; there must be a good fit with the company's brand; the partnership must align well with the corporate mission; and finally, a specific business objective must be achievable through the partnership.

"You can't just be a worthy cause anymore," observes Byck. "You've got to be a *really* worthwhile cause—and there have got to be some marketable assets."

Not every cause, of course, can make the cut. "A corporation that wants a national reach is looking for a national organization," explains Byck. "If they want to market to your database, you'd better have a database. [The large senior citizens organization] AARP has a huge asset. Our big asset at Share Our Strength is this network of chefs and restaurateurs people want to gain access to. So by the nature of that, some nonprofits are disqualified—the smaller ones, the less sophisticated ones. Even those who have the sophistication but not the assets won't make it."

Ask Not: 'What Can the Corporate Sector Do for Me...'

Many practitioners of strategic philanthropy say they have no qualms about the changing relationship between corporate donors and nonprofit organizations. "I do not think there is anything shameful about a corporation thinking about business objectives," says David Hessekiel, whose Cause Marketing Forum, Inc. develops what he terms "mutually beneficial commercial relationships" between companies and causes. The best nonprofit players in cause marketing, he says, are groups such as First Book, experts at generating publicity around book dona-



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tions. One of the key questions from a corporation's point of view, he says: "Does the nonprofit bring something to the party?"

People who complain about important causes left behind are "purists," says Byck. "We aim to make that pie bigger. Some people still want to go the traditional philanthropic route, but it's better, I think, to help companies achieve business objectives while doing good. The reality is they are rewarded by Wall Street. So if we can help them, and show that, and also help our cause, it's all to the good."

Advocates of cause marketing like Carol Cone argue that it provides the kind of boost the Third Sector and society need, especially when government-funded human services are declining and nonprofits are feeling squeezed for dollars. A case in point is the "Grow Up Great" program of Pennsylvania-based PNC Financial Services Group, which supports early childhood education. That focus arose because other banks were "gobbling up market share" and threatening to capture the attention of consumers. The chief executive wanted something to "wrap the brand around." Cone came up with what she calls "a signature cause program" that would enhance the PNC brand and set it apart from the growing competition.

"Everybody says, 'Why is a bank doing this?'" Cone acknowledges. "Well, if a bank doesn't have a strong presence in its communities it won't have a good business." PNC garners, in effect, free advertising noticed by an estimated 564 million readers or viewers.¹⁵ Instead of having to buy expensive airtime, TV stations report vignettes on newscasts about early childhood, and offer time for free public service announcements, known as PSAs, explains Cone, so that "throughout the footprint you hear about all these great things PNC is doing. Does it help the business? Of course."

There's another advantage for companies, too – the one many nonprofits fear. "When you do a signature cause program, you can do an exit strategy from other causes and business objectives," explains Cone. Having a set of factors on which to guide decisions about causes to keep and causes that are a bad match for strategic objectives "allows a company over time to get out of other causes. Over time, they will have a filter for all their philanthropy. In the case of PNC, it must be child-focused or it will not be supported. This can be immensely helpful in making decisions."

The "filters" will separate the winners from the losers of corporate largesse. Who are the losers in PNC's case? Like other corporations contacted for this article, the company declined to say, though it did confirm some are important institutions such as community hospitals.

Their flaw: They have nothing to do with the education of young people. "Yes, there are some causes and nonprofits in the communities where we do business where it won't be a fit anymore," acknowledges Patrick McMahon, PNC's vice president for media relations. "Quite frankly, there are other, usually



Marketing consultant Carol Cone argues that "cause-marketing is no longer a 'nice-to-do.' It's a 'have-to-do.'"

smaller local grants and sponsorships that we simply will no longer do. They don't fit into the focus."

What's a charity to do? "Nonprofits are going to have to be more strategic," warns Cone, noting that over the long term a "rising tide raises all ships." She explains: "They're going to have to offer more. They can't just be doing good. Smaller nonprofits will have to be more sophisticated about what they deliver, if they want to partner with someone. The whole game has changed." □

1 CECP Web site: www.corphilanthropy.org/cdoc/cecp.html.

2 *Omaha World-Herald*: "ConAgra Foods, Inc." March 27, 2005.

3 www.feedingchildrenbetter.org/pages/ourmission/kidscafe/map/index.jsp.

4 www.feedingchildrenbetter.org/pages/ourmission/kidscafe/map/index.jsp, www.conagrafoods.com/leadership/community_children.jsp.

5 ConAgra press release: Nov. 14, 2001. "Country Line Promotion Helps Feed Hungry Kids."

6 "The Competitive Advantage of Corporate Philanthropy," *Harvard Business Review*, December 2002.

7 Lauren Grad, "We're Good Guys, Buy From Us," *Business Week*, Nov. 22, 2004.

8 IEG Sponsorship Report: April 11, 2005. Vol. 24, No. 6. www.iegsr.com.

9 Cause Marketing Forum: www.causemarketingforum.com/page.asp?ID=188.

10 Grad, "We're Good Guys, Buy From Us."

11 Cone, Inc. press release. "Multi-year study finds 21% Increase in Americans' Support of Social Issues," Dec. 8, 2004.

12 Carol L. Cone, Mark A. Feldman, and Alison T. DaSilva, "Causes and Effects," *Harvard Business Review*, July 2003.

13 www.greatamericanbakesale.org/site/PageServer?pagename=meet_abc, www.strength.org/what/greatamericanbakesale/,

www.greatamericanbakesale.org/site/PageServer?pagename=meet_home

14 www.strength.org/what/greatamericanbakesale/.

15 *PRWeek* Press Release: March 8, 2005 "PRWeek Awards 2005, Social Education & Philanthropy."