

Case Study

Corporate Philanthropy at Cisco Systems Aligning Business and Social Interests

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AT
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systems

Aligning Business and Social Interests

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How do corporate culture and values focused on business success promote effective philanthropy?

How can use of corporate assets for philanthropy leverage business success?

Can corporate business and philanthropic strategies be truly aligned?

Companies engage in philanthropy for a variety of reasons: personal interest on the part of the CEO, a sense of responsibility to the community in which they do business, public relations, employee morale. Whatever the reason, corporate philanthropy is seldom integrated harmoniously into the fiber of a company, with the company's values, culture, and resources leveraging both business and philanthropic efforts. The case of Cisco Systems, a global provider

of Internet networking products, however, lends insight into how business and philanthropic objectives can be mutually reinforcing.

Cisco's philanthropy is not notable for the total number of dollars spent. Nor does it advertise, promote its philanthropic efforts, or sponsor tables at social events.¹ And it does not direct its philanthropy toward promoting the personal interest of corporate executives.

What is notable is its strategic clarity and focus on solving important social problems that impact Cisco's current or future business. Of equal importance is its ability to leverage philanthropic efforts to achieve maximum lasting results.

Cisco's Philanthropic Evolution

Philanthropy at Cisco began with

small-scale activities focused on community relations. As the company evolved from a small startup to a major corporation, it developed a philanthropy program designed to make a significant impact by leveraging the technical and intellectual capabilities of its employees, together with a thoughtful use of cash. Cisco's philanthropic development embodied a company culture that remained consistent through three generations of leadership – from co-founder Sandy Lerner to Chairman and CEO John Morgridge to current CEO John Chambers.

The question of whether philanthropy is an appropriate function of corporations is hotly debated in board rooms and business schools. "The only 'social responsibility' of business is to increase its profits," famously stated



Students at Cisco's Networking Academy. The academy serves Cisco's philanthropic as well as its business objectives.

Nobel laureate Milton Friedman.² “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.”³

This was never an issue at Cisco, however, due to the values and perspectives of the company's founder and subsequent leadership. Thus, Cisco's philanthropy has been viewed by employees, management, and shareholders as “the right thing to do,” and never been a source of conflict inside the company.

Lerner believed that lasting success depended on three things: profits, people, and presence. In addition to meeting shareholders' profitability needs, she believed that a company must meet the

needs of employees and the community. Before Cisco could afford to give financial support to the community, it “adopted” an elementary school in the depressed neighborhood across the street from its facility. Employees painted the buildings and mentored students.

By 1992 Cisco was a profitable, fast growing public company, and it began providing financial support as part of its community outreach. For the next five years, Cisco's philanthropic program grew together with the company; it was, however, unfocused – a series of independent actions rather than a coordinated strategic effort.

A turning point occurred in 1997, when Cisco gained \$64 million from an investment in a startup company purchased by a competitor. Morgridge decided that this money would be used

to create the Cisco Foundation. It was seen as the most effective way to make an impact and lay the groundwork for a long-term, focused philanthropic effort. Two years later, Cisco liquidated its position in another company, bringing the total endowment to \$137 million.

Establishing an endowed foundation helped Cisco move its philanthropic activity from reactive to proactive, and from transactional to strategic. It also insulated the foundation's assets from economic downturns. Cisco now had a well-funded organization dedicated to philanthropy, with plans to distribute approximately 10 percent of its endowment annually to help support basic needs, education, civic responsibility, and nonprofit technology programs.

Corporate Philanthropic Strategy

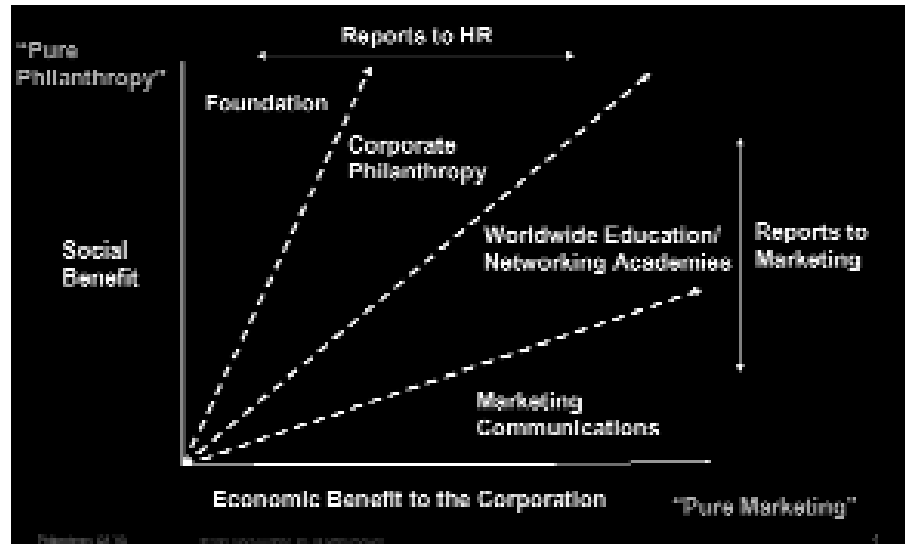
To be effective, the foundation needed a well-conceived strategy. Tae Yoo, a longtime Cisco executive, took charge of the philanthropic efforts, and recruited a team to help develop a philanthropic strategy consistent with the company's business strategy.

Over the next several years, the team created a program that integrated philanthropy into the overall corporate activities. According to the Cisco Foundation annual report in 2000, "Cisco philanthropy mirrors the strategy of all business at Cisco Systems. Cisco is about networking, and networking is ultimately about bringing people together in all aspects of life. We are working to translate the networking skills and resources we possess as a company into powerful possibilities for the community."

Cisco's philanthropic program draws resources from throughout the company: The foundation provides funding for matching employee donations and for philanthropic grants, and the Community Investment Fund (CIF) complements the foundation's efforts. In addition, operational departments fund philanthropic activities that marry their business interests and desire to invest in their local communities. The overall effort is coordinated by the corporate philanthropy team.

Morgridge takes Lerner's philosophy on corporate philanthropy a step further. "When [business and social] objectives come into alignment," he said, "both benefit," pointing to research

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showing that people are likely to do business with a company that they see as helping the community – even if they can get a better financial deal elsewhere. He also noted that corporate giving programs can be important in attracting and retaining employees.⁴

While all activities in a strategic philanthropy provide benefits to both the community and the company, programs may be managed differently depending on the relative magnitude of social and economic benefits⁵ (See above).

At Cisco, programs whose primary benefit is social are part of the corporate philanthropy organization, while those with greater economic benefits to the company may be initiated and managed by operational departments.

The company's philanthropic mission, "We focus on education, basic needs, and increased civic engagement,"⁶ could be viewed as a cycle (See figure p. 71), in which meeting basic needs, such as shelter and food, enabled improvement in education, which empowered responsible citizenship and sustainable communities. Technology is an important driver of the cycle, enabling nonprofits to increase efficiency and productivity in providing services that address these issues.

While Cisco has a large number of philanthropic programs worldwide, three will illustrate the company's strategy.

Meeting Basic Needs

The Habitat for Humanity program addresses the basic needs portion of the philanthropy cycle. Cisco believes that when communities have shelter, they can then begin to address other areas of development, such as education.

Cisco supports Habitat for Humanity with both money and employee time. Employees work on Habitat houses in a team-building activity with others in their Cisco work group. In addition, Cisco either prewires the houses for Internet access, or partners with a local company that builds a technology center, providing residents with access – important for overcoming the digital divide and sparking community development.

Cisco believes that the Internet makes the company a global presence, regardless of whether or not it has any physical facilities in a particular country. Its social responsibility, therefore, extends to developing countries, even if these regions are not yet important markets. The Cisco Foundation has funded construction of more than 200 houses in Ghana, South Africa, and Kenya – at a cost of nearly \$1 million; but the company does not have any offices or employees in Ghana or Kenya.

Leveraging Business and Technical Expertise

The Second Harvest Food Bank also addresses basic needs, but Cisco's support

CASE STUDY



also illustrates the value of using the company’s core technology to leverage philanthropic results.

Second Harvest Food Bank of Santa Clara and San Mateo Counties receives and distributes 24 million pounds of donated, surplus, and purchased food to 670 agencies. These agencies, together with Second Harvest’s direct distribution program, provide food to over 159,000 low-income people monthly, half of them children.

Cisco’s support of Second Harvest Food Bank of Santa Clara and San Mateo Counties began in 1993. Second Harvest met an important but basic community need – providing food. The organization was a single point of contact with a wide distribution, providing the opportunity for maximum potential impact. Since Cisco understood the distribution business, it was well-positioned to help leverage Second Harvest’s activities. In addition, Second Harvest was an affiliate of a national organization, which could serve most communities in which Cisco had employees. Finally, Second Harvest had an effective program already in place to engage corporations; Cisco, therefore, did not need to set up a new one. Cisco provided support in three areas: money, food, and volunteers. Employees assisted in the food-sorting process as part of team-building activities.

In July 2001, seven Cisco employees joined Second Harvest as “community fellows” – a staff reduction program in which employees took positions at non-profit organizations (Sidebar, p. 72).

For Second Harvest, managing the receipt and distribution of the large amounts of food – gathered from a wide range of sources and distributed through a large number of agencies – was a challenging task. Its technology platform was not sophisticated, consisting of databases developed from a number of unrelated programs that were not integrated, meaning that compiling data was diffi-

cult, time-consuming, and prone to error. Analysis and report preparation were inefficient, and there were additional problems in network infrastructure and desktop computer support.

These problems were well-known to Second Harvest’s newly hired information technology director, who began developing a plan to address them that had a three-year horizon and depended upon third-party consultants. The community fellows provided Second Harvest with the expertise they needed to implement the technology plan in a much shorter time, and with more capability than originally envisioned. The program worked in five areas: business processes, core applications, database integration, infrastructure upgrades, and Web initiatives.

By January 2003, the community fel-

lows had provided consulting services valued at more than \$1.1 million, resulting in improvements in efficiency and enabling the organization to be more effective in soliciting and processing donations. These efficiencies provided savings of more than 450 person-hours per month for Second Harvest staff. The fellows also developed an Internet infrastructure and strategy for Second Harvest, and ultimately a plan to make the improvements available to other food banks, further leveraging their efforts.

Second Harvest estimated that these accomplishments had a value equal to the ability to purchase an additional 2.5 million pounds of food, creating more than 2 million meals. “With this new technology,” said Director of Finance Sophia Juarez, “we strongly believe the Cisco fellowship program has laid the foundation for what promises to be an efficient system that will result in better services, not just to [Second Harvest’s] recipients, but hopefully to other organizations with similar needs.”⁷

Cisco also benefited from the relationship, gaining important experience in understanding the needs of the non-profit sector – a developing market for its products. In assisting the local Second Harvest, it identified product and service needs that were common to other affiliates of America’s Second Harvest

By the Numbers: Overall Philanthropic Giving

In the five-year period ending July 31, 2002, Cisco’s philanthropic giving totaled more than \$212 million. The following is a breakdown of giving for the fiscal year ending July 31, 2002:

Organization	\$ Million
Cisco Foundation	11
Community Investment Fund (CIF)	26
Business Departments	20
TOTAL	58

(This data is approximate, illustrating the general scale of giving. CIF giving includes cash plus in-kind donations.)

and other nonprofits. The information is currently being shared with several other food banks around the country, through a food bank technology task force initiated and led by a Cisco community fellow. Finally, three of the community fellows working with Second Harvest were hired by the nonprofit, and two returned to Cisco, bringing a new perspective and understanding of the nonprofit market.

Training the Workforce of Tomorrow

The rapid growth of the Internet in the late 1990s, and the continued growth of Cisco's business, depended upon the availability of qualified network administrators. In 1997, Cisco began to address this shortage by developing a Networking Academy program that would enable high schools and community colleges to train students for technology careers. Cisco provided the curriculum, while the schools purchased the equipment at a substantial discount. The program was

originally developed by the marketing department. The initial effort was successful, and Cisco expanded the program so that it could have a much broader impact. By 2003, it was operating 10,065 academies in all 50 states and 152 countries, with a curriculum in nine languages. It has trained 439,873 students and 22,676 teachers.⁸

One example of the integration of business and philanthropic activities is the use of the Networking Academy program at the Menlo Park, Calif.-based Opportunities Industrialization Center West (OICW). OICW is a nonprofit training program for welfare recipients that partners with other organizations that provide complementary services, such as childcare, workplace wardrobes, and assistance with resume writing. The organization had been a neighbor of Cisco's during the company's early years. A training program would provide opportunities for high-paying technology jobs for OICW clients, and also provide a source of trained workers for compa-

nies likes Cisco as well as nonprofits.

In 2000 Cisco designed a customized program to meet the needs of OIC, which, unlike other Networking Academies, served an adult population of welfare recipients rather than a student population. The company donated equipment to OICW, designed an intensive six-month certification program, trained staff, gave technical support, and provided an employee to teach for the first two years. The executive director of OICW also approached Sun Microsystems, and arranged for Sun to donate equipment and provide a similar training program. The resulting Cisco/Sun Academy heavily leveraged the corporate efforts of both companies and built a program that could make a substantial impact on the community. As OICW Executive Director Sharon Williams observed, when technology jobs were plentiful, "The whole community knows about [the academy program]. If you're lucky enough to get into the program, you've got a ticket out of poverty." The

Layoff Program Turns into Leadership Program

In the summer of 2001, Cisco's business dramatically declined, prompting the company to reduce its workforce. The Community Fellowship Program was developed in order to maintain the company's commitment to its employees through this period while at the same time benefiting the community.

Rather than take a separation package, 81 employees agreed to accept one-third of their salaries, plus benefits, to work for nonprofits for one year. Employees were selected for this program following interviews with both Cisco and the 21 participating nonprofits, based on the skills they would bring to the organizations.

A number of the original community fellows returned to Cisco after working at nonprofits, and the company realized that this was an effective personal growth tool. "Before the Cisco fellowship program," said Richard Kelley, "my working experience had been perhaps 90 percent technical and 10 percent personal interaction. ... A

tangible benefit for me has been the experience working for a year in an intensely interactive environment with extremely dedicated NGO professionals." Kelley returned to Cisco and now works in its program management office, where he manages relations with major customers, Cisco's account teams, and the various business units. "The Cisco fellowship experience," said Kelley, "has increased my ability to communicate and resolve differences between these groups that have very different views and goals."

Instead of being discontinued after Cisco ceased using layoffs to reduce its workforce, the program evolved into the Community Leadership Fellows program, which now loans high-potential Cisco employees to strategic nonprofits for three to six month projects at full pay. "If managed well, corporate philanthropy can be an integral part of a company's strategy, regardless of the state of the economy," said Chairman and CEO John Morgridge.

program was valuable to the community even during difficult economic times. “Tech jobs are much harder to find, but most of our students are becoming certified,” Williams said recently. “Even those who do not land a training-related job right away know that they will be qualified for a tech job when the economy recovers.”

Entering and Building New Markets

The Networking Academy program is also active in countries in which Cisco has no physical presence, with the curriculum available online. Beth Murora, for instance, a Rwandan with a bachelor’s degree in public administration, completed the program in Ethiopia. Upon returning to her homeland she plans to provide technical training to women to help them run organizations and develop businesses.”⁹

Morgridge notes that when he visits governmental leaders in countries where Cisco has a limited presence, such as Rwanda, he is often asked to invest in the country. “We already do,” he is able to reply. “Our Networking Academies have graduated 65 students in Rwanda, taught by your own people. And we plan to keep on investing in training your citizens to be part of the future technology-based world economy.” As a result, Cisco is respected and welcomed when it enters new countries.

Business and Philanthropic Synergy

When business and philanthropic interests are integrated, Morgridge said, “It is sustainable, and can leverage all of the assets of business, not just the profits ... not just the tables that they buy, not just the checks that their senior executives write to their favorite organizations, but all of the [organization’s] capabilities. Corporations like Cisco have expertise, technical understanding, trained human capital, an array of products and ser-

Cisco Philanthropy Staffing

Cisco’s philanthropy organization is continually evolving, but mid-2003 staffing assignments are as follows:

COMMUNITY INVESTING

Director of corporate philanthropy
 Program manager, employee giving and corporate volunteerism
 Program manager, product grants and technology program
 Two program managers, Cisco community fellows/leadership program
 Manager, corporate social responsibility (CSR) and measurement

CISCO FOUNDATION

Executive director
 Person responsible for grants administration (consultant)
 Web designer (consultant)¹

GLOBAL PARTNERSHIPS

Manager, civic councils and global programs in North America
 Manager, civic council, CSR, and global programs in Europe, Middle East, South America, and Asia

The managers of each group report to Maideh Radpour, director of corporate philanthropy, who reports to Tae Yoo, vice president of corporate philanthropy.

¹ Cisco paid half of the Web designer’s salary, with the foundation paying the other half.

vices, and we know how to do projects. When properly aligned, we can bring all of these to bear in corporate philanthropy together with our philanthropic partners.”¹⁰

Cisco Systems has developed a philanthropic program that is integrated throughout the company, with a strategy that is consistent with the company’s business direction and corporate resources. As in its business endeavors, the company concentrates on efficient use of resources to achieve maximum results, and aligning and reinforcing the business and philanthropic strategies. □

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1 When sponsoring a table is unavoidable, a corporate executive typically donates personally.
 2 Friedman article in the *New York Times Magazine*, quoted in Porter, Michael E. and Kramer, Mark R. “The Competitive Advantage of Corporate Philanthropy,” *Harvard Business Review* (Dec. 2002): 6.
 3 Friedman, M. *Capitalism and Freedom*, as quoted in Porter.
 4 Morgridge, John. “Corporations Can Do Well By Doing Good,” *iQ Magazine* (May 21, 2001).
 5 Cisco works with legal counsel specializing in the laws governing charitable activities to ensure that management decisions about social and economic benefits of particular activities are informed by the laws governing charitable organizations.
 6 Vision and mission statements from: http://www.cisco.com/en/US/about/ac48/about_cisco_community_and_philanthropy_home.html (November 22, 2002)
 7 Quoted in Cisco Systems and Second Harvest Food Bank report, “Cisco Fellowship Program at Second Harvest Food Bank of Santa Clara and San Mateo Counties.”
 8 Statistics from Carless, Jenny. “Cisco Networking Academy Program: Five-Year Fast Facts,” *News@Cisco* (April 3, 2003).
 9 Carless, Jenny. “Cisco Networking Academy Program Celebrates Five Successful Years,” *News@Cisco* (April 3, 2003).
 10 Morgridge, John. Speech to the Global Philanthropy Forum, Stanford University, June 6, 2003.