The Future of Corporate Philanthropy: A Framework for Understanding Your Options

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It is hard these days to read a business journal without coming across at least one article touting the "next big thing" in corporate philanthropy. Over the last several years we have seen articles naming the new frontier as "integrated corporate philanthropy," "context-focused philanthropy," "corporate social marketing," "collaborative social initiatives," "bottom of the pyramid," and "corporate social opportunity." All of the pieces describe important strategic advances in corporate giving, but they rarely recognize the full range of philanthropic options available to a business, or the internal motivations and external contexts that can guide a company's charitable choices.

Having spent much of the last decade helping corporations, foundations, and other social sector organizations—including the corporate grantmaking services unit of the national Council on Foundations—to think about the future of philanthropy, we are convinced that finding the right approach to philanthropy for your business is actually an extremely individualized and contextual activity. It is a matter of matching the internal goals and philosophies of your organization with the changing competitive and global context that you are operating within. This article won't tell you which strategy your company should use. It won't help you decide about whether to try cause-related marketing, corporate-nonprofit partnerships, or employee volunteer programs. Instead, it lays out a conceptual framework that can help you understand the wide array of options that are available to you, and how uncertainties in the world around your company might influence your choices.

Understanding the historical context for corporate philanthropy
It is often forgotten that corporate philanthropy is still a relatively new phenomenon. For most of the first half of the 20th century, American legal restrictions largely prevented corporations from meddling in social affairs unless there was a clear business purpose. But in 1953, the New Jersey Supreme Court ruled that A.P. Smith Manufacturing Company, a manufacturer of fire hydrants, could make a charitable donation to Princeton University with no "direct benefit" expected to the company. This cleared the way for dramatic growth in corporate contributions and launched the development of the field of corporate philanthropy.

Over the next several decades, the corporate giving that evolved was dominated by two primary characteristics: (1) it was relationship-based, with corporate CEOs ("gentlemen executives") giving to organizations and causes they cared about, or bartering contributions to the causes of their friends; and (2) it was local and focused on the community where the company was based and its employees lived. Giving wasn't a part of the larger business strategy; it was something that the company, or its executives, did in order to be a good citizen of the place where the corporation was headquartered.

The hyper-competition and globalization of the 1970s and 1980s fundamentally changed the landscape within which corporations operated. The new competitive international environment altered the relationship between many corporations and the places where they were based.

Corporate mobility and trends such as off-shoring and outsourcing un-tethered companies from specific geographies, breaking many businesses' longstanding relationships with their communities, workforces, and environments. In this environment, philanthropy often became a way to mitigate the negative impacts of these broken connections.

The changing relationships between corporations and communities also led people to begin to question many of the older approaches to corporate giving. To some grantmakers, the traditional, time-honored practices of philanthropy no longer fit the changing business environment. What remained unclear, though, was what would emerge in their place.

At the root of the issue was a much larger debate about the role of business in society. At one end of the spectrum, economist Milton Friedman and others have dismissed business's role in social and environmental issues. According to Friedman, "There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits." At the other end of the spectrum, corporations like The Body Shop, Whole Foods, and others argued that businesses have a responsibility as "citizens" to "give something back" and to look out for not only profits, but also the social and environmental outcomes of their decisions.

While the discussion is often posed as a black and white dichotomy, the distinctions are not so clear, and a company need not operate at one end of the spectrum or another. As early as 1981, American Express was pioneering the practice of cause related marketing by developing a corporate sponsorship to raise money for restoration of the Statue of Liberty in return for exclusive rights to use the campaign symbol in the advertising and promotion of sponsor products and services.

About ten years later in the *Harvard Business Review*, corporate social responsibility expert Craig Smith was one of the first to articulate a position that straddled the two philosophies by proposing what he called *strategic philanthropy*[1] as the "new corporate philanthropy." Strategic philanthropy, he argued, represented a new paradigm that could provide social benefit while also increasing long-term profits. Companies could develop giving strategies that lead to a competitive edge: increasing name recognition among consumers, fostering partnership between business units, and improving employee morale and loyalty.

Since then, efforts to integrate philanthropic activities with corporate strategy have begun to blur many of the boundaries between corporate philanthropy and a broader set of activities related to corporate social responsibility and corporate citizenship. According to Stuart Hart in his book, *Capitalism at the Crossroads*, "What had been a virtual firewall separating business from philanthropy [is] now transforming into a host of new and creative approaches to combining the two…."[2]

But even as some corporations have explored new ways to integrate their philanthropic efforts with their core business strategies and competencies, others have maintained older traditions of charitable giving. And still others have become much more focused in their philanthropy and

[1] It is important to note that the term "strategic philanthropy" means very different things to different people. Where Smith introduced the term to specifically describe the integration of philanthropy into the corporate business strategy, many people use the term more generally, to describe any deliberate philanthropic effort focused on accomplishing a clear set of well-defined social or environmental objectives. Because of the dual meaning, we deliberately avoid the word "strategic" in this piece as a way of avoiding any confusion.

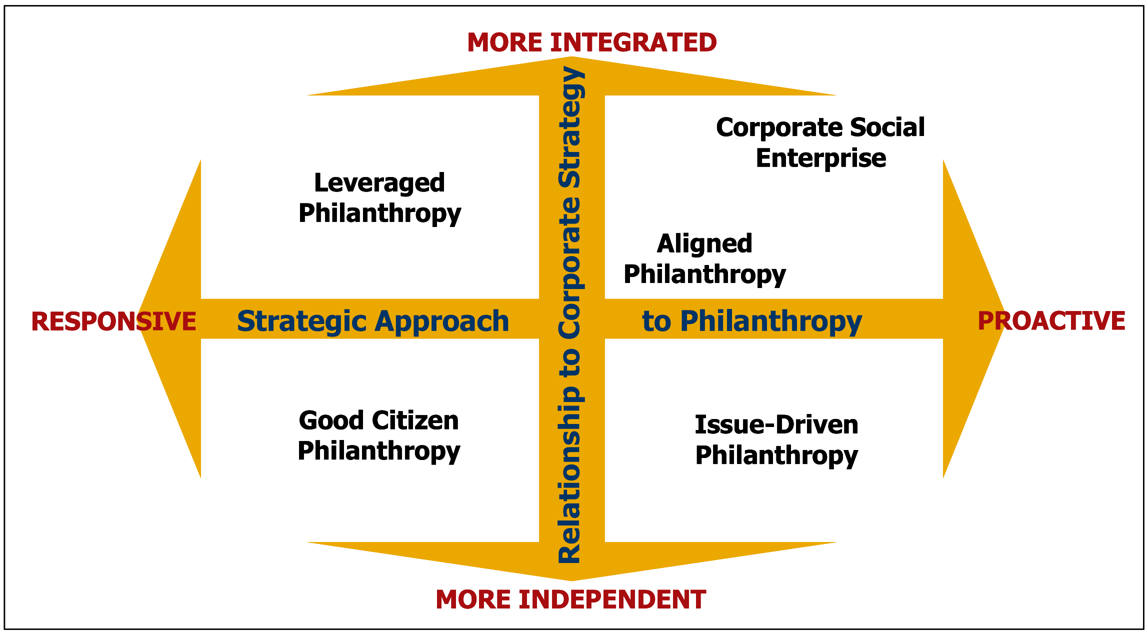
[2] Stuart Hart, *Capitalism at the Crossroads: The Unlimited Business Opportunities in Solving the World's Most Difficult Problems*, Wharton School Publishing, 2005.

have begun to give in a coordinated way to try to achieve targeted goals related to chosen social or environmental issues.

A Framework for Finding the Right Approach for Your Company

With such a diversity of approaches, it is often difficult for a corporation to identify the appropriate strategy for their philanthropy. The corporate philanthropy strategy matrix (Figure 1) provides a framework to help you think about your philanthropic options. The matrix identifies two key axes of choice for corporations: (1) how integrated with the larger corporate business strategy you want your philanthropic activities to be; and (2) how responsive or proactive your company wishes to be in its approach to philanthropy.

Figure 1: The Corporate Philanthropy Strategy Matrix



In the bottom left quadrant of the matrix we find businesses focused on "good citizen" philanthropy—both responsive to particular needs and relatively separate from the overall business strategy. Here a corporation typically receives and supports grant proposals and funds nonprofits that aren't necessarily related to corporate goals. Examples of this approach include those taken by companies like Baxter International, a global healthcare firm that funds small, community-based health organizations whose programs are explicitly distinct from the company's business strategy; or Clorox, which has outsourced its corporate giving program to a local community foundation as a way of ensuring that grantmaking is closely connected and responsive to local community issues.

We call the upper left quadrant, "leveraged philanthropy," to describe the way companies leverage the capabilities of their core business strategies in their philanthropy, but aren't proactively using that giving to tactically advance long-term social and economic goals. This quadrant has been extremely visible in the last several years in the way that a wide range of businesses have responded to recent natural and man-made disasters, as corporations were able to step up in relief and recovery efforts in ways that governments could not. Examples of this approach include FedEx's response to Hurricane Katrina, which used the firm's expertise in distribution systems and logistical management to help provide support and supplies to hurricane victims, or Pfizer's response to the tsunamis in Southeast Asia, which mobilized health and disease experts and environmental health and safety professionals within the firm to work with NGOs to help in recovery efforts. Also in this quadrant is another type of giving focused on relationship-building, where grants are made as a way of building and cementing domestic or international relationships that are important to the business strategy.

In the lower right quadrant we find organizations undertaking what we call "issue-driven philanthropy." In this approach, a corporation's philanthropy is focused and systematic, aiming to make a clear impact on explicit and well-defined social or environmental objectives. They are attempting to be effective grantmakers, without a clear relationship to the company's main line of business. Goldman Sachs, for example, has long taken a proactive approach to addressing educational issues; and Patagonia has given 10% of pre-tax profits or 1% of sales, whichever is greater, each year to environmental groups since the mid 1980s. It is important to note that some of the companies that operate in this quadrant are more focused on aligning their giving with their company's core competencies than others (placing them closer to the upper right quadrant). Citigroup, for example, has partnered with New York City public schools to help develop a curriculum for financial education. And IBM has developed a very focused giving program around lifelong education, particularly in math and science, that fits well with its organization's core competencies. But the benefit of these efforts is still focused more on social good than on potential outcomes that specifically improve the company's operating environment.

These three approaches give businesses a wide range of options for their philanthropy. But the fourth quadrant—incorporating efforts that are both more integrated and more proactive—is still an emergent space, that isn't yet defined by any single strategy. In their recent *Harvard Business Review* article, "Strategy and Society: The Link between Competitive Advantage and Corporate Social Resonsibility," Michael Porter and Mark Kramer highlight a range of the approaches that corporations can use in thinking about their social activities relative to corporate strategy.[3]

To many experts, this fourth quadrant is the area that may define the way the field of corporate philanthropy is headed. Efforts of this sort can go by many different names:

- Context-focused philanthropy, where businesses use their charitable efforts to improve their competitive context—the long-term business environment in locations where the company operates;[4]
- Corporate social marketing, where a company launches a social initiative that produces social outcomes that may also change consumer behavior to build markets and benefit the company;[5]
- Collaborative social initiatives, characterized by coordinated, long-term initiatives staged strategically in collaboration with commercial and noncommercial partners;[6]

[3] Michael Porter and Mark Kramer, "Strategy and Society; The Link between Competitive Advantage and Corporate Social Responsibility, *Harvard Business Review*, December 2006.

[4] Michael Porter and Mark Kramer, "The Competitive Advantage of Corporate Philanthropy," *Harvard Business Review*, December 2002.

[5] Philip Kotler and Nancy Lee, "Best of Breed," *Stanford Social Innovation Review*, Spring 2004.

[6] John Pearce and Jonathan Doh, "The High Impact of Collaborative Social Intiatives," *MIT Sloan Management Review*, Spring 2005.

- Base of the pyramid strategies, where companies develop business models that allow them to serve the world's 4 billion poorest people, opening new markets, but also helping to meet the basic needs of poor communities;[7] or
- Corporate social opportunity, where corporate efforts with social and environmental benefit are seen as exciting opportunities for a business, rather than as "responsibilities" that must be managed.[8]

There is so much activity in this quadrant that even as we tried to simplify the overarching principle, we needed to use more than one descriptive category to describe all of the various approaches. The first type of activity we call "aligned philanthropy." In aligned philanthropy, a company uses its philanthropy to do social good, but to also create indirect benefits to the corporation. Examples include the efforts of Safeco, whose "Fire Free Program" has helped encourage homeowners to create safer, defensible spaces around their houses to protect against forest fires, while also reducing insurance claims due to wildfires; Anglo American, a global mining and natural resources company that has done extensive work in Africa on HIV and AIDS, not just in general, but as a way of ensuring the health and well-being of its workforce; or Coca Cola, which has begun ambitious efforts focused on water quality, drinking water, and sanitation, recognizing that clean water supply issues would ultimately have a significant impact on their production in locations where there is water scarcity.

Other efforts focus on influencing the market for a company's products. The Cisco Network Academy, for example, trains computer network administrators, alleviating a potential constraint on its growth while providing attractive job opportunities to high school graduates. And Apple Computers has long donated computers to schools as a way of introducing its products to young people.

Still other companies are developing interesting philanthropic partnerships, like the RED project, initiated by Bono, with American Express and a number of other companies, that gives a fraction of proceeds to AIDS, but also helps companies reach markets that typically wouldn't use their products; or BP, which recently struck a deal with the University of California at Berkeley that gave the school and its partners $500 million over 10 years for a research effort to develop new sources of energy and reduce the impact of energy consumption on the environment, in exchange for non-exclusive access to intellectual property that is developed through the collaboration.

The upper right quadrant is also occupied by a category of activity that we call "corporate social enterprise,"[9] which is no longer simply a matter of philanthropy, but in fact a process of developing business models that integrate social and economic goals into the business strategy. The Nobel Peace Prize-winning Grameen Bank, for example, has been providing credit and microlending services to the rural poor in Bangladesh since the late 1970s, helping previously ignored poor communities and showing their potential as commercial markets. Another visible leader in this area is Unilever, which has embraced bottom of the pyramid strategies throughout its core business strategy, for example by providing lower cost, environmentally friendly detergents to poor consumers in India and Brazil. At the same time, the company has been working with women's self help groups in India to train underprivileged Indian women in the retail business as a way to help distribute Unilever products to hard-to-reach rural customers.

[7] C.K. Prahalad, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*, Wharton School Publishing, 2004.

[8] David Grayson and Adrian Hodges, *Corporate Social Opportunity*, Greenleaf Publications, 2004.

[9] Based on James Austin's work on corporate social entrepreneurship at the Harvard Business School.

Other companies are getting involved in this corporate social enterprise space. The Shell Foundation has focused on investing in what it calls "enterprise solutions to poverty"—small- to mid-sized companies that supply goods and services to poor people, particularly related to energy needs—and the socially responsible investment company, the Calvert Group has launched the Calvert Social Investment Fund to make loans to community organizations and the Calvert Special Equities Program to invest in companies that provide market-based solutions to social, environmental, and health problems. And many people are familiar with GE's Ecomagination program, which is focused on bringing to market products that provide measurable environmental advantages.

It should be emphasized that while this matrix lays out many of the strategic options that are now available for corporate giving, no one approach is better than another. Some approaches may fit better to certain circumstances or companies, and many companies will develop portfolios that include efforts in more than one quadrant. The eBay Foundation, for example, has efforts in all four quadrants of the matrix: good citizen grantmaking programs in the communities where the company is located; a focused, issue-driven microfinance grantmaking program; leveraged giving strategies, where eBay used its core resources—its users and their financial transactions—to help in the relief efforts after hurricane Katrina by providing a vehicle for easy online donations for users and for encouraging and aiding users who wanted to donate the proceeds from their eBay sales to relief efforts; and eBay is now also exploring more extensively how it can integrate social goals into its business strategy, and is exploring ideas that could use its sales platform as a means of facilitating charitable transactions.

Choosing Your Strategy in Context

Finding an approach, or portfolio of approaches, that fits the internal goals and philosophies of your company is the first step in finding an appropriate philanthropic strategy. But just as important as internal culture and objectives is the way that the external context for your giving can influence your choices. Large scale changes in the business environment and the world around you may influence your philanthropic options approaches in a variety of ways.

Most individuals and organizations tend to spend the majority of their time thinking about what they are most familiar with: their own field or organization. They think from the inside—the things they can control—out to the world they would like to shape. A corporation that thinks about its philanthropy based solely on internal preferences is highly vulnerable to blindsiding when the future doesn't unfold as it hoped.

As an alternative, thinking from the outside-in begins with pondering external changes that might, over time, profoundly affect your work—a seemingly irrelevant technological development that could prove advantageous in mobilizing volunteers, for example, or a legal shift that could introduce unforeseen regulation and restrictions. Outside-in thinking can help a corporation anticipate and prepare for the many possible futures that could emerge.

So what are some of the driving forces in the external environment around your company that may affect your philanthropy? A number of the external pressures that are changing the business environment of today will be of particular significance for the future of corporate philanthropy:

- **Shifting economic realities.** Globalization, off-shoring, corporate consolidation, outsourcing, mergers, and buyouts are rearranging local and regional economies as corporations become less geographically fixed, often taking their jobs and revenues with them.

- **Changing perceptions of—and trust in—business.** Surveys of the American public reveal a growing distrust due to excessive CEO pay, corporate influence in politics, the impacts of globalization, and scandals in corporate governance and ethics. Accountability and transparency issues loom large in the public eye. According to a World Economic Forum survey in 2003, companies are the least trusted of all societal institutions, and there's been a significant decline in trust in almost all countries. As the report concludes, "People have started to view large companies as too powerful, and as untruthful, unfair, and unethical."

- **New expectations for business in addressing public problems.** There have also been increasing public expectations about the role of private enterprise in addressing complex social and environmental challenges. Calls for business and market-based solutions to the pension and healthcare crises, education reform, and pollution controls have put business on the front line of public problem-solving. The matter is exacerbated by the withdrawal of the American government from many pressing social and environmental issues, and by the increasing visibility of the UN's Millennium Development Goals, which have emphasized the corporate role in spreading responsible environmental, labor, and human rights practices. Alongside all of this, movements toward shareholder activism have allowed individuals and institutional investors to apply pressure on businesses to promote more socially responsible practices.

- **Increasing public and regulatory scrutiny.** Advances in information technology have increased public and regulatory scrutiny, and have made information of all sorts more readily available. Businesses no longer have the option to hide or operate below the radar in these days of 24-hour internet news coverage. Companies now need to be able to articulate who they are, what they do, and why they do it. At the same time, the increased scrutiny is also driving increased pressure to measure and communicate results.

- **New and unfamiliar risks in the business environment.** A set of new risks are creating an uncertain business environment that will require new corporate approaches to mitigating and managing those risks. International terrorism and anti-American sentiment; the potential for global climate change; health issues and pandemics; the impact of aging populations; the growing wealth gap; the effects of changing racial and ethnic demographics; the impact of natural and man-made disasters; and an increasing polarization of political and secular/religious populations are requiring new risk management strategies from corporations.

Any combination of these forces can produce a very different environment that corporations will have to operate in. It is quite likely that over the next decade, the environment for corporate philanthropy will look considerably different than it does now. And those changes might push a company up the strategy matrix to more closely integrate its giving with its business strategy or down the matrix, to separate the two aspects of its activity completely.

An approach called *scenario planning* can help to explore possible trajectories that the future may take and to help companies to understand how those different possibilities might affect your strategic choices. Scenarios are invented stories that help us imagine different, yet plausible, futures. They challenge us to test assumptions about what might happen and why, and to carefully consider our choices for adapting to change. The purpose of creating them is to help craft strategies based as much on tomorrow's emerging shape as on practices from the past.

To practice this sort of anticipatory thinking, we have provided several short scenarios to consider. The scenarios take the form of brief stories of the future, looking back from five years ahead, in 2012, at how the environment for corporate philanthropy might unfold. There are literally endless combinations of external forces and innumerable possible responses to them. The three scenarios presented here were selected not to predict the future, but to give a flavor of the many possible directions in which the future might go, and to help you think about what those changes might mean for your strategic decisions about philanthropy. Looking ahead in this way helps build skill in seeing emerging changes more quickly, which in turn, helps you respond more rapidly, shaping your own future before someone else shapes it.

For each scenario, ask: How would each of these scenarios influence your current or planned philanthropic strategy? Would they reinforce your approach, or would they force you to change what you're doing? Each of the different futures could result in very different choices that are available for your company. One might push your activities more towards the right of the strategy matrix, while another might force you to choose an approach closer to the bottom of the map.

2012 Scenario 1

Warming Up to Social Responsiblity

The disastrous 2008 hurricane season in the United States, followed by the massive flooding that inundated nearly a quarter of Bangladesh in 2009, built a widespread consensus that the consequences of global warming could no longer be ignored. What came as a surprise to many, however, was the continued poor preparation and performance of national governments—both in disaster response and in trying to address the root causes behind the dangerous global climate shifts—and the unprecedented response from multinational corporations to step up to fill the void. As companies came forward to provide needed services, supplies, and logistical support to relief efforts, it became clear that their experience, established networks, and quick-response capability allowed them to serve as key players in rescue and recovery efforts in disaster-stricken areas. At the same time, a coalition of energy companies spearheaded the growth of the "carbon footprint" movement in an effort to preempt potential regulatory action by instituting a voluntary national program to offset and reduce carbon dioxide emissions. The enormous enthusiasm and media coverage for these new corporate actions spurred a growing public outcry for an increased corporate role in addressing social and environmental problems that spread far beyond global warming and other environmental issues.

2012 Scenario 2:

Show Us the Money

The bitter fight at the 2010 annual shareholders meeting of investment banking leader Rothman Securities is often seen as the turning point for the corporate social responsibility movement. With the economy down, the majority of Rothman shareholders that year voted down the company's plan to contribute over $70 million dollars to environmental conservation efforts in Africa. Over the next year, that decision caused a domino effect among dozens of U.S. companies, as shareholder groups—led by the Enterprise Promotion Fund, a mutual fund that uses its institutional shareholder status to advocate against corporate social responsibility—began to reject corporate philanthropic efforts. According to Enterprise Promotion Fund CEO Agnes Sherman, "It came down to a simple question of whether shareholders were okay with getting smaller dividends and having the company choose where charitable donations should go, or getting a bigger dividend and using it however they saw fit. Given the economic situation of the country, the answer was clear: the business of a business is to make a profit. Social responsibility was really just a fad that was produced by overzealous activists and a growing economy." The rejection of corporate philanthropic efforts was soon followed by a spate of shareholder resolutions that required businesses to provide written justification of the business rationale of any philanthropic activities.

2012 Scenario 3:

Marketing, or Philanthropy?

When the Arctis Foundation, the philanthropic wing of the Washington DC-based pharmaceutical giant, went on trial for making grants that were deemed to directly benefit the parent company, the news was plastered on the front page of *The Washington Post* for weeks. So perhaps it was inevitable that the federal government would step in to further regulate and restrict corporate giving. As more and more corporations had begun to integrate their charitable giving programs with their business strategies, the line between marketing and philanthropy began to blur. According to Senator Diana Hernandez of New Mexico, “So many charitable contributions were really about branding that it was just getting silly to pretend that corporate philanthropy was more than simply another tactic of the corporate marketing department.” New regulations about self-dealing had a chilling effect on the once booming trend toward “strategic” corporate philanthropy where businesses integrated charitable activities with their corporate strategies. But it also produced growth in what Sen. Hernandez called “pure philanthropy,” where a company gives to issues that are unrelated to its bottom line.

It might be argued that no one can accurately predict the future, so what value can there be in conjuring up a number of possible futures no one of which is likely to occur. But the alternative—to imagine a future that looks just like the present, with no surprises or unlikely occurrences—is equally flawed, and doesn’t provide any experience at anticipating and reacting to change. To develop a robust corporate giving strategy you need to consider both internal preferences and the external context in which those choices will be made. Integrating these internal and external factors will be essential to developing an appropriate approach to corporate philanthropy that will fit your company, whatever direction the world around you takes.

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About the Monitor Institute

Monitor Institute helps innovative leaders and their organizations grow their impact and transform existing systems for addressing the world's most challenging social and environmental problems. The Institute leverages the resources of the Monitor Group, a global professional services firm, through a combination of consulting, initiatives, research and long-term partnerships. It works with philanthropists, social entrepreneurs, businesses and government agencies worldwide to surface and spread best practices and to pioneer *next practices*—breakthrough approaches to public problem solving.

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