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An Analysis of the Competitive Advantage of Corporate Philanthropy “Do Well by Doing Good”

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Michael Porter and Mark Kramer (2002) begin a *Harvard Business Review* article with alarming statistics about U.S. companies, stating that “over the last 15 years corporate giving as a percentage of profits has decreased by 50%” (p. 57). The authors are concerned that executives are beginning to see philanthropy as a “no-win” game rather than a benefit for all stakeholders because not only has pressure from analysts and stockholders for short-term returns not eased, but, in philanthropy, “Giving more does not satisfy the critics—the more companies donate, the more is expected of them” (Porter & Harris, 2002, p. 57).

This article further looks behind the statistics outlined by Porter and Harris (2002) and explores the values-based leadership behind these well-run programs. While these authors are correct that companies’ philanthropic efforts will have far more impact if they are well aligned and run professionally, it is also true that these programs are motivated by the values of these companies and their leaders. In addition, while corporate contributions as a percentage of pretax profits have decreased, the changing nature of philanthropy, including what is and what is not deductible for tax purposes, should be taken into account.

Behind the Numbers

The Porter and Harris (2002) article cites statistics from *Giving USA 2002*,

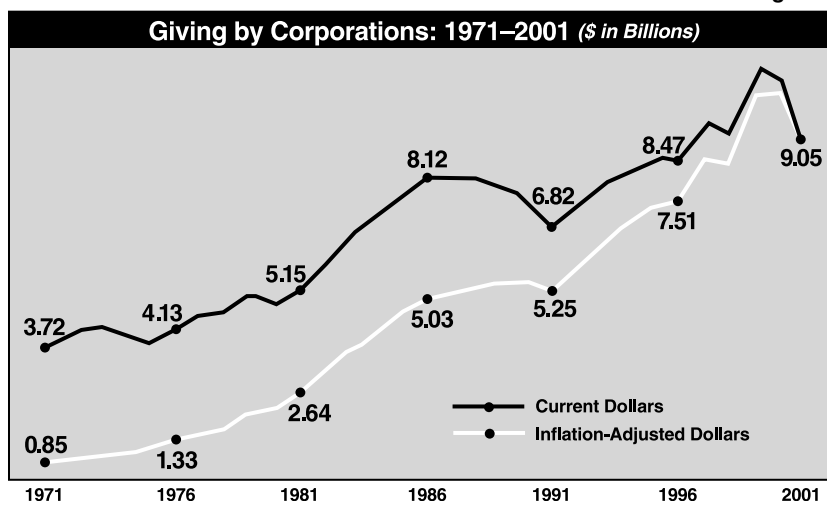
a publication researched and written by the Center on Philanthropy at Indiana University for the Trust for Philanthropy Foundation, established by the American Association of Fundraising Council (AAFRC). While they sound grim, the statistics should be reviewed in a broader context. According to *Giving USA 2002*, in 2001 corporate giving totaled \$9.05 billion. While this was \$1.24 billion lower than in 2000, it actually represented 1.3 % of pretax profits versus 1.2 % in 2000. Although corporate profits dropped 17% in 2001, companies did not drop their donations proportionally to the decrease in their profits. As illustrated in Figure 1, corporate giving as a percentage of pretax profits has fluctuated between 1.0% and 1.3% since 1990, and in 1986, the percentage reached an all-time high of 2.1%.

Figure 1



However, Figure 2 further illustrates that in terms of current and inflation-adjusted dollars, the \$9.05 billion in 2001 contributions is about \$4.0 billion higher than in 1986 (just under \$1.0 billion in inflation-adjusted dollars), and giving seems to grow in both recession and nonrecession years.

Since 1971, corporate profits in recession years rose at an average annual rate of 1.7 percent (-1.1 percent adjusted for inflation). In recession years since 1971, giving by corporations grew an average of 7.4 percent (-0.8 percent adjusted for inflation). In non-recession years since 1971, corporate profits rose an average of 11.3 percent (5.2 percent adjusted for inflation). (AAFRC Trust for Philanthropy, 2002, p. 29)



that “corporate philanthropy and shareholder interests converge” (p. 59). The thesis is that making the community in which you work a better place is good business.

A company’s competitive context consists of four interrelated elements of the local business environment that shape potential productivity; factor conditions, or the available inputs of production; demand conditions; the context for strategy and rivalry; and related supporting industries. (Porter & Harris, 2002, p. 60)

The authors recommend that companies improve the selection and management of their philanthropic efforts. Programs should not be one-time events to help the needy, but should be designed to help improve the

business environment, in order to build corporate revenues, train potential future employees, and create positive brand equity. Good programs include involvement, commitment, and enablement, rather than donations and handouts. Such programs are congruent with the old Chinese proverb, “Give me a fish and I eat for a day, but teach me to fish and I eat for a lifetime.”

The Cisco Networking Academy Story

The authors use the Cisco Networking Academy as an example of an ideal philanthropic program that meets the criteria of providing both economically focused stockholder benefits and social

benefits. Only five years ago, Cisco developed a virtually free online education program focused on teaching network installation and repair skills to young people. “Over 260,000 students in 145 countries have enrolled at more than 9,800 Academies located in high schools, technical schools, colleges, universities and community-based organizations” (Cisco: Academy Program Overview, 2003, ¶ 2).

It was begun as an equipment donation program to help local schools, but Cisco discovered that school administrators did not have the knowledge and skills to manage the donated equipment. In addition, the entire information technology industry’s growth was being constrained by a lack of technically trained people. “By one estimate, well over 1 million information technology jobs remained unfilled worldwide in the late 1990s” (Porter & Harris, 2000, p. 64). Cisco developed an online curriculum and then trained high-school teachers to implement it. As the program developed, the U.S. Department of Education asked Cisco to serve federal empowerment zones, making technical education available to communities with the

In addition, the *Giving USA* report points out that these moneys represent only what companies took as tax-deductible charitable contributions.

The estimates do not include corporate expenditures that also benefit nonprofit organizations directly or indirectly, such as advertising, paid time during which a corporation’s employees provide services for a nonprofit, free or low-cost use of facilities or equipment, and many others. Corporate foundation giving, included in corporate giving, includes grants made and does not include services provided to a nonprofit, free use of facilities, loaned personnel, etc. (AAFRC Trust for Philanthropy, 2002, p. 31)

Corporate Philanthropy: Designed as Good Business

While Porter and Harris (2002) contend that “The majority of corporate contribution programs are diffuse and unfocused” (p. 58), they argue that focused programs “produce simultaneous social and economic gains” such

greatest need for jobs. Today, in the U.S., Cisco Academy provides virtually free education serving high schools and community and junior colleges, as well as mid-career training centers (Porter & Harris, 2002). “The average salary earned by Cisco certified professionals in the *TCP Magazine* Salary Survey (June 2002) is \$64,000 (Cisco Academy Network Program, 2002, p. 4).

Cisco considers the Academy to be an intrinsic part of how it does business. The Academy’s Internet link is listed on the corporate home page under the subtitle “Learning and Events” (Cisco: Welcome to Cisco Systems, n.d.) and is a supplemental link on the philanthropic pages. Thus, the Academy is not positioned strictly as a corporate philanthropic program. Cisco considers the Academy part of doing business in each and every community where it sells or might sell products.

Cisco’s success has convinced other major high-tech companies to use Cisco’s infrastructure of multimedia online learning to deliver their free courses to the same target audience. Hewlett Packard (HP) and Sun Microsystems, as well as other software companies, are now delivering additional modules of technical training through the Cisco Academy network (Cisco Networking Academy Program, 2002). Companies of the stature of HP and Sun do not usually piggyback on someone else’s technical training program unless it makes economic sense.

More recently, Cisco’s partnerships with the United Nations, World Bank, and others is changing nations and building opportunities for people who otherwise would never have access to these kinds of technical jobs, let alone technology. Cisco’s 2002 Annual Report argues that “The Academies worldwide, with more than 263,000 students, are learning to build the networks that ultimately will make greater opportunities possible” (p. 4). Beth Murora, Academy Graduate, United Nations Economic Commission for Africa Academy, Program Officer, Ministry of Women’s Affairs, Rwanda, states:

The majority of Rwandan women are single mothers and very, very poor. These women must be able to earn a living and support their children. And I intend to use the knowledge gained through the Networking Academy to help raise women out of poverty with the technical training to run organizations and develop businesses, and a communications network that enables information sharing among women’s forums. (Cisco Networking Academy Program, 2002, p. 6)

Rosabeth Moss Kanter points out that there are “six characteristics of successful private-public partnerships:

a clear business agenda, strong partners committed to change, investment by both parties, rootedness in the user community, links to other community organizations, and a long-term commitment to sustain and replicate the results” (1999, p. 126). Partnerships, whether they involve individuals, nonprofits, communities, or big corporate giants, must produce benefits to all parties in order to sustain themselves; otherwise, someone bows out, or the project is sub-optimized, compromised, and eventually fails.

IBM’s Reinventing Education Program

Porter and Harris (2002) mention the IBM Reinventing Education program as another positive example of a focused and strategic philanthropic program that benefits both its recipients and IBM’s stockholders. “Since 1994, IBM has committed a total of \$70 million to its Reinventing Education program that now reaches 65,000 teachers and 6 million students” (Porter & Harris, 2002, p. 66). Rosabeth Moss Kanter, author of several articles about the IBM program, refers to the program as “not charity but R&D” (1999, p. 124). The objective of the IBM program is to produce systemic changes in K-12 education. Based on grant applications, IBM selects schools and school systems that want to “reinvent” some aspect of their education system and provides equipment, software, employees, and extensive consulting services delivered in cooperation with school personnel (Porter & Harris, 2002). In return, it demands time, money, personnel, and results from its partners, or it bows out.

IBM was even willing to end a grant when it was clear that significant problems would no longer allow the district to maintain its commitment to the project, such as in Dallas, which had undergone two superintendent changes during the grant—one involving corruption—that made serious focus on reform untenable. (Kanter, 1998, p. 3)

Porter and Harris (2002) and Kanter (1999) use many of the same examples in their articles: Bell Atlantic’s Project Explore, which provided broadband services to poor communities; Marriott’s Pathways to Independence program that trains and hires the unemployed; and FirstBoston (now FleetBoston) and its First Community Bank program that provides banking services to inner-city communities. Each program has produced combinations of new technology, new processes, and new ways for each of the companies to essentially make more money, while simultaneously providing major services and support to those in need.

While not mentioned in these articles, Intel Corporation has a Teach to the Future program to improve math and

science K-12 education. It has trained over 500,000 teachers to better use technology in their classrooms through a system in which Intel teaches teachers how to teach other teachers and then provides a Web environment for sharing best known methods (Intel: Global Citizenship Report 2001, 2002). Just like IBM, Intel applies the same discipline and scrutiny to its \$100 million per year Innovation in Education philanthropic efforts.

The Driving Forces: Corporate Values and CEOs

While Porter and Harris (2002) and Kanter (1999) speak of philanthropy as good business, it also is true that some of these programs are motivated by the values of the companies and of their CEOs. Both IBM and Intel are companies that pride themselves on creating a positive, values-based work environment and have long been major supporters of the communities in which they live.

IBM

In most companies, CEOs are likely to be the biggest advocates of major philanthropic efforts. Reinventing Education was retired IBM chairman and CEO Lou Gerstner's "baby." He was involved in K-12 reform long before he joined IBM. In 1994, he authored (with contributions from Roger D. Semerad, Dennis Doyle, and Wil Johnston) a book entitled *Reinventing Education*. A 1994 *Kirkus Review* describes the book as follows:

By the former chairman and CEO of RJR Nabisco (now chairman of IBM), and others involved in educational policy debate, this latest thesis nailed on the door of the educational establishment invokes the quality management theories of the late W. Edwards Deming and the success stories of the RJR Nabisco Foundation's Next Century Schools Program. Funded by \$30 million in grants from the foundation, the 43 schools in the Next Century group were scattered all over the country and used their grants to implement programs ranging from a longer school year (in North Carolina) to banishing grades (in Kansas) and parent education programs (in Texas). What the schools had in common was the involvement of the entire school community.... The Deming approach stresses teamwork among workers and executives in creating a product that will satisfy the customer.... In this case, the authors have the marketplace in mind as the major "customer" as they advocate application of successful business management techniques ... to the process of educational reform. (*Kirkus Review*, 1994, ¶ 4)

Gerstner brought his passion for reforming education into an IBM system that had always been very dedicated

to participating in community-based social programs that would make communities better, even putting its business on the line to do so. In *Father Son & Co.: My Life at IBM and Beyond*, Thomas J. Watson Jr. (1990), the son of IBM's founder, wrote:

People in the late 1960s had begun to talk in terms of "corporate social responsibility"—the use of the economic power of the business to right some of the country's wrongs—and there was no question in my mind that IBM ought to extend itself. (p. 370)

Just as IBM puts some of its best people onto its Reinventing Education projects, Watson put one of his best people on one of the company's first social projects. He describes his decision to put an IBM plant into a ghetto neighborhood to help people emerge from poverty and put an assistant manager of another IBM plant in charge of this effort. The man was "white but he'd grown up in an immigrant family in a tough section of Brooklyn and he called Bedford-Stuyvesant 'my old neighborhood.'... Of the first two hundred Bedford-Stuyvesant residents he hired, one hundred twelve were unemployed and forty had police records" (Watson, 1990, p. 371).

Louis Gerstner integrated his values of making the world a better place with the values-based IBM culture.

Intel

Intel's 2001 *Global Citizenship Report* describes the company's values and how it approaches its role as a citizen of the world from a social and environmental perspective. Craig Barrett, the company's CEO, explains that the programs have long been part of the company's value system:

Much like other core operating programs at Intel, our ideas about corporate responsibility are embedded in the way we do business throughout the organization—in human resources; purchasing; quality; investor relations; legal; and environment, health and safety—in every aspect of our company. Our commitment to doing the right things right runs deep in our corporate culture. We don't view corporate responsibility as a fad or marketing scheme. In fact, much of what we address in this report has been a part of the way we've done business since Intel was founded in 1968. (Intel: Global Citizenship Report 2001: Vision & Values, 2002, p. 2)

Like IBM's Gerstner, Barrett has been instrumental in driving Intel's major donations and programs in support of K-12 education. Intel had always been a big contributor to higher education, and the original founders, Gordon E. Moore and Robert Noyce, felt that the research performed in universities was key to Intel's research and development efforts.

Barrett felt that Intel needed to influence and improve math and science education, while also attempting to encourage women to enter engineering and other technical fields because Intel's future depended on it. By 1999, he wanted to grow the K-12 education program to a more visible level and appointed an Intel vice president, Carlene Ellis, to design and lead an effort that leveraged Intel's efforts, the efforts of others, and incrementally improved math and science education by tenfold. Barret provided an incremental \$25 million annual budget, more staff, and told corporate press relations to get behind the new Innovation in Education program. He agreed to serve on national coalitions to improve education, and he made personal appearances at Computer Clubhouse openings and teacher conventions at which Intel's programs were featured. Even when budgets became very tight in 2002, he continued to fund these efforts, considering them much like long-term research and development.

The values of leaders such as Gerstner and Barrett, coupled with the skills and values of their followers, create a world in which the results are much larger than the sum of the parts. Schools, teachers, students, the corporation's employees, and the community benefit, and all of these stakeholders are potential customers, opinion leaders, influencers, and stockholders. In addition, the company is helping to create a more educated populace from which to draw future workers.

The increasingly cooperative nature of corporate philanthropic programs, and the employee involvement described in both examples, illustrate that over the last 10 years companies have become much more sophisticated

in terms of corporate giving. Since these programs have not always been "tax deductible," it further illustrates that companies are not running these programs to receive tax deductions. The programs exist because the company's leaders and employees feel that they are the "right thing" to do, and that they can make a difference.

Ironically, these donations of time and talent are becoming more important in the eyes of stakeholders. Hess, Rogosvsky, and Dunfee (2002) describe the changing nature of corporate philanthropy and the fact that these nondeductible factors are becoming increasingly important to corporate CEOs, employees, and external stakeholders. The authors call these kinds of programs Corporate Social Initiatives. The article includes evidence of the importance of employee involvement, quoting from a 1998 *PR Newswire* article entitled "Money Can't Buy Love, According to New Survey."

In a survey of 1,000 Americans asking which philanthropic activity is "most impressive," 43 percent of respondents said "donating products and services," 37 percent said "volunteering employees to help," and only 12 percent said "giving a large sum of money." (Hess, Rogosvsky, & Dunfee, 2002, p. 110)

The nature of corporate philanthropy is changing. Companies are not just giving dollars and a portion of their pretax profits; in many cases, philanthropy involves employee involvement and complex projects. Corporate social initiatives are becoming commonplace. Diverse ideas and talents can bring better solutions to many of our social needs. These changes can all help build a better America and a better world.

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Biography

Pauline Albert is the assistant dean in the School of Management and Business at St. Edward's University. She joined the St. Edward's community in 2001 after a 25-year career in finance, marketing, and management. Albert has taught a variety of graduate-level marketing and business communications classes. She holds a BA in Romance Languages from Emory University and an MBA in Finance from the University of Pennsylvania Wharton School. Currently, Albert is pursuing a PhD in Behavior and Organizational Systems at the Fielding Graduate Institute. Her writing and research interests include spirituality and work, corporate social responsibility, and Saint Francis of Assisi as servant leader.