



Perspectives on Corporate Philanthropy

Winter 2003

Design for Giving

Understanding what Motivates Corporate Philanthropy

by John V. Kania and Mindy W. Oakley

It has long been a truism of popular psychology that understanding our motivations can enhance our personal effectiveness. Our research suggests that such an understanding can also significantly enhance the impact of corporate philanthropy.

Three Types of Giving

What motivates corporate philanthropy? Since corporate giving is often fragmented, both in the sense of where grants originate within a company and where they are distributed, corporations typically lack a clear and comprehensive picture of their overall philanthropic expenditures and investments. In examining the giving patterns of corporations and other foundations, we have found that the vast majority of grants can be explained by three motivational clusters:

- **Community Obligation:** These gifts are driven by a sense of duty to the community or communities in which the company operates and rooted in the desire to be a good corporate citizen. Participation in the local United Way's annual appeal is a common example.
- **Reputation and Relationship Building:** This giving cluster reflects a conscious effort to secure the goodwill of critical stakeholders—such as employees, channel partners, customers, community leaders, or other funders—by supporting causes that they favor. More broadly, these gifts seek to improve the organization's external and internal image. These kinds of gifts can take many forms from employee matching

gifts, to sponsoring a high-profile arts organization or the pet project of an important community leader.

- **Strategic:** Currently the rarest, but potentially the highest impact cluster, is strategic giving. Here the focus is on giving that simultaneously advances critical social and business objectives, thereby improving a company's business context while creating social value. For example, Dreamworks SKG's support of programs to prepare low-income students for skilled jobs in the entertainment industry provides significant mutual benefit to the community and the studio. Cisco's Networking Academy, a web-based distance-learning curriculum, trains and certifies secondary- and post-secondary school students from all 50 states and 147 other countries in network administration—benefiting the students, providing companies around the world with skilled IT workers, and easing a chronic shortage of network administrators that threatened to limit Cisco's and the IT industry's growth.

In our experience the mix of giving typically skews toward the *community obligation* and *reputation and relationship* building clusters and reflects the diverse priorities and relationships of a cross-section of the company's management. Donations are inconsistently tracked, not centrally vetted and their effectiveness is rarely assessed. Even when an individual signature initiatives exists, there is no effort to manage total philan-

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FSG News

West Coast Office

FSG has moved into its new West Coast offices:

Foundation Strategy Group, LLC
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For more information, please call Fay Hanleybrown at extension 151.

Clients

FSG's latest work covers a wide range of issues for corporate, community and private foundation clients around the world:

- For SAFECO insurance company, headquartered in Seattle, Washington we conducted an audit of their social investment activities and identified opportunities for increasing both social and corporate benefit.
- For a major Fortune 100 company we analyzed all U.S. contributions and are working to design a new corporate giving strategy that more effectively ties their social investment to corporate strategy and contextual opportunities.
- The Pittsburgh Foundation and The Community Foundation For Greater New Haven both retained FSG to lead them through the organizational change process needed to implement the strategies we helped them develop during the past year.
- The Milwaukee Foundation and the San Francisco Foundation both began our community foundation cost & revenue analysis study.

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Screening Strategic Initiatives

Five screening criteria should aid the identification and selection of strategic initiatives

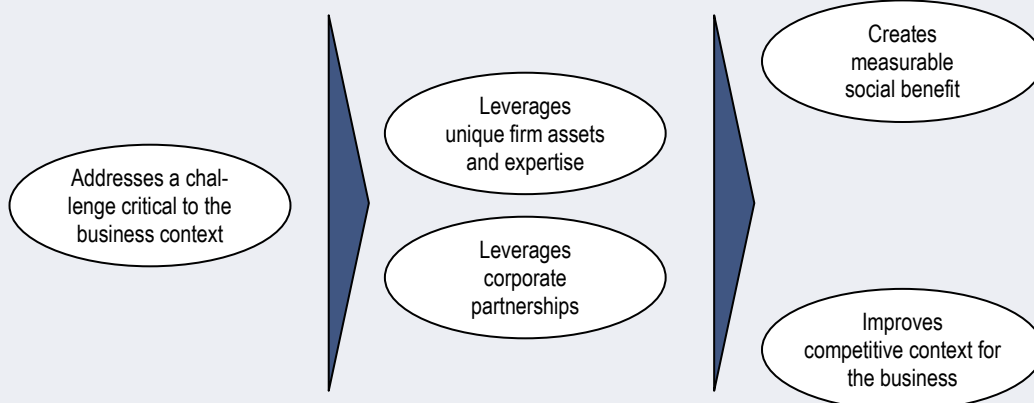


Figure 1

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thropic giving or the mix of motivations.

Managing the Mix

Yet there is substantial benefit to better managing the mix. Not least of these benefits is that it puts sharper focus on the value of truly strategic giving programs.

Recent research into strategic giving¹ suggests that when corporations use their charitable efforts to enhance their *competitive context*—the quality of the business environment in the location or locations where they operate—they create a win for both society *and* the corporation. Using philanthropy to enhance competitive context brings social and economic goals into alignment, and improves the corporation's long-term business prospects.

With context-focused strategic giving, a company can leverage its unique capabilities and relationships to augment the impact of its monetary grants. Combining financial contributions with the unique assets of the company can produce social benefits far exceeding those that could be achieved by individual donors, foundations, or even governments.

Yet, despite the superior benefits of strategic giving, no corporation can or should focus all its philanthropic efforts on this single cluster.

Developing a thoughtful and balanced corporate philanthropy portfolio is a four-stage process.

1. *Get a clear picture of corporate giving.* It is crucial to understand the corporation's current philanthropic spending. What proportion of giving falls into each of the three motivational clusters? In smaller organizations, this critical baseline can be calculated quite easily by reviewing individual grants and donations. In larger organizations, this requires the identification and categorization of spending at the headquarters, business unit, and physical location levels. Beyond the numbers alone, it is also essential to determine the diverse ways in which grants are made.
2. *Establish goals and budgets for each motivational cluster.* Is the current motivational mix optimal or could both society and the corporation benefit from a shift in priorities? Does the current allocation of funds enable the goals for each motivational cluster to be met? Management should set a long-term target for an optimal mix along with short- and medium-term milestones.

3. *Identify the most effective strategic giving opportunities.* Take a look at the initiatives in the strategic cluster. Which initiatives or combination of initiatives have the highest potential—through geographic and/or scale expansion—to enable the corporation to meet its goals for this motivational cluster? For many companies, their strategic initiatives fall short of their goals and it is essential to identify and develop new strategic initiatives to add to their giving portfolio.
4. *Develop a “motivation-specific” management approach.* Once goals have been set and the core strategic initiatives have been identified, a management system is needed to set priorities and to assess progress against stated goals for the desired mix of motivations, as well as for the social impact, and the impact on the company's business context.

A critical first step is establishing a process for capturing organization-wide giving in order to measure and categorize philanthropic investments.

Equally important is the establishment of a governance approach that vests ultimate responsibility for achieving the organization's philanthropic objectives in a single person or team of people.

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¹ Michael E. Porter and Mark R. Kramer, “The Competitive Advantage of Corporate Philanthropy,” *Harvard Business Review*, December 2002, p. 57.

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- For a mid-sized foundation in the Northeast we evaluated several capacity building grant programs.
- We helped a California foundation design a “performance dashboard” to help the Board and CEO track foundation performance concisely and consistently.
- The Bertarelli Foundation, in Geneva, Switzerland retained us to research and assess strategic options within the foundation’s focus area of infertility.
- For a family foundation, FSG created a plan to engage board members of different generations to focus on advancing the state of knowledge and practice nationally in supportive and transformational housing for low income families.

A Growing Team

We are delighted that a new Consultant has joined our San Francisco team:

Laura S. Loker, has joined us after completing her MBA with a certificate in Public Management and an MA in International Policy at Stanford University. She has consulted with private and community foundations on strategy and program design, focused specifically on issues relating to the environment and international health. Prior to joining FSG, she worked as a senior consultant at Deloitte Consulting focused on large-scale organizational change initiatives.

European Expansion. We are pleased to announce plans to open a FSG office in Geneva, Switzerland in April, 2003. Marc Pfitzer, Vice-President for Europe, will return to Europe to continue building our overseas practice. Marc has worked from the Boston office of FSG for the past year handling a number of engagements for both U.S., and Swiss-based foundations and corporations. Fluent in three languages, Marc joined FSG after earning his graduate degree in business administration from INSEAD and seven years of consulting experience with the Boston Consulting Group in their Zurich office.

Managing by Motivation Type

	Community Obligation	Reputation and Relationship	Strategic
Operational Considerations	Administer grants as efficiently as possible Allocate only minimal staff time and resources	Allocate staff time and resources to select, develop, and retain key relationships	Devote majority of staff time and resources
Assessment Criteria	No external evaluation of value creation Simply work to understand if grant was used as intended	Primary concern is the grant’s impact on the organization’s image with key stakeholders Evaluation of brand awareness and perception	Objective is the creation of measurable social and economic value Grants must contribute to the achievement of clearly-defined short- and long-term goals

Figure 2

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The exact approach will be a function of the organization’s own complexity. A single business firm with multiple locations might give one executive authority over all strategic giving, but establish regionally-administered budgets for community obligation giving and a multi-disciplinary team—perhaps with representatives from marketing, human resources, investor relations and regulatory management—for reputation and relationship-building giving. A highly diverse multi-business, multi-location firm might benefit from decentralizing responsibility for strategic giving to each business unit with limited corporate oversight.

The participants in this management structure must decide the appropriate staffing and evaluation approaches to ensure that objectives are met as efficiently as possible. Motivational clusters again can help answer these questions. (See Figure 2)

Maximizing Philanthropic Impact

Corporations that take this structured approach to their giving stand to reap substantial benefits. Viewed as good corporate citizens in the localities in which they operate, these corporations have strong positive relationships with key stakeholders. But most important of all, they create substantial social benefit at the same time as they enhance the attractiveness of their competitive environment, driving better economic results. A well-designed corporate philanthropy system can become a powerful virtuous cycle that generates more resources to address critical social problems.

The Corporate Philanthropy Audit

Despite its significant promise, the growth of corporate philanthropic giving has slowed in recent years and the average percentage of profits given has declined. More than ever, senior management is today questioning the importance and impact of philanthropic spending.

FSG’s corporate practice helps corporations understand and characterize their current giving, and to identify opportunities for greater impact through better linkage to the corporation’s business objectives and core competencies. We call this process the corporate philanthropy audit and it is the first step toward a comprehensive, integrated, and strategic giving program.

For more information, please contact us at:

North America: Mark Kramer or John Kania at 617-357-4000, or on the West Coast, Fay Hanleybrown at 415-397-8500

Europe: Marc Pfitzer at 617-357-4000

Coming Up!

Our upcoming forum **The Competitive Advantage of Corporate Philanthropy: a forum for senior corporate social investment practitioners** features presentations by our founders, Professor Michael E. Porter and Mark R. Kramer. This Corporate Social Investment Forum is being co-sponsored by Foundation Strategy Group and The Center for Corporate Citizenship at Boston College. Scheduled for **May 14th in New York City**, the Forum will feature new research on corporate philanthropy, drawing from Porter & Kramer's December 2002 *Harvard Business Review* article.

Registration is limited.

For information, please call Ms. Susan Lowe at 617-357-4000 x124 or

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info@foundationstrategy.com

About FSG

FSG is a professional consulting firm exclusively dedicated to helping community, corporate, private and family foundations increase their effectiveness.

We offer objective analysis and confidential counsel on strategy, organizational alignment, strategic communications, governance, leadership, foundation-wide assessment, and community foundation donor development.

We invest in innovative ideas and we partner with our clients to help them do good, better.

For more information call us or visit our web site.

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