

The Competitive Advantage of Corporate Philanthropy ¹

Summary

Many companies give to charity, but few have figured out how to do it well. Most create unfocused programs intended as much to increase visibility and improve employee morale as to create real social value. Others seek to improve their reputations by linking with a non-profit partner or popular cause, but the focus is on publicity rather than social impact.

Rather than seeing economic and social benefits as distinct and competing, the authors argue that companies should focus on creating social benefits that create a corresponding economic benefit for the company. Using charitable efforts to improve a company's competitive context – the quality of the business environment in which they operate – is how the authors define truly strategic giving.

They say that the more closely a company's philanthropy is linked to its competitive context, the greater the company's contribution to society will be. Because companies do not function in isolation from the society around them, improving that society leads to increased competitiveness and productivity for individual companies (or clusters). Further, by focusing on contextual conditions most important to them, companies can use their own resources and relationships to help grantees be more effective at creating social impact. Both the companies and the causes they support benefit. Rather than being self-serving, the authors argue that this kind of strategic giving – where there is a combined economic and social benefit – is often the best way to address the world's most pressing problems.

Where to Focus Giving

Likewise, philanthropy can often be the most cost-effective way – and sometimes the only way – to improve competitive context (the business environment that shapes productivity). To improve context, corporate giving programs might focus on increasing the number of trained workers in an industry, improving infrastructure, research or technical institutions, or quality of life. Cisco Systems invests in an educational program to train computer network administrators, alleviating a potential constraint on its growth while providing job opportunities to high school grads.

Philanthropy can also influence the size and quality of the marketplace in which a company operates. An insurance company worked with nonprofits to expand affordable housing and public safety. As home ownership and public safety increased, so did insurance sales, by as much as 40 per cent.

Philanthropy can help create a better competitive environment. A group of major institutional investors created a nonprofit organization to improve standards of corporate governance and disclosure, especially in developing countries. The improved competitive environment made these regions more attractive for foreign

¹ Porter, Michael E., and Mark R. Kramer, Harvard Business Review, December 2002

investment, and the institutional investors gained better and fairer capital markets in which to invest.

Finally, philanthropy can be used to bolster a company's supporting industries and services. American Express funds Travel and Tourism academies that train secondary school students for careers in the travel industry (airlines, hotels, and restaurants) after graduation. As these travel clusters become grow and become more competitive, American Express benefits.

How to Focus Giving

Corporations can help identify the grantee or partner organizations that will generate maximum social impact. Selecting the best grantees requires disciplined research, which companies can often provide. FleetBoston Financial is working to revitalize six inner-cities in which the company operates. Employees with management and financial skills regularly examine the inner-city economic development foundations the company supports. Based on the review, the employees report to the corporate foundation whether support should be continued, and where it should be directed.

Companies who've done their research can promote the most effective nonprofits to other donors, attracting greater support. FleetBoston Financial attracted \$6 million from other sources to its cause, amplifying its own \$4.5 million investment. Collective social improvements by members of a cluster can improve the context for all players, while reducing the cost borne by each one. And different companies will bring different strengths to a philanthropic initiative, making the collective investment greater than any one donation.

Using corporate resources and relationships to improve the performance of grantees is another way to focus giving. FleetBoston Financial uses its expertise in financial services, inner-city lending, and home mortgages to support its own foundation's work. They have also built a coalition of community, business and government organizations to work together on issues necessary for the revitalization.

Finally, the expertise, research capacity, and reach that companies bring to philanthropy can help nonprofits create new solutions that they could never afford to develop on their own. Pfizer, a drug company, developed a cost-effect treatment for trachoma, the leading cause of preventable blindness in developing countries. They worked with charitable organizations to create the infrastructure needed to prescribe and distribute the drug, reducing the incidence of the disease by 50 per cent in one year.

Conclusion

Context-focused philanthropy can offer companies a new set of competitive tools that justify the investment of resources and unlock a powerful way to make the world a better place. It requires a more rigorous approach to giving that integrates philanthropy with other corporate activities, focuses on improving context, and is led by the CEO. Overall, the approach offers companies tremendous opportunities to create greater value for society and themselves.