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PubPol 671: Policy & Management in the Nonprofit Sector

Lecture 16: Corporate Philanthropy

Neel Hajra



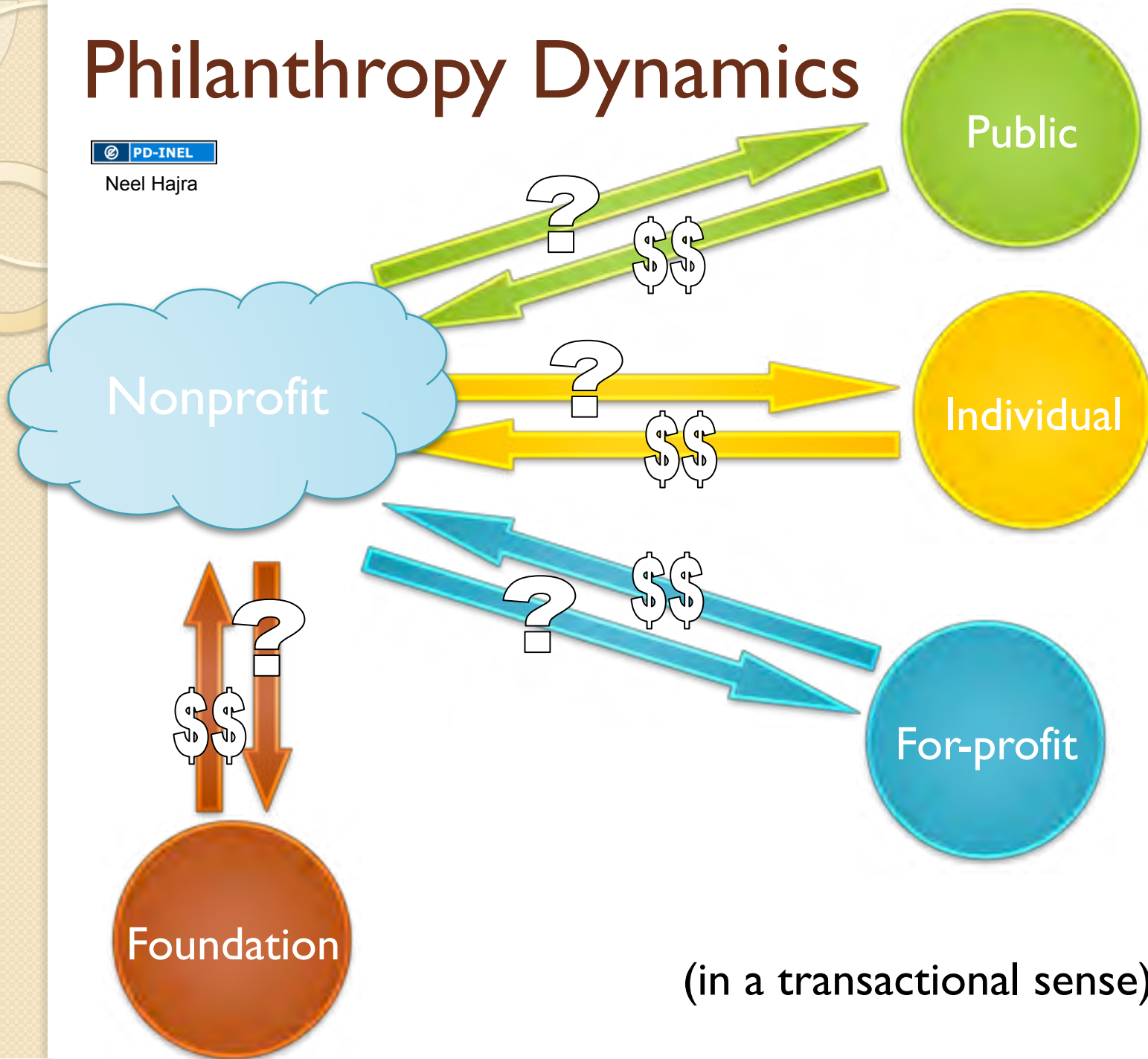
Logistics

- No office hours this Friday – happy to schedule alternative times!
- Paper #3 options will be released by Wednesday.

Philanthropy Dynamics

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Neel Hajra



(in a transactional sense)



Recap: Prewitt's Role of Foundations

- He lists 4 reasons:
 - Redistribution
 - Efficiency
 - Social change
 - Pluralism
- So... what about corporate foundations?

Should Corporations Give?

- Counterpoints:
- Friedman: “...there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits. so long as it stays within the rules of the game...”
- Buffett: Shareholder Giving Program through 2003



Mindset: Friend or Foe?

Partners / Symbiosis ?

or

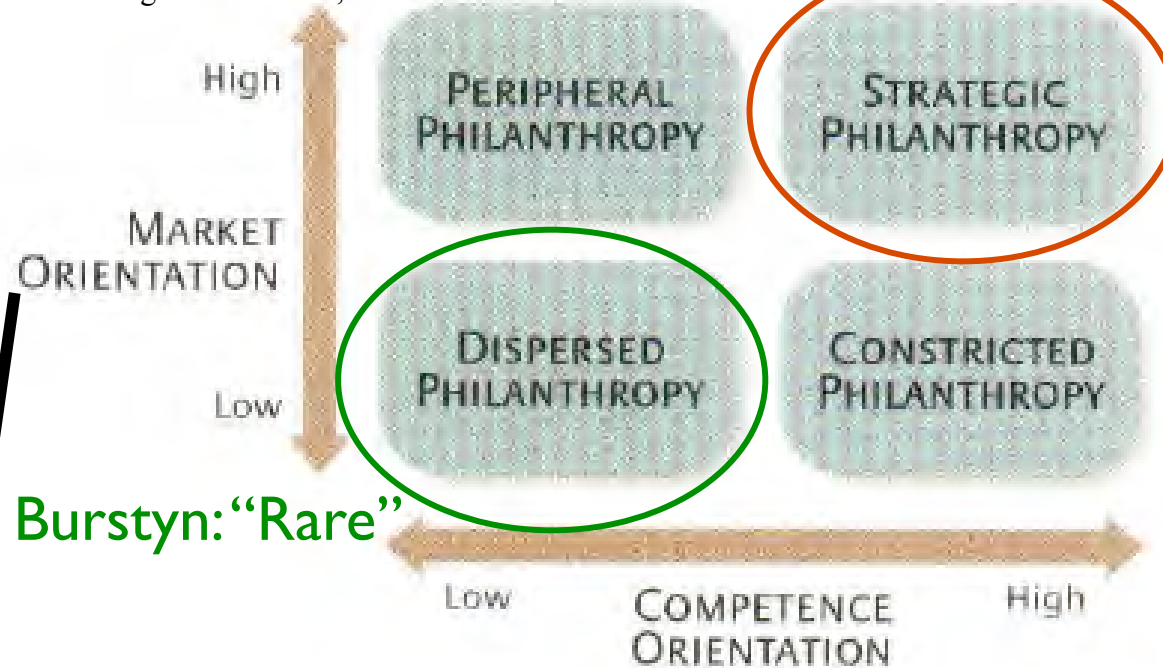
Adversaries / Exploitative ?



Source: Heikie Bruch and Frank Walter, "The Keys to Rethinking Corporate Philanthropy", MIT Sloan Management Review, 2005

Bruch & Walter: "works best"

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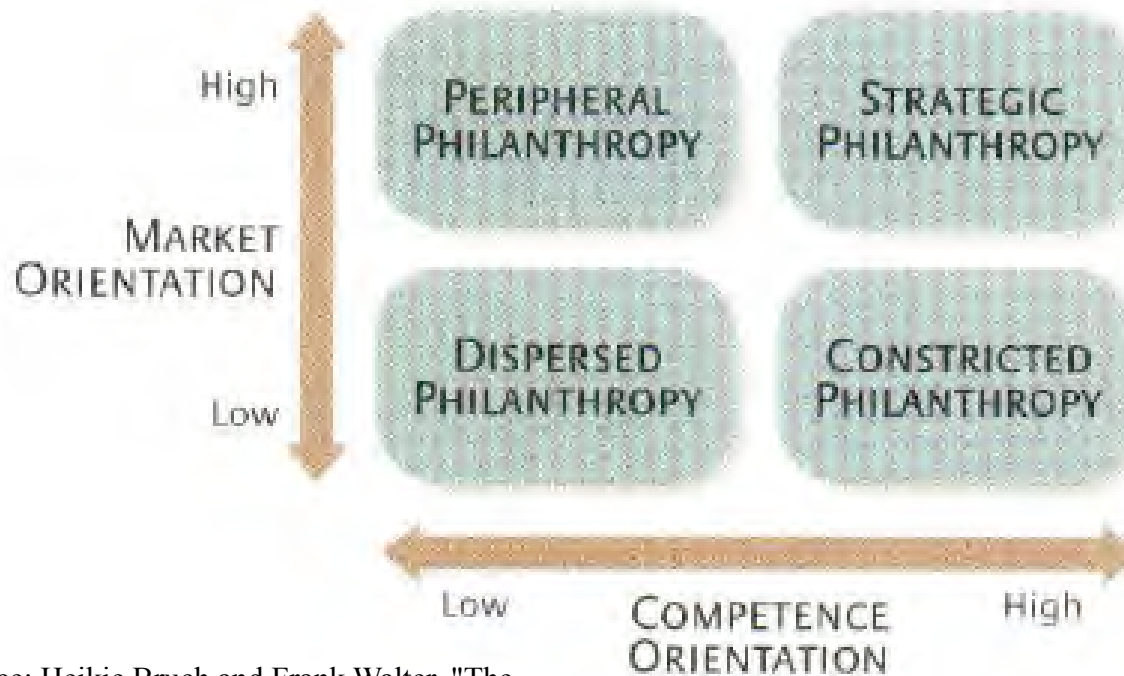
Burstyn: "Rare"

Bruch & Walter:

- Employees
- Customers
- Shareholders
- Communities
- Regulating Agencies

Nocera Article:

- Stakeholder model vs.
- Shareholder value



Source: Heikie Bruch and Frank Walter, "The Keys to Rethinking Corporate Philanthropy", MIT Sloan Management Review, 2005

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Alternative Viewpoint:

- Which maximizes dollars?
- Which maximizes societal benefit?



Benefits of Corp. Philanthropy to Nonprofit Sector

- **Money**
 - Sometimes “easier” than foundation \$\$
- **Visibility**
 - Leverage Marketing
- **Legitimacy**
 - Leverage brand reputation
- **Resources**
 - Human Capital (expertise, volunteers, etc.)
 - Systems and Facilities




Benefits for Corp. Philanthropy to For-Profit Sector

- Bottom Line
 - Sales (e.g., “for cause” marketing)
 - Customer access
 - Strong communities = strong economy (Raytheon)
 - Apply competencies
- Reputation
 - Brand loyalty
 - Labor force
 - Product differentiation
 - Defense mechanism (Dayton Hudson, Enron)
- Do the Right Thing
 - Ben & Jerry vs. Milton Friedman



Challenges of Corporate Philanthropy



Challenge: (non)Strategic Philanthropy

- Contrast to Foundations
- Contrast to Government



Challenge: Regional/National Bias

- Rise of the “Big Box” et al.

Table 6
Beneficiaries of total (U.S. and international)
contributions, 2004

Based on data from 189 reporting companies

| <i>Beneficiary</i> | <i>Thousands of dollars</i> | <i>Percent</i> |
|---------------------------|-----------------------------|----------------|
| Health and human services | \$3,423,304 | 43.47% |
| Education | 1,110,901 | 14.11 |
| Culture and arts | 298,647 | 3.79 |
| Civic and community | 656,258 | 8.33 |
| Environment | 107,636 | 1.37 |
| Other | 795,262 | 10.10 |
| International | 1,445,748 | 18.36 |
| Tsunami (2004 only) | 36,715 | 0.47 |
| Total | \$7,874,469 | 100% |

Source: "Corporate Contributions in 2004," The Conference Board



Challenge: Cause Bias

- *Sexy*
- Non-controversial
- (Epstein Article)



Challenge: Short Term Focus

- Tension between short term profit and long term social good
- Corporate Social Responsibility (CSR) as “luxury”



Challenge: Impact of the “Ethical Consumer”

- Ethics still less important to consumer than price, quality
- Changing? How much?



Challenge: High Cost

- PR and other expectations
- Implicit endorsement?



Illustration: A Past Funder

- Competitive Application
- Two follow-ups
- P.R. Requirements
 - Attended 2 receptions, hosted a 3rd
 - Host of other suggestions
- Interesting view of “value” conferred
- But... strong relationship, good advocate for us



Corp. Philanthropy Management Notes



Consider: Cost of Capital

- A financial concept that is useful for assessing philanthropic opportunities
- Think like the corporate donor: minimize the discount to maximize value!
- (note - actual mechanism not the same)



Implication: Corporate Conceit

- Power discrepancies: Corporate philanthropy is element of larger inter-sector power dynamic



Implication: Alignment

- Reputational link cuts both ways



Implication: Exchange of Value

- Nonprofit must have something to offer in exchange for support
- “What am I selling them”?



Policy Note: Discounted tax benefit?

- **CORPORATE TAX:** If contributions are P.R., shouldn't tax benefits be reduced?



Policy Note: UBIT?

- **NONPROFIT TAX:** Are sponsorships contributed income or earned income?
- “Qualified sponsorship payment” – ‘no substantial benefit other than use/ acknowledgement’
 - Goods/services not to exceed 2% of gift
 - Recognition, other than in regular publications
- Advertising: Expressions of value, endorsement, inducement
- Royalties excluded from UBIT