“Strategic Philanthropy for Business”

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I appreciate the opportunity to address the Business-Humanitarian Forum on what I believe is a key element of business success in today’s world: corporate citizenship as a long-term investment and a means for achieving strategic goals.

A World in Flux

The world and its economy in 1999 look very different from the world of 1989. The changes over the past decade have transformed businesses and business practices; they have also altered the markets and the societies in which business operates.

Just consider, for example, the basics--the addition over the past decade of about three to four billion people to the world market economy—on top of the first billion. An adjustment of this magnitude was bound to lead to dislocations. And it has.

The scope of competition has also expanded tremendously, affecting consumers, workers, investors, even countries. The surge in capital flows, trade, and information availability has intensified this competition. A recent article in *The McKinsey Quarterly* forecast that the value of the world economy open to competition in product, service or asset ownership markets will rise from approximately $4 trillion in 1995 to well over $21 trillion by next year.[1]

Traditional assumptions about competition are being obliterated. We are witnessing, for example, the “death of distance.” At the end of each day, for example, a hospital in Fairfax, Virginia, near my home, faxes its doctors’ reports literally half way around the world--to India--to be typed and e-mailed back by the next morning, capitalizing on the difference in time and wages.

Intensified competition and investments in new capacity have driven prices lower and lower. The Commodities Price Index ended last year at the lowest level since the end of 1972. The prices of manufactured goods have been falling as well, even before the East Asian crisis unleashed a glut of inexpensive goods.

[1] Jane Fraser and Jeremy Oppenheim, "What's New About Globalization?” *The McKinsey Quarterly*, 1997: 2, 172.

Moreover, this transformation is not complete. The pace of change is accelerating even further, creating a challenge for people and societies to adjust. Product and design cycles continue to be shortened. Computer models that once had product life cycles of five years now turn over every six months; the design time for car models has been cut almost in half.

Companies, in turn, are living shorter lives, as a glance at the changes in the Fortune 500 quickly suggests. Arie De Geus, formerly a director with Shell International and a senior advisor to the World Bank, has noted that the average life expectancy of large multinational corporations is between 40 and 50 years. He points to evidence suggesting that in Europe and Japan the average life expectancy of companies–regardless of size–is a mere 12.5 years.[2]

The U.S. economy as a whole has responded effectively to these global changes. Restructuring of the private sector has led to significant increases in productivity, employment, earnings, and consumer confidence. But at the start of the decade, the effects of the economic upheaval experienced by the American economy created enormous anxiety.

Other countries are now experiencing the anxiety that Americans went through in the 1980s and early 1990s. Part of Japan's problem today, for example, is the low confidence of both its businesses and consumers stemming in part from its difficulties in adjusting to these changes.

The introduction of the Euro will unleash new competitive forces in Europe as well. The true challenge will be how companies and countries adapt. U.S. investment bankers are betting on a boom in both European mergers and acquisitions and private equity opportunities.

In the developing world, the adjustment has been even greater. One way to view events in East Asia over the past year and a half is to consider that almost overnight, much of the middle class--which took decades to build a better life for itself--has been knocked back to a daily struggle for subsistence. Moreover, a sizable portion of the world never even reached the starting line. According to the World Bank, 22 percent of the world's population in 1993 had consumption levels below $1 a day based on 1985 purchasing power parity.[3]

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[2] Arie De Geus, *The Living Company*, (Cambridge, MA: Harvard Business School Press, 1997), quoted in John H. Sheridan, "The Best vs. the Rest: A glimpse at the strategies, strengths, and management styles behind the numbers," *Industry Week*, August 18, 1997.

[3] The World Bank, "Understanding Poverty: Measuring Poverty," http://www.worldbank.org/poverty/mission/up2.htm.

Concepts of Corporate Citizenship

These changes form the framework for all business decisions. Given this world in flux, companies are trying to assess their strategic positions for both today and the future. Some businesses are asking how corporate citizenship relates to their strategy, including their relations with a host of constituencies.

Although the discussion of corporate citizenship evolved from experience with philanthropy, the concept looks much more closely at the connection of social activities with corporate purpose.

These ideas represent a substantial shift from the now long-distant world of 1984, when two companies that were highly respected in their community of Minneapolis–Dayton-Hudson and Control Data Corporation–debated their respective approaches to corporate citizenship.[4]

On the one hand, William Norris of Control Data Corporation argued that the social role of business was to align business decisions with social considerations; in fact, he viewed philanthropy as a "cop out" designed to placate critics. On the other hand, Kenneth Dayton, the CEO of Dayton-Hudson, maintained that businesses would serve society better if they were free to make business decisions without social considerations, but he added that businesses should adhere to a high level of philanthropy. He pushed for five percent clubs, with contributions based on pre-tax earnings.

Today's debate about corporate citizenship is more multi-faceted. An article in this month's journal of the Conference Board identified six schools of thought:[5]

- First, some view corporate citizenship as *an oxymoron*. Corporations are engines of shareholder wealth, not citizens, they assert. In the mode of Adam Smith's notion of specialization, they believe corporations should focus solely on business, leaving the public welfare to others, including government.

- A second school sees corporate citizenship as a strategy for *risk avoidance*. Its goal is to avoid being singled out by consumers, governments, or international groups for hostile attention. Those holding this view seek to meet the satisfactory norm as efficiently as possible.

- The third view considers corporate citizenship as *a condition for doing business*. Citizenship activities are, in effect, the price for a corporate charter–a license for business. Again, the mindset is to pay the price as efficiently as possible.

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[4] See, for example, Craig Smith, "Corporate Citizenship and Strategic Corporate Philanthropy," in *Corporate Diplomacy: Principled Leadership for the Global Community*," edited by Robert Trice, Miyako Hasegawa, and Michael Kerns, (Washington, DC: Center for Strategic and International Studies, 1995) 26.
[5] Melissa A. Berman, "New Ideas, Big Ideas, Fake Ideas: It's always been difficult to tell which is which, but now comes a turning," *Across the Board*, January 1999, pp. 28-32.

- A fourth perspective adheres to the view that corporations do have a *social responsibility* and should do the right thing out of social obligation. The task for these managers is to balance this social responsibility with other obligations, in particular with respect to investors.

- The fifth school of thought considers corporate citizenship as *a long-term investment to improve the business environment*, similar to investing in infrastructure or research and development.

- And the sixth approach considers corporate citizenship to be *a vehicle that helps businesses achieve their strategic goals*. Corporate citizenship, in this view, helps strengthen markets and customers, lays the groundwork for good government relations, and builds employee loyalty. The task for managers is to integrate philanthropy into their strategic goals and planning.

I would like to take the last two perspectives–corporate citizenship as a long-term investment and as a vehicle to help achieve strategic goals–and elaborate on them further to demonstrate why I believe that corporate citizenship is an important component for corporate success.

Aligning Corporate Citizenship with Business Strategy

I suspect that corporate citizenship is a competitive factor--indeed an advantage--in the fast-paced and changing business environment around us. In fact, effective corporate citizenship must offer a competitive advantage to survive the tight controls on costs demanded by the new global economy.

Yet if corporate citizenship is going to be part of successful strategic positioning, we should examine how it intersects with other elements of business strategy. Corporate citizenship cannot and should not stand alone; to be effective and lasting, it needs to complement the rest of a business strategy. This concept of corporate citizenship would produce a strategic philanthropy.

So let's look at five other strategic components from a business perspective to ascertain if corporate citizenship can be aligned with them. These components are: promoting corporate missions and values; shaping the public policy context; acting locally while thinking globally; developing and supporting people within companies; and building effective strategic alliances.

First, there are corporate missions and values. When James Collins and Jerry Porras wrote *Built to Last*, they tried to identify the characteristics of companies that prospered over a long period of time, including through multiple product life-cycles and several generations of leaders.[6] One quality of these visionary, resilient companies turned out to be what the authors called "pragmatic idealism." These companies had core values and a sense of purpose beyond making money; in fact, most did not focus on profit maximization as their dominant driving force. The corporate values were often, but not always, humanistic. The key to lasting staying power appears to have been a purpose that guided and inspired people throughout the organization and that established a cultural strength that was important in both good times and bad.

In 1935, George Merck II wrote that Merck was "inspired by the ideals of advancement of medical science and of service to humanity." Years later, the company developed and *gave away* a drug to cure river blindness; when asked why, Merck responded that a failure to go forward would have demoralized the company's scientists. After World War II, Merck brought streptomycin to Japan to eliminate tuberculosis. Although the venture made no money, today Merck is the largest American pharmaceutical company in Japan. When asked to explain such policies, Merck and similar corporations cite both self-identity and pragmatic long-term business reasons. But it seems the ideology of giving would prevail regardless because the companies assume acts of goodwill somehow pay off.

These corporate values do affect decision-making. A notable Harvard Business School case points to the importance of Johnson & Johnson's credo notable in its decision to pull all Tylenol around the nation when bottles laced with cyanide caused deaths in one city. Johnson & Johnson also spent money to communicate its warning and policy. Another company, facing similar dangers, took more limited actions.

To take an example closer to this audience, I noticed that Roger Beach, the CEO of Unocal, stresses the corporation's commitment to corporate citizenship in its vision statement, which observes that Unocal strives "to improve the lives of people wherever we work." He points to concrete steps the company has taken in East Asia during the current crisis, including assistance for Asian students in the United States.

Peter Drucker observed that Alfred Sloan's book about his years at General Motors typified a technocratic isolation that stands in stark contrast to this perception of corporate citizenship. Drucker wrote that "Business in the community; business as a life rather than a livelihood; business as a neighbor; and business as a power center–these are all absent in Sloan's world."

One might wonder whether a pure technocratic approach can succeed in today's business environment.

A 1998 study in the *CPA Journal* noted a positive correlation between financial performance and non-financial goals, long-term vision, and core values as well as

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[6] James C. Collins and Jerry J. Porras, *Built to Last: Successful Habits of Visionary Companies* (New York: Harperbusiness, 1997).

attention to a broader set of stakeholders.[7] A pragmatic ideology can promote a brand name because brand is based on reputation. Instilling a strong set of values in the work place can also help to prevent ethical misconduct.

Strong corporate citizenship, then, is supportive of pragmatic ideology, values, and missions--characteristics of businesses built to last.

A second element of business strategy is to shape the public policy context in which the company operates. Private markets are structured by legal and regulatory terms, which are created through political processes. This is true in both developed and developing market economies, although it is particularly obvious within countries developing or changing the framework for doing business. Any business manager sees the effects of public policy on his or her particular line of business. But the scope extends much farther--to exports and imports, investments, capital and financial markets, communications capabilities, taxation, earnings repatriation, dispute resolution, corruption, the workforce, intellectual property, transportation, and on and on–including whether the same rules, whatever they are, apply to the competition. I don't believe businesses can be passive on these topics. They need strategies to shape the environment.

The connection of corporate citizenship to this element of business strategy is obvious, and there are many examples:

- In 1987, the Minnesota legislature passed a law to block a hostile takeover of Dayton-Hudson, citing the company's outstanding record of corporate citizenship.

- The Clean Corporate Citizenship program in Michigan rewards companies for good environmental records with greater flexibility in meeting environmental guidelines and reduced regulatory oversight.

In less stable locations, the rewards for good corporate citizenship can be even greater:

- In Vietnam, Motorola's work with rural health clinics helped it to become one of the few U.S. companies to do well there.

- In South Africa, Consolidated Goldfields arranged and paid for secret meetings between the ANC and top Afrikaners during the last few years of apartheid. The sessions are credited with building trust and helping lay the groundwork for the negotiations to end apartheid. In so doing, the company helped avoid a descent into anarchy and conflict in a country in which it had long-term business interests.

[7] C. K. Bart, "Mission Matters", *CA Magazine*, March 1998, pp. 31-41. Reprinted in the *CPA Journal*, August 1998, pp. 56-57.

- In Panama, Min-America, Panama's largest mining group, has invested in a host of social projects to benefit rural and isolated communities affected by its mining activities in order to build support for a long-term investment presence.

- In Hungary in 1989, American Express helped bring together competing Hungarian ministries to create a conducive environment for tourism and underwrote an education program for the industry, in the process establishing American Express' leadership position in tourism in Hungary.

Clearly, good corporate citizenship is not sufficient to guarantee a friendly public policy environment on its own. But it certainly is a vital element in trying to do so.

Third, today's business strategist must think globally, but act locally. Global competition requires companies to benchmark themselves with others around the world; if a company doesn't, it can get run out of business. At the same time, companies need to be close to all their customers. This means knowing the tastes and interests of local markets. So corporations must operate effectively at various levels, while integrating different functions smoothly. In a world of data overload, businesses also need to know what information matters.

Surveys show that a company's image and reputation matter. It is important to customers. And good corporate citizenship is a key component of that image around the world. IBM studies reveal that citizens' expectations of corporate responsibility are as high in Korean and Malaysian cities as they are in the United States. British Petroleum now publishes a "social responsibility" report along with its financial report. One can see how companies are connecting products to causes as a marketing strategy.

Corporate citizenship is also important to local reputation and knowledge. Successful companies will need more ties to a greater variety of communities, so as to learn about local customs, standards, and networks. Local employees will also care about their employer's role in the community.

IBM made a special effort in Japan to help the handicapped through product development, contributions to organizations, employee volunteerism, and hiring practices. This has helped IBM become one of the most prestigious companies in Japan. A recent Japanese poll found that the Japanese public ranks IBM second only to Sony in respect for social responsibility.

McDonald's, in turn, has employed its Ronald McDonald Houses to unify a company composed of thousands and thousands of retail outlets around the world.

The success of this strategy also applies to firms outside the United States and Europe: In 1992, a Taiwanese soft drink company, King Kar, organized a huge public relief effort to help Chinese flood victims. With judicious use of its logo during the flood relief, the company subsequently moved ahead of Pepsi as the second most popular soft drink in Taiwan.

Fourth, a successful business strategy must be based on developing and supporting a company's people. Because competitors can often also access the same capital and technology, the competitive challenge is how a workforce applies these factors more productively. At a time of rapid change and uncertainty, businesses need managers who can handle more variables, solve problems through flexible thinking, and are sensitive to the outside environment. Managers who recognize that their job includes good corporate citizenship are more likely to develop these skills and insights. They are likely to gain new ideas and to be aware of more resources outside the company on which they can draw.

For all employees, corporate citizenship will affect their pride, loyalty, and job satisfaction. These qualities are reflected in dealing with customers; they also build a sense of co-ownership. Surveys have shown that corporate citizenship translates into improved retention. For these reasons, corporate citizenship is increasingly seen by human resource staffs as a key part of employee development.

These and similar employee skills derived from corporate citizenship can also turn out to be vital in a crisis. Although the foundation of a large oil company was widely admired for its many contributions, the work of the foundation had no apparent connection to the company's corporate strategy. So after an oil spill, senior corporate management had few ties to environmentalists or others that might have offered useful advice. The company instead became reactive, making it a target.

In contrast, another large oil company developed a large network of ties with outsiders who helped the company to respond quickly and openly when accidents occurred. In turn, the company helped environmental groups by testifying in favor of legislation that sought to address both environmental and business concerns.

This example points to the importance of a fifth component of business strategy: the development of effective alliance partners. In today's environment, more than ever, businesses must recognize the numerous variables and relationships outside their control. Customers are often competitors too. Connections are more horizontal than hierarchical and can only be managed through a combination of incentives, shared interests, and negotiated relations. This is a challenge of alliance management similar to the task facing countries in coalitions or alliances like NATO.

These business alliances should extend beyond the corporate world. For example, NGOs can offer companies ideas, information, and support. NGOs may become partners on projects. In some countries, they assist in training and identifying potential employees. In return, companies that form strategic alliances with non-profits can offer something other than money: companies may provide management advice, technical and communication support, employee volunteers, and other resources. The alliances become two-way streets, where the partners benefit and learn from one another. This cooperation will not always mean complete agreement—in fact, a creative tension is more likely. As in all alliances, there will be differences and quarrels. But companies, especially natural resource companies, have learned that relations with possible adversaries can point the way to some common ground. At a minimum, they alert one to problems in advance.

Looking back on these five business elements of strategy, it appears that corporate citizenship can be effectively integrated with, and supportive of, each one. In some respects, a sound corporate citizenship strategy helps link all the other elements together. By doing so, a company can go beyond simply giving and transform corporate citizenship into strategic philanthropy as an element of a successful business strategy.

Corporate Citizenship and the Humanitarian Agenda

Let me close with three observations on corporate citizenship and the humanitarian agenda–the topic that this forum will address in greater detail.

First, the issue of humanitarian problems strikes me as a more extreme case of the corporate citizenship challenges I have outlined. The failure to supply food, medicine, or basic needs could lead to a general breakdown in a society. Such situations involve much more than preserving legal or policy structures; they involve the basic conditions necessary for social order and individual liberty. The potential breakdown threatens the sense of common good upon which all other institutions–including government and business–are built. The havoc can even undermine basic building blocks like families, schools, and communities. For example, the sudden unavailability of many basic commodities and foodstuffs in Indonesia has undermined the political stability of the country, severely exacerbating the economic crisis.

Second, humanitarian crises raise the stakes of corporate citizenship. Because these are high-profile events, contributions will matter the most when disaster strikes. There is a need to act quickly and beat expectations. Conversely, a failure to act can cause irreparable damage.

Finally, given the fundamental nature of humanitarian problems and the high stakes involved for all concerned, it makes sense for companies to anticipate crises and develop alliances such as those I mentioned earlier–including links with humanitarian organizations–in order to shape the policy context and reduce the risks of disaster and costs of problems that do occur.

Sadly, the world will continue to face humanitarian crises. You can be sure of that. So I compliment the organizers of this group, and hope that all of you and others persevere with this important work.

I have tried to make the case why I believe corporate citizenship serves all of you here: I believe corporate citizenship serves the business interest. I know it serves the human interest.