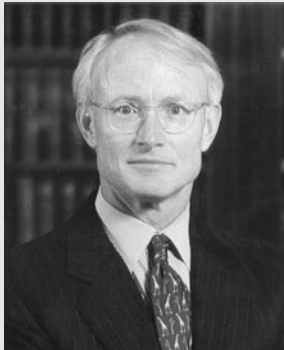


# CORPORATE PHILANTHROPY: TAKING THE HIGH GROUND

By Professor Michael E. Porter  
Harvard Business School



[WWW.FOUNDATIONSTRATEGY.COM](http://WWW.FOUNDATIONSTRATEGY.COM)



*Professor Michael E. Porter, Bishop William Lawrence University Professor, Harvard Business School, is a leading international authority on competitiveness and strategy. He has taught generations of business and government leaders in his 30 year teaching career at Harvard Business School, where he established and leads the Institute for Strategy and Competitiveness. Recently, Professor Porter was appointed a University Professor, one of only four in the 100 year history of Harvard Business School.*

Professor Porter has authored 16 books and more than 100 articles on business strategy, competitiveness and economic development, including “Competitive Advantage: Techniques for Analyzing Industries and Competitors”, which is now in its 53rd printing and has been translated into 17 languages, “Competitive Advantage: Creating and Sustaining Superior Performance” and “The Competitive Advantage of Nations.” His writings have guided corporate and economic policy throughout the world.

Professor Porter also leads Harvard's program for newly appointed chief executive officers of billion-dollar corporations, and speaks widely on strategy to business and government audiences around the world. Among other organizations, he is the founder of the nonprofit Initiative for a Competitive Inner City, the Foundation Strategy Group and the Center for Effective Philanthropy.

Professor Porter has received over 30 awards and honors, including ten honorary doctorates, and Harvard's David A. Wells Prize in Economics. His book “Competitive Advantage” won the George R. Terry Book Award of the Academy of Management as the outstanding contribution to management thought. He was elected a Fellow of the Academy of Management in 1988 and he was recently named by the Strategic Management Society as “the most influential strategic thinker alive today.”

# CORPORATE PHILANTHROPY: TAKING THE HIGH GROUND

By Michael E. Porter

---

*The following is an excerpt from the presentation delivered by Michael E. Porter, Bishop William Lawrence University Professor, Harvard Business School, at a gathering of corporate philanthropy leaders in New York City on May 14, 2003, sponsored by the Foundation Strategy Group and the Center for Corporate Citizenship at Boston College. The approach outlined in this presentation builds on an earlier article by Porter & Kramer, “The Competitive Advantage of Corporate Philanthropy”, Harvard Business Review, December 2002.*

It is a great pleasure to be here today among so many leaders of corporate philanthropy, and I am particularly pleased to be the bearer of good news. As you know, in the grand pecking order of the philanthropic world, the prestige has always rested with the private foundations, the Rockefellers, the Fords, and the like. Corporations have been seen as, at best, playing a secondary role. However, I believe that this traditional view is mistaken. In many cases, corporations have an opportunity to achieve an even greater impact on social problems than do private foundations – but only if they can bring their full expertise and resources to bear on those problems, in a well-thought-out and strategic way.

Achieving that potential will involve major changes in attitude as well as practice. It will require, in particular, a new level of energy and confidence – a new clarity of purpose in corporate philanthropy. In many companies today, there is considerable ambiguity and ambivalence about philanthropy. I am sure you have all heard the questions: What exactly are we trying to accomplish? How does it relate to our business? How can we justify our programs and investments? Before corporate philanthropy can make a leap forward – before it can realize its potential – those questions need to be answered.

*Without clarity of purpose,  
corporate philanthropy’s  
legitimacy will always be in doubt.*

The first challenge, then, is defining what corporate philanthropy is – and what it is not. Without clarity of purpose, corporate philanthropy’s legitimacy will always be in doubt.

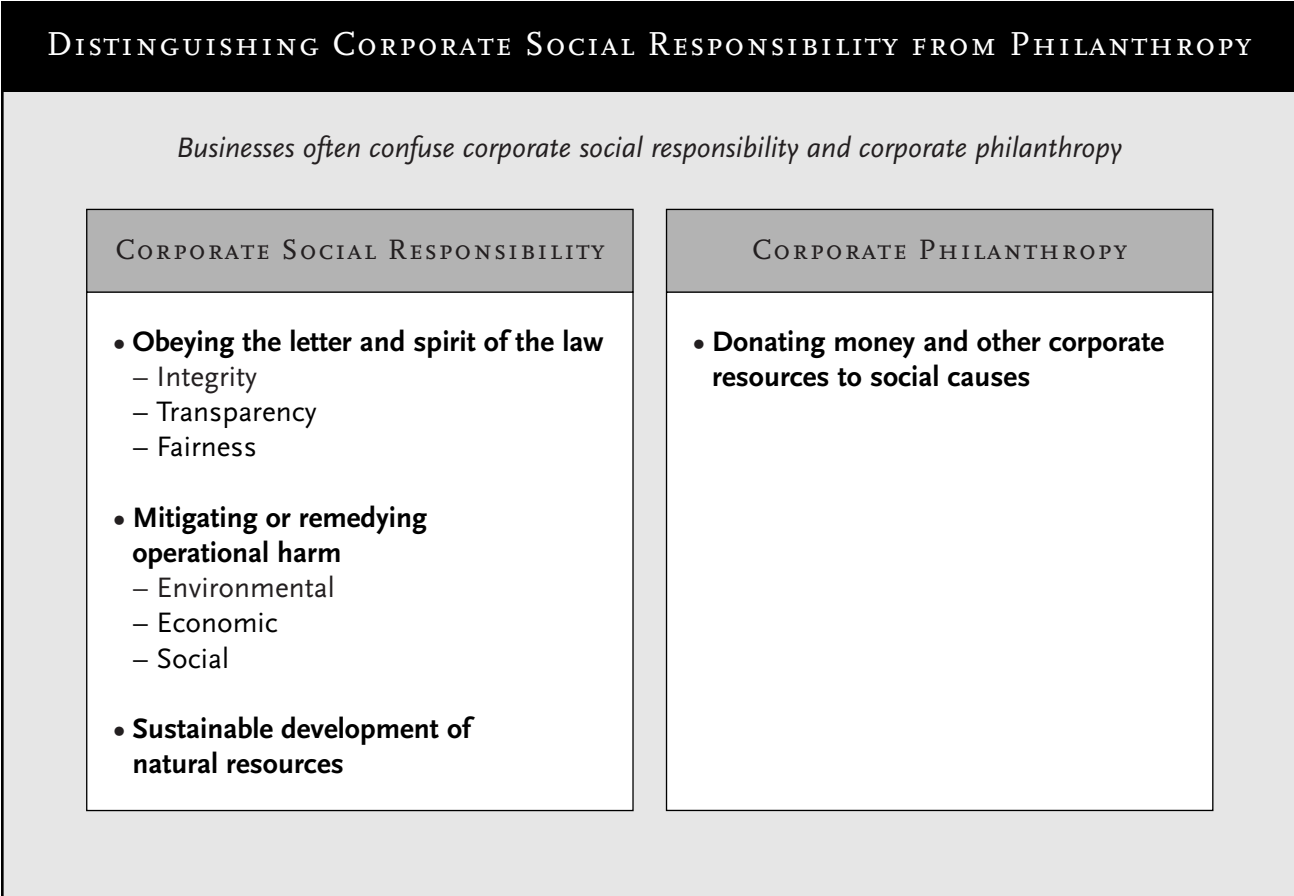
## CORPORATE PHILANTHROPY VS. CORPORATE SOCIAL RESPONSIBILITY

We have been hearing a great deal recently about “corporate social responsibility.” This concept often overshadows corporate philanthropy, but the two are very different. Corporate social responsibility can be a confusing term, but to me it has three facets. The first is obeying the letter and the spirit of the law – being ethical, transparent, fair, and having integrity. Certainly that is critically important for all companies, but it is not philanthropy. It is just fulfilling the basic conditions of operating as a business within

*As practiced today, much of corporate social responsibility is defensive – it is about preventing abuses or mitigating harm. Corporate philanthropy, in contrast, is essentially affirmative. It is about using corporate money and other resources to create social value.*

society. A second aspect of corporate social responsibility is mitigating or remedying any operational harm that companies do, in particular, environmental harm. This, too, is an important part of being a responsible company, but again it is clearly different from philanthropy. It is also a basic condition of being a good business. A third aspect of corporate social responsibility, related to mitigating harm, is the notion of sustainable development. This term is also not well defined, but the general idea is that a company should use natural resources in a way that does not deplete them or at least does not deplete them unnecessarily. Once again, this is an admirable goal for companies, but it is not corporate philanthropy. (See the exhibit “Distinguishing Corporate Social Responsibility from Philanthropy.”)

As practiced today, much of corporate social responsibility is defensive – it is about preventing abuses or mitigating harm. Corporate philanthropy, in contrast, is essentially affirmative. It is about using corporate money and other resources to create social value. As a result, it requires a different approach from corporate social responsibility initiatives.



There is also considerable confusion about the motivation behind corporate philanthropy. Companies have a tendency to focus on philanthropy's effect on their image and reputation – to see reputation-building as the core goal of their charitable efforts. (See the exhibit “How Reputation Drives Corporate Philanthropy Today.”) Certainly, an enhanced reputation can be an important benefit of corporate philanthropy, however, it should be viewed as a secondary benefit or by-product. The real goal of corporate philanthropy is to maximize the social value created. It is the accomplishments that matter. The accomplishments are what builds a company's reputation. If you pursue philanthropy simply to burnish your image, you are going to open yourself to cynicism and, even more important, you are going to end up producing far less social value than you could.

*If philanthropy is really for marketing purposes, be honest and call it marketing.*

It is easy to see why so much emphasis has been placed on reputation. When management says, “Why are we doing this?” to corporate philanthropic initiatives, the easiest answer is, “We are doing it to build the image and reputation of the company.” And so corporate philanthropy makes it become public relations. My view is, if corporate philanthropy is just public relations, call it public relations. Hire a PR firm and spend the money in that budget. After all, there is no tax reason for a corporation to call its spending philanthropy. A marketing expense is every bit as deductible as a charitable gift. So if philanthropy is really for marketing purposes, be honest and call it marketing.

If the goal is not to build a company's reputation, what is the purpose of corporate philanthropy? Many companies would say that giving is just “the right thing to do” – that doing good is its own reward. Indeed,

**HOW REPUTATION DRIVES CORPORATE PHILANTHROPY TODAY**

*The Most Common Objective of Today's Corporate Philanthropy is to Enhance a Company's Reputation with Stakeholders*

STAKEHOLDERS	TYPICAL CORPORATE PHILANTHROPY PROGRAMS
Employees	➔ Matching gifts
Local Community	➔ United Way
Government	➔ Programs favored by important legislators and officials
Customers	➔ Cause-related marketing
Activists	➔ Special projects of important NGO Activists to build goodwill

*But the long-term effectiveness of these programs in enhancing corporate reputation has never been clearly established*

some managers would reject any attempt to link philanthropy to the business, believing that such a connection would undermine the purity of the charitable gift and call into question a company's motives. The problem with this view is that it inevitably reduces the social impact of a company's giving. Since every cause is a good cause, companies cut a lot of checks to a lot of charities. Giving becomes fragmented, piecemeal, and arbitrary. Companies do not impose discipline on their giving. They do not ask the hard questions: What problems should we be addressing? How do we pick the right grantees? How do we make sure we create value? The "do the right thing" approach is simply not an effective philanthropic strategy.

## ENHANCING COMPETITIVE CONTEXT

We need to go back to first principles. If enhancing a company's reputation and doing the right thing are insufficient goals for corporate philanthropy, what is the fundamental rationale? Why should corporations be involved in social issues in the first place? Why shouldn't they just focus on maximizing their

profits and leave philanthropy to individuals, as Milton Friedman argued decades ago in a famous article? [Milton Friedman, *New York Times Magazine*, 1970.]

*Since every cause is a good cause, companies cut a lot of checks to a lot of charities. Giving becomes fragmented, piecemeal, and arbitrary. Companies do not impose discipline on their giving.*

We can find the answer to that question – and the real justification for corporate philanthropy – by exposing the two assumptions implicit in Friedman's critique. First, Friedman assumes that if the corporation is spending money on philanthropic activity, that expenditure diminishes the corporation's economic results. In other words, the social and the economic are unrelated. Second, Friedman assumes that a corporation can be no more effective than an individual in tackling social problems.

Both of these assumptions, I would argue, are incorrect. First, the economic and the social are not separate. Social conditions often have a direct influence on a company's strategy, and efforts to change those conditions can help a company be

more successful. Second, corporations can be vastly more effective than individuals in addressing social issues, because corporations have relevant expertise and resources far beyond those of individuals. If philanthropy is reduced to just writing checks, then Friedman would be right – there is no difference between individuals and corporations. But if philanthropy encompasses the application of distinctive capabilities in a systematic way, then there is a world of difference.

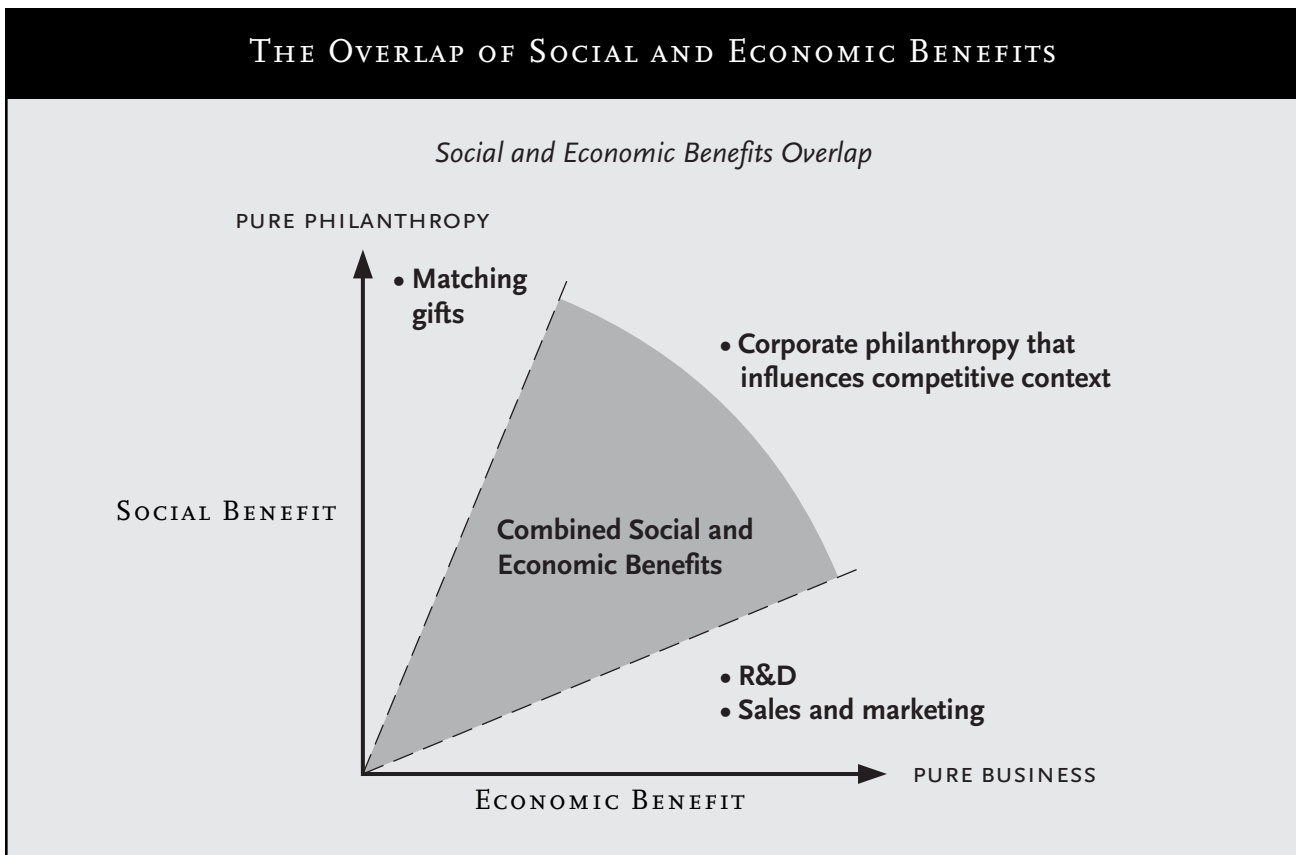
Here, then, are the two core principles of a new and much more productive approach to corporate philanthropy: Focus on the areas where social and economic interests intersect, and apply your distinctive corporate resources, not just your money, to solving social challenges. Let's look now at how this thinking changes the way companies decide where to direct their philanthropic giving and how they go about doing it.

## WHERE AND HOW TO GIVE

One of the traditional assumptions in management thinking is that a company's own decisions determine its success – that a company controls its fate. But what we have learned over the last decade or so is that the traditional view is too simple. A company's success comes not only from what it does but also from the environment in which it operates. Unless the environment is right, the company will have a hard time being competitive. Location and context matter. The social conditions at the company's locations matter.

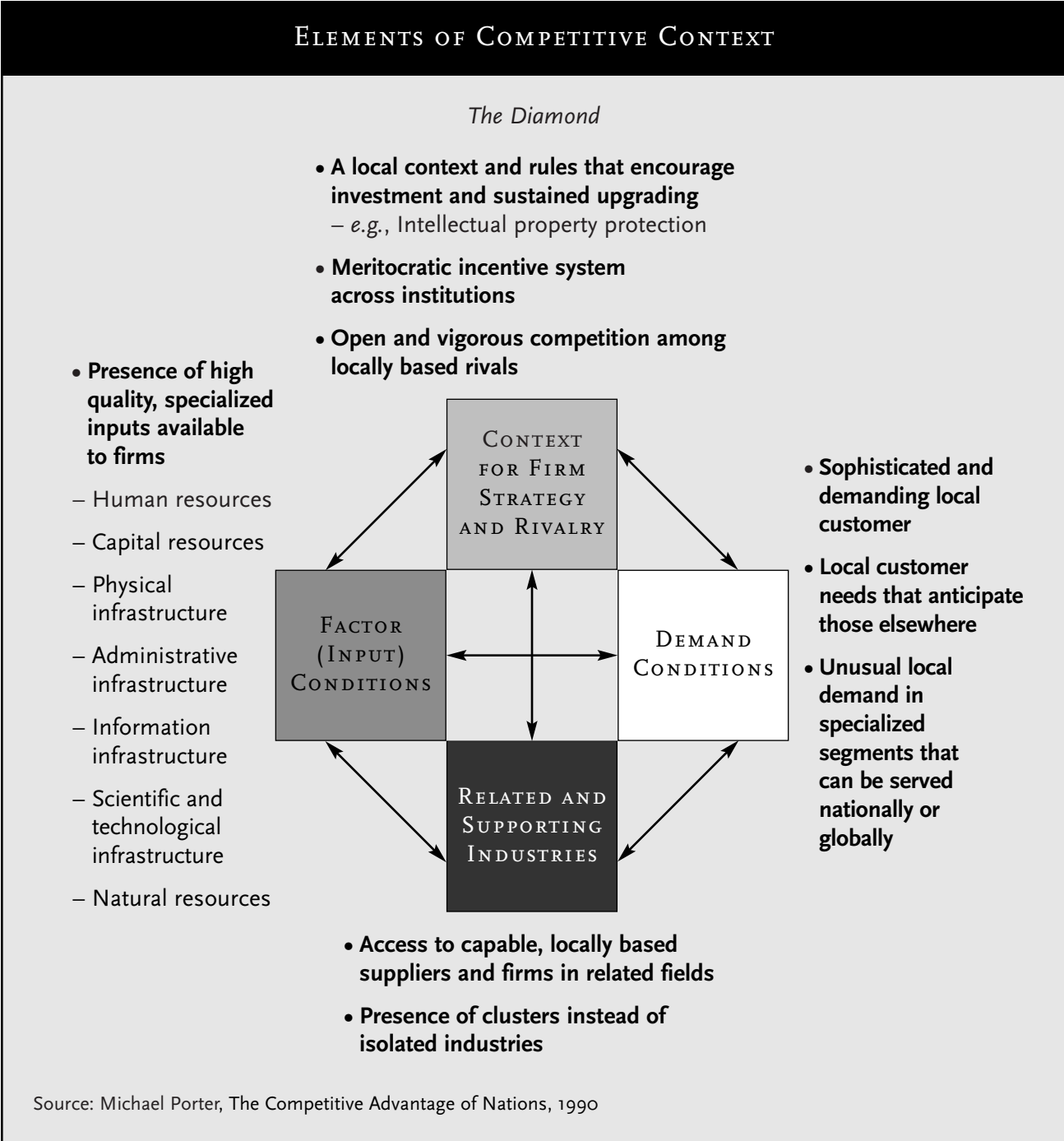
Social and economic objectives are not separate and distinct. The more we study companies and competition, the more we see an overlap between the two. Education and training, for example, were historically seen primarily as social issues. Now, almost every major company in America understands that if the communities in which it operates lack good education and training, it will be at a competitive disadvantage. Education and training are economic issues as well as social issues. The same is true of safety, environmental impact, health and nutrition, and good government. Many social issues can directly affect a company's ability to compete. (See the exhibit "The Overlap of Social and Economic Benefits.")

Philanthropic initiatives can have a direct and important effect on what I call the competitive context of a firm. One key part of that context is the nature of the inputs available in a particular region – for example the human resources, the natural resources, the available capital, and the research infrastructure. The rules and incentives that govern competition are another part of context – whether companies compete openly and fairly, whether there is transparency and honesty, and whether there are safeguards against corruption. A third aspect of context is the nature of local demand – the size and sophistication



of the local market. Finally, the last key element of context is the availability and robustness of supporting industries. (See the exhibit “Elements of Competitive Context.”)

A weak competitive context can be the reflection of social ills, as we regularly see in the developing world. Many developing countries do not have the right base of local suppliers. They have distorted business rules that create the wrong incentives and poor quality inputs. By undermining the competitiveness of local companies and foreign subsidiaries, weak context dooms such countries to poverty. It means that the best they can do is to compete based on their cheap labor or to sell off their natural resources. By improving the



competitive context in the locations at which it operates, a company can have an enormous beneficial effect on the well being of the populace, even as the company improves its own chances for success.

Merck is an example of a company that has created a social benefit by building a better context for the company. It spearheaded, for example, the nonprofit Gulf Centre for Excellence in Ethics to help reduce corruption and create a fairer, more transparent environment for local business in the Persian Gulf region. This initiative can have an enormous impact on improving the competitive environment and helping the region build a stronger, sounder economic base. And in the long run, that will help Merck operate more effectively as well. Another example is Advanced Micro Devices (AMD), which has invested in a regional training and apprenticeship program for low-income minority students near its plant in Austin, Texas. The effort helps participants find good jobs, and improve the general skill level of local citizens, while helping AMD remedy a shortage of skilled labor in the area.

Now, some people might say, “But these are not really social investments. This is too self-serving. Shouldn’t we instead be giving money to feed children and clothe the poor?” Such a reaction, while certainly understandable, overlooks a fundamental fact: The most powerful thing a corporation can do for any society, or any location in which it operates, is to help that location create a prosperous economy. If a region can create a prosperous economy, then it can improve the standard of living and quality of life of its citizens for the long term. Temporary relief, as worthy, noble, and necessary as it is, delivers a lower level of sustained benefits.

*If business can apply its resources, its expertise, and its insight to build strong economies in less advantaged regions, it will have made the greatest impact on promoting social good of any philanthropic organization.*

And who knows more about creating strong economies than the corporate world? Companies understand how to compete, and have the ability to help build healthy economies. We, in business, should not be bashful or defensive about that. We should not think that efforts to improve business context and foster economic development are somehow less worthy than donating money for a temporary relief effort. We are on the high ground here. If business can apply its resources, its expertise, and its insight to build strong economies in the developing world, or in any less advantaged regions, it will have made the greatest impact on promoting social good of any philanthropic organization. It will make a lasting difference in people’s lives, not just a temporary one.

This is why it is so important for companies to carefully target their philanthropic efforts, and not just make piecemeal donations to many different social causes. Businesses cannot solve all the world’s problems – no single group of donors can. Each company has to figure out which specific societal problems it is best equipped to help address. Thinking in terms of competitive context provides a way of doing that, of pinpointing the intersection between corporate resources and social needs, where tremendous value can be created.

More broadly, a context-focused approach to corporate philanthropy enables a move toward a more effective division of labor in the philanthropic world. We have to ask the question of how each type of donor can have the greatest impact. What should private foundations be doing? What should corporate foundations be doing? What should community foundations be doing? What should individual donors

## CREATING VALUE IN CORPORATE PHILANTHROPY

### 1. SELECTING THE BEST GRANTEES

- **Companies are well positioned to identify the most effective grantees in a given field because of their**
  - Field-specific expertise
  - General expertise in management, finance and technology
  - Capacity for research
  - Geographic coverage
  - Access to the expertise of suppliers and customers
- **Individual donors lack the knowledge and the resources for such serious research**
- **Private foundations may have expertise but often have very limited staff and a single location**

### 2. SIGNALING OTHER FUNDERS

- **Companies are well positioned to signal other funders and bring additional resources to their own grantees because of their**
  - Reputation and credibility
  - Financial clout
  - Influence on other companies within their cluster
  - Access to consumers, whether corporate or individual
  - Ongoing communication channels and expertise
- **The ability of companies to signal other donors helps to mitigate the free rider problem by sharing the cost**

### 3. IMPROVING GRANTEE PERFORMANCE

- **Companies have a unique ability to improve the effectiveness of nonprofits**
  - Assets and expertise to provide a wide range of nonmonetary assistance that is less costly and more sophisticated than nonprofits could purchase themselves
  - Long-term commitments to their locations that allow them to work with nonprofits over the extended periods of time needed for meaningful organizational improvements
  - Presence in multiple geographic areas enables companies to facilitate the global transfer of knowledge and operational best practices among nonprofits

### 4. ADVANCING KNOWLEDGE AND BEST PRACTICE

- **Companies bring expertise and research capacity to nonprofits allowing them to create new solutions that they could never afford to develop on their own**
- **Nonprofits benefit from companies' recognized brand profile and strong communications capabilities to disseminate lessons learned**
- **Companies' presence in multiple geographic areas enables them to facilitate the global transfer of knowledge and operational best practice among nonprofits**

*Corporations bring a unique and powerful set of advantages  
that enable them to create value*

Source: Porter/Kramer, Philanthropy's New Agenda: Creating Value, Harvard Business Review, November-December 1999

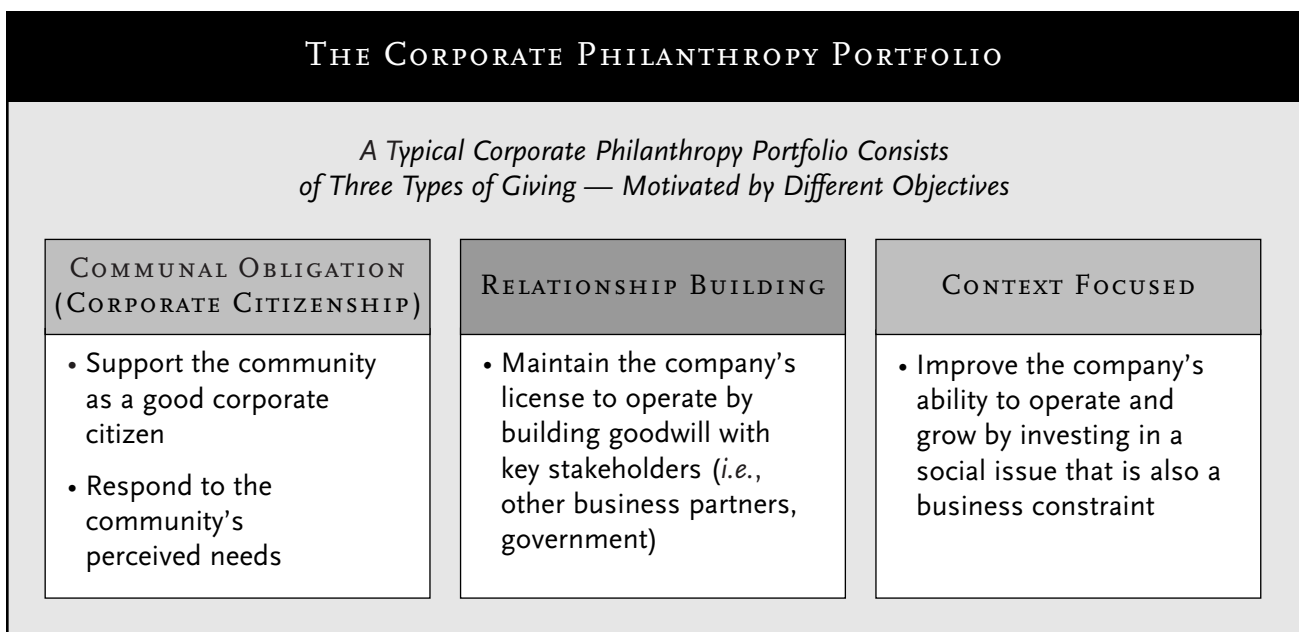
be doing? When each donor’s resources are applied where they will do the greatest good, the collective benefit of all philanthropy will be greatly increased.

Once a company has decided where to target its giving, the question becomes, “How do we go about giving in those areas?” Mark Kramer and I have articulated four basic mechanisms through which a donor can amplify the impact of its philanthropic giving beyond the money itself. First is through choosing the most effective grantee – the one that will produce the greatest social return on investment. Second is getting other funders involved in supporting that grantee, which increases the social return on the donor’s own investment. Third is helping improve the grantee’s performance, which allows all the resources expended by the grantee to create more value. Fourth, and most powerful of all, is to advance the knowledge and practices in a given field, discovering more effective ways to solve a particular social problem. (See the exhibit “Creating Value in Corporate Philanthropy.”)

Here again we find that, of all donor groups, corporations have the greatest potential for adding value in their philanthropic giving to really turbocharge their impact. Corporations have the skill, the expertise, the relationships, the networks, the contacts, and the perspective necessary to select better, to engage other funders more effectively, to improve grantee performance, and to advance the state of knowledge and practice. These are essentially managerial challenges, after all, and experienced corporate managers are well equipped to meet them.

## THE RIGHT PORTFOLIO

In addition to improving competitive context, corporate philanthropy has two other, more traditional goals: communal obligation and relationship building. Communal obligation involves giving money in order to be – and to be seen as – a good corporate citizen in the community. Relationship building involves creating goodwill with key stakeholders in order to maintain a company’s “license to operate,” as it is sometimes called. In practice, a company will usually need to do all three. A company can, therefore,

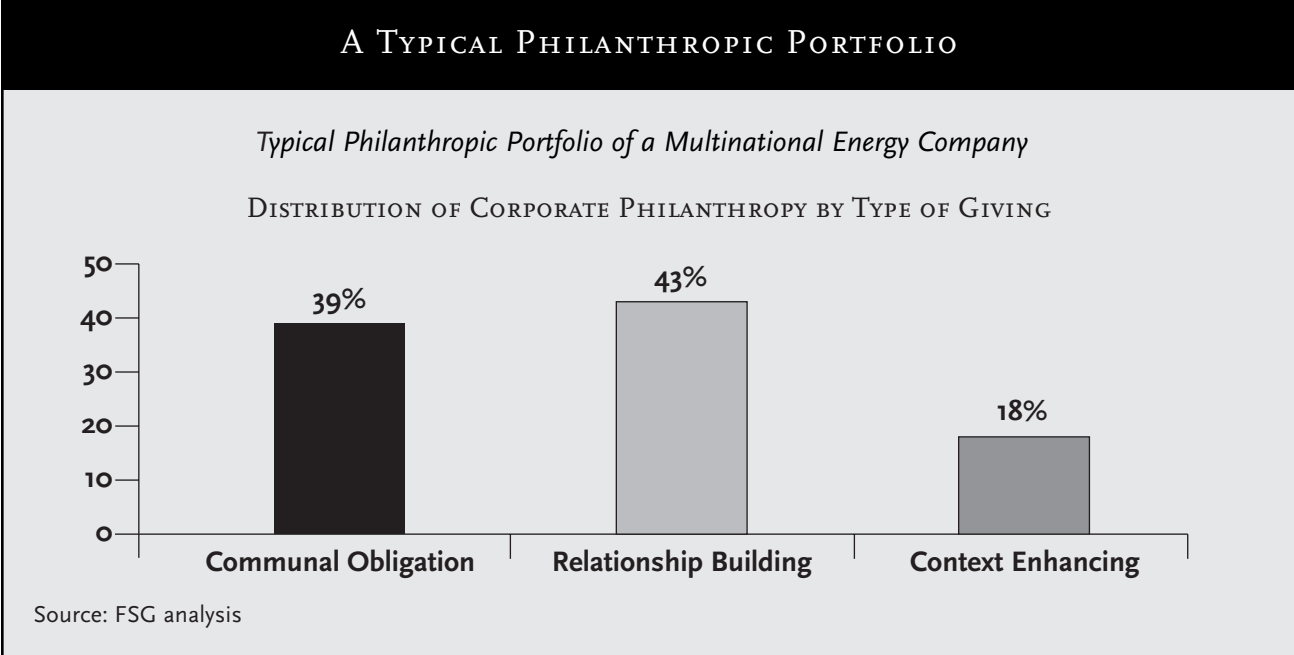


think of its philanthropic investments as a portfolio of programs that spans these three categories. (See the exhibit “The Corporate Philanthropy Portfolio.”)

Value-creation principles can be applied to communal-obligation and relationship-building initiatives as well as to those that enhance context. Communal obligation giving, for instance, has more impact when done with greater focus and by utilizing corporate capabilities. Instead of giving 50 small grants, give five large grants. Not only will a company have a greater impact on social problems, but it will get more community credit, because its efforts will be more noticeable. LensCrafters, for instance, has focused much of its philanthropic effort on partnering with local Lions Clubs to recycle used eyeglass lenses for people who cannot afford to buy new glasses – both in the U.S. and in developing countries around the world. This concentrated giving has leveraged their corporate expertise to help many needy people – nearly three-quarters of a million since 1991 – and has brought the company much goodwill.

Relationship-building giving can also create much more value than it typically does. A company needs to be systematic about identifying its key constituencies and their priorities and needs. What do key stakeholders really care about? Giving must then be aligned with those needs. Oil and gas companies, mining companies, and pharmaceutical companies have a particular need to do relationship giving well, because they need good relationships with local constituencies in order to get approvals to build and operate their facilities, or license and sell their products.

Beyond maximizing the effectiveness of each type of giving, how do you create the best possible portfolio? How do you ensure the most effective mix of communal obligation, relationship building, and context enhancing? The first step is to audit existing charitable contributions to find out the current mix. The Foundation Strategy Group has helped a number of companies conduct such audits, and has found that giving tends to be concentrated in communal obligation and relationship building, with relatively little expenditure for context enhancing. (See the exhibit “A Typical Philanthropic Portfolio.”) This is a clear indicator that companies are not thinking strategically about their philanthropy, and the odds are that an audit of your own company’s philanthropy will reveal a similar pattern – and problem. The other task of



an audit is to categorize contributions according to geography or region. Often, the distribution of philanthropic contributions is driven by past legacies, but a company should make sure that there is some alignment between its current operations and its giving.

The second step in creating an optimal portfolio is to identify the key constraints in a company's competitive context – in every major region and country in which it operates. What are the major social problems that, in the long run, are also going to limit the company's prospects? The relevant aspects of context will be different for every business unit and for every location. So to do this analysis right, line managers must get involved. And that itself will build support for future efforts. When the corporate contributions people ask local managers, "What are the constraints to your long term competitiveness and growth?" they will find a new level of excitement and engagement about corporate philanthropy. These are the issues line managers need to solve.

Once the important areas of context for the businesses are identified, the third step is to figure out what the company can do to have the greatest impact on these areas. Which resources and capabilities can be brought to bear? Where would the company have particular leverage in creating social value? Who are the logical partners to work with?

## DEVELOPING A CORPORATE PHILANTHROPIC STRATEGY

### **Step 1: Audit existing contributions**

- Segment contributions into the three giving categories (communal obligation, relationship building, context enhancing)
  - Are contributions aligned with company priorities?
  - Are decision-making, monitoring and reporting criteria clear?
  - Is maximum value being created in communal obligation and relationship building grants?
- What proportion of contributions should be allocated to the three categories in the future?
- How much can be shifted to context enhancing giving?

### **Step 2: Identify key constraints in the competitive context**

- What external factors limit the growth, productivity and innovation of the company and its cluster?
- Which elements of the competitive context are particularly important to this company versus its competitors?

### **Step 3: Identify programs or interventions where leveraged company assets, expertise and partnerships could have a measurable impact on one or more constraints**

- What unique skills, expertise, connections and assets does this company have available?
- What could this company do that no other company could do as well?
- How can partners from the cluster, nonprofit sector or government help?

A good example of the kind of value that can be created is a company named TPG, a major worldwide logistics company based in Holland. TPG decided to shift from making small, fragmented philanthropic gifts to concentrating their giving in an area where it could have a greater impact. They chose to partner with the World Food Program to help create a more effective supply chain for responding to famines and other emergencies. Here, their resources and expertise in global logistics could make a real difference. While the first step was to leverage their skills, TPG realized that they could do even more if they shifted their emphasis to competitive context by improving the basic logistical infrastructure in the various countries in which they were operating. They came to see that if they could do that, they would help their partner not just respond to tragedies, but actually help to prevent them. (See the exhibit “Developing a Corporate Philanthropic Strategy” for an overview of the three-step process.)

## A NEW MODEL FOR CORPORATE PHILANTHROPY

Companies will continue their communal-obligation and relationship-building giving. The real challenge is to shift the portfolio over time towards context-enhancing initiatives – the ones that are truly strategic. That will be a natural outcome of going through the audit and assessment process I have just outlined. As more attention is paid to the competitive context, and management and operating personnel get involved in the discussion, companies will gain the knowledge and the confidence to shift more of their philanthropic activity in this direction. One company that the Foundation Strategy Group has worked with, for example, decided to shift its portfolio from 20% to 65% context focused giving, while simultaneously increasing its overall contributions budget by 30% – a dramatic and, I would argue, highly beneficial change.

*Bringing business and philanthropic interests into harmony means that everybody wins.*

There is no question that this new model of corporate philanthropy involves hard work. The easy thing is to just go on writing small checks to those who come asking. Enhancing context requires really thinking about the business. It requires getting operating people engaged. It demands bigger bets on a fewer number of initiatives, rather than hedging by doing a little bit of everything. It requires tightly integrating philanthropy with the business – not separating it – as many companies do today.

But the payoff can be enormous. First, a company will be able to articulate a clear rationale for philanthropy that senior management and line management will understand and support. The philanthropy program will get real and lasting buy-in, not just lip service. Second, philanthropy will have a real impact on the company’s long-term success – it will be making an important strategic contribution. Finally, and most important of all, the company’s giving will deliver far greater benefits to society, to the people it is trying to help. Bringing business and philanthropic interests into harmony means that everybody wins.



The Foundation Strategy Group was founded by Professor Michael E. Porter and Mark R. Kramer with the vision of improving corporate and private philanthropy's potential to impact society. With offices in Boston, San Francisco and Geneva, our international team of consultants is drawn from the world's top strategy firms and dedicated exclusively to developing philanthropic and CSR strategies that achieve measurable results.

We are uniquely qualified to help corporations design their corporate giving, CSR, and social investment programs. Our deep knowledge of corporate strategy, guided by the internationally recognized authority of Professor Michael E. Porter, combined with our training at firms such as McKinsey, BCG, Monitor and Mercer, and our specialized expertise in non-profits and foundations, enable us to pinpoint the synergy between social needs and corporate interests.

Our operational experience enables us to assess the impact of current giving programs or design worldwide management systems that link philanthropy, CSR, and social investment. Our investment in ideas, depth of practical experience, and collaborative approach, keep us at the forefront of the field and help our clients create greater impact. And our insights into goal setting and measurement can create internal metrics that speak equally well to the community, the charitable giving team and the CEO.

FSG works collaboratively with its corporate clients in six areas:

- **Philanthropy, CSR, and Social Investment Audits**
- **Strategy Development**
- **Impact Evaluation**
- **Philanthropic Management Systems**
- **Strategic Communications**
- **Corporate Social Responsibility Programs**

**Partnering for impact.**



Foundation Strategy Group, LLC  
[www.foundationstrategy.com](http://www.foundationstrategy.com)