The Community and the Corporation

A strong relationship benefits both business and its community. Communities look to businesses for civic leadership and for help in coping with local problems, while businesses expect to be treated in fair and supportive ways by the community. As companies expand their operations, they develop a wider set of community relationships. Community relations programs, including corporate giving, are an important way for a business to express its commitment to corporate citizenship.

This chapter focuses on these key learning objectives:

- Defining a community, and understanding the interdependencies between companies and the communities in which they operate.
- Analyzing why it is in the interest of business to respond to community problems and needs.
- Knowing the major responsibilities of community relations managers.
- Examining how different forms of corporate giving contribute to building strong relationships between businesses and communities.
- Evaluating how companies can direct their giving strategically, to further their own business objectives.
- Analyzing how collaborative partnerships between businesses and communities can address today's pressing social problems.

Whole Foods Market is a natural foods retailer with stores in many communities in North America and the United Kingdom. Founded in 1980 in Austin, Texas, the company believes that its business "is intimately tied to the neighborhood and larger community that we serve and in which we live." Whole Foods donates 5 percent of its net profit to charitable causes and operates two foundations focused on animal welfare and rural poverty. Each of the company's 184 stores hosts a community day three times a year, with 5 percent of the day's total sales revenue contributed to a worthy local nonprofit organization. Whole Foods also gives its employees 20 paid community service hours for each 2,000 hours of work (about half a week per year). Employees have been involved in a wide range of service projects, including organizing blood donation drives, raising money for breast cancer research, developing community gardens, renovating housing, and delivering "meals on wheels."[1]

One of the leading financial institutions in the world, ING has operations in more than 50 countries. Based in the Netherlands, the company provides insurance, banking, and asset management services throughout Europe, with a growing presence in the Americas and Asia. Recognizing that the needs of the many communities where it does business differ, the company has delegated responsibility for corporate citizenship programs to business unit managers, provided their decisions are consistent with the firm's core values. The result has been a remarkable diversity of community initiatives. In the Philippines, ING built houses with Habitat for Humanity; in Australia, it sponsored cricket teams, and in Brazil, the conservation of rain forests. After Hurricane Katrina struck the Gulf Coast, ING donated $1 million to the American Red Cross and an additional $275,000 to hard-hit school districts.[2]

Hindustan Lever, the Indian subsidiary of the transnational corporation Unilever, faced a problem when a dairy it owned in a rural area in northern India incurred substantial losses. Rather than closing the operation, the company decided to address the underlying cause—inadequate care of dairy cattle by impoverished local villagers. The company gave interest-free loans to farmers and offered classes in animal care. Within a few years, the dairy was making a profit. The program was so successful that the company expanded it to 400 villages and committed to investing 10 percent of its pretax profits in rural development projects, including children's immunizations, water system improvements, and classes in sewing, nutrition, and agriculture. Every year, the company sends 50 of its most promising young managers to live with a rural family and work on development projects, to learn firsthand the value of community involvement.[3]

Why do businesses as diverse as Whole Foods Market, ING, and Hindustan Lever invest in community organizations, projects, and charities? Why do they contribute their money, resources, and time to help others? What benefits do they gain from such activities? This chapter explains why many companies believe that being an involved citizen is part of their basic business mission. The chapter also looks at how companies participate in community life and how they build partnerships with other businesses, government, and community organizations. The core questions that we consider in this chapter are: What does it mean to be a good corporate neighbor? What is the business case for doing so?

The Business–Community Relationship

The term **community**, as used in this chapter, refers to a company's area of local - business influence. Traditionally, the term applied to the city, town, or rural area in which a business's operations, offices, or assets were located. With the rise of large, complex business organizations, the meaning of the term has expanded to include multiple localities. A local merchant's community relationships may involve just the people who live within driving distance of its store. A bank in a large metropolitan area, by contrast, may define its community as the both the central city and the suburbs where it does business. And at the far extreme, a large transnational firm such as ING, ExxonMobil, or Nokia has relationships with numerous communities in many countries around the world.

Today the term *community* may also refer not only to a geographical area or areas but to a range of groups that are affected by an organization's actions, whether or not they are in the immediate vicinity. In this broader view, as shown in Figure 17.1, the geographical (sometimes called the site) community is just one of several different kinds of communities.

[illegible]

[illegible]

The Business Case for Community Involvement

The term **civic engagement** describes the active involvement of businesses and individuals in changing and improving communities. *Civic* means pertaining to cities or communities, and *engagement* means being committed to or involved with something. Why should businesses be involved with the community? What is the *business case* for civic engagement?

The idea of corporate citizenship, introduced in Chapter 4, refers broadly to businesses acting as citizens of society by behaving responsibly toward all their stakeholders. Civic engagement is a major way in which companies carry out their corporate citizenship mission. As explained in Chapters 3 and 4, business organizations that act in a socially responsible way reap many benefits. These include an enhanced reputation and ability to respond quickly to changing stakeholder demands. By acting responsibly, companies can also avoid or correct problems caused by their operations—a basic duty that comes with their significant power and influence. They can win the loyalty of employees, customers, and neighbors. And by doing the right thing, businesses can often avoid, or at least correctly anticipate, government regulations. All these reasons for social responsibility operate at the level of the community as well, via civic engagement.

Another specific reason for community involvement is to win local support for business activity. Communities do not have to accept a business. They sometimes object to the presence of companies that will create too much traffic, pollute the air or water, or engage in activities that are viewed as offensive or inappropriate. A company must earn its informal **license to operate**—or right to do business—from society. In communities where democratic principles apply, citizens have the right to exercise their voice in determining whether a company will or will not be welcome, and the result is not always positive for business.

> As illustrated by the discussion case at the end of Chapter 2, Wal-Mart has encountered serious local objection to its plans to build superstores and distribution centers in a number of local communities. Wal-Mart's founder, Sam Walton, now deceased, was fond of saying he would never try to force a community to accept a Wal-Mart store. "Better to go where we are wanted," he is reported to have said. In recent years, however, Wal-Mart management less often endorses that view. In a series of high-profile local conflicts, Wal-Mart sparked intense local opposition from several communities that were worried about traffic patterns, safety, and negative effects on local small businesses from the opening of giant Wal-Mart facilities. The problem seems likely to grow more complex for Wal-Mart as it continues its expansion into international markets.[4]

Through positive interactions with the communities in which its stores are located, Wal-Mart is more likely to avoid this kind of local opposition.

Community involvement by business also helps build social capital. **Social capital**. a relatively new theoretical concept, has been defined as the norms and networks that enable collective action. Scholars have also described it as "the goodwill that is engendered by the fabric of social relations."[5] When companies such as Whole Foods Market, described at the beginning of this chapter, work to address community problems such as blood shortages, hunger, and dilapidated housing, their actions help build social capital. The company and groups in the community develop closer relationships, and their people become more committed to each other's welfare. Many experts believe that high levels of social capital enhance a community's quality of life. Dense social networks increase productivity by reducing the costs of doing business, because firms and people are more likely to trust one another. The development of social capital produces a win-win outcome because it enables everyone to be better off.[6]

Community Relations

The organized involvement of business with the community is called **community relations**. The importance of community relations has increased markedly in recent years. According to one expert, "Over the years, community involvement has moved from the margins of the corporation to a position of growing importance. More companies regard their involvement in the community as a key business strategy and a linchpin in their overall corporate citizenship efforts."[7] The importance of community relations is shown by the following statistics, drawn from a study conducted by the Center for Corporate Citizenship:[8]

- 81 percent of companies now include a statement in their annual report on their commitment to community relations.
- 74 percent of companies have a written mission statement for their community relations program.
- 68 percent of companies factor community involvement into their overall strategic plan.

In support of this commitment, some corporations have established specialized community relations departments; others house this function in a department of public affairs or corporate citizenship. Their managers' job is to interact with local citizens, develop community programs, manage donations of goods and services, work with local governments, and encourage employee volunteerism. These actions are, in effect, business investments intended to produce more social capital—to build relationships and networks with important groups in the community. Community relations departments typically work closely with other departments that link the company to the outside world, such as external affairs, corporate relations, government relations, and public affairs (discussed in Chapters 2 and 8). All these roles form important bridges between the corporation and the community.

Community relations departments are typically involved with a range of diverse issues. According to a 2005 survey of community involvement managers, education (kindergarten through high school) was viewed as the most important issue, as it was for the tenth year in a row in which the survey had been conducted. Other critical issues included health care, economic development, higher education, and housing. Further down the list of issues, although still important, were literacy, environmental issues, crime, transportation, and job training.[9] Although not exhaustive, this list suggests the range of needs that a corporation's community relations professionals are asked to address. These community concerns challenge managers to apply talent, imagination, and resources to develop creative ways to strengthen the community while still managing their businesses as profitable enterprises.

Several specific ways in which businesses and their community relations departments have addressed some critical concerns facing communities are discussed below. The all-important issue of business involvement in education reform is addressed in the final section of the chapter, which discusses collaborative partnerships.

Economic Development

Business leaders and their companies are frequently involved in local or regional economic development that is intended to bring new businesses into an area. Financial institutions, because of their special expertise in lending, have been at the forefront of many recent initiatives to bring development money into needy communities. In the United States, the federal **Community Reinvestment Act** requires banks to demonstrate their commitment to local communities through low-income lending programs and to provide annual reports to the public. This law has led many banks to begin viewing the inner city as an opportunity for business development. Some have even created special subsidiaries that have as their mission the development of new lending and development in needy urban neighborhoods. Chicago's ShoreBank, for example, has been deeply involved in meeting the housing needs of low-income residents. Financial institutions have been active in this area in many other nations, as well. An innovative initiative by a small bank in Bangladesh to provide micro-credit for economic development in rural areas is described in Exhibit 17.B.

Crime Abatement

Many urban areas around the world are forbidding and inhospitable places, fraught with drugs, violence, and high crime rates. Business has an interest in reducing crime, because it hurts the ability to attract workers and customers and threatens property security. Some firms have become actively involved in efforts to reduce crime in their neighborhoods, as the following example illustrates.

> In the mid-1990s, the crime rate in the metropolitan area of St. Paul-Minneapolis, Minnesota, had become so bad that out-of-town newspapers disparagingly called the city "Murderopolis." To combat this situation, a collaborative alliance formed called Minnesota HEALS (Hope, Education, and Law and Safety). Sixty companies and other organizations, including Honeywell, General Mills, 3M, and Allina Health Systems, worked closely with police and civic groups to address public safety issues in the community. Among their many initiatives were development of an integrated information system for law enforcement agencies, better housing, job training, and afterschool programs. Crime rates dropped sharply, and the overall climate for business in the city improved.[10]

Housing

Another community issue in which many firms have become involved is housing. Life and health insurance companies, among others, have taken the lead in programs to revitalize neighborhood housing through organizations such as Neighborhood Housing Services (NHS) of America. NHS, which is locally controlled, locally funded, nonprofit, and tax-exempt, offers housing rehabilitation and financial services to neighborhood residents. Similar efforts are being made to house the homeless. New York City's Coalition for the Homeless includes corporate, nonprofit, and community members. Corporations also often work with nongovernmental organizations (NGOs) such as Habitat for Humanity to build or repair housing.

Welfare-to-Work Job Training

The need for improvement in worker skills draws businesses into the world of worker training and retraining, especially efforts to train the disadvantaged. In the United States, government leaders have called on American businesses to help address one of the most vexing and costly social problems—welfare reform. Welfare is a form of public assistance to those who are unable to work and live an independent and self-sufficient life. Most societies have some basic form of public assistance to the needy, and some countries (Germany, France, and the United States) are known for their relatively generous assistance programs. As the costs of such programs have risen, however, many citizens have pressured their governments to curb the cost of welfare-assistance programs.

> Bank of America (BofA) has been deeply involved in welfare-to-work initiatives. In many communities, BofA has partnered with Women in Community Service (WICS), a nonprofit organization that provides job and life skills training to women who are on public assistance, in prison, or homeless or living in public housing. The bank has contributed staff, products and services, internship opportunities, and money to WICS, and has hired thousands of new employees out of welfare-to-work programs. BofA has experienced many benefits: an improved reputation, tax credits, and recruitment of motivated workers. "We see an incredible amount of corporate loyalty to the organization that invested so much in recruiting them, helping to get them trained and giving them a chance," said the bank vice president who manages the program.[11]

Aid to Minority Enterprises

In addition to programs to train people for jobs in industry, private enterprise has extended assistance to minority-owned small businesses. These businesses often operate at a great economic disadvantage: They do business in economic locations where high crime rates, poor transportation, low-quality public services, and a low-income clientele combine to produce a high rate of business failure. Large corporations, sometimes in cooperation with universities, have provided financial and technical advice and training to minority entrepreneurs. They also have financed the building of minority-managed inner-city plants and sponsored special programs to purchase services and supplies from minority firms.

> Microsoft spends $10 billion annually on procuring supplies and services. About 5 percent of this is directed to minority-owned businesses. "The general rule here," said the company's director of supplier diversity, "is, if all other things are equal, pick the minority company." Microsoft works closely with its minority suppliers to refine their business processes to make them more competitive. An example is Group O Direct, an Illinois-based firm that provides fulfillment services for customer promotions. Group O Direct, which is owned by Mexican-Americans, now has several other high-profile clients in addition to Microsoft, including SBC Communications, and annual revenues of more than $50 million.[12]

Disaster, Terrorism, and War Relief

One common form of corporate involvement in the community is disaster relief. Throughout the world, companies, like individuals, provide assistance to local citizens and communities when disaster strikes. When floods, fires, earthquakes, ice storms, hurricanes or terrorist attacks devastate communities, funds pour into affected communities from companies.

> Businesses from all over the world responded with extraordinary generosity to the communities impacted by the massive tsunami that struck the Indian Ocean in December 2004. Their donations, estimated to be around $2 billion, collectively exceeded those of most governments. In addition, many companies drew on their own special expertise to lend a hand. United Parcel Service mobilized its planes to airlift disaster relief supplies to the region free of charge. Pfizer donated millions of dollars worth of medicines. GE sent power generators and mobile water treatment plants. British Airways, Intel, and Cisco collaborated to set up a high-speed wireless Internet network in Banda Aceh, Indonesia, to enable communications in and to one of the hardest-hit areas.[13]

International relief efforts are becoming more important, as communications improve and people around the world are able to witness the horrors of natural disasters, terrorism, and war. Corporate involvement in such efforts is an extension of the natural tendency of people to help one another when tragedy strikes.

In all these areas of community need—economic development, crime abatement, housing, job training, aid to minority enterprise, and disaster relief—as well as many others, businesses around the world have made and continue to make significant contributions.

Corporate Giving

An important aspect of the business–community relationship is **corporate philanthropy**, or **corporate giving**. Every year, businesses around the world give generously to their communities through various kinds of philanthropic contributions to nonprofit organizations.

America is a generous society. In 2005, individuals, bequests (individual estates), foundations, and corporations collectively gave more than $260 billion to churches, charities, and other nonprofit organizations, as shown in Figure 17.3. Businesses are a small, but important, part of this broad cultural tradition of giving. That year, corporate contributions totaled almost $14 billion, or about 5 percent of all charitable giving. This amount includes in-kind gifts claimed as tax deductions and giving by corporate foundations.[14]

> As U.S. firms have become increasingly globalized, as shown in Chapter 7, their international charitable contributions have also grown. A study by The Conference Board found that about half of U.S. corporations surveyed said they had directed some of their donations abroad, and the amount they gave was on the increase. To cite just one example, the Coca-Cola Foundation has donated $138 million to support education around the world over the past two decades. Its contributions have, among other projects, helped build schools in China, Mexico, and the Philippines.[15]

In the United States, tax rules have encouraged corporate giving for educational, charitable, scientific, and religious purposes since 1936.[16] Current rules permit corporations to deduct from their taxable income all such gifts that do not exceed 10 percent of the company's before-tax income. In other words, a company with a before-tax income of $1 million might contribute up to $100,000 to nonprofit community organizations devoted to education, charity, science, or religion. The $100,000 in contributions would then reduce the income to be taxed from $1 million to $900,000, thus saving the company money on its tax bill while providing a source of income to community agencies. Of course, nothing prevents a corporation from giving more than 10 percent of its income for philanthropic purposes, but it would not be given a tax break above the 10 percent level.

As shown in Figure 17.4, average corporate giving in the United States is far below the 10 percent deduction now permitted. Though it varies from year to year, corporate giving has generally ranged between 1 and 2 percent of pretax income since the early 1960s, with a rise that reached a peak at just above 2 percent in 1986. Corporate giving was 1.6 percent of pretax income in 2004. A few companies, including a cluster in the Minneapolis-St. Paul area that have pledged to donate 5 percent annually, give much more than this. One company, Newman's Own, the philanthropic corporation established by film star Paul Newman, gives *all* of its earnings to charity.

In Europe, corporate philanthropy has lagged behind that in the United States, in part because tax breaks are less generous and differences in the law across countries make cross-border giving difficult. Greater spending on social welfare by governments also reduces incentives for private sector philanthropy.[17] Europe-based multinational corporations have become more active, however, as illustrated by the following example.

> The motto of Nokia, the cellular phone company based in Finland, is "connecting people." In partnership with the International Youth Foundation, the company launched a program called "Make A Connection" to help develop life skills among young people in 25 countries. In 2005, Nokia pledged $23 million to the program over 5 years, as well as equipment and expertise. In the Philippines, for example, the program's "text2teach" initiative used mobile technology to bring interactive, multimedia learning materials to 80 schools. Said Nokia's vice president for corporate social responsibility, "It's about developing the social glue within a peer group or community."[18]

Although most companies give directly, some large corporations have established nonprofit **corporate foundations** to handle their charitable programs. This permits them to administer contribution programs more uniformly and provides a central group of professionals that handles all grant requests. More than three-fourths of large U.S.-based corporations have such foundations; together, they gave $3.4 billion in 2005.[19] Foreign-owned corporations use foundations less frequently, although firms such as Matsushita (Panasonic) and Hitachi use sophisticated corporate foundations to conduct their charitable activities in the United States. As corporations expand to more foreign locations, pressures will grow to expand international corporate giving. Foundations, with their defined mission to benefit the community, can be a useful mechanism to help companies implement philanthropic programs that meet this corporate social responsibility.

Forms of Corporate Giving

Typically, gifts by corporations and their foundations take one of three forms: charitable donations (gifts of money), in-kind contributions (gifts of products or services), and volunteer employee service (gifts of time). Many companies give in all three categories.

The share of all giving comprising **in-kind contributions** of products or services has been rising steadily for the past decade or so and has now surpassed cash contributions. Of U.S. corporate contributions in 2004, more than half—54 percent—were in the form of in-kind gifts.[20] For example, computer companies have donated computer hardware and software to schools, universities, and public libraries. Grocery retailers have donated food, and Internet service providers have donated time online. Publishers have given books. The most generous industry, in terms of in-kind contributions, is pharmaceuticals; seven leading drug companies collectively donated $4 billion worth of medicines in 2004, an amount equal to about 10 percent of their pretax income.[21]

> One of the most generous companies, in terms of in-kind contributions, is Pfizer. In 2004, Pfizer contributed an extraordinary $1.62 *billion* worth of medicines and other products and services, an amount equal to 8.3 percent of that year's profit. Many of these donations were directed to the poorest nations and communities in the world, where the company gave away drugs to treat malaria, HIV/AIDS, trachoma, and many other illnesses.[22]

Under U.S. tax laws, if companies donate new goods, they may deduct their fair-market value within the relevant limits. For example, if a computer company donated $10,000 worth of new laptops to a local school, it could take a deduction for this amount on its corporate tax return, provided this amount was less than 10 percent of its pretax income.

Business leaders and employees also regularly donate their own time—another form of corporate giving. **Volunteerism** involves the efforts of people to assist others in the community through unpaid work. According to a report by the Department of Labor, about 29 percent of Americans ages 16 and older volunteered during the prior year, donating on average 50 hours of their time.[23] Many companies encourage their employees to volunteer by publicizing opportunities, sponsoring specific projects, and offering recognition for service. Some companies partner with a specific agency to provide volunteer support over time, as illustrated by the following example.

> KaBOOM! is a nonprofit organization that builds playgrounds. The group's goal is "to help develop a country in which all children have, within their communities, access to equitable, fun, and healthy play opportunities." Since it was founded in 1996, the organization has maintained a strong partnership with Home Depot, the building supply firm. Home Depot employees in many communities have volunteered their building skills, along with materials, to build KaBOOM! playgrounds in underserved neighborhoods. "Team Depot" volunteers, working alongside people from the community, can build a state-of-the-art playground in a single day.[24]

Another, less common approach is for companies to provide employees with *paid* time off for volunteer service in the community. One such company, Timberland, is profiled in the discussion case at the end of this chapter.

Priorities in Corporate Giving

Overall, what kinds of organizations receive the most corporate philanthropy? The distribution of contributions reflects how businesses view overall community needs, and how this perception has changed over time. As shown in Figure 17.5, the corporate giving "pie" is divided into several main segments. The largest share of corporate philanthropy goes to health and human services; the next largest share goes to education. Civic and community organizations and culture and the arts also receive large shares of business philanthropy. Of course, these percentages are not identical among different companies and industries; some companies tend to favor support for education, for example, whereas others give relatively greater amounts to cultural organizations or community groups.

Does corporate giving contribute to business success? One recent study addressed this question directly. In 2000, the Council on Foundations sponsored research to develop a Corporate Philanthropy Index (CPI) that rated companies from 1.0 to 5.0 on a five-point scale based on their stakeholders' perceptions. Employees, customers, and influential members of the community were asked to evaluate companies' contributions to the community and society. The study showed that companies with high CPI scores had better reputations and generated more admiration and goodwill than others did; people were also more willing to give these companies the benefit of the doubt if they received bad publicity.[25] Further research may reveal more about the specific benefits of donations.

Are business gifts always welcomed? One controversy over corporate generosity is profiled in Exhibit 17.C.

Corporate Giving in a Strategic Context

Communities have social needs requiring far more resources than are normally available, and businesses often face more demands than they can realistically meet. This is particularly true in hard economic times, when funds may be less plentiful. Companies must establish priorities to determine which worthy projects will be funded or supported with the company's in-kind or volunteer contributions and which ones will not. What criteria should community relations departments apply in determining who will receive corporate gifts? These are often difficult choices, both because businesses may want to support more charities than they can afford, and because saying no often produces dissatisfaction among those who do not get as much help as they want.

One increasingly popular approach is to target corporate contributions *strategically* to meet the needs of the donor as well as the recipient. **Strategic philanthropy** refers to corporate giving that is linked directly or indirectly to business goals and objectives. In this approach, both the company and society benefit from the gift.

> For example, Cisco Systems, a manufacturer of hardware for the Internet, has established a Networking Academy to train computer network administrators. From a modest start in 1997 in a high school near the company's headquarters in San Jose, California, by 2006 the program had expanded to include more than 10,000 sites in high schools and community colleges in 50 states and more than 150 countries, and had trained more than 1.6 million students. The academy initiative benefits communities throughout the world by providing job training for young people, many of whom go on to successful careers in systems administration. But it also benefits the company, by assuring a supply of information technology professionals who can operate Cisco's complex equipment.[26]

A study in the *Harvard Business Review* identified four areas in which corporate contributions were most likely to enhance a company's competitiveness, as well as the welfare of the community.[27] Strategic contributions focus on:

- *Factor conditions,* such as the supply of trained workers, physical infrastructure, and natural resources. Cisco's Networking Academy is an example of philanthropy that helps the donor by providing skilled employees both for Cisco and for its corporate customers.
- *Demand conditions,* those that affect demand for a product or service. When Microsoft provides free software to libraries and universities, new generations

of young people learn to use these programs and are more likely later to buy computers equipped with the company's products.

- *Context for strategy and rivalry.* Company donations sometimes can be designed to support policies that create a more productive environment for competition. For example, contributions to an organization such as Transparency International that opposes corruption may help a company gain access to previously unreachable markets.
- *Related and supporting industries.* Finally, charitable contributions that strengthen related sectors of the economy may also help companies, as shown in the following example.

The Marriott Resort and Beach Club on the island of Kauai in Hawaii had a problem. The luxury resort wanted to offer its guests native cuisine prepared with locally grown produce. But the island, which had long been dominated by sugar cane plantations, then in decline, did not have a diversified farming sector. The resort partnered with a local food bank to create a successful program to teach underemployed local residents to grow fruits and vegetables on their own land and to market their produce cooperatively. Today, the Hui meai'ai ("club of things to eat") provides employment for 56 local growers and supplies 25 businesses, including the Marriott.[28]

Of course, not all corporate contributions benefit their donors directly, nor should they. But most, if handled correctly, at least build goodwill and help cement the loyalty of employees, customers, and suppliers who value association with a good corporate citizen.

Specialists in corporate philanthropy recommend four other strategies to help companies get the most benefit from their contributions.[29]

- *Draw on the unique assets and competencies of the business.* Companies often have special skills or resources that enable them to make a contribution that others could not. For example, Google, Inc., provides free advertising on its search engine to nonprofit organizations in many countries. Make-a-Wish Foundation, just one of many charities supported in this way, now gets more than half its online donations through the Google site.[30]
- *Align priorities with employee interests.* Another successful strategy is to give -employees a say in deciding who will receive contributions. An advantage of this approach is that it strengthens ties between the company and its workers, who feel that their values are being expressed through the organization's choices. For example, PacifiCare, a large health services corporation, recruits employee volunteers to serve on its foundation's regional allocation committees. "They are the true heroes of our philanthropy," said the president of the PacifiCare Foundation.[31]
- *Align priorities with core values of the firm.* McDonald's Corporation, the fast-food giant, focuses its philanthropic contributions on children's programs. One of the company's major charities is the Ronald McDonald Houses, facilities where families can stay in a homelike setting while their child receives treatment at a nearby hospital. The program operates more than 200 houses in 24 countries, including new programs in Japan and Romania. McDonald's believes that this initiative is consistent with its mission to "make a difference in the lives of children."[32]
- *Use hard-nosed business methods to assess the impact of gifts.* Increasingly, -companies are using standard business tools to assess their investments in philanthropy, just as they would any other investment. For example, they might establish goals for a particular charitable gift, and then check to make sure these goals have been met. Underperforming projects would be dropped, and

successful ones would receive continued funding. These efforts are sometimes part of a broader social audit, as described in Chapter 4.

In short, businesses today are taking a more strategic approach to all kinds of corporate giving. They want to make sure that gifts are not simply made randomly, but rather are targeted in such a way that they are consistent with the firm's values, core competencies, and strategic goals.

Building Collaborative Partnerships

The term *partnership,* introduced in Chapter 7 and further elaborated in Chapter 12, refers to a voluntary collaboration among business, government, and civil society organizations to achieve specific objectives. The need for such **collaborative partnerships** is very apparent when dealing with community problems.

One arena in which collaborative partnerships among business, government, and communities have been particularly effective is education. As mentioned earlier in this chapter, community relations managers count education as the most critical challenge they face. Many school districts and colleges in the United States face an influx of new students from the so-called "echo boom" generation, increasing class sizes and making it more difficult to give students the individual attention they need. Many schools are challenged to educate new Americans, immigrants from other parts of the world who often do not speak English as their native language. More children are living in poverty, and many come from single-parent homes. A fast-changing economy demands that the technological tools accessible to students be greatly expanded. All these challenges must be met in many states under conditions of extreme fiscal constraint, as tax revenues fall and budget crises loom. The difficulties faced by schools are of immediate concern to many companies, which rely on educational systems to provide them with well-trained employees equipped for today's high-technology workplace.

Business has been deeply involved with education reform in the United States for over two decades. A series of studies by The Conference Board identified four waves, or distinct periods, in corporate involvement in education reform from the 1980s to the present.[33] The first wave was characterized by *direct involvement* with specific schools. For example, a company might "adopt" a school, providing it with cash, equipment, and volunteer assistance, and promising job interviews for qualified graduates. The second wave focused on the *application of management principles* to school administration. Business leaders assisted schools by advising administrators and government officials who needed training in management methods, such as strategic planning and performance appraisal. The third wave emphasized advocacy for *public policy initiatives* in education, such as ones calling for school choice and adoption of national testing standards. The fourth wave, which is ongoing, focuses on *collaboration for systemic reform.* This involves collaborative partnerships among business organizations, schools, and government agencies. In such collaborations, all partners bring unique capabilities and resources to the challenge of educational reform. The result is often outcomes that are better than any of them could have achieved acting alone.[34]

A leading example of a corporation deeply involved in collaborative partnerships to improve education is IBM. Through its "Reinventing Education" initiative, IBM has partnered with schools in many states and eight countries, including Brazil, Vietnam, Mexico, and Ireland, to apply technology to improve student achievement and performance. Since the program's launch in 1994, IBM has donated more than $70 million in cash and high-tech equipment. But the program goes far beyond traditional philanthropy. According to an independent evaluation by the Center for Children and Technology, Reinventing Education "engages researchers, corporate managers, and educators in a long-term partnership, committed to serious sustained collaboration to improve schools." Successful experiments are spread, through the program, to many other schools. Among the partnership's many accomplishments have been the development of a communications network connecting schools and parents, electronic portfolios to display student work, and online "learning villages" where novice teachers can work with experienced mentors. The Center for Children and Technology evaluation found that the partnership had produced "significant performance gains" for students in affiliated schools.[35]

The success of IBM's initiative illustrates the potential of collaborative partnerships that allow business to contribute its unique assets and skills to a broader effort to solve significant community problems.

Communities need jobs, specialized skills, executive talent, and other resources that business can provide. Business needs cooperative attitudes in local government, basic public services, and a feeling that it is a welcome member of the community. Under these circumstances much can be accomplished to upgrade the quality of community life. The range of business–community collaborations is extensive, giving businesses many opportunities to be socially responsible.

Like education, other community challenges are, at their core, people problems, involving hopes, attitudes, sentiments, and expectations for better human conditions. Neither government nor business can simply impose solutions or be expected to find quick and easy answers to problems so long in the making and so vast in their implications. Moreover, neither government nor business has the financial resources on their own to solve these issues. Grassroots involvement is needed, where people are willing and able to confront their own needs, imagine solutions, and work to fulfill them through cooperative efforts and intelligent planning. In that community-oriented effort, government, nonprofit organizations, and businesses can be partners, contributing aid and assistance where feasible and being socially responsive to legitimately expressed human needs.

- The *community* refers to an organization's area of local influence, as well as more broadly to other groups that are impacted by its actions. Businesses and their communities are mutually dependent. Business relies on the community for services and infrastructure, and the community relies on business for support of various civic activities.
- Addressing a community's needs in a positive way helps business by enhancing its reputation, building trust, and winning support for company actions. Like other forms of corporate social responsibility, community involvement helps cement the loyalty of employees, customers, and the public.
- Many corporations have established community relations departments that respond to local needs and community groups, coordinate corporate giving, and develop strategies for creating win-win approaches to solving civic problems.
- Corporate giving comprises gifts of cash, property, and employee time. Donations currently average about 1.8 percent of pretax profits. Philanthropic contributions both improve a company's reputation and sustain vital community institutions.
- Many companies have adopted a strategic approach to philanthropy, linking their giving to business goals. Corporate giving is most effective when it draws

on the unique competencies of the business and is aligned with the core values of the firm and with employee interests.

- The development of collaborative partnerships has proven to be effective in addressing problems in education and other civic concerns. Partnerships offer an effective model of shared responsibility in which businesses and the public and nonprofit sectors can draw on their unique skills to address complex social problems.

Discussion Case: *Timberland's Path to Service*

Timberland is a manufacturer of rugged outdoor boots, clothing, and accessories. Founded in 1918 in Boston by an immigrant shoemaker named Nathan Swartz, the company has been run for almost a century by three generations of the Swartz family. Today, the company sells its products in department and specialty stores as well as in its own retail outlets in North America, Europe, Asia, South Africa, Latin America, and the Middle East. Although the company was taken public in 1987, the Swartz family and its trusts and charitable foundations continue to hold about 48 percent of Timberland stock.

In 1989, Timberland was approached by City Year, an urban service corps for young people, with a request for a donation of boots. Jeff Swartz, grandson of the founder and CEO, said yes—and also agreed to join the corps for half a day of community service. Swartz later described his experience:

> I found myself, not a mile from our headquarters, . . . face to face with a vision [of] America not unlike the one that drew my grandfather to leave Russia in steerage so many years ago. I spent four hours with the corps members from City Year and some young recovering drug addicts in a group home. I painted some walls and felt the world shaking under my feet. In America? At this time of plenty? Children on drugs? Behind my desk again, safe no longer, moved by my own sense of purpose, having served albeit briefly, all that mattered was figuring out how service could become part of daily life at Timberland.

Compelled to take action, Swartz worked over the next several years with others at Timberland to create a unique program called Path to Service. Formally launched in 1992, the program provides employees with numerous opportunities for community involvement. As soon as they are hired, employees are granted up to 40 hours of paid time per year to participate in company-sponsored community service activities. Part-time employees receive 16 hours. Although participation is voluntary, almost 95 percent do so, and most cite the program as one of the most valuable benefits offered by the company. Since the program began, employees have contributed over 250,000 hours of service in 25 countries.

Since 1998, Timberland facilities worldwide have closed for one day each year for a day of celebration and service called Serv-A-Palooza. In 2005, 6,500 employees, business partners, and customers came together to build playgrounds, repair wheelchairs, clear trails, and renovate homeless shelters, among other projects. In another related program, the company offers Service Sabbaticals with full pay and benefits. After three years of employment, Timberland workers may apply for paid time off to work with a nonprofit organization devoted to social or environmental issues.

Timberland also makes cash and in-kind contributions. The company has a goal of contributing over 2 percent of its pretax income annually and makes grants to many nonprofit organizations, including many of those it aids through its service projects. For example, the company has supported the renovation of libraries and gardens at poor-performing public schools in New York City with both cash and service. Timberland also routinely donates its shoes and clothing. It is the official outfitter of City Year, and in 2002 sent 25,000 pairs of shoes to Afghanistan so that children returning to school there after the war would have proper footwear.

Swartz explained the meaning of Timberland's various service and philanthropic initiatives this way:

> At Timberland, doing well and doing good are not separate or separable efforts. Every day, everywhere, we compete in the global economy. At the center of our efforts is the premise of service, service to a truth larger than self, a demand more pressing even than this quarter's earnings. While we are absolutely accountable to our shareholders, we also recognize and accept our responsibility to share our strength—to work, in the context of our for-profit business, for the common good.

Sources: Based on author interviews and information from the company's Web site at *www.timberland.com.* Both quotations are from Jeff Swartz, "Doing Well and Doing Good: The Business Community and National Service," *The Brookings Review* 20, no. 4 (Fall 2002).

Discussion Questions

1. -What motivated Timberland to launch its Path to Service program and other philanthropic and service initiatives?
2. -In your opinion, what are the benefits and costs of Timberland's community involvement programs to the company?
3. -Do you believe that Timberland's community involvement programs illustrate the principles of strategic philanthropy discussed in this chapter? Why or why not?
4. -If you were in charge of Timberland's social enterprise team, what arguments would you make to shareholders that the company's community involvement programs are in their best interest?

[1] See *www.wholefoodsmarket.com/company/communitygiving*.

[2] Information on ING's community initiatives is available at *www.ing.com*.

[3] "Hindustan Lever in India," *www.business-humanrights.org; www.unilever.com/environmentsociety/community;* and "Unilever in Uttar Pradesh," in McIntosh et al., *Corporate Citizenship: Successful Strategies for Responsible Companies* (London: Financial Times, 1998), pp. 216–17.

FIGURE 17.1

The Firm and Its Communities

Source: Based in part on a discussion in Edmund M. Burke, *Corporate Community Relations: The Principle of Neighbor of Choice* (Westport, CT: Praeger, 1999), Ch. 6.

Community	Interest
Site community	Geographical location of a company's operations, offices, or assets
Fence-line community	Immediate neighbors
Cyber communities	People who use the Internet to learn about the company
Communities of interest	Groups that share a common interest with the company
Employee community	People who work near the company

FIGURE 17.2

What the Community and Business Want from Each Other

Business Participation Desired	Community Services Desired by Community by Business
• Pays taxes	Schools—a quality educational system
• Provides jobs and training	Recreational opportunities
• Follows laws	Libraries, museums, theaters, and other cultural services
• Supports schools	Adequate infrastructure, e.g., sewer, water, and electric services
• Supports the arts and cultural activities	Adequate transportation systems, e.g., roads, rail, airport, harbor
• Supports local health care programs	Effective public safety services, e.g., police and fire protection
• Supports parks and recreation	Fair and equitable taxation
• Assists less-advantaged people	Streamlined permitting services
• Contributes to public safety	Quality health care services
• Participates in economic development	Cooperative problem-solving approach

The professional sports franchise is one kind of business that has historically been particularly dependent on support from the community. Cities often compete vigorously in bidding wars to attract or keep football, basketball, baseball, hockey, and soccer teams. Communities subsidize professional sports in many ways. Government agencies build stadiums and arenas, sell municipal bonds to pay for construction, give tax breaks to owners, and allow teams to keep revenues from parking, luxury boxes, and food concessions. In the United States, subsidies to pro sports cost taxpayers around $500 million a year, on average. Consider the following taxpayer subsidies to build sports facilities: Scottsdale, $535 million (for the Phoenix Coyotes); Houston, $180 million (for the Houston Astros); Denver, $215 million (for the Colorado Rockies), and Miami, $212 million (for the Florida Panthers). In one of the most recent examples, the new ballpark for the New York Yankees, approved in 2006, was funded in part with $920 million in tax-exempt, low interest city bonds and $25 million in taxable bonds. Some say that public support is warranted, because high profile teams and sports facilities spur local economic development, offer wholesome entertainment, and build civic pride. But critics argue that subsidies simply enrich affluent team owners and players at taxpayer expense and shift spending away from other more deserving areas, such as schools, police and fire protection, social services, and the arts. In this view, this is a case in which the relationship between business and the community is deeply out of balance.

Sources: "Approvals Clear Way for Yankees to Build," *The New York Times,* July 22, 2006, p. B2; Kevin J. Delaney and Rick Eckstein, *Public Dollars, Private Stadiums* (New Brunswick, NJ: Rutgers University Press, 2003); Joseph L. Bast, *Sports Stadium Madness: Why It Started, How to Stop It,* Heartland Institute, Policy Study No. 85, February 23, 1998; and Roger G. Noll and Andrew Zimbalist, *Sports, Jobs, and Taxes* (Washington DC: Brookings Institution, 1997). □A Web site critical of public subsidies to sports facilities is *www.fieldofschemes.com.*

[4] Wal-Mart's problems with local communities are extensively documented. For the company's perspective on its community relationships, see *www.walmart.com.*

[5] Paul S. Adler and S. W. Kwon, "Social Capital: Prospects for a New Concept," *Academy of Management Review* 27, no. 1 (January/February 2002), pp. 17–40. For a more general discussion, see Robert D. Putnam, *Bowling Alone: The Collapse and Revival of American Community* (New York: Simon and Schuster, 2000).

[6] Some benefits of social capital are described on the World Bank Web site at *www.worldbank.org/prem□/poverty/scapital.*

[7] Center for Corporate Citizenship, *Community Involvement Index 2005* (Boston, MA: Boston College, 2005).

[8] Ibid., p. 1.

[9] Ibid., p. 2. Based on an opinion survey of 163 community involvement managers.

Grameen Bank (meaning *village bank*), based in Bangladesh, is an internationally recognized innovator in the field of economic development. In 1974, Muhammad Yunus, an economics professor at Chattagong University, took his students on a field trip to a poor rural village. There, they interviewed a woman who supported herself by crafting bamboo stools. The woman had to borrow money for raw materials at the outrageous interest rate of 10 percent *a week,* leaving a profit of only one penny per stool. The professor, shocked by what he saw, began lending his own money to villagers. Finding that small loans helped many people pull themselves out of poverty, Yunus founded Grameen in 1983 to provide *micro-credit* to individual entrepreneurs who would not normally qualify for loans. Today, Grameen has nearly 2,000 branches and serves 6 million borrowers. "These millions of small people with their millions of small pursuits can add up to create the biggest development wonder," Yunus has said. In 2006, Yunus was awarded the Nobel Peace Prize in recognition of his work.

Sources: *www.grameen-info.org*; and Muhammad Yunus, *Banker to the Poor* (South Asia Books, 1998).

[10] Barbara W. Altman, "Minnesota HEALS: Next Steps in Corporate/Community Partnerships for Crime Reduction," case presented at the North American Case Research Association annual meeting, 2000; and Ellen Luger and Pat Hoven, "Minnesota HEALS: Creating a Public-Private Partnership," *www.mcf.org/mcf/forum/heals*.

[11] SFWorks, *Fast Forward: The Business Case for Workforce Partnerships* (San Francisco, 2002), available at *www.sfworks.org*.

[12] "Taking Minority-Owned Businesses under Their Wing," *The New York Times,* September 20, 2005, p. G6.

[13] "Companies Focus Help on Long Term Projects," *Financial Times* (London), December 23, 2005, p. 9; "UPS, NWA Cargo Assist Tsunami Relief," *Journal of Commerce Online,* January 6, 2005; "Deadly Tsunamis: Corporations, Workers Contribute Millions," *Atlanta Journal-Constitution,* December 31, 2004, p. 14A; and "Union Nations Coordinates International Response to Tsunami," press release, May 9, 2005.

FIGURE 17.3

Philanthropy in the United States, by Source of Gift, 2005

Source: Giving USA Foundation™ (formerly the American Association of Fundraising Counsel Trust for Philanthropy), *Giving USA 2006* (Indianapolis: Center on Philanthropy at Indiana University, 2006), p. 14. Used by permission.

[14] Giving USA Foundation (formerly the American Association of Fundraising Counsel Trust for Philanthropy), *Giving USA 2006,* pp. 14–15.

[15] Sophia A. Muirhead, *2005 Corporate Contributions Report* (New York: The Conference Board, 2005), p. 8; and Coca-Cola, "Foundations," *www.coca-cola.com/citizenship/foundation.html.*

[16] The evolution of corporate philanthropy is summarized in Mark Sharfman, "Changing Institutional Rules: The Evolution of Corporate Philanthropy, 1883–1953," *Business and Society* 33, no. 3 (December 1994).

FIGURE 17.4

Corporate Contributions in the United States, as a Percentage of Pretax Net Income, 1964–2004

Sources: Data for 1964 through 2002 are from AAFRC (American Association of Fundraising Counsel) Trust for Philanthropy, *Giving USA 2003* (Indianapolis: Center on Philanthropy at Indiana University, 2003), p. 202, and are used by permission. Data for 2004 are from The Conference Board, *2005 Corporate Contributions Report* (New York: The Conference Board, 2005), p. 9, and are used by permission of The Conference Board, a global business membership and research organization.

[17] "Understanding Philanthropy," *Financial Times* (London), December 16, 2005, p. 1.

[18] "Making a Connection to Boost Life Skills," *Financial Times* (London), January 26, 2006, p. 3; and *Corporate Social Responsibility Report 2004,* available at *www.nokia.com.*

[19] *2005 Corporate Contributions Report,* p. 15; and *Giving USA 2006,* p. 217.

[20] *2005 Corporate Contributions Report,* p. 13.

[21] Committee to Encourage Corporate Philanthropy, *Adding It Up 2004: The Corporate Giving Standard* (Boston, MA: Center for Corporate Citizenship at Boston College, 2006).

[22] "Corporate Philanthropy's Biggest Givers," *BusinessWeek Online,* at *www.businessweek.com/investing/philanthropy/2005/inkind.htm.* Pfizer's philanthropic initiatives are reported at *www.pfizer.com/subsites/philanthropy.*

[23] "Volunteering in the United States, 2005," U.S. Department of Labor press release, December 9, 2005.

FIGURE 17.5

Priorities in Corporate Giving
(Percentage of corporate cash and in-kind contributions to various sectors)

Source: Sophia A. Muirhead, *2005 Corporate Contributions Report* (New York: The Conference Board, 2005), "Beneficiaries of Total (U.S. and International) Contributions, 2004," p. 8. International includes donations to tsunami relief made in 2004. All data are for 2004. Used by permission of The Conference Board, a global business membership and research organization.

[24] "Corporate Volunteering: Home Depot and KaBOOM!" in Shirley Sagawa and Eli Segal, *Common Interest, Common Good: Creating Value Through Business and Social Sector Partnerships* (Boston: Harvard Business School Press, 2000), pp. 29–46. The Web site for KaBOOM! is *www.kaboom.org.*

Business donations are usually welcomed by recipient organizations and supported by the public. But this is not always the case. Sometimes, corporate charity generates controversy among the very groups it targets.

The Altria Group Inc., formerly known as the Philip Morris Companies, is the leading seller of tobacco products in the world. In 2005, the company earned $11 billion on $98 billion in revenue, with 65 percent of its revenue coming from tobacco (the rest came from food, beer, and other products). Altria is also among the most generous corporate philanthropists. Over the past decade, the company has given more than a billion dollars in cash and in-kind contributions internationally. Altria has focused its gifts in the areas of domestic violence, AIDS, hunger, and the arts—where it has been a major patron of art museums and dance companies. The company says that its charitable giving program is designed "to help find solutions to pressing social issues."

The company's critics feel that Altria's motives are not so benign. The Campaign for Tobacco-Free Kids, for example, has charged that the purpose of Altria's contributions is to give the company "a veneer of undeserved legitimacy" and to allow it "to portray itself as a responsible company while it continues its marketing practices which attract and addict children." Others have criticized the company's advertising campaign that showcases its good works, saying that money spent on ads would be better spent on charity itself. Some claim that the company has carefully selected recipients to "buy" the silence of groups that have been particularly devastated by tobacco-related illness, including women, minorities, gays, and artists. "They're taking blood money and using it to assuage people's hostility to their company," said one anti-tobacco attorney. The controversy has created an ethical dilemma for some recipient organizations, which must weigh the value of Altria's gifts against the costs of association with the tobacco giant.

Sources: Campaign for Tobacco-Free Kids, "Special Report: Behind the Smokescreen," available online at *www.tobaccofreekids.org/reports/smokescreen;* Robert Dreyfuss, "Philip Morris Money," *The American Prospect* 11, no. 10 (March 27, 2000); and ABC News, "Corporate Goodwill or Tainted Money?" February 8, 2001, *http://abcnews.go.com.* Altria's description of its corporate giving programs is available at *www.altria.com/responsibility.*

[25] "Measuring the Business Value of Corporate Philanthropy," *Research Report Executive Summary,* October 2000 (conducted by Walker Information Inc. for the Council on Foundations), available at *www.cof.org.*

[26] More information about the Networking Academy is available at *http://cisco.netacad.net.*

[27] Michael E. Porter and Mark R. Kramer, "The Competitive Advantage of Corporate Philanthropy," *Harvard Business Review,* December 2002.

[28] "A Productive Partnership: The Kauai Marriott Resort and Beach Club and the Kauai Food Bank," *In Practice* (Boston: The Center for Corporate Citizenship at Boston College, 2002).

[29] See, for example, David Hess, Nikolai Rogovsky, and Thomas W. Dunfee, "The Next Wave in Corporate Community Involvement: Corporate Social Initiatives," *California Management Review* 44, no. 2 (Winter 2002).

[30] "Google Starts Up Philanthropy Campaign," *The Washington Post,* October 12, 2005, p. D4.

[31] PacifiCare Foundation, "2001 Report." The annual reports of the foundation are available at *www.pacificare.com.*

[32] "2004 Worldwide Corporate Responsibility Report," available at *www.mcdonalds.com.*

[33] Susan Otterbourg, *Innovative Public–Private Partnerships: Educational Initiatives* (New York: The Conference Board, 1998); and Sandra Waddock, *Business and Education Reform: The Fourth Wave* (New York: The Conference Board, 1994).

[34] For a discussion of the benefits of collaborative partnerships, see Bradley K. Googins and Steven A. Rochlin, "Creating the Partnership Society: Understanding the Rhetoric and Reality of Cross-Sectoral Partnerships," *Business and Society Review* 105, no. 1 (2000), pp. 127–44.

[35] Center for Children and Technology, "The Reinventing Education Initiative from an Evaluation Perspective" (April 2004), and "EDC Releases Three-Year Study of IBM's $45 Million Reinventing Education Program" (June 2001), both available online at *www.ibm.com/ibm/ibmgives.* The initiative is also analyzed in Rosabeth Moss Kanter, *Evolve! Succeeding in the Digital Culture of Tomorrow* (Boston: Harvard University Press, 2001).

Key Terms

civic engagement, *366*
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Internet Resources

www.bc.edu/centers/ccc	-The Center for Corporate Citizenship at Boston College
www.pointsoflight.org	Points of Light Foundation
www.worldbank.org/poverty/scapital	World Bank (social capital)
www.conference-board.org/ citizenship) knowledge/citizenship	The Conference Board (corporate
http://www.corphilanthropy.org	-The Committee to Encourage Corporate Philanthropy