Business's Social Contract:

capturing the CORPORATE PHILANTHROPY opportunity

Insights from CEOs on achieving efficient philanthropy

Based on research by McKinsey & Company

CECP

COMMITTEE ENCOURAGING CORPORATE PHILANTHROPY

CECP

Based in New York, CECP is the only international forum of business CEOs and Chairpersons focusing exclusively on corporate philanthropy. Its mission is to lead the business community in raising the level and quality of corporate philanthropy. Membership includes more than 170 CEOs and chairpersons representing companies that account for over 40% of reported corporate giving in the United States.

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CECP is delighted to bring you this exclusive report based on research and analysis by McKinsey & Company on the CEO's role in corporate philanthropy leadership.

Terry McGraw
CECP Chairman

PREFACE

Since the inception of the Committee Encouraging Corporate Philanthropy (CECP) in 1999, the field of corporate philanthropy has become increasingly sophisticated. The social need for corporate community investment and the business case for giving are both growing exponentially. Increased accountability and heightened expectations from employees, customers, business partners, and shareholders have raised the pressure on corporate leaders. These developments have elevated the level of energy and leadership attention required from organizations.

CEOs at many companies now dedicate more of their time to understanding and championing corporate philanthropy. CECP has also seen many CEOs support key philanthropy programs more vocally, as well as ensure that top personnel lead these efforts and that staff have the operational systems and funding needed to succeed. In many instances, the CEO's involvement has been the driving force in developing a corporate culture of giving – a key element in recruiting and retaining top talent.

While firms have made tremendous advances, a significant gap still exists between leading companies in corporate philanthropy and the average state of practice. Unless they close this gap, many companies will not only miss an opportunity for greater social impact, but – equally important – one for stronger business performance.

CECP's mission to lead the business community in raising the level and quality of corporate philanthropy offers a unique perspective to the field, focusing on the CEO viewpoint. By participating in this type of research, CECP not only offers the CEO voice on corporate philanthropy, but also aims to bring further business rigor applied to the field and set standards for excellence in corporate strategy for philanthropy practice and measurement.

Our hope is that this report, "Business's Social Contract: Capturing the Corporate Philanthropy Opportunity", based on research and analysis by McKinsey & Company, will raise corporate leaders' awareness of the potential opportunities in corporate philanthropy. The businesses and corporate leaders cited throughout this report maximize both the social and business benefits of their corporate philanthropy and execute "efficient" philanthropy programs around the world.

CECP is grateful for the support provided by McKinsey & Company in creating the fact base and analysis on which this report is based.

Charles Moore
Executive Director

Cari Hills Parsons
Director, Operations

Committee Encouraging Corporate Philanthropy

Preschool children are joined by Elmo to celebrate the launch of a new PNC Grow Up Great [illegible] created by Sesame Workshop

PNC

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General Mills

ACKNOWLEDGEMENTS & RESEARCH METHODOLOGY

ACKNOWLEDGEMENTS

We would like to thank all of the CEOs who generously contributed their time to the interview process, as well as those who participated in the Committee Encouraging Corporate Philanthropy's annual Board of Boards CEO conference in New York on February 25, 2008. We also wish to thank the members of CECP and of *The McKinsey Quarterly*'s executive panel who responded to a detailed survey. None of this would have been possible without their generous time and cooperation. Their insights were invaluable.

RESEARCH METHODOLOGY

The findings of this report highlight the practices that have enabled some companies to forge a new path in corporate philanthropy. It combines a fact base drawn from the CECP's Board of Boards CEO conference, a *McKinsey Quarterly* global survey of more than 700 executives, and 24 in-depth interviews with CEOs and top executives. The CEOs and executives whose opinions are included in this report represent more than 98 industries and more than 81 countries in North America, Europe, Asia/Pacific, and developing markets.

CECP's Board of Boards conference brought together 40 CEOs and chairpersons for a candid peer-to-peer dialog on "The CEO's Challenge: Leading the Company, Shaping Society". This session generated insights from CEOs whose companies are at the forefront of corporate social investment.

Respondents to the global *McKinsey Quarterly* survey of executives represent 272 companies with headquarters in Europe, 166 in North America, 77 in Asia/Pacific, and 206 in developing markets (including China, India and Latin America). The survey respondents included 536 C-level executives, and they spanned industries including arts and entertainment, financial services, energy, healthcare, high tech, manufacturing, mining and excavation, pharmaceuticals, professional services, retail, telecommunications, travel and logistics and wholesale.

CECP Board of Boards

INTRODUCTION: THE SHIFTING SOCIAL CONTRACT

"Like all companies, Lilly has a contract with society. Part of that contract is embedded in laws, and part is the tacit understanding that as we fulfill our responsibilities to society, society will allow us the freedom to operate"[1]

Sidney Taurel
Chairman
Eli Lilly and Company

Business has always had a contract with society—expectations from a variety of stakeholders that a company must fulfill in order to earn its freedom to operate and achieve success. Today, companies are facing tectonic shifts in social expectations. Customers have more ability to put pressure on companies to meet their expectations for contributions to the public good. Shareholders are exerting pressure to increase companies' social presence; and increasing attention is being paid to indirect stakeholders, such as lawmakers, regulatory agencies, the news media, community activists, and nonprofit organizations. All of these groups can influence, and may even redefine, the social contract and what it means to a company to fulfill or exceed it. These pressures come at the

1 Unless otherwise noted, all quotes are from interviews conducted by McKinsey & Company or CECP's Board of Boards CEO Conference

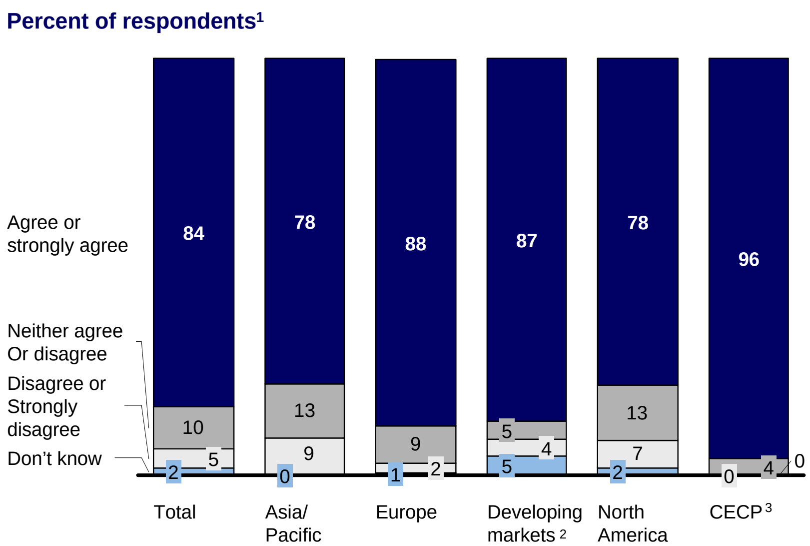
same time that short-term financial results are increasingly important to markets and when many companies are operating in new geographies where stakeholders have unfamiliar expectations, creating an even more complex dynamic.

Overall, in a survey of corporate executives from around the world conducted for this study, *The McKinsey Quarterly*[2] found that 84 percent believe that society now expects businesses to take a much more active role in environmental, social, and political issues than it did five years ago. Leaders are increasingly aware of their companies' role in the public sphere, as one CEO noted: "There is a quasi-public responsibility placed on private-sector companies and their leaders."

The good news is that three quarters of respondents to the survey said that corporate philanthropy is one effective way to meet society's new expectations. However, to do so the practice of corporate philanthropy of many companies must be redefined. Successful philanthropy today is not simply writing checks to the local charity. Philanthropic pursuits are becoming an important way for most corporations to communicate with stakeholders, gauge their interests, and satisfy their elevated expectations. By choosing the right philanthropic programs—those that yield social benefits and address stakeholder interests—companies can build a good corporate reputation. And a good reputation is both a source of tangible value and a reservoir of good will to be tapped if a company runs into trouble.

EXHIBIT 1: Society's expectations of business

Considering today's business environment, to what extent do you agree or disagree that society has higher expectations for business to take on public responsibilities for global environmental, social, and political issues than was the case than five years ago?



Looking Ahead:

UN Global Compact Survey suggests that between 55 and 64 percent of respondents across different geographies expect this trend to continue over the next five years

1 Percent may add to more than 100 due to rounding
2 Including China, India, Latin America
3 Small sample: 25 respondents

2 "The state of corporate philanthropy: A McKinsey global survey." Published in *The McKinsey Quarterly*, February, 2008.

Further, our research has allowed us to identify a group of companies where philanthropy not only provides substantial social benefits, but also offers business benefits that include, but can go far beyond, improving reputation. These additional business benefits, we've found, also encourage companies to bolster their philanthropic programs.

This report focuses on the role philanthropy can play in fulfilling a company's contract with society. It explores such topics as how philanthropy is changing and why corporate leaders are assigning greater importance to it; the challenges companies face in making their programs successful; and the methods that those highly innovative companies—the efficient philanthropists—are using to achieve business and social success.

Throughout this report, we provide concrete company examples to highlight how efficient philanthropists demonstrate their foresight and ability to pave the way for other companies.

Deloitte

CHAPTER ONE:
THE EVOLUTION OF CORPORATE PHILANTHROPY

Corporate reputation has always been essential to business success, but today's evolving social contract makes sustaining public trust through a good corporate reputation even more important—and more difficult. As social expectations have expanded, the consequences of not dealing – or dealing – with society's expectations have expanded significantly as well. If companies ignore social priorities, they can suffer not just declines in market share but also, for example, difficulty in recruiting or retaining employees. Companies' investments in new geographies can be wasted if they are unable to understand local customs and consumers. On the other hand, firms that build strong social contracts and meet or exceed society's expectations can meaningfully differentiate themselves – with competitors, employees, customers, lawmakers, regulators, or the news media.

> "We plan to follow our people, and our people have become more global in physical presence and in the way that they think. We invest in what our people are passionate about."
>
> Marc Benioff
> Chairman and CEO
> Salesforce.com

Corporate philanthropy has an essential role to play in meeting these expectations, and it is changing in response to the new environment. The main changes, our research found, lie in understanding social expectations from a broader range of sources; how companies assess their programs; and the types of philanthropy companies engage in, in terms of what, where, and with whom companies give. A small number of companies have begun to address all of these shifts successfully and build truly strategic philanthropy programs that meet social and business goals.

NEW EXPECTATIONS

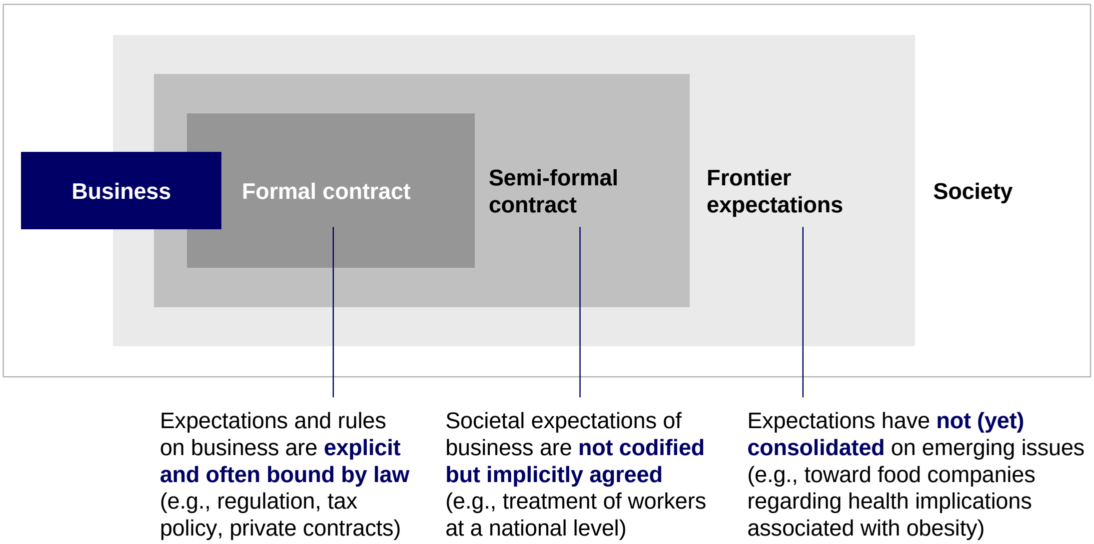
Today, companies face a mix of social expectations from formal, semi-formal, and frontier sources. Formal elements of the social contract, which include regulations, laws, and other directives whose violation has legal ramifications, can be the simplest to address, precisely because they are explicit. The new complexity facing many companies today is that they are facing formal expectations in more geographies than ever.

Semi-formal elements are implicit, and are somewhat more difficult to identify. These are not legal obligations, but nonetheless, they are crucial: violation of these expectations can result in punitive action, such as Nike experienced in the 1990's in connection with contracted workers involved in its supply chain. These elements of the social contract vary by geography and can often creep up on companies through tactics that leverage new technologies, such as online petitions or mobile messaging.

Frontier elements of the social contract arise from social expectations that may eventually influence industry standards, such as expectations of financial institutions' oversight of data security or food companies' responsibility for obesity. This category of social expectations is the most challenging to manage, because it is uncertain, but it offers the most potential for leadership, and thus building corporate reputation, if a company is successful in foreseeing the eventual social consensus and proactively addressing it. It is in this area where many companies leverage their corporate philanthropy programs.

As recently as the 1980's, companies believed that by making cash donations to hometown charities, they were administering effective philanthropy that would help fulfill their social contract. Just as the social contract evolves, philanthropy must

EXHIBIT 2: Business's contract with society



also evolve. Companies are developing more sophisticated philanthropy initiatives that are much more influential in creating a competitive advantage.

MORE FORMAL ASSESSMENT

If companies are to meet stakeholder expectations, they must ensure that their philanthropy truly makes a difference, and they must be more transparent about what they are doing and why. Thus, companies are beginning to measure the results of their philanthropic programs more rigorously than in the past to ensure they are spending assets wisely and improving their ability to communicate program results to stakeholders. Monitoring resources deployed on philanthropic programs is complex; CECP data suggests that cash contributions tend to be under-reported, often due to the fragmentation and geographic dispersion of programs within companies. The challenges of reporting are further magnified for in-kind donations. Yet companies are engaging. One example of their growing dedication to monitoring is that the number of participants in CECP's "Giving in Numbers", one of the most comprehensive measurement reports on philanthropic activity, grew by nearly one-third in just one year (2007)[3].

MOVING FROM CHECK-WRITING TO LEADERSHIP, COLLABORATION, AND GLOBAL EFFORTS

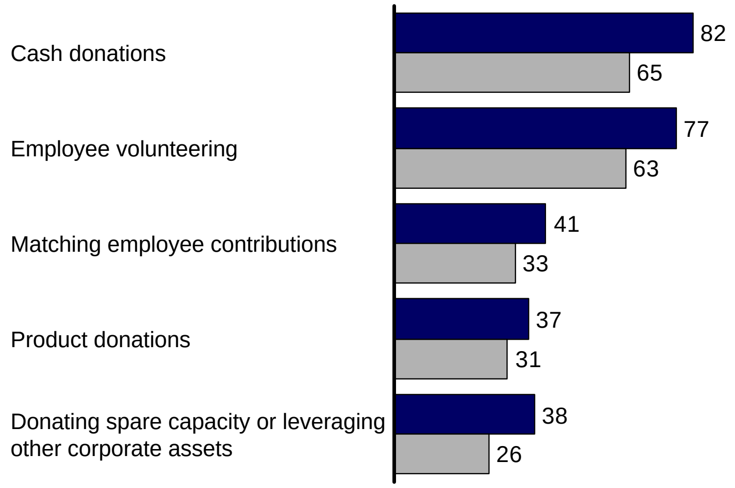
In the last few years, companies have begun to adopt a more holistic approach to corporate philanthropy. Cash contributions remain significant, but companies are increasing other types of contributions that draw on more of the company's resources. Responses to the *McKinsey Quarterly* survey indicate that nearly as many companies support employee volunteering as make cash contributions, for example. Some of the most innovative programs make use of an even broader array of resources, including corporate matches, product donations, capacity sharing, and asset leveraging.

EXHIBIT 3: Corporate philanthropy programs draw on more resources

Which form(s) do your company's corporate philanthropy programs take?

Efficient Philanthropists
All Other

Percent of responses*



"A company's priority should be to do something that makes a difference, not just write out checks."
– CEO, Technology Company

* Respondent could choose more than one option – responses may not add to 100%

3 CECP, Giving in Numbers: 2007 Edition

Two companies' programs illustrate this point. Genworth Financial's program places a stronger emphasis on employee volunteering than cash contributions. Employees serve as nonprofit board members, train nonprofit leaders, and help develop education programs. PNC Financial Services Group, meanwhile, offers employees up to 40 paid hours annually for volunteer work: in addition, the company donates $1,000 in the name of each employee who volunteers for a charitable or civic cause. Both PNC Financial Services Group and Genworth Financial believe that relying on a range of resources that build on their organization's strengths has helped make the programs they and their employees support more successful.

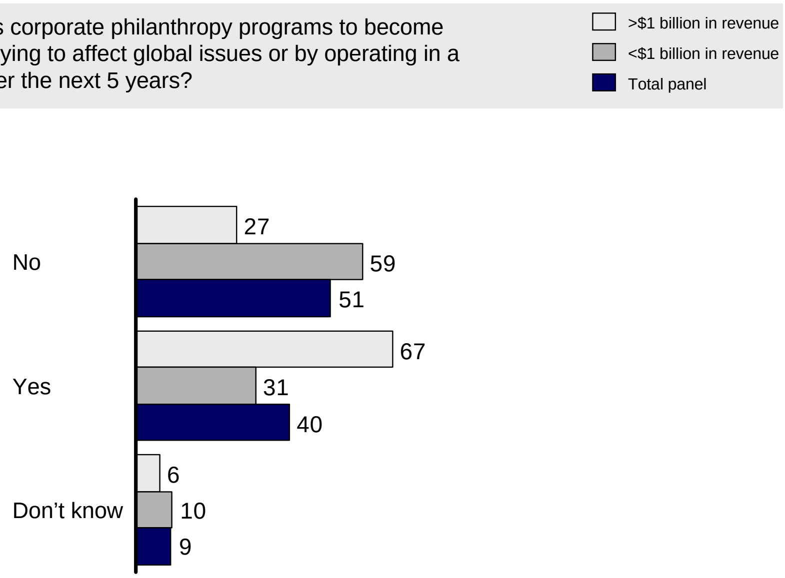
In addition to thinking about a broader range of resources to offer, as larger companies' businesses go global, their perspective on issues that philanthropy could address widens. Many executives increasingly treat philanthropy as a worldwide program. Indeed, data from CECP's 2007 edition of "*Giving in Numbers*" shows that crossborder philanthropy, from U.S.-based firms to international causes, increased by a combined annual growth rate of 18 percent annually between 2004 and 2006. Nonetheless, there is a significant gap between the share of profits companies generate internationally and the share of their philanthropy that targets global areas or issues. Some CEOs estimated that their firms' profit ratio (international to total) was *three* times higher than their philanthropic-giving ratio (international to total). A survey conducted by CECP has found international giving has moved from 10 percent to 13 percent of total giving from 2004 to 2006[4]—still a far cry from parity. So, while most executives in our research admit that global philanthropy brings with it added complexity, fully 67 percent of respondents to the *McKinsey Quarterly* survey from companies with annual revenue of $1 billion or more expect their company's focus on global programs to increase.

Companies are also realizing that they cannot address many of the most urgent global social issues – such as chronic poverty, climate change, or the HIV/AIDS epidemic – on their own. As a result, just as many companies form networks,

EXHIBIT 4: Corporate philanthropy is going global

Do you expect your company's corporate philanthropy programs to become increasingly global, either by trying to affect global issues or by operating in a larger number of countries, over the next 5 years?

Percent of respondents



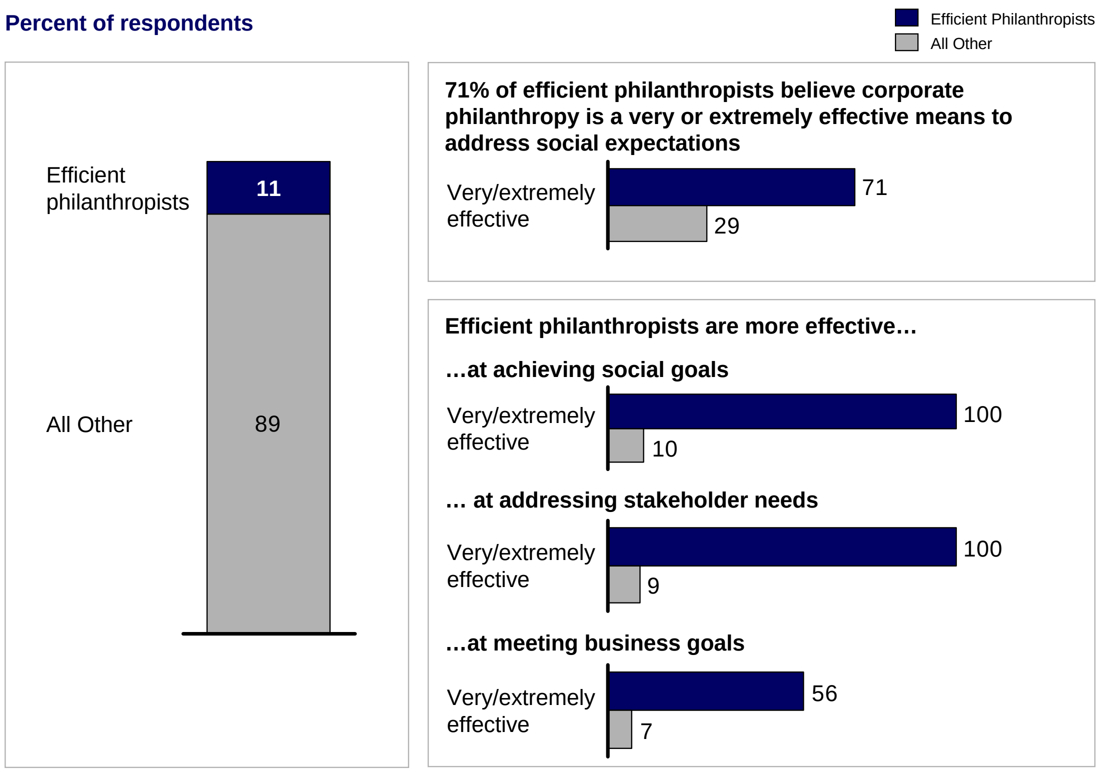
4 CECP, Giving in Numbers: 2007 Edition

alliances, or joint ventures for business purposes, more and more are doing so for philanthropic purposes. Not surprisingly, more than half of respondents to the *McKinsey Quarterly* survey were concerned about the risks of collaborating with other businesses, but CEOs of organizations that collaborate have found that its challenges can be overcome with patience and sophistication and that the social rewards are inspiring. Said CEO Rochelle Lazarus of Ogilvy & Mather Worldwide at the Board of Boards conference, "If we were to get together cross-industry and take on some issues, we could do so much more."

TOWARD STRATEGIC CORPORATE PHILANTHROPY

Our research uncovered a small group of companies that are creating efficient programs in the face of all of these changes. Some 11 percent of respondents to the *McKinsey Quarterly* survey stated that they are "very effective" or "extremely effective" at meeting social goals *and* at addressing society's expectations of their business. Of these efficient philanthropists, 56 percent said they also met the business objectives they have for their philanthropic programs (e.g., enhancing their company's reputation, improving employee recruitment and retention, etc.) These numbers contrast dramatically with the efficient philanthropists' counterparts, where fewer than 10 percent gave these responses. Companies face a range of challenges to building a successful philanthropy program.

EXHIBIT 5: Efficient philanthropists



JPMorgan Chase and The Sphinx Organization

CHAPTER TWO: THE COMPLEXITY OF GETTING IT RIGHT

> "The CEO has to be perceived as the leader of philanthropy. I don't think you can ask anyone else to do that."
>
> Jim Rohr
> Chairman and CEO
> PNC Financial Services Group

Though companies are creating and reaping a multitude of benefits from their philanthropic programs, our research shows that they are not doing all they can. Fewer than 20 percent of respondents to the *McKinsey Quarterly* survey said their company was very or extremely effective in meeting social or business goals with their philanthropy; in other words, over 80 percent of organizations are leaving significant value on the table.

Our research highlighted three balancing acts companies must manage as they develop their philanthropic programs: defining the focus of their efforts (whether in terms of stakeholders or business goals), gaining credit for their programs, and allocating an appropriate amount of their CEO's time to them. These questions are made all the more challenging by the absence of a clear cut "right" answer. Despite the uncertainty, companies must address these topics explicitly and thoughtfully or they will not be able to achieve their philanthropic goals.

DEFINING FOCUS

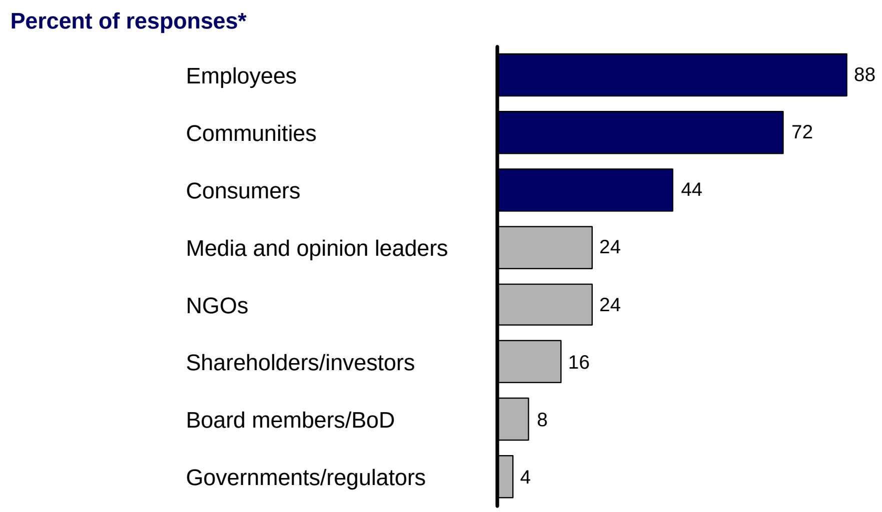
Our research shows that most companies try to address multiple stakeholders simultaneously, most commonly employees, communities, and consumers; this leads to dilemmas over how to set priorities among competing concerns. Some executives who responded to the survey said they also factor in the views of the media, civic opinion leaders, NGOs, shareholders, boards of directors, or government officials.

This fragmentation makes it difficult for companies to identify whether a narrowly- or broadly-scoped effort would serve their goals more effectively. Several CEOs outlined the benefits of a narrow-cast program (such as early childhood programs in tightly defined geographies). Such programs offer benefits such as more clear social impact, lower complexity, and better potential for gaining public credit. However, other companies, especially those whose philanthropic programs are focused on employees' interests, have a much wider scope. These can include employee matching programs, dollars-for-doers initiatives, or other opportunities for employees to influence corporate grant recipients, making programs more reactive and less strategic for the company.

Another contributor to companies' difficulty in defining focus is a need to determine how much their philanthropic program should be geared toward social benefits and how much, if at all, explicitly toward business benefits. This is increasingly difficult at a time when both public expectations for companies to do good and financial performance pressures have increased and, again, there is no "right" answer. Most respondents to the *McKinsey Quarterly* survey said that their company sought at least the traditional business goal of enhancing the company's reputation or brand with philanthropy. Beyond that, the executives were divided among giving social benefits and new business opportunities equal weight (34 percent), more weight to social

EXHIBIT 6: Stakeholders companies target with corporate philanthropy

Which stakeholders, if any, do you address with your corporate philanthropy programs?

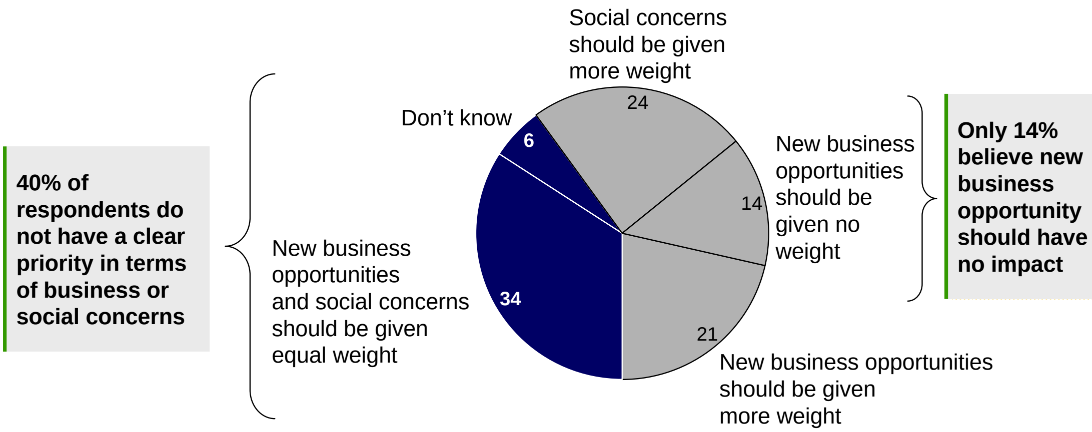


* Respondent could choose more than one option - responses may not add to 100%

EXHIBIT 7: Weighing business vs. social benefits

In decisions to fund corporate philanthropy programs, how much weight, if any, do you think should be given to finding new business opportunities, relative to social concerns?

Percent of respondents



benefits (24 percent), or more weight to new business opportunities (21 percent). Only 14 percent believed that new business opportunities should be ignored.

Further, the notion of incorporating relevant business issues into philanthropic programs in order to meet the goals of a broader group of stakeholders and understand new geographies is relatively new. Some companies are doing so, but our research suggests they are struggling with it. The survey findings show that of the five social and political issues respondents thought likeliest to affect shareholder value over the next five years, only two were also in the top five currently being addressed by philanthropic programs: the environment and some aspects of civic/public affairs. Even then, the environment – which almost half the respondents rated as likely to have impact on their company's profits– only receives 3 percent of philanthropic spending, according to CECP research[5].

Finally, companies use a broad range of considerations to determine the initial focus of their philanthropic programs, and not always, apparently, the most relevant. Respondents to the survey indicated that they consider a mix of factors, with the personal interests of the CEO or board members the most common, followed by employee interests and community needs. The research suggests a better way: efficient philanthropists, though they also report having a mix of considerations, rely on community needs more—indeed, half of the time—and almost 40 percent view social impact as a factor. Chairman Larry Fish of Citizens Financial Group explained his company's approach by saying, "It is very important that stakeholders feel that it is not the business interest, nor the CEOs' wives' interest, that influences our investments, but rather a well-thought-out strategy that takes into account all of our employees, and that it is not top-down, otherwise they will get very cynical".

5 CECP, Giving in Numbers: 2007 Edition

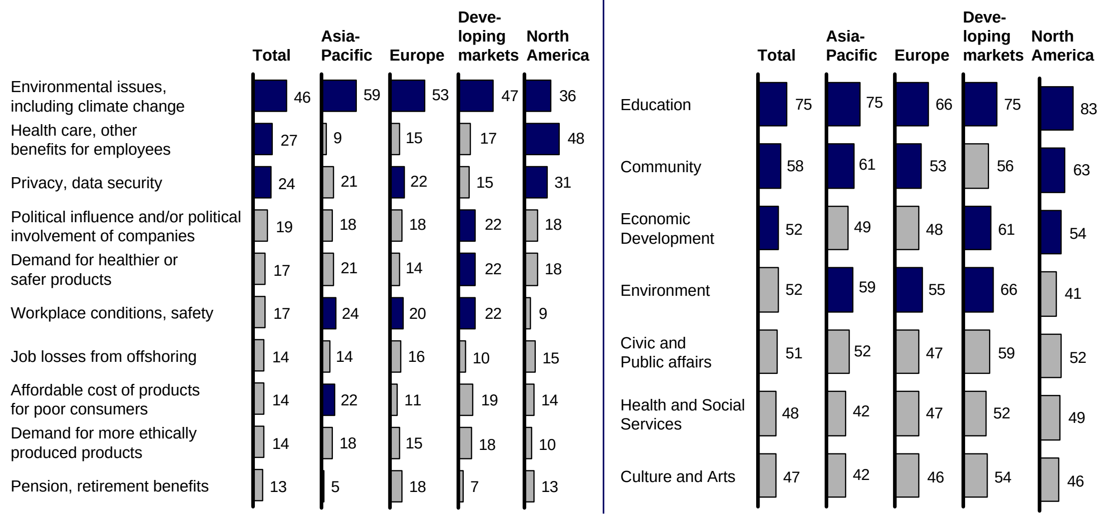
EXHIBIT 8: Trends driving shareholder values vs. focus of corporate philanthropy

Top issues, percent of respondents*, n = 721

Top 3 responses

Of the following social and political issues, which are likely to have the most impact, positive or negative, on shareholder value for companies in your industry over the next 5 years?

Which, if any, of the following issues are you currently addressing with your corporate philanthropy programs?



* Respondents could choose more than one option; those who answered “other” or “don’t know” are not shown; only top 10 responses shown

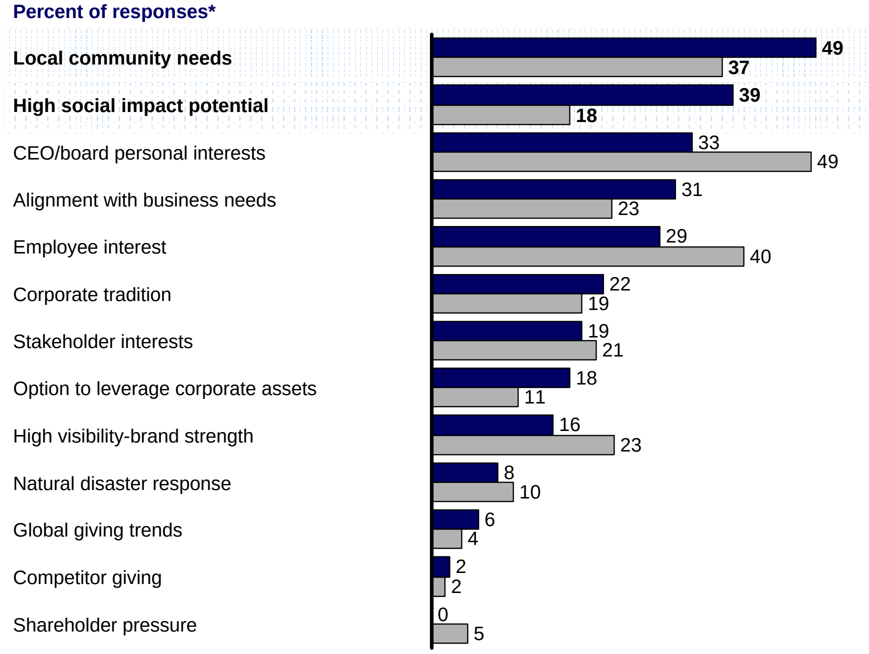
EXHIBIT 9: Factors influencing corporate philanthropy focus

Which three of the following considerations, if any, have the most weight in determining the focus of your corporate philanthropy programs?

Efficient Philanthropists

All Other

Percent of responses*



“We don’t want to go back to the days where I run into my friend at the golf club, and ask for money for a program. We should be evolving to a place where there is a much more thoughtful perspective on what we take out and what we give back.”

– CEO, Media Company

*Respondent could choose more than one option – responses may not add to 100%

GETTING CREDIT

The *McKinsey Quarterly* survey shows that the most frequently cited business goal for companies' philanthropic programs is enhancing the company's reputation or brand. However, only 13 percent of respondents aiming at that goal said they were very successful in achieving it; one fifth of all survey respondents felt their company was not getting appropriate credit for their philanthropic efforts and a quarter were uncertain about whether they were being credited. Additional research suggests that these issues are caused by companies' uncertainty about how to communicate philanthropic achievements effectively.

One of the best ways to use corporate philanthropy to build brands is to clearly articulate the company's corporate philanthropy internally and externally. But actually getting the message through can be difficult: "It's easiest to touch your employees, businesses, and NGO partners," said Karim Khoja of Roshan, "but finding the right vehicle to continuously reinforce the message to your customers can be extremely challenging." Other stakeholders with a significant impact on business, such as lawmakers and regulators, can only be influenced indirectly.

Further, there is no consensus about whether companies should actively broadcast their achievements. While a few CEOs emphasized the importance of gaining credit for philanthropy, many others warned against using philanthropy "to fix a reputational issue."

> "There are a lot of great places for people to work, and one of the reasons they choose an organization is because of the internal culture, and corporate philanthropy is a piece of that."
>
> John Thain
> Chairman and CEO
> Merrill Lynch

THE ROLE OF THE CEO

Fully 94 percent of CEOs who responded to the *McKinsey Quarterly* survey said they are directly involved in their company's philanthropy programs. Indeed, CEOs frequently mentioned the importance of their having a leading role, whether that role is conveying the message about how philanthropy fits into the company's identity or emphasizing the overall importance of philanthropic programs. Nonetheless, CEOs have difficulty dedicating time to philanthropy. Among the reasons, we discovered, are the well-known facts that CEO tenures are shorter than ever and that many companies have flatter organizational structures, leading to increased demands on CEOs' time.

As with the other challenges companies are facing, the research does not suggest a single right role for CEOs. The survey shows that CEOs use the time they do dedicate in different ways: more than half of the CEOs who responded to the survey are involved in setting the overall direction and/or serving as publicly visible leaders of philanthropic programs. Those who take more active positions serve as a role model and/or ensure that resources are available. Very few actually execute philanthropic programs.

Many companies are tacking these three challenges thoughtfully. A few, we've found, are meeting them all with success.

Merrill Lynch and UNA-USA

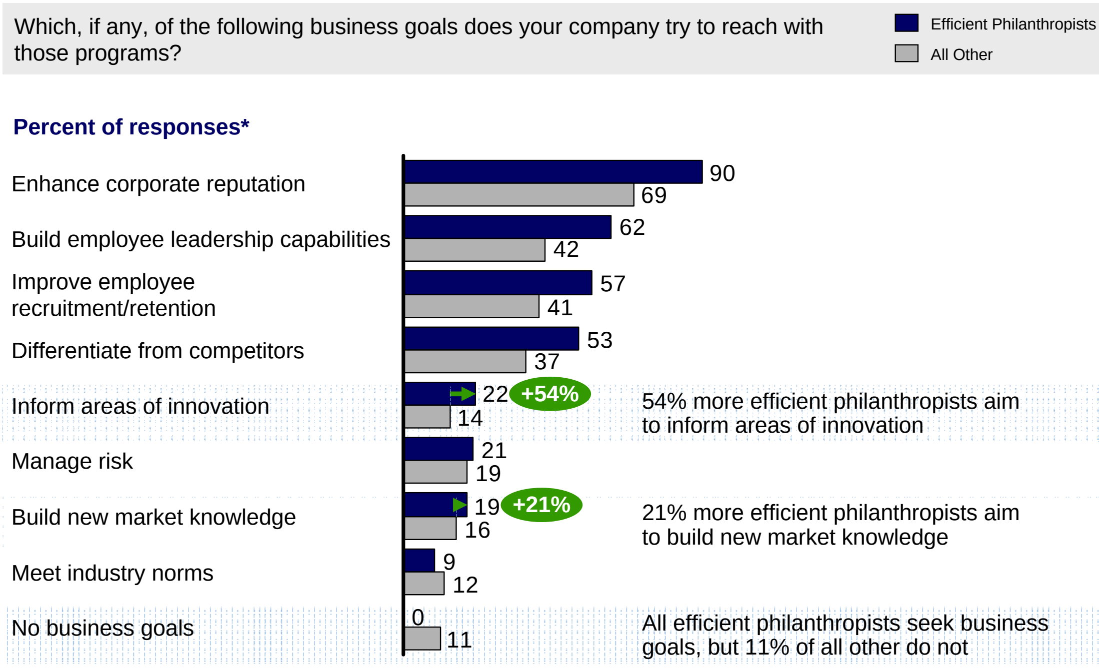
CHAPTER THREE:
CAPTURING THE CORPORATE PHILANTHROPY OPPORTUNITY

A small group of companies is at the forefront of getting corporate philanthropy right. By aligning a new vision of corporate philanthropy with appropriate resources and strong leadership, these companies are able to overcome the challenges to effective philanthropy and address the changing environment effectively. The result is that these companies achieve both social and business goals with their philanthropic programs — thus helping to shape a new sustainable social contract.

> "The CEO has to take a driving role in corporate philanthropy, like everything else that matters. He or she decides the direction and keeps the ship afloat in good times and in storms."
>
> **JP Garnier**
> **CEO**
> **GlaxoSmithKline**

These philanthropists treat the social contract and corporate philanthropy's role in meeting it as an integral part of their business, and as an opportunity rather than an obligation. They are more likely than other companies to meet their social goals, yet they focus significantly more attention on business benefits than other companies. For example, by maintaining close

EXHIBIT 10: Business goals sought through corporate philanthropy



* Respondent could choose more than one option – responses may not add to 100%

local community ties, these companies make a point of learning about developing social concerns early, or informally assessing the potential for opening new markets. Wells Fargo's community outreach program is a case in point: President and CEO John Stumpf believes their philanthropy program created the community ties and communication channels that accelerated Wells Fargo's learning curve on its branch design: "When we build in ethnic communities, we build ethnic stores. Might we have gotten that concept without our community outreach? Maybe. But we wouldn't have gotten there as fast." Among respondents to the *McKinsey Quarterly* survey, two of the most striking differences between efficient philanthropists and others lie in their relative use of philanthropic programs to inform innovation and build new market knowledge.

Three imperatives emerged from efficient philanthropists' examples: lead from the top, align philanthropic programs with the business strategy, and manage philanthropy as a business investment. While they may sound like common sense, they are rarely executed together or well.

IMPERATIVE I: LEAD FROM THE TOP

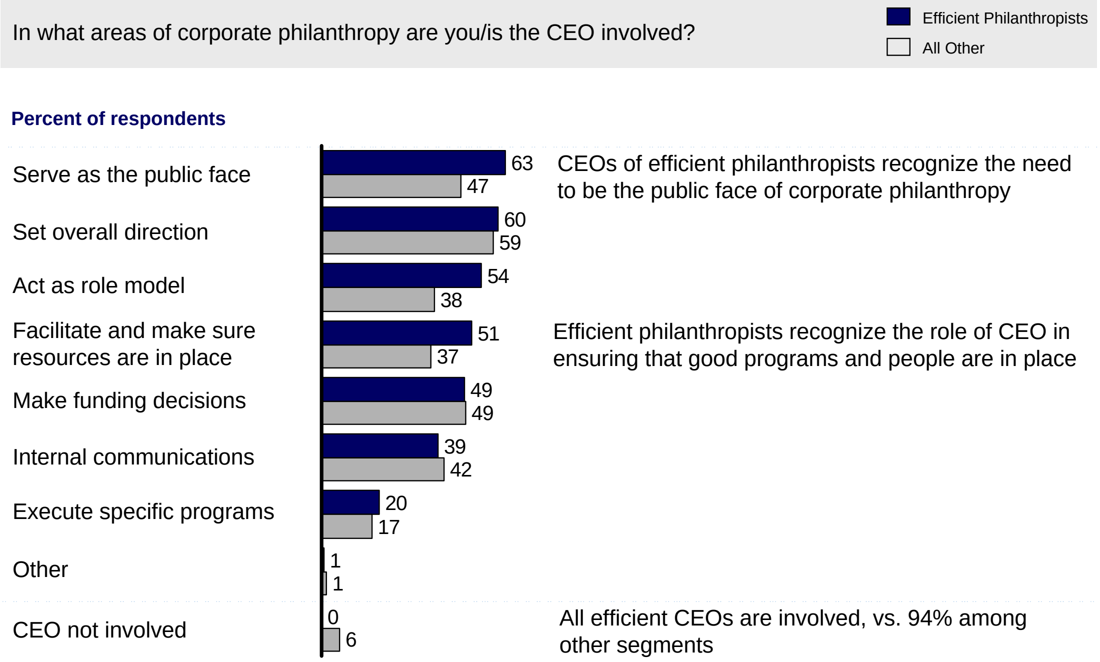
In corporate philanthropy, like anything else, no substitute exists for leadership by the CEO. *The McKinsey Quarterly* survey showed that every CEO at an efficient philanthropist is deeply involved in the company's philanthropic programs. They find the time to be involved in more activities, and more deeply, than CEOs at other companies.

But effective leadership doesn't stop with the CEO. Support from the board of directors and engagement by senior executives is also crucial. At ArvinMeritor, the board has a committee on social and environmental responsibility; its members regularly review all corporate philanthropy initiatives. In addition to having a board committee, some efficient philanthropists have a Chief Giving Officer (CGO) who reports directly to the CEO and provides regular reviews of program performance.

Finally, senior executives also play a crucial role. "Operating our business in a way that is sustainable over the long term is core to our

EXHIBIT 11: CEO involvement of efficient philanthropists

In what areas of corporate philanthropy are you/is the CEO involved?



success," says Chairman Dick Parsons of Time Warner. "And therefore corporate philanthropy—and how we manage it—is no different, really, than any other operational function. The same performance expectations are set for the senior leadership of our giving program as for other business divisions."

> "Have your philanthropy be an organic extension of who you are as a brand, so that it does not appear to be something that you do out of obligation, but instead something that you do to be consistent with your company's ethos."
>
> Shelly Lazarus
> Chairman & CEO
> Ogilvy & Mather Worldwide

IMPERATIVE II: ALIGN PHILANTHROPY WITH THE BUSINESS STRATEGY

To achieve the greatest impact on all fronts, our research suggests, philanthropic efforts need to be aligned with the social and political trends that are most relevant to the company's business.

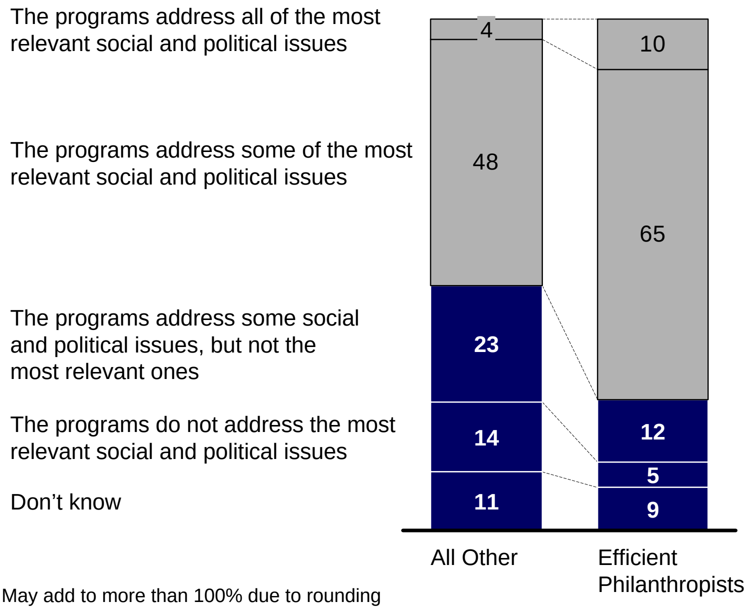
Three-quarters of efficient philanthropists, who effectively meet social, stakeholder, and business goals, address at least some of these issues, compared with about half of all respondents.

Addressing relevant social and political issues allows companies to leverage their assets most effectively. For example, companies that align philanthropic priorities with their business strategy can boost growth potential by exploring new markets (like Wells Fargo); these companies may be less vulnerable to product litigation if they are paying greater attention to product safety, for example; and they can be better positioned to create win-win solutions with regulators because of residual good will.

Our interviews with CEOs reinforced these points. Further, in their experience, focusing on trends that relate to their business produces a more sustainable program, precisely because philanthropy is producing business benefits. JPMorgan Chase, which has made environmental conservation a priority in day-to-day business, is an excellent example. The firm has reduced its own paper and energy consumption. But

EXHIBIT 12: Align corporate philanthropy with social and political trends

Percent of respondents*



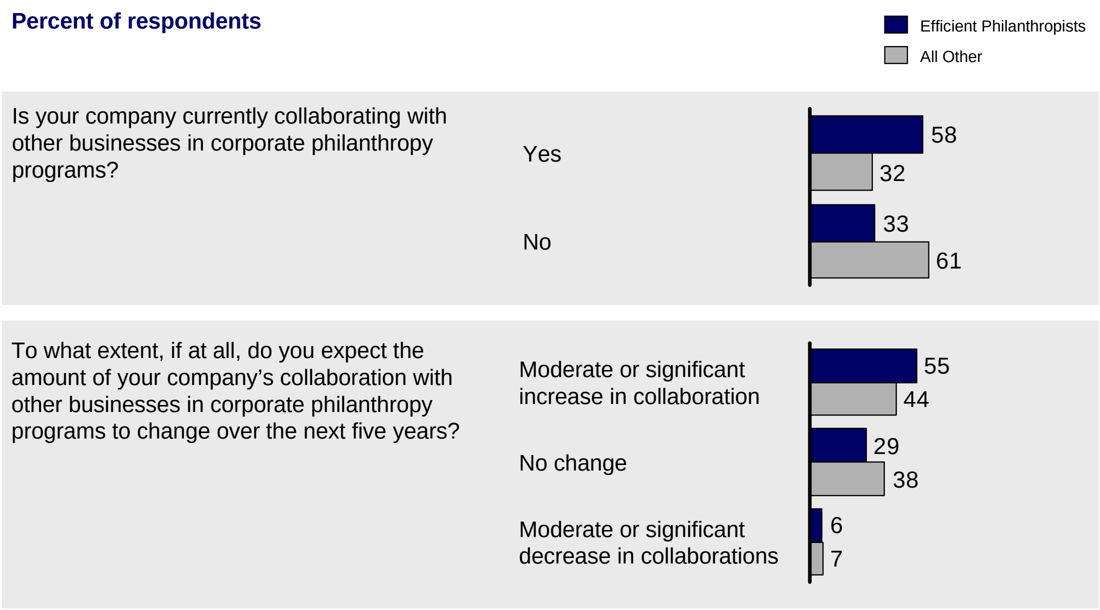
* May add to more than 100% due to rounding

> **"More and more people are doing philanthropy that is tangential to their business, and not trying to be all things to the whole world."**
> *– Chairman, Consumer Products company*

the impact of that pales in comparison to the impact of shifting funding towards more environmentally friendly or sustainable individual projects and companies, which has enabled them to identify emerging investment opportunities, and contributes to the continued growth of their customers and business partners. In addition, JPMorgan Chase has woven environmental themes into both grant-making, such as making grants to nonprofits to drive energy efficiency in China, funding energy consumption education programs, and even funding environmentally-themed art exhibits.

The most efficient philanthropists are also seeking to make their philanthropy congruent with the business footprint. They are likelier than other companies to have global programs and to expect the proportion of such programs to increase. As global programs grow, so does collaboration: 58 percent of efficient philanthropists are already collaborating, compared to 32 percent of all others, and more than half believe they will increase their collaborations in the future. Hasbro and Salesforce.com both collaborate frequently with other foundations or organizations; the former does so when they believe an idea is consistent with their focus but too large to tackle alone; the latter when the joint effort can create value for their customers.

EXHIBIT 13: Collaboration of efficient philanthropists



> "We treat our philanthropic foundation as a business unit... We say: how much did you disburse, what is your penetration, what are your measurements, how are you communicating, what's your return on investment?"
>
> Ivan Seidenberg
> Chairman and CEO
> Verizon Communications

IMPERATIVE III: MANAGE PHILANTHROPY AS A BUSINESS INVESTMENT

Many companies have begun a shift to assessing the results of their philanthropic programs rigorously. Efficient philanthropists extend that discipline beyond measurement to thorough, long term planning, and coherent execution. Mike Fraizer, Chairman, CEO and President of Genworth Financial, said that in his organization "The corporate philanthropy plan looks like a business plan. It goes through mid-year and fall closeout reviews, and then we refresh it, and look at a multi-year, multi-generational plan. We say 'We want to get here, but it's going to take us this amount of time.' " At Home Depot, in addition to measuring outputs like the number of playgrounds built and number of hours volunteered, they measure outcomes such as indices of neighborhood development (e.g., high school graduation rates, crime rates, etc.) in areas where they have built playgrounds.

Though inputs and outcomes can be elusive, many companies are now comfortable reporting both cash and non-cash contributions. Anecdotally, CECP members are increasingly tracking employee commitment to volunteerism and pro-bono services, signaling that they are diligently attempting to capture the entire value of their philanthropy portfolio.

Once companies can measure what they give, the next step is to assess the impact. Few companies still rely on anecdotal evidence and photos from the field. Most have developed their own measures of effectiveness against which they track their programs. In addition to measuring social benefits, the most farsighted companies are developing sophisticated measures of business benefits. For instance, some companies undertake surveys of their employees to determine if the company's philanthropy programs influenced their decision to join or stay loyal to a company.

Others track whether new business opportunities result from international philanthropic efforts. And some even systematize their measurements of brand recognition and loyalty of their customers to include the effects of philanthropic initiatives.

IBM in the 1990's is an example of extending business discipline beyond measurement. When Lou Gerstner took over the company, he turned around IBM so that it became more focused, and became a service-and-solutions provider rather than a technology hardware company. Just as he restructured and focused the business, Gerstner restructured the company's philanthropy by making three key changes: making K-12 education the central focus; centralizing operations for the whole world; and applying IBM's own tools and talents to innovation in education rather than writing checks to other organizations. The program is reported to have resulted in significant improvements in student achievement and has gained recognition for IBM.

Indeed, business discipline is becoming common practice in the most efficient companies. Historically, many companies treated philanthropy as an afterthought. Today, however, the dictate has become clear; through CEO leadership, sound management practices are being adopted and applied to create effective giving programs.

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CECP Board of Boards

The CEO is responsible for outlining standards that ensure business strategy and philanthropic operations cohere. Securing support from other senior executives and board members and by building a corporate culture cognizant of the potential upside to philanthropy are crucial to success. Additionally, CEOs are finding people with business acumen to manage philanthropic initiatives, and they are held accountable for success. Moreover, when companies are working with nonprofit partners, they place a growing importance on defining and outlining specific goals and on identifying ways to tangibly demonstrate progress.

It is undeniable that business's contract with society continues to evolve, and that corporate philanthropy can be a powerful tool in unlocking the tremendous opportunity that exists in fulfilling it. Thus it is all the more important that the CEO mandate a diligent approach to philanthropy just as they would any other business function. By treating giving as a business unit, the philanthropy team is empowered to contribute to the wealth of the company just as the rest of the business does.

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