Corporate Philanthropy: Trends For the 1980s

An Honors Thesis (ID 499)

by

Susan M. Peters

Thesis Director

Catherine C. Howard

Ball State University
Muncie, Indiana
May 1986

Expected date of graduation: May 1986
A Brief History of Corporate Philanthropy and Trends

Philanthropy, both private and corporate, has been around in one form or another for literally thousands of years. However, over the course of time, its meaning and direction has changed many times. In the early Christian era, where philanthropy is said to have had its strongest foundations, philanthropy meant that society should ensure that all of its members were adequately fed, clothed and sheltered. The Greeks and Romans of this time did not consider this the basis of philanthropy, however. Rather, their view of philanthropy was that it was primarily to benefit and enrich the community as a whole.

Even as early as 4,000 B.C., charity is evident in written form. The religious book of Egypt, "The Book of the Dead," refers to giving:

I have given bread to the hungry man, and water to him that was athirst, and apparel to the naked man, and a ferry-boat to him that had no boat. I have made propitiatory offerings and given cakes to the gods . . . 1

Over the years the church has been, as it continues to be, the center of private philanthropy. Not only was the church the recipient of funds, but it was also the principal dispenser of the funds. In England, begging was outlawed and taxes were imposed for the relief of the poor. These statutes that were imposed in 1601 soon became part of what is more commonly known as the Elizabethan Poor Law or the Statute of Charitable Uses. Under this cornerstone of Anglo-Saxon charity, tax money was used for such diverse things as work programs, correction houses for vagrants, care for the helpless, and apprentice programs for the children. The implementation of these charity taxes
was a step that illustrated the concern for the deserving; however, things did not always proceed as planned and often it was difficult for the poor to obtain any assistance at all.  

One early American involved in charitable activities was Benjamin Franklin. In 1727, he formed what he called a mutual improvement club. Franklin soon realized that this group needed books so he established America's first circulating library in 1731. It is said that Franklin was instrumental in fundraising efforts for the Pennsylvania Hospital. He was also involved in the support of municipal improvement. Franklin founded a volunteer fire department and sponsored plans for policing the city. Also, in the area of municipal improvement, he developed several schemes for paving, cleaning and lighting the streets of Philadelphia.  

Over the next century, the number of volunteer groups grew tremendously, and still more changes were made in the direction of philanthropy. The Civil War period brought many new relief programs that were developed to cope with the rapidly changing needs of the country. The American Red Cross was one organization that started its development during the Civil War period. By 1878, there were eight hundred voluntary charitable agencies in Philadelphia alone, compared with just thirty-three a half century earlier.  

In terms of corporate versus private philanthropy, corporations still ranked very low in terms of charitable efforts. It was not until the late nineteenth and early twentieth centuries that corporate and foundation giving actually came into prominence. Names like Andrew Carnegie and David Rockefeller brought corporate giving into the limelight. Carnegie was one of the first to espouse the idea that
philanthropy was more of social obligation than a religious duty. He contributed much to libraries, universities and scientific institutions because he favored gifts that would contribute to the mind and spirit rather than to the body. Rockefeller made similar contributions to the church, the YMCA and several universities.5

It was during this time that many other types of charities were formed. Charities were now focused on more than just the problems of the poor. The turn of the century brought such diverse organizations as the National Association for the Advancement of Colored People, The Boy Scouts, The Girl Scouts, The American Lung Association, The Cancer Society, and many others. These groups dealt more with community, social, and spiritual needs than had charitable groups in the past.

The first evidence of organized corporate philanthropy was shown through the growth of YMCAs in the late nineteenth century. Oddly enough, the laws of that time concerning corporate giving expressly stated that all corporate contributions must have a direct benefit to the company's operations. Expanding railroad companies of the time used this "self-interest" philanthropy to keep within the law when they underwrote sixty percent of the operating expenses of local YMCAs along their routes to help assure housing for their employees.6

This type of self-interest philanthropy continued to be the mode of giving until individual states began to change their laws. Texas was the first state, when in 1917 it adopted laws allowing corporations to donate to causes without direct benefit. Thus, until the laws started changing, corporations were somewhat limited in their philanthropic efforts.
By the 1930s, philanthropy, especially corporate and government, was in full swing, despite decreased sales and profits due to the Great Depression. By 1935, many corporations were giving more than they had in 1929 at the beginning of the Depression.7

The federal government did much during these years to support social and educational programs. The Social Security Act was enacted in 1935 and marked the first federally supported welfare system for the aged, the handicapped, and dependent children. Public-supported universities also became popular at this time as government money began to pour into these institutions. During this time, the federal government enacted the Revenue Act that allowed corporations to deduct contributions from their tax liability. The limit was set at five percent of taxable income.8

Even as the federal government made it less painful, through this tax law, for corporations to practice philanthropy, it still left the self-interest clause unresolved. Although some states continued to form their own laws, by 1945, only fifteen states had laws allowing corporations to contribute without direct benefit. It was not until 1953 that the direct benefit limitation was struck down by the courts at the federal level. In that year, the New Jersey Supreme Court ruled in the A.P. Manufacturing Company v. Barlow case that the company's $1,000 contribution to Princeton University was valid because "... the corporate power to make reasonable charitable contributions exists under modern conditions even apart from express statutory provision. . . ."9 Later, legislation expanded this to say that contributions without direct benefit were permissible because of the social responsibility of corporations as members of the community in which they operate.
By the 1950s, the movement away from self-interest giving and toward social responsibility was clearly evident. In 1952, Frank W. Abrams, a former Chairman of the Board of Standard Oil Company of New Jersey, summed up corporate attitudes:

During the forty years of my business career, I have observed a slow but steady transition in the attitude of corporate management from one of more or less exclusive preoccupation with self-interest to one of self-interest tempered with a broadening sense of social consciousness.¹⁰

This change in corporate attitudes can be directly seen through the growth of corporate giving between the 1930s and 1960s. During this period, giving increased from $31 million to $595 million.¹¹

Although corporate contributions were increasing in the 1950s, giving was still a haphazard event. Giving was simply not a carefully considered program for most companies. For the most part, companies simply contributed to the same charities year after year with little consideration.¹²

The 1960s ushered in an even greater contribution percentage. In 1961, contributions broke the one percent of pretax income barrier for the first time since 1953. Also, companies began to formalize contribution policies and guidelines. Between 25 and 33 percent of all companies that had contribution programs during this time also had contribution committees. Now companies were also beginning to tie in contribution objectives with overall company goals.¹³

Corporate acts of philanthropy during the 1960s followed traditional contribution lines and consisted mostly of financial contributions to non-profit groups and institutions rather than direct service through programs and projects. One direction that corporate giving
did take in the late 1960s was in the direction of increased giving in the area of urban problems. Due to the increased instance of rioting in large cities, companies sought out and donated to such organizations as the United Negro College Fund, NAACP and the National Alliance of Businessmen.\textsuperscript{14}

With the 1970s there came a movement toward corporations becoming more socially responsible. The 1970s saw increases in both individual and corporate contributions, yet, while there was a yearly increase in the dollar amount contributed by corporations (from $797 million in 1970 to $2.4 billion in 1979) the percentages of pretax income that corporations contributed actually decreased.\textsuperscript{15} By 1979, corporations accounted for 5.6 percent of all philanthropic giving in the United States. Throughout the 1970s corporate net incomes continued to increase, as did their philanthropic contributions. However, the contributions increased at a much lower percentage.\textsuperscript{16}

One of the more interesting occurrences in the 1970s, with reference to corporate contributions, was the shift in the distribution of the contribution dollar. Corporate philanthropy in the 1970s reflected a slight decrease in contributions to the areas of health and welfare. Education, on the other hand, saw a significant increase in donations, so much so, that by the late 1970s it was receiving the largest percent of corporate dollars.\textsuperscript{17}

Companies began to see the importance of supporting higher education. Increased giving in this area likely had some sort of motive behind it. First, industry draws heavily upon college and university graduates. There is an increasing need for educated people. Second, many companies use educational contributions to support community relations and company research.
Corporate support of the arts also gained in the 1970s, increasing in both dollars and in percentage of the total contribution dollar. By 1979, companies were donating $82.5 million, representing 9.9 percent of the total contribution dollar, each year to art museums, performing arts, libraries and public television. This compares to the $13.2 million, representing 4.1 percent of the total contribution dollar, in 1972.\textsuperscript{18}

Civic activities also gained support in the 1970s, both in dollar and percentage amounts. In 1972, the dollar amount for civic contributions was $29.5 million, representing a percentage of 9.1.\textsuperscript{19} In 1979 the percentage had increased to 11.6 and the dollar figure sat at $97.3 million.\textsuperscript{20}
The Untapped Potential

From a theoretical point of view, the untapped reservoir of potential corporate giving is astounding. Corporate giving has the potential to become a much more important element in private-sector philanthropy. Currently, corporations account for only 5 percent of total philanthropy in the United States. Considering the following facts it would seem that there is a great potential for increase.

First, only one corporation in five reports any tax-deductible contributions. Second, total corporate contributions average out to 1 percent of pretax earnings, yet, the IRS permits deductions of up to 10 percent. Just to illustrate the massive potential of these figures, it was pointed out by Frank Koch in The New Corporate Philanthropy that, "theoretically, if all corporations would make tax deductible contributions and they would give at a rate of 5 percent (rather than 1 percent) of pretax income, there would be the possibility of a 25 times increase in corporate giving." Obviously, this would probably not be a feasible objective. However, it does illustrate that there is a potential for a meaningful corporate increase in philanthropy.

Efforts to Increase Corporate Philanthropy

While corporate philanthropy over the years has indeed increased, there is still a need for giving to increase. Federal budget cuts and tax revisions of the Reagan administration that went into effect in October of 1981 cost private charities literally billions of dollars.
Because 83 percent of charitable contributions come from individuals, and because the tax incentives in the upper tax brackets were reduced, charities suffered substantially.

One of the few positive provisions to come out of these tax laws was the increase in the deduction amount that a corporation may take on its tax returns. The amount increased from 5 to 10 percent in the hope that corporations would fill in some of the gap that the budget cuts left. However, this has been of little benefit to charities because corporations still tend to donate at one percent of their pretax level.

Even though tax laws have tried to increase the amount of corporate giving and have failed, there are organized efforts that are being carried out to increase corporate contributions. Apparently, American corporations do not feel that they can fill the gap left by the Reagan administration budget cuts. As a result, in 1981, a presidential task force was set up to encourage more giving by business and others in the private sector.

The Reagan administration and charities alike are expecting that, over the years, business will pick up a substantial proportion of the massive federal outbacks in social programs. Business leaders consider these expectations to be totally unrealistic and unreasonable. According to Thomas Drohan, President of Foremost McKesson Inc., in order for companies to meet the budget cuts of over $36 billion, companies would have to increase their contributions from the current average of 1 percent pretax income to nearly 15 percent. According to Drohan, "to expect business to pick up a transfer of that size is absurd."
At the same time that there is a push from the government to increase corporate donations, corporations themselves are also trying to increase corporate participation in philanthropy. There are several individual companies that are making great strides to take up the slack of the budget cuts and there are several movements that are aimed at doing likewise. Many corporate officials believe that the prospect of ever-increasing budget cuts to various social programs is a dangerous threat to the economic and social well-being of the communities in which they do business. Thus, with ever-increasing instance, corporations are becoming more willing to commit more of their resources to these causes.

In 1982, many large corporations started boosting their yearly contributions. Standard Oil of California, Rockwell International and Fluor increased their yearly giving by 15 percent and planned to continue doing so. A survey in that same year also indicated that some 200 chief executives indicated that they had plans to increase donations an average of 28 percent by 1984.24

There are other promising signs that corporations are becoming more concerned about the social welfare of the communities in which they operate. With ever-increasing speed, companies are banding together to form what are called "2% Clubs" and "5% Clubs." This type of "club" is a form of corporate peer pressure. Many businesses, like those in Minnesota, where this type of organization was first formed, were already quietly pouring five percent of their taxable income back into their communities. As this type of program emerged, so did the names of the community supporters. This, in turn, has caused others to increase their contributions to the level of 5 percent or 2 percent.
Basically, the organization of such groups serves a twofold purpose: first, to set an example for other corporations, and second, to increase community awareness about business contributions. 25

Another example of an organized effort to increase corporate philanthropy can be seen in the Committee to Increase Corporate Philanthropic Giving. One man in particular, Chairman Lawrence Wien, has done much to contribute to its success. This multimillionaire lawyer has given millions of dollars of his own to such beneficiaries as the Lincoln Center and Columbia and Brandeis Universities. While this falls under the category of private philanthropy, Wien has also done much toward increasing corporate philanthropy.

Wien uses a rather unusual tactic in his efforts in getting corporations to increase their philanthropic contributions. He is credited with having persuaded dozens of American companies to increase their generally low level of giving to non-profit organizations. Wien's method of persuasion consists of buying one hundred shares of stock in his publicly-owned target companies. So far, his target companies number over one hundred. Then he files shareholder proposals requesting, in most cases, that the companies increase their annual level of giving to the two percent level. So far, he has gotten cooperation from companies like AT & T, United Technologies, and Exxon. 26

All of this has a purpose behind it. Wien is a firm believer in goodwill and capitalism. His views and feelings on this can be seen through an interview in Columbia Magazine. Says Wien of corporate contribution:

... something ought to be done about getting the public corporations to assume a larger share of social respon-
sibility...this ties in our whole system of private enterprise, because if these agencies go out of existence, the government is going to have to provide—the way it does in socialist states. And this is a threat to the whole concept of private enterprise and our capitalistic system. So it is in the interest of public corporations to preserve our voluntary system—aside from other direct benefits.27

Wien's tactics are a bit unusual; however, they are effective in increasing corporate support of social programs.

Cost Effective Contributions

In today's hectic world where philanthropy-targeted funds are increasing, there is becoming a serious need for corporations to check the cost effectiveness of their contributions. As with any area where money is becoming more readily available, there is a proliferation in the number of groups wanting donations. While philanthropy is not expected to show a profit, as should other business spending, philanthropy is still expected to have results. Just as unclear objectives and purposes can create inefficiency in the business sector, these can also occur in the non-profit sector. Within the business sector, spending methods and funds must be accounted for. Now there is a trend toward a similar accountability from philanthropy.28

According to James E. Bere, Chairman and Chief Executive Officer of Borg-Warner Corporation:

Businessmen donate on the assumption that the money offered will be used for direct assistance to the ultimate client, not for the preservation of the transmission channel. More and more of us feel that, if our donations are to mean any-
thing, they must be subject to tests of efficiency similar to those we demand of our own operations.²⁹

Bere is a strong advocate of corporate support of social improvements, but he is also a concerned donor. In his view corporate contribution is too often a haphazard thing. He believes that it is the responsibility of the donating corporation to define its philanthropic goals more clearly and to make the donee organizations more accountable.

Currently, many corporations funnel their cash donations through foundations. One graduate school professor at New York University, Irving Kristol, believes that some of these foundations are entirely too isolated. Kristol is concerned about the wide range of differences that separate the worlds of business and foundation. He contends that,

The ethos of the foundation world is altogether different [than the ethos of the business world.] On the whole, it is a very liberal community--not at all, as we would say, pro-business--it's sometimes anti-business. So when you institute your philanthropy in that world, you create a problem.³⁰

Instead of donating through foundations, Kristol believes that corporations should consider hiring someone that shares the same views as the company to handle contributions. Philanthropy, like any other corporate activity, should yield a return for the corporation.

One example of where cost effective giving has reached its peak is in Medicine for Children, Inc. While some companies indiscriminately dole out two or five percent of their pretax profits and belong to Two Percent Clubs and Five Percent Clubs, Medicine for Children is
unique. This corporation would be the one and only member of a One-Hundred Percent Club if there was such a thing. Not only does the entire bulk of profit go to charity, but it goes to one very carefully chosen organization. All this is the accomplishment of Ron Schultz who set out several years ago to scrutinize the donation policies and charity recipients of his tea company.

In 1974, Ron Schultz began his tea business in California with one product, a cinnamon spice tea. Over the years Schultz donated, "more or less, routinely--$5,000 to $10,000 a year to worthy causes of one sort or another." Like most donors, he donated to groups that he knew or liked, groups like his alma mater, the Academy of Sciences, and organizations for the mentally retarded. For the most part he was simply not concerned about what happened to his money after he gave it away. Schultz became concerned, however, in 1980 when company sales hit the $1 million mark and targeted donations reached $30,000. At this point he felt that he should know more about the organizations to which he donated, so he began to scrutinize non-profit organizations.

Through his investigations he saw much inefficiency in non-profit organizations, and he came up with a way to circumvent these inefficient charity channels. His answer was to make a business out of charity. His method was to develop a product, form a company, give everyone a salary, and use the money to do what he wanted. Schultz formed another tea company to meet these purposes; this time the company was designed solely to provide money for the right charity. The charity he chose was Lalamba Association, an organization that sent volunteer medical professionals and medicine to Sudan, in northeast Africa; thus the name for his company was formed.32
Thus, Schultz devised an efficient charity machine. This example is certainly out of the ordinary, but it very plainly illustrates the fact that businessmen are becoming more concerned about how their contributions are being put to use, and they are willing to make an effort to insure that their corporate dollars are effective.

Individual Corporate Philanthropy: Self-less or Selfish

One question that inevitably occurs when the subject of corporate philanthropy is discussed is the question of whether or not corporate contributions are profit motivated. Of course, business is in business to make a profit, not to support charitable organizations. So where do charitable contributions fall? Surprisingly enough, more and more of the "contributions" that corporations are making are being channeled through advertising budgets. This combines several necessary business functions, while at the same time does not create tension among stockholders.

There have always been groups supporting and groups denouncing corporate philanthropy as it relates to profit making. For example, Paul MacAvoy of Yale views corporate philanthropy as being hazardous to corporate health. He believes that, "the corporation's essential contribution to social welfare is the maximization of long-term shareholder gain . . . Government, not the corporation, is structured to resolve the demands of competing constituencies and to identify and set social policy objectives."33

The term "maximization of shareholder profits" is a term that is often used to contest the practice of corporate donations to charitable groups. It is a well-known fact that the maximization of shareholder profits is a major corporate goal. Some, like MacAvoy, say
that contributing to charities toward the social welfare of the community is in direct opposition to profit maximization. Others, like Clifton Garvin Jr., Exxon Chairman and CEO and H. Brewster Atwater Jr., General Mills Chairman and CEO, believe just the opposite. Atwater insists that working for the betterment of society is, in the long run, in no way inconsistent with a corporation's duties to its shareholders... The question for modern corporate managers of publicly held companies is not whether they can give away corporate profits, but rather how prudently and effectively they exercise this power, to the benefit of both society and the company.34

More and more, evidence points to, and trends in giving back up, the fact that corporate philanthropy is, indeed, profit motivated. Charitable giving is becoming a marketing tool by which corporations are reaping concrete business benefits.35 American Express, for example, has, for years, been conducting charge card promotions in which it donates one cent for each charge use and five cents for each new card account to cultural programs. According to William M. McCormick, president of the company's consumer financial services group, "increases in card usage and [issuance of] new cards in other cities where we've tried this, show it to be as successful—if not more successful—as any marketing program we've ever done."36

Other corporations contribute to charities and non-profit organizations and do not reap the concrete business benefits that American Express has. Still, the connection between shareholder and charity is there. Corporations tend to support causes that directly, or at least indirectly, touch their target markets. Also, there is a trend in
corporate philanthropy where, more and more, companies are sponsoring events and donating to causes that have good image building potential. Some of these "donations" in certain instances are even coming out of corporate advertising budgets.

Phillip Morris, Inc. is an avid supporter of the visual and performing arts. In the past, several examples of Phillip Morris's support of the arts include sponsoring a national tour of the Joffery Ballet of New York for $150,000 and a record $3 million sponsorship for a Vatican Collection exhibit in the Metropolitan Museum.37

There are many side benefits associated with this type of philanthropy for Phillip Morris. With each new sponsorship, the company obtains more publicity. This publicity subtly informs the consumer that Phillip Morris is a company that cares about culture and the arts. With each instance of publicity, the image of Phillip Morris, Inc. is enhanced. This, in itself, is enough benefit to justify the expenditure.38

A recent buzzword to strike the philanthropic scene is "cause-related marketing." This is another marketing tool that companies are using to enhance corporate images. Hands Across America and the Statue of Liberty centennial and restoration are two high-profile events that are being strongly backed by corporate sponsors. Whether such activities should be considered philanthropy or marketing is something that is very unclear. One thing that is certain, however, is the fact that if the sales figures don't increase from such cause-related marketing/contribution events there is no place for the companies' marketing department to hide.39

The true effects of cause-related marketing are not known because it is difficult to trace sales associated with this type of promotion.
It is a risky opportunity for a corporation to undertake because much of the success is contingent on the cause being a popular one. Also, there is the chance, in many cases, that the corporation's name will get lost in the long list of other corporate supporters and there is the chance that the event itself will overshadow the publicity of corporate sponsorship.\textsuperscript{40}

Corporate philanthropy is an activity that directly benefits all involved. Some of these benefits are directly profit oriented for the contributor and those that aren't profit oriented usually are of benefit in enhancing the corporate image. The question then again rises, "Is corporate philanthropy profit motivated?" One group of university professors, Louis Fry, Gerald Keim and Roger Meiners, in the \textit{Academy of Management Journal}, believe so. After analyzing corporate philanthropy literature and studies they came to the conclusion "that corporate giving is a complement to advertising and is, therefore, a profit motivated expense."\textsuperscript{41}

In this group's analysis it was discovered that there was, indeed, a strong correlation between philanthropy and profit motivation.

The empirical analysis supports this contention. In particular, it was found (1) that marginal changes in advertising expenditures and marginal changes in contribution expenditures are significantly related, (2) that firms with more public contact spend more at all income levels on advertising and contributions than do firms with little public contact, and (3) that changes in contributions and changes in other business expenses usually considered to be profit motivated such as officer compensation, dividends,
and employee benefits are highly correlated. A straightforward implication of this analysis is that it would seem ill-advised to use philanthropy data to measure altruistic responses of corporations.\textsuperscript{42}
Conclusion

With increased pressure from all areas on corporations to continue increasing contributions, the donating companies are feeling the squeeze. Corporations are now starting to take a stance to make their contribution dollars count. What some perceive to be selfish philanthropy may, indeed, just be a way of safeguarding corporate investments. Government budget cuts and inflation have insured that this pressure will increase and this pressure has insured an increase in corporate scrutiny of non-profit organizations.

There has been a trend over recent years to formalize contribution goals and objectives. Along with this formalization, there has been the trend for some companies to form social improvement divisions, whose sole purpose is to handle the company's contributions.

Without a doubt, corporate philanthropy is becoming more vocal. It has become, and continues to become, better organized and more articulate in informing the public of its acts of goodwill. Many of today's corporate philanthropic strategies are centered around, not only what is best for society, but also what is most beneficial for the company. Today's companies are becoming quite adept at philanthropy in a high profile way. This trend seems to be one that will continue through the remainder of the 1980s and probably beyond. Its impact will be felt, not only by the corporate givers, but by society as a whole.
Endnotes


4Bremner, p. 18.


6Bakal, p. 28.


8Nelson, p. 21.

9Bakal, p. 65.

10Bakal, p. 45.

11Nelson, p. 18.

12Bakal, p. 6.


Murray, p. 57.


Cleveland, p. 30.


Bere, p. 30.


Buchsbaum, p. 99.

Reynes, p. 39.

Reynes, p. 39.

"AmEx Shows the Way to Benefit from Giving," Business Week, 18 October 1982, p. 44.

37 Reynes, p. 40.

38 Reynes, p. 40.


40 Higgins, p. 18.


42 Fry, p. 105.
Bibliography


