Integrating Philanthropy With the Bottom Line

MY PERSPECTIVE SERIES:
REPRESENTING THE AUTHOR'S PERSONAL PERSPECTIVE

Research shows a strong link between firms with active corporate social responsibility programs and strong financial results.

by Louis L. Marines

Even in these challenging economic, political and environmental times, many corporate boards continue to be pressured to commit resources to philanthropy and to be "good corporate citizens" through the commitment of staff talent, time and shareholders' other assets, most importantly, cash.

The concept of "corporate citizenship" is still evolving. In broadest terms, it "has three interrelated dimensions: strong, sustained economic performance; rigorous compliance with fundamental accounting and legal requirements; and ethical actions beyond what the law requires, which advance the reputation and long-term health of the enterprise."[1] In this latter category are commitments related to the environment and to corporate philanthropy. It is the board's involvement in the firm's philanthropy which is the focus of this third chapter in this series on the role of the board in A/E/C organizations.

THE PHILANTHROPIC IMPULSE

The impetus for philanthropy may come from the CEO, other senior executives, employees, friends, colleagues and even strangers in the communities the firm serves. Sometimes the pressure comes from the board members themselves — including both "inside" or "outside" directors.

The pressure to contribute is rationalized on the premise of serving shareholder interests usually by:

- Building the firm's positive brand identity and competitive position
- Attracting and retaining talent
- Building relationships with government officials and community leaders to reduce regulatory and special interest group obstacles
- Improving the economic conditions in the firm's communities with the long-term goal of enhancing the size and quality of the client base
- Providing learning and leadership development opportunities for staff
- Providing firms with new ideas, access to technical expertise and opportunities for R&D collaboration through grants to universities and other organizations[2]

Winzler & Kelly, the Santa Rosa, Calif.-based engineering firm, decided to express its community commitment by making it the focus of its 60th anniversary this year. All 12 offices across the West Coast and the Pacific Rim, including locations in Guam and Saipan, are actively giving back to their communities during 2011. Every office supported Rebuilding Together Santa Rosa, an organization that provides home repairs and renovations to low-income homeowners. On International Coastal Cleanup Day, the Saipan office helped collect 5,000 pounds of trash from the island's beaches, and all of Winzler & Kelly's waterfront and island offices participated in beach clean-up projects. Each community served by the firm was also invited to participate in a local celebration. "Winzler & Kelly has always been a committed champion for healthy, safe and dynamic communities. Our 60th anniversary is a great milestone for celebrating all we've accomplished and for renewing our commitment to the clients and communities we serve," said President Iver Skavdal. "The company and our staff members support these organizations throughout the year with financial contributions and volunteerism. Some of us volunteer every month at the local food bank, plant trees each spring and volunteer at local schools each fall."

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GOOD BEHAVIOR IS LINKED TO GOOD FINANCIAL RESULTS

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That is, firms with strong social performance tend to have strong financial performance. However, such research confirms only this positive association — not causation.[3] Given the number of variables involved in firm financial performance, no research has yet confirmed a direct cause and effect relationship between CSR and greater profits. This uncertainty is one major reason that boards must pay close attention to their firm's CSR efforts and the resources committed thereto. At the moment, the efficacy of such investment for profit purposes is a matter of faith and good intentions.

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FIVE CRITERIA FOR BOARDS TO CONSIDER WHEN ESTABLISHING THE FIRM'S CSR EFFORT

Criterion 1 — Manifesting Values

In spite of the link between CSR and good financial performance, many privately held firms assert that their CSR efforts exist for reasons beyond increasing shareholder financial value. Those reasons usually reflect the senior executives' and their boards' personal values, which are likely to include but are not limited to honesty, respect, responsibility, fairness and compassion.[4] Many firms' statements of values are specific in this regard. In addition to the ubiquitous profitability, quality/excellence, client service, staff development and growth (whatever metric may be used), such statements frequently speak to the above personal values and justice, tending to the health and beauty of the planet, gratitude and generosity. Such statements are important, as they are one set of criteria for the board's assessment of CSR opportunities, priorities and commitments.

Interdisciplinary design firm Perkins+Will values, promotes and upholds "ideas and buildings that honor the broader goals of society." The firm supports these values by making extensive pro bono contributions of design work annually. "We are part of The 1% program of Public Architecture (www.theonepercent.org), which connects nonprofits with design firms that can help them," explains COO Ben Fisher. "In 2009 and 2010, Perkins+Will donated more than 32,000 hours of design work to nonprofit projects, and we are on a similar trajectory in 2011. This is a commitment the firm has made in support of our stated social purpose. The staff finds it exciting to do this work; it resonates with their desire to 'give back' and we can frequently give younger people broader project responsibility than they'd have on a really large project," he continues.

Criterion 2 — Manifesting the Firm's Mission

The second criterion resides in the firm's mission statement — why the firm exists and for what purpose it employs assets to achieve its goals. This mission is often a direct reflection of the firm's long-term vision and, at its best, is unique to the firm. In the A/E/C industry, most mission statements are based on a commitment to improving the quality of infrastructure so as to produce enhanced socioeconomic benefits.

Walnut Creek-based firm Brown and Caldwell is one firm with such a commitment. "Brown & Caldwell has supported Water for People for a decade, matching employee donations and sponsoring volunteers for projects that bring sustainable water and sanitation to developing countries," says CEO Craig Goehring. "It's an extension of one of our core values, 'Act with honesty and integrity.' Most of us are in the environmental business because we want to make a difference. The fact that two and a half billion people don't have access to any kind of sanitation is something our board, our employees and our clients want to change."

Criterion 3 — Supporting the Firm's Strategies

The third criterion for the board to use is to assess the coherence of the various CSR commitments the firm makes and their relationship to the firm's strategies. Will the investments support the firm's strategies by leveraging resources to make the firm more effective and more competitive? Is there an overall theme and structure to the commitments as opposed to a random approach? This is easiest to assess, of course, when the firm's philanthropy is committed to a single organization or activity, e.g., Architecture for Humanity, Water for People, Rotary International or other service clubs, local public or private schools' foundations, American Red Cross, etc.

Such focused commitment is rarely the reality, given the number of influences and demands upon the firm's philanthropy, but the benefits can be significant. CDM and CH2M Hill are described in an Engineering News-Record report that speaks of their support for Water for People: "These companies are going beyond the corporate check writing routine and rallying support for a charity whose mission resonates with their water-engineering communities."[5]

Criterion 4 — Assessing the Options

The fourth criterion resides in the decision-making process itself. Most boards will decide that actual decisions about the firm's philanthropy are the responsibility of the CEO. The board's function is often limited to that of review, usually against the criteria listed above. What the board will want to know is:

- How is the size of the pool of available resources decided?
- How is the pool allocated between cash contributions and those of staff time and talent?

- What is the program for involving employees' time and talent and good will? [For a useful basic primer, see "How to Match Companies and Causes," The New York Times, 8/29/2010.]
- How are alternative beneficiaries identified and considered?
- Does the firm use one of the excellent charity evaluation websites, such as Guidestar [guidestar.org] or Charity Navigator [charitynavigator.org], to assess the organizations it considers supporting?
- How are priorities defined and the resource pool allocated?
- How does the firm assess the effectiveness of its donations, both in contributing to the mission of the receiving organization and in supporting the goals of the firm itself?

Criterion 5 — Communication Plan

The last bullet point above raises the board's fifth criterion: What is the firm's communication plan to ensure that those it wants to impress with its philanthropy — clients, community and government leaders — know what the firm is doing? As a valuable by-product, such communication efforts will create a culture of giving — both within and outside the firm, says Princeton ethicist Peter Singer.

"We tend to do what others in our 'reference group' — those with whom we identify — are doing. And studies show that the amount people give to charity is related to how much they believe others are giving. We should encourage those who give, by our example," Singer says, "to be more open about the size of their donations."[6] While such publicity may conflict with the self-effacing modesty of many A/E/C professionals, it is essential in order to reap the rewards expected from investing shareholder assets.

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The board should also address issues such as to what extent does the firm encourage and monitor individual pro bono efforts by the firm's principals and staff? The board should look at what leverage may be gained without additional cost to the firm and to ensure the firm's goals, values and mission are enhanced and not compromised. Both the board and the firm's staff need to recognize that individual activities will, even with full disclosure about the difference between firm and individual authorization, reflect on the firm. Awareness of these activities and a well-circulated policy about staff responsibilities and behavior when doing individual charitable work will help to ensure that any public recognition that ties back to the firm remains positive.

The board must also evaluate how to assess the "opportunity cost" of lost time and talent when a principal or staff member's altruistic interests require a larger time commitment than he or she can make on nights, weekends and paid time off. Some organizations provide opportunities for work that involve foreign travel, such as the Transformational Business Network [tbnetwork.org], which helps match up corporations with nongovernmental organizations (NGOs) to accomplish poverty-alleviation projects in developing regions. How does the firm decide if that is a solely personal commitment and expense, even when the employee or principal is not paid for such time?

Beyond Perkins+Will's participation in The 1%, its employees extend contributions to their own colleagues who are helping others. Fisher offers the example of one of the firm's associate principals, who moved with his family to Uganda for three years. "His wife is a doctor and is now teaching at the Uganda Christian University, and he is setting up the university's architectural program. Their work is entirely pro bono, and they are living on donations. Many of our staff members have donated to their support."

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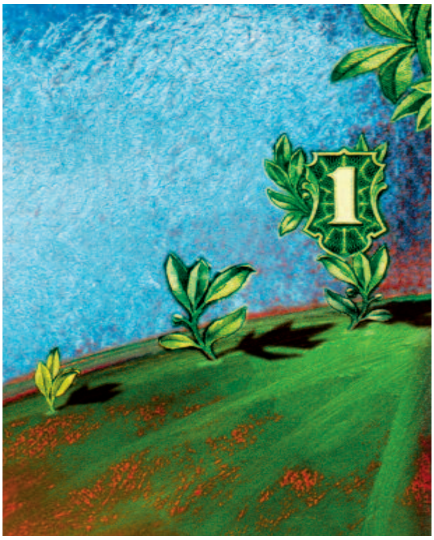
Fisher himself uses his vacation time to take 200 high school students on spring break to Mexico, where they build 16 houses every year.

THE MOST IMPORTANT CONCERN REMAINS: FIDUCIARY RESPONSIBILITY

Finally, the most important board concern will continue to be whether directors are fulfilling their fiduciary responsibility in authorizing or allowing, by their consent or silence, the use of shareholder resources for activities that may at best have a tenuous connection to profits. The idea that corporate philanthropy should be win-win "is a very appealing proposition ... but it's an illusion, and a potentially dangerous one," wrote Aneel Karnani, a business professor at the University of Michigan, in a recent Wall Street Journal editorial. "In most cases doing what is best for society means sacrificing profits. This is true for most of society's most pervasive problems; if it weren't, those problems would have been solved long ago by companies seeking to maximize their profits."[7]

Nestlé Company puts its philanthropic efforts to work in ways that will give it direct benefits, by helping the farmers who supply it reduced water use and develop products with higher nutritional value. Chairman Peter Brabeck-Letmathe said, "I am personally very much against corporate philanthropy. You shouldn't do



good with money that doesn't belong to you. What you do with your own money, this is absolutely fine."[8]

Debating this assertion is where the real work of boards relative to CSR must begin. Early on, boards must define their own criteria for deciding if their firm has a CSR program, what resources it employs, and how its effectiveness is measured. Directors may be tempted to make generalizations and draw conclusions based on anecdote rather than evidence. That temptation must be resisted.

As the Harvard Law School Forum report concludes, "Officers and directors can no longer treat charitable giving as a peripheral activity or an after-the-fact distribution of profits ... It is no longer sufficient for corporate philanthropy to simply 'do good.' If corporate giving is to succeed in the long run, it must provide a financial return. Acknowledging corporate philanthropy's economic benefits does not negate its power to alleviate social problems and enhance communities." ■

***Louis L. Marines**, Hon. AIA, is the founder of the Advanced Management Institute for Architecture and Engineering, now the A/E Services Division of FMI Corporation. He consults with professional design firms across North America and is an active author and speaker. His book "The Language of Leadership," was published in 2010 by Greenway Communications. Marines is a CEO Emeritus of the American Institute of Architects in Washington, D.C. He can be contacted at loumarines@gmail.com.*

[1] Heineman, Ben W. Jr. "Are You a Good Corporate Citizen?." Wall Street Journal, June 28, 2005.

[2] Lev, Baruch, Christine Petrovits, and Suresh Radhakrishnan. The Harvard Law School Forum on Corporate Governance and Financial Regulation, "Making the Business Case for Corporate Philanthropy." August 20, 2011. http://blogs.law.harvard.edu/corpgov/2011/08/20/making-the-business-case-for-corporate-philanthropy/

[3] Ibid.

[4] Kidder, Rushworth M. Moral Courage: Taking Action When Your Values are Put to the Test. Harper Collins, 2005.

[5] Koo, Annie. "ENR Next: Firms Think Outside the Donation Box." Engineering News-Record, August 8, 2007. http://enr.construction.com/people/ENRNext/archives/070807.asp

[6] Singer, Peter. The Life You Can Save: Acting Now to End World Poverty. Random House, 2009.

[7] Karnani, Aneel. "The Case Against Corporate Social Responsibility." The Wall Street Journal. August 23, 2010. http://online.wsj.com/article/SB10001424052748703338004575230112664504890.html

[8] Kucera, Joshua. "Bottom Line on Corporate Giving." U.S. News and World Report, November 2010, 33–34.