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**May 2002**

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## Project Background

In 2001, the Council on Foundations (COF) collaborated with Walker Information, Inc. (WI) to conduct a national research project to further validate the reliability of the COF/WI corporate philanthropy measurement program. The COF/WI measurement program, which was designed for use by individual business organizations, involves using a survey-based research process to measure the perceptions, attitudes and opinions of employee and customer stakeholder groups as related to a company's philanthropic efforts. This process was first developed, tested and then offered in the marketplace by the Council and Walker in the late 1990s. The national research activities would be conducted with employee and customer stakeholder segments as well, and also an untested stakeholder group: shareholders.

To accomplish the project Walker recommended that two separate, nationally representative, samples be created. These two survey sample groups were recruited by NFO, a national panel research company. One sample consisted of adults (18 years and older), drawn from the continental United States, who were known to be working full or part time with a business that employed 2,500 or more persons. Individuals employed in nonprofit or government organizations were excluded. The persons recruited for this sample were used in both the employee and customer phases of the project. That is, each respondent first completed a questionnaire concerning their perceptions, attitudes and opinions related to their employer, and then completed a second survey that questioned them about a particular firm (from a predetermined list of business categories) with whom they did business. In total, 1,722 persons were recruited and sent questionnaires. Of this total, 1,273 were processed for a return rate of 78 percent.

The second sample consisted of persons from the continental United States who were at least 21 years of age who had personally invested in individual stocks (not stock funds or bonds). These persons were asked to participate in the research phase that dealt with the opinions of shareholders. For this phase, 600 individuals were selected for participation. Of the total, 426 questionnaires were processed for a return rate of 71 percent.

The data was collected during November and December 2001.

## Project Funders

This project was made possible by generous grants and contributions from the following corporate members of the Council on Foundations:

Aetna Foundation, Inc.  
AT&T Foundation  
Bank of America Foundation  
IBM  
Lucent Technologies Foundation  
Medtronic, Inc.  
Mellon Bank Financial Corporation  
Philip Morris  
Washington Mutual Foundation  
WorldCom Foundation

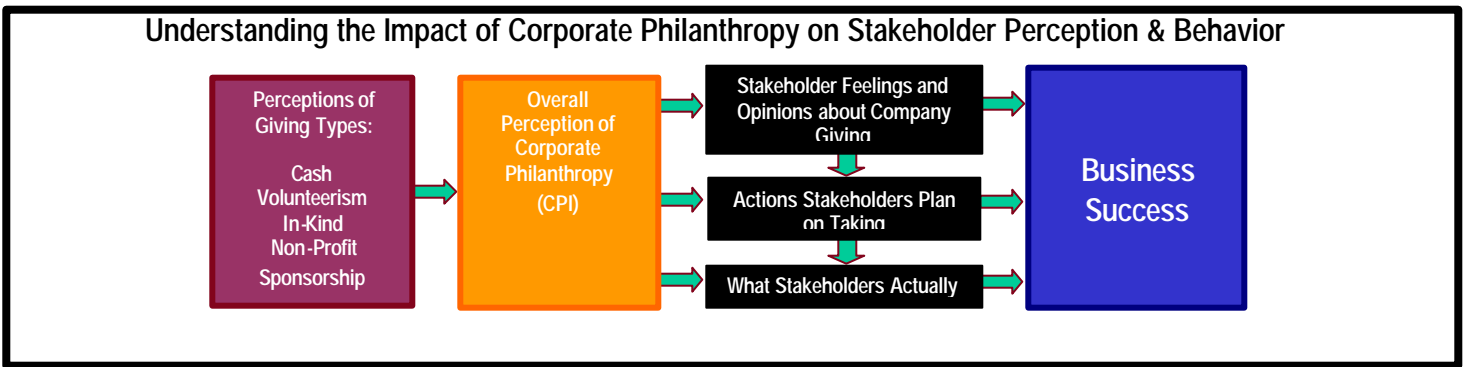
Additional funding to support the shareholder phase of the project was provided by:

Committee to Encourage Corporate Philanthropy  
New York, New York

Walker Information, Inc. provided a significant amount of staff time as an in-kind contribution to the project.

# Loyalty Model

This model will assist readers in understanding how corporate philanthropic programs impact on and affect the behavior of stakeholders.



## Analysis of Findings and Conclusions

The 2001 National Benchmark Study on corporate philanthropy re-confirms our prior research showing the influence of perception on behavior. Corporate philanthropy programs that are viewed favorably by stakeholders (customers, employees, shareholders, etc.), will contribute to business success. Stakeholders in the high CPI (Corporate Philanthropy Index) group (meaning they have favorable impressions of the company's philanthropy program) are more likely than those in the low CPI group to engage in behaviors that lead directly to the company's bottom line success.

### **Stakeholders with favorable impressions more often:**

- Recommend the company and its products and services
- Believe reputation is excellent
- Continue to do business with, work for or invest in the company
- Say they are committed, and would recommend it as a good place to work and do business

AND

- Are *truly* loyal (committed to the company and planning to continue the relationship)

Although there are some significant differences among stakeholder groups in terms of how favorably they view the corporate philanthropy program, the relationship between having positive perceptions of the philanthropy program and intended positive behaviors toward the organization remains strong across the different types of stakeholders.

Clearly, it is to a company's advantage to be viewed favorably in its philanthropy efforts. And yet, based on these results, it seems that corporate America has a significant challenge ahead if it is to earn stakeholders' full confidence in this key area.

The CPI index for companies today reveals no better than "middle of the road" performance—roughly a "3" on the "5 point" index. This translates to anywhere from a low of "4 of every 10" to a high of "6 of every 10" stakeholders with ratings that place them in the high CPI group.

There are differences in perceptions based on stakeholder type. These differences are fairly consistent across all aspects of corporate philanthropy programs measured.

- Nationwide, when comparing the three stakeholder groups, the lowest ratings come from customers, while employees are most favorable about their employer companies. Shareholders, for the most part, fall in between.
- Just over half of shareholders are in the high CPI group based on perceptions of the companies in which they invest. This compares with just 37 percent of customers and 63 percent of employees.

The CPI score makes a strong case for the relationship between stakeholders' perceptions of a company's philanthropy program and behaviors that lead directly to positive business outcomes.

- High CPI customers are three times more likely to be truly loyal

The effect is even greater for employees where

- High CPI employees are as many as four times as likely to be truly loyal employees

These are important outcomes when you consider that two of the biggest problems for companies today are customer and employee retention. Loyalty is a phenomenon of the past.

Although these relationships between philanthropy perceptions and behavior do exist, what do stakeholders **say** about the effect of corporate philanthropy on their choices of vendor, employer and investment? The statements are pretty clear especially for employee's choice of employer.

Anywhere from a third to two-thirds of employees agree that

- A good giving record is a main reason for remaining with an employer
- Corporate generosity is one of the reasons that differentiates a company
- A company that does good deeds gains their admiration

As for customers:

- One of every three customers say a company's giving record would be a reason for selection

As for shareholders, roughly a third attest to the effect of corporate philanthropy programs on their financial investment decisions, and specifically, say corporate generosity:

- Affects the bottom line
- Has positive effects on stock performance
- Affects where to invest

The CEO and senior leaders are key in shaping opinions about the company's philanthropy program. High CPI goes hand in hand with high EPI (Executive Philanthropy Index) scores. The EPI is used to classify stakeholders in to high and low groups based upon perceptions of the role and impact corporate executives (CEO and senior leaders) have on the company's philanthropic efforts. This is not surprising given earlier studies showing the strong effect of the CEO, in particular, on corporate reputation.

As with CPI, we also find a similar pattern of perceptions when comparing the three stakeholder groups.

- Customers are least likely to have favorable impressions of the CEO/senior leadership's role in corporate philanthropy programs
- Employees have the most positive impressions of the role played by the CEO/senior leaders

Even assuming that employees' more positive impressions more closely match reality, the results suggest that this aspect of leadership's role is not as high a priority as some other corporate areas or functions.

Just over half of employees believe that the CEO is

- Involved in corporate philanthropy policy making
- Communicating the importance of corporate giving and volunteer programs
- Believing that philanthropy generates goodwill and adds value to the enterprise

AND

- All stakeholder groups have poorest impressions of the "personal" role played by CEOs regarding giving personal time and resources

Perhaps if CEOs knew of the role that corporate philanthropy programs play in decisions made by important stakeholder groups, they would place greater priority on it!

So how does a company manage corporate philanthropy to gain greater share of high CPI stakeholders? According to this national study, it begins with the particular activities and initiatives that make up the organization's total philanthropy program (defined to include (1) cash contributions, (2) in-kind products and services, (3) employee volunteerism and (4) sponsorships of events and causes).

Of the four contribution types, companies are rated highest on providing sponsorship support for worthwhile nonprofit events and causes as well as for having employee volunteers. These are also probably the most visible contribution types. Fewer stakeholders rate companies positively on doing their fair share in communities and for society via cash contributions, or in contributing in-kind products and services.

Not unexpectedly, we find that

- Employees have considerably more favorable impressions than either customers or shareholders
- As many as seven of every 10 employees have strong, positive impressions of companies having employee volunteers
- This compares with fewer than half of investors and even fewer customers aware of employee volunteers
- Shareholders and customers are much more alike in their impressions of contribution program types, yet we still find lower scoring among customers

# Action Recommendations for Corporations

Most would agree that corporate philanthropy programs are not the only ingredient to building and ensuring stakeholders' loyalty. Products and services surely come first. But corporate America's struggle to earn the loyalties of customers, employees and shareholders needs more than just high quality products and services. Providing products that don't break, along with good service "with a smile" are table stakes for today's businesses to be even considered in the running.

Consider that in this study seven of every 10 stakeholders (regardless of group) agree that the company's reputation is excellent. And yet it is only the shareholder group where there is a significant proportion indicating they are committed (55 percent) and loyal (45 percent) to the company they invest in. In contrast, only about one in four employees and customers say they are loyal and just one in three say they are committed to the company.

The drive for loyalty requires companies to be better than their competitors by finding ways to differentiate themselves and gain a competitive edge. This is where a focus on corporate philanthropy can play a role.

We recommend that businesses consider the following actions:

- 1. Set out a strategic plan for corporate philanthropy that is focused and consistent with overall corporate goals.**

Corporate philanthropy should tie in to the overall objectives of the company, as does every other business function. Make decisions about the specific programs you initiate and support in terms of how they fit with your overall corporate goals. And don't consider requests and opportunities that randomly come to your door if they fail to meet the "fit" test.

- 2. Take stock of and quantify what the company does in the area of corporate philanthropy.**

Corporate philanthropy can take on many shapes and forms and does not only exist within the department called corporate contributions. Don't ignore the services that are provided by your organization to the community because they don't have "hard costs" applied to them. These, too, are considered part of your philanthropic or community involvement program. Determine how to account for employee time away from the office to engage in community work. Consider the in-kind products and services you offer as well. The Committee to Encourage Corporate Philanthropy (New York) is heading up a team of U.S. corporations to adapt the London Benchmarking Group's standard valuation measurement protocol. For information, go to <http://www.lbg-online.net/>.

**3. Realize that of all a company's stakeholder groups, the employees are likely to know best the company and what it does in philanthropy.**

Of the three stakeholder groups surveyed, employees are most positive about companies' philanthropic activities. Take advantage of this and use employees as a vehicle for getting the word out about your corporate philanthropy program. Think about the contact, both formal and informal, your employees have with other stakeholders. What messages are they sending to those stakeholders? With proper employee engagement, recognition of employee involvement in volunteer and other community activities, and targeted communications, these contacts can be leveraged to showcase your philanthropic work.

**4. Ensure that the CEO and other senior leaders of the corporation are aware of the significant role they play in how stakeholders form perceptions of the company's philanthropic program.**

If we are to accept that CEO and senior leadership involvement directly influence internal and external stakeholder perceptions of a company's philanthropy, then one of the greatest challenges for many grantmaking executives is leadership engagement. The good news is that although the CEOs' views and engagement may be a considerable challenge to corporate philanthropy today, with the right measurements in place to account for what the company is providing to its communities and determine its effects on stakeholders, the CEO is likely to see the business value inherent in a well-managed philanthropic program. Furthermore, any hesitancy about claiming good deeds would be pushed aside in realization of how stakeholders value this information.

**5. Ensure that an effective and realistic external communication program is a key element of your philanthropic program.**

Relying solely on employees' conversations with other stakeholders will not adequately communicate the company's role in philanthropy. With a strategic philanthropy plan in hand, and measures of current activity, a company may be ready to send out more formal and carefully constructed messages to its stakeholders. Whether you're ready depends on the type of program you currently have in place and whether it's one you're proud of and that fits the company's strategic goals. It isn't necessary to wait for a splashy grant; perceptions are formed by a series of regular, ongoing communications.

**6. Develop and conduct a process that reassess the way that the corporation “delivers” the philanthropy function.**

Do departments with traditional views about philanthropy manage the program, or is it managed like any other corporate function or department? Most departments or business units are managed on the basis of measurable goals with targets and ramifications when targets are not met. The ultimate goal of any corporate department is to help the company achieve financial success. Although some disagree with the “business value” approach, “from the heart alone” bears rethinking in today’s competitive environment. Both heart *and* business as the new philosophy of corporate philanthropy will create positive outcomes for all.

# Appendix

Appendix A – National Benchmark Study – Employee Report

Appendix B – National Benchmark Study – Customer Report

Appendix C – National Benchmark Study – Shareholder Report