A CORPORATE CITIZENSHIP RESOURCE PUBLISHED BY THE CONSULTING NETWORK

NETWORK

Winter 1999 Volume 3 Number 1

TCN Corporate Giving Database Tracks Three-Year Trends

In this issue, John Coy, founder and president of The Consulting Network, contributes his observations on emerging trends and innovative practices in corporate citizenship.

As corporate America has experienced profitable growth in the last several years, there has been considerable discussion about the trends in contributions and whether corporate giving is keeping pace with increased profits.

During this time, The Consulting Network (TCN) has tracked the giving of hundreds of companies. This database has grown to include more than 210 companies in 1997, with the vast majority in the *Fortune 500.* More significant is the fact that we have three-year data on 121 companies, which gives us the opportunity to do comparative analysis of the same group of companies. These 121 companies reported $2.95 billion in total giving in 1997 with $2.15 billion representing cash contributions.

THE BALANCED FINANCIAL SCORE CARD APPROACH

With this database, TCN now has the capacity to compare giving against a variety of financial indices (sales, net income, assets, stockholder equity) rather than pretax net income alone. We refer to this approach as the balanced financial score card.

This is important because, increasingly, senior management prefers to look at multiple indicators when comparing and ranking company performance. No other business function relies on a single index such as pretax net income to measure performance against peers or best-in-class programs.

Sales are a reflection of size, economic clout and the social impact a company has on people and the communities in which it operates. Shouldn't this be a factor or measure of what it gives back to the community or to society?

Stockholder equity represents the wealth of the owners in the company – the net worth of the company. Is this a viable factor to compare the social investments of a company?

Pretax net income (PTNI) represents what a company makes from operations before paying local, state and federal taxes. This is a viable index because it, along with net income after taxes, reflects how much money the company has to plow back into its operations, including contributions.

Recently, a chief financial officer of a major company suggested that the true measure of dollars available to operate a company is better reflected in its cash flow statement. This is an interesting idea, but probably ahead of its time.

Using the balanced financial score card approach for contributions has other benefits. It allows comparisons and benchmarking against financial standards used by the company. TCN initially started using the balanced

Network is published quarterly by The Consulting Network, 8608 McHenry Street, Vienna, VA 22180. Cindy Coy and Cathy Jenkins, editors. First-class postage paid at Vienna, VA. Editorial offices: 8608 McHenry Street, Vienna, VA 22180. Phone: (703) 641-0533; Fax: (703) 641-0534; E-mail: tcncoy@msn.com.

score card approach when CEOs and senior officers began to discount the value or rationalize the outcome of their pretax net income figures. It simply is harder to discount a range of numbers when they reflect the same financial indices that the company uses to measure its overall operations and financial performance. Why rely on a single index like pretax net income to reflect performance, when you have a range of measures to tell the story about where your program ranks with others?

THREE-YEAR TRENDS: 1995 – 1997

As we developed the three-year database, it was important to make sure that we were working with the same base of contribution dollars. Therefore we made the necessary adjustments to account for mergers, acquisitions and spin-offs. When we analyzed the database of 121 companies and their three-year contributions, we found a number of important trends.

◆ Total contributions (cash and in-kind) for the group increased 40 percent from 1995 through 1997 with a major jump of 24 percent from 1996 to 1997.

◆ Cash contributions alone increased 41 percent for the same period.

◆ Although in-kind giving has increased in total dollar value from $582 million to $797.2 million for the group, it has remained between 26 and 27 percent of total giving.

◆ Average cash contributions per employee for the group increased from $232 in 1995 to $304 in 1997.

◆ Total contributions in 1997 averaged:

- 0.12 percent of sales.
- 1.46 percent of pretax net income.
- 1.71 percent of net profits.

◆ Cash only contributions in 1997 averaged:

- 0.09 percent of sales.
- 1.09 percent of pretax net income.
- 1.41 percent of net profits.

◆ To be in the upper quartile of this benchmark group, your total contributions would have to be at, or better than, these percentages:

- 0.17 percent of sales.
- 2.42 percent of pretax net income.
- 3.00 percent of net profits.

The data shows that the level of giving for these 121 companies has kept pace with the growth of sales and profits of their companies. In fact, total giving increased from 0.10 percent of sales in 1995 to 0.12 percent of sales in 1997. Cash giving increased from 0.07 percent to 0.09 percent of sales respectively from 1995 to 1997.

Looking at pretax net income, the benchmark group of 121 companies increased the percentages for total giving from 1.11 percent in 1995 to 1.71 percent in 1997. Cash giving by itself increased against PTNI from 0.93 percent in 1995 to 1.09 percent in 1997 for the group.

Overall, this data indicates that companies have not only increased the dollar level of contributions, they also have increased the percentage of contributions against key financial indicators. The data also shows that the companies in the top quartile have performance percentages twice the mean of the entire group in all financial indices for cash giving.

TCN will update the database in the next few months with the goal of expanding the number of companies with three-year comparisons , which include 1998 data. Every company that completes the brief survey will receive a complete 1998 comparative three-year report and a summary analysis of 1996, 1997 and 1998 data comparing contributions to sales, PTNI and net income.

We hope to continue to find companies increasing the percentage of resources they commit to being a good corporate citizen.

ABOUT THE DATABASE

The database is not complex. It includes total giving and cash giving as reported by each company. Most companies provide giving information directly to us. We also use published information from websites and *The Chronicle of Philanthropy's* annual report on corporate giving.

After we have the giving levels, they are compared to each company's financial data, which is downloaded from the *Fortune* database service. This provides the basis to compare giving to total revenues (sales), net profit, assets and number of employees. Since most published data does not provide pretax net income or income before taxes, we visit online company annual reports or other financial data services that do provide pretax net income figures.

WHY *FORTUNE* DATA?

Although any reliable financial database would work, the *Fortune 500* has a high degree of brand identity and acceptability in the corporate world. It also allows us easy interface to run comparatives for the Most Admired Companies, Best Companies to Work For and other rankings published by *Fortune*.

Fortune's data also represents consolidated income, which is becoming a common standard with globalization. Few multinational companies report U.S. sales and income and fewer publicly report only their U.S. pretax net income.

Ashland Inc. Exhibits Model Exit Strategy

Imagine the results of moving your corporate headquarters out of the town that bears the company name. In a time of mergers, consolidation and restructuring, it appears that these changes have an impact on the communities where companies are discontinuing or reducing the size of their operations.

Ashland Inc. was founded in the town of Ashland, Kentucky, in 1924 as a regional refiner. After a major restructuring that included divestiture and a joint venture that combined refining facilities, the restructured Ashland Inc. decided to relocate its headquarters and move from the community that shared its name. Few would believe it is possible to have your exit heralded by the community. But if you are Ashland Inc. and you do it right, it is possible.

Here is how Ashland's leadership approached the sensitive situation.

- ◆ Working with the community, Ashland helped to create the Woodlands Foundation, then donated its corporate headquarters to the Foundation with a commitment to help market the facility.
- ◆ The company established a $2.5 million fund with the Foundation of the Tri-State Community to provide transition funding to local agencies over a three-year period.
- ◆ The company made a commitment to provide interim staff support to the Woodlands Foundation and the community foundation.
- ◆ Ashland financed a $500,000 economic development trust to create 500 new jobs.
- ◆ Excess furniture was donated to local community organizations.
- ◆ Foremost, Ashland invested considerable time and energy in open briefings and communication activities with community leaders, nonprofit groups and employees to discuss its commitment to the area.

According to Charles Whitehead, president of the Ashland Inc. Foundation, a successful transition was important for the morale of employees who would remain. Equally important was the need to retain strong community relationships to support these employees in the future.

Ashland Director of Community Relations Martha Johnson reported that the media and community response exceeded the company's expectations, given the 75-year relationship between the company and the community. Both pointed to the thoughtful approach, the company's commitment and an open communication process as the key ingredients to the successful transition.

Sears Workplace Giving Program Wins Chairman's Team Award

In 1997, the volunteer team that led the Sears, Roebuck workplace giving campaign won one of only 12 of the company's prestigious Chairman's Team Awards.

While employee involvement programs increasingly are recognized for their internal and external value, companies continue to struggle with the role of the employee workplace giving campaign. Workplace giving is the oldest form of employee activity, predating the matching gift program. But, overall, it appears to be a program that has not kept up with the changing workplace.

Not long ago, while developing an employee involvement strategy with a client, I asked the question: "What about workplace giving; where does it fit?" The answer said volumes about where workplace giving ranks in importance for far too many companies. "That's just an administrative thing we do each year; it's not really employee involvement."

That is not the answer you will hear at Sears, Roebuck, where four years ago the company created its own branded "You Can Make a Difference" workplace campaign.

The You Can Make a Difference volunteer team qualified for the Chairman's Team Award in a companywide competition by demonstrating to 150 of the company's top executives on the selection committee that their program met or exceeded the award criteria. Award criteria are based on team activities that enhance at least one of the following Sears Shared Beliefs:

- ◆ Passion for our customer.
- ◆ Our people add value.
- ◆ Performance leadership.
- ◆ Making Sears a compelling place to work, shop and invest.

According to Sears Vice President of Public Relations and Communications Ron Culp, "The team was able to demonstrate that workplace giving does support the Shared Belief that 'our people add value.' With a solid plan, clear objectives and by implementing best practices, the You Can Make a Difference campaign delivered a program that educated our associates, generated new levels of enthusiasm and produced greater satisfaction and participation."

"It's a Sears desire to maintain a winning corporate culture that motivates employees, so we designed a workplace giving campaign format to meet that objective by recruiting a creative volunteer team, by building awareness and ownership in the campaign and by giving associates every opportunity to participate in a variety of activities," said Community Relations Manager Diane Vetrovec, who is responsible for the program.

Campaign activities included a clothing drive for welfare to work programs and a food drive for a food pantry in the Sears community. Senior executives were engaged in the campaign as well: at one point, they were recruited to serve employees at a You Can Make A Difference breakfast event.

The results of the new campaign demonstrate that the involvement of Sears associates added value to the campaign, the company and the community. Giving has increased nearly 30 percent since the campaign was launched.

This is proof that your annual employee campaign can be more than an administrative task. It can and should be an integral part of your employee involvement portfolio — an award-winning portfolio.