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Why philanthropy is R&D for business

Doug Conant

Targeted giving can help companies lay the groundwork for future commercial success.

We often measure the impact of corporate philanthropy by counting the number of individuals who are helped by a particular program. In my experience, however, philanthropy can also help companies reduce business risk, open up new markets, engage employees, build the brand, reduce costs, advance technology, and deliver competitive returns.

Corporate philanthropy is usually defined in contrast to various “shared” or “blended” value approaches to corporate social responsibility (CSR), in which companies seek to do well by doing good. However, I define corporate philanthropy as a discovery phase in investment in a social issue. I encourage companies to view philanthropic investments as incubators for promising ideas and a mechanism for understanding both community and corporate needs. Much like R&D, philanthropy allows companies to make thoughtful investments in sectors where the return profile is typically more speculative.

Philanthropy as growth strategy

During my decade as CEO of the Campbell Soup Company, we created the aspirational mission of “building the world’s most extraordinary food company by nourishing people’s lives everywhere, every day.” Along the way, we launched several ambitious philanthropic initiatives. In 2010, we committed to cutting our environmental footprint in half by 2020. We announced a special partnership with the American Heart Association to address consumer concerns over heart health, particularly as it related to diet. In partnership with the Campbell Soup Foundation, we built a long-term program to directly address childhood obesity and hunger in communities where the company operated major facilities. I observed that the more we leveraged our business resources to deliver social value to the communities around us, the more engaged our employees became and the better we performed in the marketplace.

Campbell’s Soup is hardly an isolated case. In 2003, Vodafone saw an opportunity to bring mobile-banking services to rural Africa through its Kenyan affiliate Safaricom. While the idea ultimately became a profitable business for Vodafone, there wasn’t sufficient corporate confidence to fund it fully at first. Instead, Safaricom's new mobile-banking service was seeded by a philanthropic matching grant from the United Kingdom's Department for International Development. Philanthropic dollars helped incubate the initiative, providing the empirical evidence that Vodafone needed before it took a bigger financial risk.

Philanthropy can also help companies on the employee-development front. For example, IBM's Smarter Cities Challenge is a competitive grant program that sends teams of IBM employees into cities all over the world to address community issues. The teams offer integrated consulting services, tapping IBM's core-business expertise and knowledge to collect and analyze critical data, provide solutions, and improve complex systems such as health care and public safety. Many IBM employees report that the Smarter Cities Challenge was one of the most rewarding experiences of their careers. In short, it's a priceless program for professional development and employee engagement that IBM could not have purchased through the market.

Giving by numbers

Today, I chair CECP, an organization that draws together and empowers senior executives of the world's leading companies to achieve progress on societal challenges while driving business performance. CECP corporations collectively generate about half of annual US GDP. In our most recent survey of member and other Fortune 500 companies, we found that 59 percent increased their philanthropy between 2007 and 2012. We also found that in-kind contributions have grown sharply in recent years. As a percentage of total corporate giving, noncash contributions grew in aggregate from 57 percent in 2007 to 69 percent in 2012. Finally, education has become the leading recipient of programmatic giving. The typical company in our survey allocated 29 percent of its giving budget to K–12 schools and higher-education institutions.

In total, CECP member companies gave more than $14 billion to charitable causes last year. I don't think it's an accident that corporate giving levels are up. Smart companies understand that philanthropy is part of a broader economic-recovery strategy, both for them and for the communities in which they invest. A senior executive from one of the nation's largest banks relayed to me that investing in community programs was one of the key reasons why his company made it out of the recession. They helped their communities at their lowest point, and the communities helped them right back.

The new normal

Of course, philanthropy is not the only strategy for companies to play meaningful corporate-citizenship roles. Business leaders should use every tool in their CSR portfolio to help create economic value that can help address relevant societal issues. From my vantage point, this is clearly the new normal; the new lens through which all corporate activity will be viewed.

As strongly as I advocate the more complete adoption of this approach by the business community, I also challenge companies to take a second look at the opportunity to more fully leverage philanthropic initiatives that can pave the way for future market-based innovations. It's a great way to learn about communities and their needs, and test new business strategies. The key is bringing good business insight and discipline to the process.

Doug Conant is the chairman of CECP. He is also the CEO and founder of ConantLeadership and the nonexecutive chairman of Avon Products. Mr. Conant formerly served as president and CEO of the Campbell Soup Company.

This essay also appears in the latest issue of *Voices on Society*, a McKinsey publication that convenes thinkers to explore the world's most complex societal challenges. For more analysis of global trends in philanthropy, visit the *Voices* Web site, voices.mckinseyonsociety.com.