

COLLECTED ESSAYS

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# ESG: MYTHS and REALITIES

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## Corporate Philanthropy: Stay in Your Lane

*Marvin Olasky*

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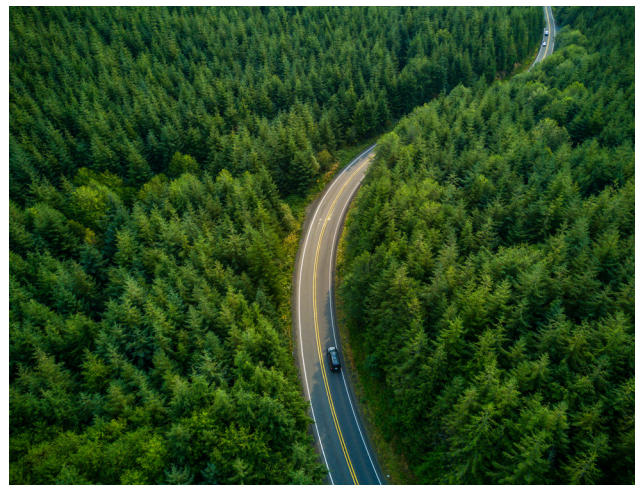
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## Corporate Philanthropy: Stay in Your Lane

Marvin Olasky

In 1990 a Gatorade commercial told viewers to “Be Like Mike” (YouTube, 2006), but some chose not to when Michael Jordan refused to endorse a Democratic candidate for the US Senate, Harvey Gantt. Politics-first activists blasted Jordan for saying, “Republicans buy sneakers, too,” but I think he was exactly right. Thirty years later he elaborated, “I wasn’t a politician when I was playing my sport. I was focused on my craft.” Jordan was staying in his lane.



Some business executives haven’t heeded Jordan’s advice. They go out of their lane and become Lady Bountifuls tossing coins from their carriages via company contributions programs. I can understand the inclination. Dolly Parton in the 1980 film *Nine to Five* belted out a reason for corporate philanthropy: “Working 9 to 5, what a way to make a living. Barely getting’ by, it’s all taking and no giving” (Parton, 1980). Some employees whose salaries are greater than “barely gettin’ by” feel in a different way that they are taking, and they want a sense of giving.

One argument for corporate philanthropy is that it’s in the corporate interest, a way to retain excellent employees who want their companies to have a more obvious linkage to benevolence. But here are two questions: Are business executives with talent in providing goods and services likely to be wise when they leave their lane and make contribution decisions concerning social problems? Are contributions that please some shareholders and stakeholders likely to damage a company’s standing among others?

These are not new questions. Forty years ago, Democrats portrayed Ronald Reagan’s tax and budget cuts as unfair to the poor. One of my tasks in 1982 in the Du Pont company public affairs department was to assess CSR, corporate social responsibility, that year’s equivalent of ESG. Then on my vacation I wrote an article for *Fortune* based on interviewing White House

officials and assorted senators and CEOs regarding that year's new new thing, the President's Task Force on Private Sector Initiatives (Olasky, 1982, Sept. 20: 130).

The task force's best-known members were Common Cause founder John Gardner, who had been Lyndon Johnson's Secretary of Health, Education, and Welfare, and Kenneth Dayton, chairman of the executive committee of the Dayton Hudson department store chain. Dayton for years complained that corporations gave only one percent of their pretax profits to charity: He wanted it to be five percent.

The task force did not go that far, but recommended that by 1986 every American company, large or small, should give two percent of pretax net income to "nonprofit organizations engaged in public service" (Olasky, 1982, Sept. 20: 136). The task force also recommended doubling corporate "mobilization of their human resources in volunteer capacities." Its musings did not have the force of law, but advocates thought the prestige of a conservative president would make a big difference. "Reagan's task force is advancing a concept of corporate social responsibility that many of his followers have fought against," said Stanley Karson, director of the Center for Corporate Public Involvement (Olasky, 1982, Sept. 20: 136).

Karson offered a decade-old parallel: "Just as Nixon was the one man who could bring us closer to China, maybe Reagan through his task force will be the one to finally break down conservative business resistance in this area." In 1982, that seemed possible. Lloyd Dennis, senior vice president at the First Interstate Bank of California, said, "The juices are flowing. Public affairs heads are pushing the use of corporate resources in social areas. Their views are seeping up to chief executives" (Olasky, 1982, September 20: 136).

**"...corporations on average still donate about one percent of pretax net income (.94% in 2018)"**

Other task force leaders I interviewed went even further. E.B. Knauff, director of policy development for the Private Sector Initiatives task force, called for corporations to weigh a manager's community involvement in his job performance and compensation ratings. That worried Alexander Trowbridge, president of the National Association of Manufacturers and a task force member: He wanted executives to know manufacturing, not social work, and he worried that the two percent goal might be just the start, with expectations escalating.

The most telling interview was with Mike Deaver, Reagan's top PR aide. He laughed at doom-laden forecasts and said the task force was all "public relations." He said the White House wouldn't do anything with the task force's recommendations. He predicted that nothing would change (Olasky, 1982, Sept. 20: 136).

Deaver was right. Dayton's proposals have wandered in the wilderness for 40 years, and corporations on average still donate about one percent of pretax net income (.94% in 2018) (McClimon, 2020, January 16). Three recent trends, though, are worth observing in the way my dentist says, regarding a tooth that may be developing a cavity, "we'll put a watch on that":

- In 2020 the United States, which was always in the top 10 for donating and often number 1, fell to number 24 of the 114 countries surveyed. Canada, also usually in the top 10, fell to number 25. Indonesia and Myanmar leapt to first and second place (Charities Aid Foundation, 2021: 15 and 18). The COVID-19 pandemic may have had an impact: The 2022 results may be more telling.
- In some other countries with venerable charitable traditions, official tax records show fewer people are making donations. The Fraser Institute showed that in 2019, the latest data year, only 19 percent of Canadian tax-filers listed donations: That's down from 25.5 percent in 2000 (Fuss and Li, 2021). In Australia, 29 percent of taxpayers claimed a charitable donation, the first time in 40 years that the percentage fell under 30 percent (Mcgregor-Lowndes, Balczun, and Williamson, 2021).
- Several other countries have put into practice what both their own economists and the US task force suggested. The government of India in 2013 decreed that all companies except small ones had to contribute two percent of their profits. Each company must create a Corporate Social Responsibility Committee to decide who should receive that two percent: Groups devoted to fighting hunger, promoting education and vocational skills, improving health, ensuring environmental sustainability, or empowering women, are eligible (Grant Thornton International, Undated: 4-5).<sup>1</sup>

Some observers are concerned about a possible “crowding out” effect if an ESG surge creates corporate philanthropy quotas. In the US, it's true that corporate contributions play only a minor role in the overall philanthropic world—four percent of total philanthropy (Giving USA, 2021). But in the 1930s increased governmental social expenditures crowded out at least 30 percent of private giving to fight poverty. It became easy to say, “I pay taxes to support x, y, or z, so why should I donate?” (Bredtmann, 2019).

Proponents of expanded corporate philanthropy argue that such spending would increase public awareness of nonprofits and result in more donations of money and time. Research published in the *Journal of Consumer Psychology*, though, suggests the opposite. In one study, participants with play money reviewed two nonprofit organizations (similar in mission, main programs, and degree of government support) and had to decide how much they would donate. The only difference between the two: the majority of the funding for one charity came from corporate sponsors, the other heavily relied on individual donors. Individuals chose to give less to the nonprofit with corporate sponsors (Bennett, Kim, and Loken, 2013: 293-294).



That result is in line with the theory of “social loafing,” which refers to the finding that individuals work and contribute less when they are part of a collective than when they are individually responsible for the outcome (Latané, Williams, and Harkins, 1979). Example: The College of Idaho, founded in 1891, began receiving in 1991 a share of the profits of the big supermarket chain Albertson’s, Inc., and renamed itself Albertson College of Idaho. (Alumnus Joe Albertson had met his wife in a College of Idaho chemistry class.) Individual contributions dropped, and the institution’s name in 2007 became once again the College of Idaho (Bennett, Kim, and Loken, 2013: 290).

Such “loafing” is particularly likely if other members of a collective are rich, as many big corporations are perceived to be. This is speculative: We don’t know what will happen if corporate philanthropy increases. It’s more clear what will happen if companies “turn over their decision-making on contributions to community foundations,” as task force policy director Knauff suggested 40 years ago: “We should make sure that corporations aren’t just giving to the petroleum geology departments of universities” (Olasky, 1982, Sept. 20: 130).

The corporate executive I knew best from writing many speeches for him was DuPont senior vice president Dick Heckert, later the CEO. He had a PhD in organic chemistry and knew a lot about that and business, but he didn’t pretend to know much about subjects in the humanities and social sciences. He became chairman of the National Association of Manufacturers and thought a petroleum geology department was exactly what an oil company should support, since its executives would be able to assess it more accurately than they could evaluate a program in literature or art.<sup>2</sup>

**“...business executives with talent in providing goods and services are often unwise when they leave their lanes.”**

I learned during the 1980s that business executives with talent in providing goods and services are often unwise when they leave their lanes. For example, defense contractor Honeywell was showing community-spirited interest in the arts by financing the production of a musical, *Peace Child*—but it turned out that *Peace Child* showed how the US “military industrial complex” was purportedly the world’s major obstacle to peace. (Two years later the Berlin

wall came down, and two years after that the Soviet Union fell apart because it could not keep up with US efforts.) Honeywell also underwrote a seminar series by “peace activists” attacking military spending. Because appeasement signifies weakness, several activists dug graves on Honeywell property as soon as the seminars ended, while others blocked Honeywell’s entrance until the police arrived.<sup>3</sup>

Such corporate anti-corporate donations did not surprise economist Milton Friedman, who had long noted that business executives “are capable of being extremely far-sighted and clear-headed in matters that are internal to their businesses. They are incredibly short-sighted and muddle-headed in matters that are outside their businesses” (Friedman, 1970, Sept. 13: SM 17). But Friedman was not against corporate philanthropy tied to a company’s business:

“It may well be in the long-run interest of a corporation that is a major employer in a small community to devote resources to providing amenities to that community or to improving its government. That may make it easier to attract desirable employees. It may reduce the wage bill or lessen losses from pilferage and sabotage or have other worthwhile effects” (Friedman, 1970, Sept. 13: SM 17).

I saw this close-up during the 1980s. It was fine for Irving Shapiro, the Du Pont CEO during most of my five years in the corporation, to comment on Superfund clean-ups of environmental hazards: Part of that was the chemical industry’s responsibility.<sup>4</sup> It was also fine for Du Pont, with headquarters in downtown Wilmington, Delaware, to increase employee satisfaction and protect its real estate interests by working to improve downtown Wilmington. But Du Pont executives had no expertise in broader social issues, and it was wise to leave decisions on them to people chosen by voters.



Economist Milton Friedman

Milton Friedman also understood a public relations justification: If donating a small piece of profits turns a potential customer into an actual one, a corporation can indeed “generate goodwill as a by-product of expenditures that are entirely justified in its own self-interest” (Friedman, 1970, Sept. 13: SM 17). If companies wishing to increase employee and customer satisfaction want to have a philanthropic role, they can contribute the most by staying in their lanes and donating to groups in their area of expertise. A company that produces food for millions might send a donation to Food for the Hungry. A company that builds houses might support Habitat for Humanity.

Friedman rightly noted, though, that going outside the lane turns the corporate executive into “a civil servant, even though he remains in name an employee of private enterprise,” and he should be “selected through a political process” (Friedman, 1970, Sept. 13: SM 17).<sup>5</sup> That’s even more true now due to the impact of polarization. ESG proponents say that companies with improved ESG ratings are showing potential customers “we care”—but care about what?

Major League Baseball found that out when it moved its 2021 All-Star game from the Atlanta area to Denver, because Georgia had adopted election rules that some said had racist intent. The move to a state with voting laws at least as stringent as Georgia’s, though, cost the Atlanta metropolitan area (more than one-third African American) at least \$100 million, and did nothing for baseball’s popularity (Harsanyi, 2021, April 26).

**“If companies wishing to increase employee and customer satisfaction want to have a philanthropic role, they can contribute the most by staying in their lanes and donating to groups in their area of expertise.”**

Some corporations may conclude that the way to maximize employee and customer satisfaction concerning corporations is to roll the ball to the United Nations, which in 2015 adopted Sustainable Development Goals and gave countries 15 years to ensure universal access to abortion if they wish to be on the international honor roll: “Any government which fails to ensure sustainable access to high-quality abortion care within the reach of anyone who needs it cannot claim to meet that requirement” (IPAS, 2020: 1). But as Danielle Butcher wrote, “Abortion is not an environmental policy,” and half of a typical US company’s customers are likely to agree (Butcher, 2021, December 9).

**“If a company thinks it will improve sales by impressing upon customers that a small portion of what they pay will support a charity unrelated to the company’s business, let the customer decide.”**

Many countries are highly polarized politically, making it unlikely and possibly impossible for a company to back particular non-profit organizations and win universal applause from shareholders and stakeholders. If a company decides it will improve employee morale by having a philanthropic program that includes giving to organizations outside a company’s lane, let employees decide individually where the money should go. If a company thinks it will improve sales by impressing upon customers that a small portion of what they pay will support a charity unrelated to the company’s business, let the customer decide.

While I’m not impressed with broad corporate giving programs, I am not saying that all ESG concerns are without merit. For example, sustainability is important. In the chemical industry and others, relying on single-use containers often means wasting resources. Employing reusable IBCs (intermediate bulk containers) for big quantities of liquids and powders often makes ecological and economic sense. The important thing is using expertise to work on problems that executives and employees know intimately instead of pretending to know it all.

Executives also have the opportunity to develop secondary expertise in realms outside their own, perhaps because of their own failings. I was not a fan of Mike Deaver, Ronald Reagan’s Deputy Chief of Staff. When I interviewed him 40 years ago, he seemed utterly cynical and smug. Deaver left the Reagan administration in 1985 and became a consummate Washington wheeler and dealer: *Time* put him on its cover in 1986 as the example of a person drunk with power who used White House connections to enrich himself (*Time*, 1986, March 3).

Then Deaver went too far. During a seven-week trial for perjury in 1987, Deaver said he suffered from alcoholism that blurred his memory so he didn’t remember making some lobbying telephone calls. The jury was unimpressed: Deaver ended up with three years’ probation, a \$100,000 fine, and a requirement to do 1,500 hours of community service (Langeveld, 2009, February 12). He stayed within his secondary lane—alcoholism—by volunteering at Clean and Sober Streets, part of a massive homeless shelter 1.5 miles from the White House. Deaver stuck with the program and served as Chairman of the Board for 16 years. I visited the organization in 1995 and was impressed.



Henry Pierce, chief operations officer of Clean and Sober Streets, recalled that “Mike fell in love with the program and became our guardian angel, responsible for keeping the doors open to the thousands of people we’ve treated. . . . He would be on hand for every graduation ceremony, and helped place many of them in their first real jobs. He saw the potential in each one of us, and gave his heart to the individual as well as the program” (Clymer, 2007, August 16).

Hearing that story made me feel differently about Deaver, and Deaver’s work helped people appreciate Clean and Sober Streets. The time he invested changed him. That was worth more to him, and more to the organization, than a monetary contribution.

## Endnotes

- 1 Implications of Companies Act, Grant Thornton International (New Delhi), pp. 4-5.
- 2 Personal conversations on the ninth floor of the Du Pont Building in downtown Wilmington, 1979-1982. For more on Heckert, see Ainsworth (2010, January 25).
- 3 Personal conversations on the ninth floor of the Du Pont Building in downtown Wilmington, 1979-1982.
- 4 Shapiro and Kaufmann (1984): 48-50 on dealing with toxic wastes.
- 5 “If they are to impose taxes and make expenditures to foster ‘social’ objectives, then political machinery must be set up to guide the assessment of taxes and to determine through a political process the objectives to be served.”

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**MARVIN OLASKY** is a former academic, now retired, but still active across a number of interests. He earned a BA in American Studies from Yale University and a PhD from the University of Michigan in American Culture. He was a professor at the University of Texas at Austin from 1983 to 2007 before becoming the provost at King's College in New York (2007 to 2011). From 2011 to 2019 he was the distinguished chair in journalism and public policy at Patrick Henry College. He is also an Affiliate Scholar of the Acton Institute. He was a long-standing contributor to *World Magazine*, becoming editor in 1994 and editor-in-chief in 2001. He is the author of 28 books including the highly acclaimed *Tragedy of American Compassion*, and writes a weekly column on aspects of homelessness for the Discovery Institute, where he is a senior fellow.

