

MIDCONTINENT PERSPECTIVES

[Midwest Research Institute](#)

Kansas City, Missouri

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The Case For Corporate Philanthropy

The whole issue of corporate philanthropy – and how it fits into the broad questions of social responsibility – is, at last, beginning to receive more attention in executive offices and boardrooms all across the country. That fact is certainly clear in Minneapolis and in Kansas City. Some of you attended a retreat in Colorado last spring during which you addressed the challenges that face your city. In particular, you examined the role that Kansas City corporations could play in building a stronger community.

I applaud that effort. It is a process that all of us in business must go through, particularly in the decade ahead. They say the 1980's will be a decade of turbulence and unrest similar to the 1960's. So, we'd better be prepared. The problems that face our society and the problems that face business in America today are one and the same. The question becomes: What can we do about it? Will we meet the future with inaction – or reaction – or with creative leadership? I hope it's the latter, and with your track record here in Kansas City I'm sure that will be the case.

So let's look at those problems and see whether corporate philanthropy isn't a good solution to a lot of them. Dayton Hudson thinks it is. And much of the case I will be making rests on what our company, and other corporations in Minnesota, are doing to overcome those obstacles.

In particular, I will emphasize what we call the "five percent solution," – which simply means allocating five percent of pretax income to help meet the needs of our communities. In the course of my remarks, I hope to counter the point made at the Snowmass Conference that corporate philanthropy is the "easiest answer," little more than "casting money to the wind."

Public Trust in Business

But first, let's examine the problem. It's certainly no news to anyone here that society today is less tolerant of business than perhaps ever before. Business walks a thin line between public acceptance and disrepute. This is distressing but true. We all know that public trust in the quality of corporate leadership is going downhill. The Harris poll says that 55 percent of Americans in 1966 had a great deal of confidence in the people running our major corporations. By 1979, that figure had fallen to 18 percent. How low can it go?

This public dissatisfaction with business results in all kinds of punishment inflicted on us – adverse legislation, stringent government regulation, consumer retaliation, harassment by unreasonable pressure groups. The lower the rating goes, the greater will be the punishment – even to the point of denying us the very profits which are essential to our survival.

To be sure, public mistrust is not confined to the private sector. The public sector has come under intense fire as well. Government, too, has been shaken by local, national, and international scandal.

But while it is true that public confidence in these major institutions is at an all-time low, there appears to be a marked difference in the public's complaints against them. A recent study by Yankelovich, Skelly and White shows that the public is cynical about the competence of government, but it questions the priorities of business, particularly its preoccupation with the bottom line.

New Agenda For Business Responsibility

What is emerging, says Yankelovich, is a "new agenda" for business responsibility. The public is changing the rules and demanding a different kind of business institution, one devoted to the public interest. I say "Bravo!"

At Dayton Hudson we view this new agenda as a challenge to the private sector to accept with the public sector full partnership in the achievement of national goals. After all, government and business are the two most powerful forces in our society. They should be partners, not adversaries.

We maintain that business is uniquely equipped to help solve today's complex social problems, which the government alone cannot handle. We have resources and talent and a reputation for efficiency and effectiveness. According to the polls, the public respects those abilities but is challenging us to be a more responsible partner in society.

At Dayton Hudson we are accepting that challenge. The methods we have developed to address it are the result of our philosophy of business. To some, it is an unusual philosophy. Fundamentally, we believe business exists for one purpose only: to serve society. Profit is our reward for serving society well. It is the means and measure of our service, but it is not the end. To put it another way, we believe the business of business is serving society, not just making money. Now, don't get me wrong. There's nothing wrong with profit. Without it, business cannot serve society effectively at all. We firmly believe profit is not a dirty word, but a strong and vital concept. The more money a company makes the more it is able to contribute to the improvement of its environment.

Dayton Hudson is just as anxious for profit as any company in the country. No matter how you measure it, we are a leader in our industry. But we view profit from a different perspective. From the beginning, the Dayton Hudson business strategy has recognized the central importance of service to society.

In our corporate philosophy we identify the four major publics we serve: our customers, our employees, our shareholders, and the communities in which we do business.

We maintain there is no conflict in serving all four of these constituencies because their interests are identical. Furthermore, the common denominator in serving them all is profit, and the common denominator in serving them all well is maximum long-range profit. This subtle difference in the perception of the role of profit – as a means, not an end – is crucial to everything else I have to say.

“Five Percent Solution”

With this philosophy as a foundation, we find no difficulty at all in applying the “five percent solution.” In fact, Dayton Hudson – and Dayton’s before it – began systematic giving more than 60 years ago. We have been contributing an amount equal to five percent of pretax profits, the maximum allowed by tax law, for the past 34 years. In 1979 this amounts to over \$9 million.

Even though Dayton Hudson revenues have grown dramatically (we passed the \$3 billion mark last spring), we are hardly among the nation’s corporate giants. In its 1978 listing of American business Forbes ranks us 135th in sales. Yet, of the 800 companies who reported to the Conference Board their contributions in 1978, Dayton Hudson ranked 13th. In fact, we are one of only two or three corporations listed on the New York Stock Exchange who take full advantage of the five percent tax deduction.

Despite our national standing and reputation, our program isn’t perfect. We know that. Nor is it necessarily appropriate for every corporation. But it works for us. And I am convinced that our practice of investing in our community enhances the profitability of our company. Indeed, I submit that our excellent financial performance owes a great debt to our Five Percent Policy. Healthy communities do, indeed, pay business dividends. And proud, committed employees do produce superior results.

Why the Dayton Hudson giving program works as well as it does, and pays the dividends that it does, has been the subject of a great deal of discussion over the years. I’d like to share with you now our analysis of the key elements of its success. I do so because, in my opinion, it is not only what we give but the way we give that best answers any argument that philanthropy is the “easy way” – and an ineffective way – to corporate social responsibility. I submit to you that it’s not so easy when you do it right, but it certainly is far more effective.

Four Keys To Success

We believe the success of the Dayton Hudson community giving program boils down to four key ingredients.

First is commitment. It is the very foundation upon which our program stands. Without commitment to the philosophy of serving society, and without the conviction that it makes good business sense, the practice of systematic community giving might never have been enacted in 1917 in the first place. Without commitment, it might never have been formalized at the five percent level in 1946, or reaffirmed by the Board of Directors after careful review every year since.

This commitment is shared by all levels of management, who recognize it as important evidence of our desire to be premier in everything we do. In fact, a survey of employee attitudes shows there is tremendous pride throughout the corporation in our giving policy.

The second element in our successful program is professionalism. Our Environmental Development Department, which includes the Dayton Hudson Foundation, is held to the high standards of professional management as any profit center in the corporation. There are specific goals, definite objectives, and regular appraisal review. Our Department is not a retirement center for those who couldn’t make it on the line.

Far from it! Our giving program is staffed by philanthropic experts whose professional management credentials are every bit as good as those of any line or staff executive in the business.

You may be able to “get by” with giving away a half a percent of your profits casually, but when you give five percent you had better do it thoughtfully and professionally or, I agree, it will be little more than “casting money to the winds.”

The third element of our success is structure. Our contributions program is designed to be responsive to management but safe from its whims. The program is not only managed by professionals but also is coordinated by the Foundation Board of Trustees made up of top Dayton Hudson management. The Trustees are concerned primarily with philosophy, guidelines, and program effectiveness. Specific programs and grants are recommended by the professional foundation staff.

The whole process is carefully monitored by the Social Responsibility Committee of our corporate Board of Directors which reviews the performance of the Foundation and annually determines whether five percent is appropriate. If they approve five percent, they must be satisfied that it's well spent and that it makes good business sense for all our constituencies, especially the shareholders. This last step in the process provides the same balance between management and the board that is true in all other aspects of our business.

The fourth and final element is focus. We concentrate our contributions in the communities where our nine independent operating companies are headquartered or where we have major retail stores. We rarely give to national causes, even though we are a truly national corporation with more than 600 stores in 44 states. We leave the national campaigns to the big national corporations who usually give only a pittance to local communities. We're local and we give at the local level.

Furthermore, we focus our gifts in two program areas: urban social action programs and the arts, each of which receives 40 percent of our total funds. We think it is appropriate for us to emphasize social action programs, particularly for disadvantaged youth, because the most significant dimension of a livable city is its social health. And we support the arts because they are critical to a high quality of life for all our citizens. The remaining 20 percent of our giving budget covers everything else.

Commitment. Professionalism. Structure. Focus. These are the foundations of our giving strategy. But it is the five percent level of funding that has attracted nationwide attention.

Why Five Percent?

Why have we chosen to strive for the maximum? Why not go along with the national average of less than one percent? After all, it's easier and more comfortable to run with the pack. To be frank, we think it makes good business sense. And furthermore, it's a real national bargain because the full five percent is allowed as a federal tax deduction. In essence the government says, “You call the tune and we'll pay half the bill.”

For corporate America to bypass such an opportunity defies logic. The late President Lyndon Johnson once chided a group of national business leaders with these words: “In spite of the fact your federal government has seen fit to allow a charitable deduction of five percent of your profits, the record is quite clear that you businessmen still feel that the federal government can spend this money more wisely than you can.”

Not only is five percent a bargain, it increases profits. To obtain maximum long-range profits, business needs healthy communities and motivated employees. It's as simple as that. Crime rates, housing conditions, the quality of education and the arts, the attitude of the public and our own people all influence business profits just as surely as do operations and management practices. Many companies don't hesitate to allocate five percent for research. Why not five percent for profit protection?

If survival of the enterprise is the number one goal, as some conservative economists hold, then enlightened corporate philanthropy makes awfully good business sense.

Andrew Heiskell of Time Inc. was "right on" when he described corporate giving as "...an investment in making our society work. For if it fails, we cease to exist."

But the most compelling reason for a five percent policy is that it's good for the country. Just think how much our communities would benefit if every corporation were to invest five percent in building better environments in which to live and work.

If all the companies in the nation were to donate their full five percent, more than \$10 billion would be generated annually to meet the needs of the social agenda. Does anyone here doubt that if all corporations gave the full five percent we would have a healthier nation and a stronger economy – and higher corporate profits, too?

Minnesota Standard

I am proud to say that the five percent solution is well on its way to becoming the standard in Minnesota. A Minnesota Five Percent Club was formed a few years ago, and there are presently 45 members, including Minnesota's two largest banks, our newspaper company, Carlson Companies, Jefferson Lines, and Dayton Hudson. Another 15 companies give two percent or more, including General Mills, Toro Company, F & M Savings Bank, International Multifoods, Medtronics, and Peavey.

Think of it! Sixty companies in one metropolitan area who stand in sharp contrast to that average level of corporate giving of less than 1 percent. So Minnesota's national reputation for corporate citizenship, good government, and quality of life certainly is no accident.

Now let me illustrate with some examples: two from our own experience at Dayton Hudson and two in which we are partners with other Minneapolis corporations.

First, let me describe our Comprehensive Arts Support Program, which gives continuing operating and project support to our major Twin Cities arts institutions. The unique aspect of the program is not just the dollars, which will total more than \$650,000 during 1980, but how the dollars are determined.

Under the program, which represents only a portion of our total giving in the arts, each organization is evaluated and scored by our professional foundation staff. Then grant levels are set, objectively, by relating their score to their earned or contributed income for the previous fiscal year. This year's Comprehensive Arts Support grants range from a high of \$125,000 to the Minnesota Orchestra to \$16,800 to the Minnesota Dance Theater.

Now, let me turn to an example from our social action giving program, the Whittier Project. In this case, the Foundation has embarked on revitalizing an 88-block neighborhood in South Minneapolis. This project is unique. Our approach was first to listen to those who live and work in the neighborhood. They told us what they thought were the critical needs. The

Foundation responded with a \$1 million pledge over five years to finance community improvements identified in the planning phase. After five years, we expect that our \$1 million investment will have stimulated at least three million additional dollars of government and private investment in the neighborhood.

Another example of business commitment to building our city is the Greater Minneapolis Metropolitan Housing Corporation, a nonprofit organization funded by modest donations from several companies. In its eight-year history, this organization has developed almost \$88 million worth of new and renovated affordable housing in the Minneapolis area. It's an excellent example of what can be accomplished through public and private cooperation backed by leverage and executive leadership.

Control Data Corporation has created the fourth example: the City Venture Corporation, a profit-oriented private company to help revitalize center cities, not just in Minnesota but throughout the nation. Control Data is investing \$1 million in the venture, and the Minneapolis Tribune Company, \$500,000. Dayton Hudson is one of several other investors. The idea is to put business expertise to work in solving America's pressing urban problems and make a reasonable return on investment for stockholders in the process.

Many Ways To Serve

My point is this: There are many ways in which business can serve society well. Whether these projects are done with contributions or investments doesn't really matter. They are examples of business initiatives in problem-solving in Minnesota. I am sure you have comparable ones here.

Dayton Hudson's path isn't the only road, although we still believe that corporate philanthropy remains the very foundation of the Minnesota success story. In fact, it seems to me that companies that don't make contributions usually don't do much else either.

We are all too familiar with the sad statistics from the Filer Commission Report on Private Philanthropy. There is little indication the situation has improved since the commission survey. More than 90 percent of American corporations would still rather send their money to Washington than say how it should be spent in their own communities. It is a dismal record, one that I sincerely hope we can improve in the years ahead.

I yearn for the day when American business will turn its attention truly to community services, not just goods and services. I long for the time when American corporations will vie for the most effective use of their philanthropic dollars, just as they now compete for the best use of their research dollars and marketing dollars.

Increasingly, it seems to me, how well corporations serve society and how well we spend our philanthropic funds have direct bottom-line impact in terms of what is good for our business, our customers, our employees, our communities, and our country.

Let me conclude the case for corporate philanthropy with this thought: Corporate America has a stake in resolving what has been called America's "crisis of confidence." This nation's problems sometimes seem insurmountable and the solutions seem elusive. Yet, one solution – corporate philanthropy – has already demonstrated its power and its potential, particularly when it is combined with a positive partnership with government.

Therefore, I contend, the decade of the 1980's, with all its problems, offers those of us in business an excellent opportunity to demonstrate our conscience, our commitment, and our capabilities. The crisis is real. The need for action is clear. And how we respond may well determine the future of our free society.

QUESTIONS AND ANSWERS

QUESTION: How does the United Way figure in your philanthropy program?

ANSWER: Our United Way gifts in all of the communities we serve total about 13 percent of our giving program. We're over \$300,000 in the current United Way of Minneapolis, and we give comparable amounts – relative to our operations – in our other communities. But United Way isn't the only part of our social action thrust. We look with equal interest at new, innovative, but struggling organizations which have not been accepted yet in the great United Way family. These, combined with United Way, make youth agencies our largest single recipient.

QUESTION: Do you contribute to school districts?

ANSWER: Yes, if they want to initiate or improve a special program. When we discovered some years back that many disadvantaged youth in Minneapolis hadn't had an opportunity to learn about the wilderness in our state – even though we have the largest wilderness area of any state east of the Rockies – we started a program with the school district in cooperation with the YMCA. In the eight years since the program started, we've sent about 15,000 disadvantaged youth to summer school in the wilderness.

We do not draw a line between public and private institutions, if that was the heart of your question. We will support public or governmental agencies if we think they are the best way to solve a problem. Education per se, though, is not one of our areas of concentration.

QUESTION: Assuming the larger corporate members of the Five Percent Club have a policy similar to Dayton Hudson's of allocating their gifts, does the organization then assist the smaller corporate members to more effectively distribute their community giving?

ANSWER: The Five Percent Club doesn't try to help its members in any systematic way; there are other agencies to do that. But both the Minneapolis Chamber of Commerce and Dayton Hudson try to be helpful in responding to companies that ask our assistance.

QUESTION: How many professionals does it take to run your program?

ANSWER: There are three professionals working in the foundation and three in public affairs. They work very much as a team. Plus, each operating company designates at least one person to handle its contributions. Our cost of operations for the Dayton Hudson Foundation are the lowest of any foundation its size that we can find.

QUESTION: So this Five Percent program is effective in your branch offices as well as in Minneapolis?

ANSWER: We urge our operating companies to set aside a portion of the estimated profit for their current year's giving budget – between half of 1 percent and 1.2 percent. We match that with between one and two percent of additional funds from the Dayton Hudson Foundation.

Thus, about 2.5 percent of our 5 percent – or about 50 percent of our 1979 budget of \$9 million – went to our companies outside Minnesota.

We try very hard to be different from national corporations who often give only in their headquarters communities. We try to be responsible in every community where we operate. Now, if a local company is giving five percent in that community because it's their headquarters, they're going to give more than we are. But if the national average is less than one percent and we're giving two percent in that particular community, then by and large we will be better citizens. We hope to be better citizens than most corporations in every community in which we operate.

QUESTION: Would you comment on the relationship of the Five Percent Club to the financing – which I understand was unique – of your Orchestra Hall.

ANSWER: Well, the Five Percent Club was not involved as an organization. As I say, we rarely meet and we don't plan anything together. I am sure all members were solicited, however, and the local business community played a major role in the success of the drive, which raised \$13 million to pay for Orchestra Hall.

QUESTION: The Minnesota Orchestra is probably one of the finest orchestras in the country. Aren't there some special reasons why it has received such significant support from the community?

ANSWER: Well, we've been terribly lucky – but it hasn't been all luck. Number one, we've been fortunate to have superb artistic directors: Mitropoulos, Ormandy, Dorati, Skrowaczewski, and now Marriner and Tennstedt.

Number two, we've had the good sense to leave them alone. I think this applies to all our arts institutions. We've given them everything that they want. We've understood their peculiarities and their differences and supported them, defended them, let them do their act. That's why Sir Tyrone Guthrie came to Minneapolis rather than to another of several cities that actually outbid us for him. He felt that he sensed a supportive climate.

A third point: The boards of directors of our arts institutions have been servants of the institutions rather than have been looking for self-glorification. By and large, the boards have recognized the difference between the artistic role, the management role, and their own role. In addition, I think we've been pretty successful in getting some very sound business practices into most of our arts institutions. When an institution gets to a certain size, it has to be very professionally run. Finding a solution to the separation between the business problems – the fund-raising and money problems – and the artistic problems is important.

QUESTION: Could you detail the kind of support, whether by project or by ongoing operational support, that Minneapolis corporations – and yours in particular – give to the Minneapolis Art Institute and the Walker Art Center?

ANSWER: The Comprehensive Arts Support program, as we call it, has two elements. As I said, we score them in five areas and that score is applied against the size of their earned or contributed income. This produces an amount of money for general operating support. Thus, as I indicated, the top recipient was the Minnesota Orchestra because it has the largest budget, so we contributed \$62,500 to them for general operations. Then we made another grant of about the same amount for some special project they wanted, bringing their total to \$125,000.

QUESTION: Have you gone beyond the position of responding to potential service organizations' requests for funding to trying to initiate new organizations to deal with the problems?

ANSWER: Yes, we have. The arts program was an attempt to become creative rather than reactive. Most corporate philanthropy consists of giving the least to whoever you know the best, or to whoever applies the most pressure. We've tried to move beyond that into a more creative mode.

The Whittier Neighborhood project, which I described earlier, is a good example. We recognized that we must find a solution to inner-city neighborhood problems, and so that was a totally homemade response. The camping program for disadvantaged youth is another example. It was our creation – a response during a crisis period. When we realized there would be an incredible number of unemployed youth on the streets, we thought, "We've got to do something to give them a more meaningful experience than just spending their summer on the streets."

QUESTION: What about the relationship of the arts in Minneapolis to the growing number of headquarters companies there?

ANSWER: We think the arts are the foundation of our economy in Minneapolis because they are essential to a successful headquarters community. As you may know, we have 13 of the Fortune 500 companies headquartered in our community. We recognize that in order to hold them, we must have reliable and strong arts institutions, and that's one of the reasons we support them so strongly.

When Prudential was looking for Midwest headquarters, one reason they selected Minneapolis was the variety and quality of its arts institutions. When IBM was looking for a major plant facility in a smaller community in the Midwest area, they selected Rochester, Minnesota, partly because the Minnesota Orchestra annually plays a series of five concerts there – an artistic life that none of the competing communities had. The least important reason to support the arts is that they're good for business, though they sure are.

QUESTION: What advice do you have for recipient organizations as to what they might do to improve their overall financial situation?

ANSWER: I am asked quite often, because of my involvement in the arts, to advise arts institutions on how they can get more money for the arts. I keep saying to everyone that I think there's only one solution, and that's to give more for the third sector. More for charity. Five percent – more corporate responsibility, more corporate giving.

If we can raise the level of giving from below one percent – where it is now – to five percent, there's going to be plenty of money for everyone, including arts institutions. Everyone is going to benefit. All of the third sector, the charitable organizations that seek money, ought to be working on this problem, not just on getting a bigger share of the same pie.

KENNETH N. DAYTON is Chairman of the Executive Committee of Dayton Hudson Corporation, a post he has held since 1977 when the Minneapolis based national retailing organization completed its planned transition to a non-family professional management.

Dayton Hudson is the nation's seventh largest non-food retailer. It operates department stores, low margin stores, and specialty stores. Consolidated revenues are in excess of \$3 billion.

Kenneth joined Daytons in 1946. In 1969 he was elected President of the newly founded Dayton Hudson Corporation and Chief Executive Officer in 1970. He became Chairman of the Board in 1974 and gained his present title in 1977.

Dayton is a director of General Mills, Inc. and Northwest Bancorporation. He presently serves as trustee of the Mayo Foundation, the Minneapolis Foundation and the Rockefeller Foundation.

He has had a long interest and involvement in the arts, both locally and nationally. He is a Director of the Minnesota Orchestral Association, has served on the Rockefeller Brothers Fund Panel for the Performing Arts in 1964 and 1965, on the National Council of the Arts from 1970 through 1976, and on the Minnesota State Arts Board from 1971 through 1977.



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MIDCONTINENT PERSPECTIVES was a lecture series sponsored by the [Midwest Research Institute](#) as a public service to the midcontinent region. Its purpose was to present new viewpoints on economic, political, social, and scientific issues that affect the Midwest and the nation.

Midcontinent Perspectives was financed by the Kimball Fund, named for Charles N. Kimball, President of MRI from 1950 to 1975, Chairman of its Board of Trustees from 1975 to 1979, and President Emeritus until his death in 1994. Initiated in 1970, the Fund has been supported by annual contributions from individuals, corporations, and foundations. Today it is the primary source of endowment income for MRI. It provides "front-end" money to start high-quality projects that might generate future research contracts of importance. It also funds public-interest projects focusing on civic or regional matters of interest.

Initiated in 1974 and continuing until 1994, the sessions of the Midcontinent Perspectives were arranged and convened by Dr. Kimball at four- to six-week intervals. Attendance was by invitation, and the audience consisted of leaders in the Kansas City metropolitan area. The lectures, in monograph form, were later distributed to several thousand individuals and institutions throughout the country who were interested in MRI and in the topics addressed.

The [Western Historical Manuscript Collection-Kansas City](#), in cooperation with MRI, has reissued the Midcontinent Perspectives Lectures in electronic format in order to make the valuable information which they contain newly accessible and to honor the creator of the series, Dr. Charles N. Kimball.