

FUNDING COMMISSION

Paper 8 – Commercial Sector Support – Findings and Emerging Recommendations

Between June and September 2010 the Commission published eight papers on its website on different aspects of its work. Comments were invited on these papers. The emerging recommendations in the papers have subsequently been amended as the Commission's thinking developed. However, the findings in the papers contain much of the evidence on which the final report is based. Details of all those consulted during the preparation of the papers are given in Annexe 2 of the main report.

This is the eighth paper to be published by the Commission (revised September 2010) – on Commercial Sector Support.

1. Introduction

Currently, income from corporate sources is a relatively small proportion of charities' total income; in 2007/8 it stood at £2bn, or 5.6% of total income, with £1.2bn coming from cash donations and a further £800m from different forms of sponsorship¹. However, corporate giving often involves non financial support (NFS), for example by supporting volunteering by their employees or providing pro bono services, or donations in kind, such as the use of equipment or premises. By its nature, NFS is more difficult to measure, but Institute for Volunteering Research suggests that around 36% of employees have access to some form of employer-supported volunteering scheme and 70% of FTSE 100 companies provide such a scheme.

This paper examines the different ways that private sector companies provide support to civil society, in terms of giving both time and money. Drawing on desk research and interviews with people working in this area (see Annexe 1), it explores how the relationship between corporate and civil society organisations (CSOs) is changing and how it could be strengthened over the next ten years. Its premise is that effective corporate social responsibility (CSR) programmes are those that not only bring mutual benefit to companies and CSOs, but also have an impact on the ground, with the people and communities they (both?) work with.

It is important to move the debate away from CSOs asking for support and toward a re-framed discussion around the mutual benefits of partnership, as the commercial sector also benefits significantly. The current financial climate heightens the importance of establishing the right ways to share information, open up dialogue and establish ways to benefit both sectors. To secure and increase corporate giving on a sustainable basis, the sector will need to build evidence on how these partnerships are of mutual benefit. The benefit to the sector is perhaps more obvious and measurable in terms of the support provided, and the outcomes that this support helps to achieve. However, the assumption that this means that the sector is therefore the prime beneficiary is not necessarily correct. We need to build more equal relationships and a genuine spirit of partnership from which both sides derive benefit.

¹ J Clark et al, 2010, *The UK Civil Society Almanac*, London: NCVO

There are a number of different models of CSR, some of which are explored below, but they are not mutually exclusive. Some companies will have a number of different programmes in place, for example, event sponsorship, raising funds for their ‘charity of the year’ and employer-supported volunteering. In recent years there has been an increase in more innovative approaches to corporate giving, with a greater focus on:

- engaging customers,
- engaging employees; and/or
- using core business skills and models for public good.

These approaches have a number of benefits for companies, for example building brand value through association with an organisation or cause. The Charity Commission publishes some cautionary notes about brands and preserving the good name of the charity from being ‘tarnished’ or abused by association. I think we need to insert a tiny note of caution here; developing staff skills and engagement with the company; and having an impact on the ground.

2. Engaging Customers

Corporate sponsorship and partnerships are becoming an increasingly common source of funding for the sector and may become more proportionately significant as both ‘traditional’ individual and corporate giving and statutory funding decline². These partnerships take a number of forms, although direct sponsorship remains the most common and typically includes sectors such as the arts, schools, sport projects and a range of other CSOs.³

More recently cause related marketing (CRM) has grown in significance. It is not ‘philanthropy’ and in common with many forms of CSR is not motivated purely by altruism but is based on business and charities coming together to recognise mutual benefit. It seeks to tackle social issues by providing resources and funding whilst meeting business objectives, harnessing the skills of business to market products and services and covers a wide spectrum including sponsorship, advertising, direct marketing and public relations⁴.

From a business perspective, CRM has a strong track record and can have a significant impact on the spending of customers, often more than in the case of conventional point-of-sale promotions. For example, Persil experienced a significant sales increase during its partnership with Comic Relief. There are very high levels of consumer awareness with 98% of consumers aware of at least one such programme in both the UK and the US when prompted. These high levels of recognition then directly feed into consistently higher affinity scores for the businesses involved. 70% of customers who had participated in a CRM programme reported a positive impact on them, and 48% had switched brands as a result.⁵

² Anja Schaefer (2007) ‘Corporate Sponsorship and Partnerships’ in Mordaunt, J and Paton, R (eds.) *Thoughtful Fundraising* Oxford p100-111

³ Anja Schaefer, 2007: 101

⁴ Business in the Community (BITC), 2004, *Brand Benefits. How cause related marketing impacts on brand equity, consumer behaviour and the bottom line*: 3

⁵ Not all campaigns are directed at customer sales, others such as the link between Boots and Breakthrough Breast Cancer doesn’t help sales but is important in terms of employee engagement.

These forms of partnership can also be an important source of income for CSOs. For example, in January 2008 Marks and Spencers set up a Clothes Exchange with Oxfam: anyone donating an item of M&S clothing to Oxfam will receive a £5 voucher to use on their next purchase of £35 or more on clothing, home ware or beauty products in store. The scheme has raised over £2.5m for Oxfam's work and has now been extended to include donations of M&S household goods as well as clothes.

3. Engaging employees

It has been the case that CSR departments in large companies sit within the Corporate Head Office and decisions about which charities receive donations are taken centrally. However, there appears to be a growing recognition that engaging employees can be more successful both in terms of the amount raised and the positive impact on staff loyalty. Examples include encouraging staff to nominate an organisation for the company's 'charity of the year' or instituting matched fundraising, whereby the company will match funds given by employees to causes they care about.

Case study: Barclays

Barclays CSR programme is overseen by a Steering Group, chaired by the Group Chairman, with senior representation from each part of the company and two external members. The Group provides the strategic direction for the work, setting clear goals and objectives, but gives local managers responsibility for delivering projects on the ground. This model maximises the relevance and effectiveness of individual projects at a local level whilst securing support for the programme as a whole at the highest level.

There is a particular focus on using the company's (and employees') core business skills to make an impact 'on the ground' through its flagship community investment programme. However it also supports employee volunteering and will match funds raised by individual employees for the charity(ies) of their choice. Through this mix of approaches it is able to achieve social impact; create opportunities for professional and personal development; and increase employee engagement with the company.

There are real benefits associated with employer-supported volunteering and this is a growing element of CSR for many companies. Done well, this can be an extremely effective means of providing support; done badly and it is of little value either to the volunteer(s) or the organisation in receipt of their help. Unskilled, often team-based volunteering opportunities are valued least by CSOs, although they feel this is the type of support most employers are willing to offer⁶. Skills-based volunteering on the other hand comes second only to cash donations in terms of its usefulness to CSOs⁷.

There is also a growing body of evidence to suggest that skill-sharing is of considerable value to companies themselves. Business in the Community (BITC), for example, has highlighted the impact it can have on employee performance and retention, including new opportunities

⁶ Charities Aid Foundation, 2009, *Helping Companies Help Charities: working together in and out of recession*, London: CAF

⁷ SMART Company, 2007,

for skill and leadership development, as well as improving financial performance⁸. A recent evaluation by Barclays of its CSR programmes⁹ found that it made a significant positive difference to employee performance and morale and their engagement with the company. Similarly Pilotlight, an organisation that brokers relationships between volunteers and CSOs, has found that 84% of its volunteers report being happier at work as a result of their volunteering. Good schemes are therefore mutually beneficial.

4. Companies working for public good

Many companies' motivation for engaging in CSR is a desire to make a difference to people's lives. They do not just want to support an organisation or cause but also want to have an impact on the ground. CSR can have greatest impact when it is linked to a company's core business and it can use its knowledge and skills, as well as financial resources, to address social problems. As a consequence, a small number of companies are looking to work in partnership with CSOs for public benefit.

Examples of projects of this sort include:

- Procter and Gamble has been working with CSOs since 2004, using its logistical expertise and distributional networks to bring safe drinking water to people in developing countries and emergency relief situations;
- Danone has partnered with the Grameen Bank to deliver nutritionally enriched yogurts at affordable prices to people in Bangladesh.

Engaged partnerships such as these can have a much greater impact than either party could achieve on their own. Companies bring their core business skills, including financial or logistical expertise, as well as access to supply chains and high level contacts; CSOs can provide their knowledge of what is needed on the ground and what approaches will be most effective. By accessing business resources, CSOs can achieve change on a much bigger scale than would otherwise be possible. In return, businesses benefit in terms of brand value and profile; the opportunity to engage their employees in new forms of social action; and to develop products and services where standard business models do not work.

5. Building effective partnerships

Given that the current contribution from the commercial sector to charities is a small part of their total income, it is possible that there could be an increased contribution from corporate giving moving forward. However, a sense that business and the commercial sector *should* feel a sense of moral obligation to support the sector is possibly naïve and is likely to lead to disappointment. More significantly, it is likely to lead to inappropriate and unsuccessful approaches to the business community by CSOs.

There are a number of factors that determine a successful partnership, not least of which is the need for clarity: the CSO must be clear about what it wants and needs, and business needs to be clear about what it can provide and ensure that the right kind of support is available.

⁸ BITC, October 2008, *The Value of Corporate Governance: The positive return of responsible business*.

⁹⁹ Personal communication

However, success can only be achieved if there is real understanding between the two sectors about what is helpful and what each can realistically expect the other to provide.

It is important that businesses of all sizes have a realistic idea of the capacity of CSOs to access and understand corporate language and terminology. Equally, it is necessary for CSOs to be mindful of the needs of and pressures on business and the importance of accountability and for businesses to be able to demonstrate the effectiveness of their relationships to staff, senior management, boards and shareholders (depending on the size of the business).

The motivation for many businesses is the desire to make a difference. CSOs need to make a compelling case for corporate support, demonstrating their value and showing that support for / partnership with them will have an impact. However, they also need to be able to negotiate confidently with corporate partners, willing to challenge bad practice and walk away if necessary.

Companies, on the other hand, need to understand that achieving social change can take time, the return on investment is much slower than in the business world and therefore these projects will require a long-term commitment to achieve the desired change. They also need to understand how CSOs work and agree to fund the core costs of a project, including organisational and staff development costs, and not just the cost of running a particular project or programme.

Communication between the sectors has been identified as the key problem, with a perceived lack of information on how to apply for and access support and how to identify opportunities¹⁰. There is a need to streamline and simplify the way the two sectors do business and bridge the gap between their different cultures. This is not something that can easily be done by individual organisations, but brokerage services can overcome this by working with CSOs and businesses to match needs and skills.

There are a number of models of support available. BITC, for example, has a long established model of working with businesses to improve their impact in the community. CAF helps companies develop and implement their community investment schemes more effectively and brokers relationships with appropriate charity partners. It aims to enable businesses to be more strategic in their approach to CSR and build strong, mutually beneficial relationships with their charity partners. A different model is that developed by Pilotlight, which brings together senior individuals from the business community to work with individual charities (see box)

Pilotlight

Pilotlight's mission is 'to enable small, ambitious charities working to alleviate disadvantage to help a greater number of people more effectively.'

It was set up to address the needs of small charities and social enterprises who have expertise to address the needs of their beneficiaries but do not have, and could not afford to buy, the time and skills to develop their own infrastructure or purchase outside expertise. It has established an effective way of working that overcomes some of the barriers that prevent professionals from giving help (such as being time poor) to enable charities to receive effective, skilled support. Pilotlight does this by managing teams of senior business people to coach charities through the process of building measurably more sustainable and efficient organisations. This process is called 'pilotlighting'.

To be effective, such partnership must be based on mutual respect and trust. However, there appears to be a gap in terms of raising awareness of CSOs about the best way of approaching business; the need to be clear about the type of support they need; and the services available to them. Without specialist, pre-existing knowledge, many CSOs will be excluded from being able to apply for and access corporate support. There is a need, therefore, to provide more information to CSOs, particularly new, small and locally based organisations who may find it particularly hard to access this information.

6. Working with SMEs

Given that small and medium enterprises (SMEs) comprise the vast majority of all UK businesses, as well as being the biggest employers in the private sector, there is a large potential resource for support and funding for CSOs which is not being maximised. The Directory of Social Change Guide 2009 guide reported that SMEs are often overlooked as potential sources of corporate funding, but that many do want to be involved. Ipsos MORI surveyed 200 SMEs with 20-1000 staff, of whom 16% already have a “great deal” of involvement with charities, and 45% have a “fair amount” of involvement, which suggests that there is potential to secure additional support through partnerships with the SME sector¹¹

Better information and dialogue between the sectors could both highlight links that already exist, and also encourage businesses to take a wider view of linkages between them and the communities in which they operate. Infrastructure organisations could act as brokers between the two sectors. This could take the form, for example, of partnership working between local support and development bodies and local Chambers of Commerce.

7. Tax and fiscal incentives

Government already provides incentives for businesses to support charity, in terms of tax breaks for both financial and non-financial support (see Annexe). Many tax incentives which are already in place are poorly understood, and take-up is low as a result¹². Tax reliefs are inevitably complex, and would benefit from simplification and clarity as well as a level playing field, with both the business and charity being able to understand and be eligible for tax relief. Complexity stems from the definition of the tax relief – with it sometimes being available only for business and trading expense, and then only if the business derives no business benefit, rather than the principle of charitable donation being the standard feature.

Whilst it is difficult to ask for any items that would incur a cost to the Exchequer at this time, there could be a drive toward improved information for businesses (particularly SMEs) from the Government to make supporting CSOs more attractive, particularly as this is in line with the Government’s ambitions. The simplification of tax incentives could simultaneously make them more attractive, and cheaper for both government and business to administer.

Further consideration could be given as to how procurement processes could support CSR, for example through incentives to organisations that can demonstrate a broader positive social and economic impact on communities.

¹¹ John Smyth (2009): xix

¹² HM Treasury, Cabinet Office, HM Revenue and Customs (2009)

8. Emerging recommendations

The challenge is to maintain and increase levels of support from the commercial sector in economically difficult times, especially given the likelihood of a sustained period of low or zero growth. This will require innovation and flexibility in looking at new solutions. CSOs may also need to pursue a number of different approaches to secure funding across and even within projects.

The DSC guide argues that the downturn will not result in businesses simply abandoning their interest in and commitment to CSOs. This is likely to be the case particularly where work is already taking place and where businesses are already seeing the benefits. There may, however, need to be increased efforts to measure, evaluate and demonstrate the effectiveness of partnerships¹³.

There is a real need for a more open exchange of information within the sector on sharing best practice, and how best to work with the commercial sector and for better communication between the two sectors. A recommendation that offered practical ways in which to open up and sustain these channels of communication would be very useful.

Civil society infrastructure bodies could play a valuable role in providing clear, accessible information – which could include the range of tax reliefs available to business to incentivise corporate giving.

Crucially, CSOs need to be able to build their capacity to maximise the benefits of engaging with the corporate sector. This includes having the resources to submit bids and appeals for support, being able to dedicate sufficient time to manage relationships and projects and being able to conduct evaluations, to build examples of best practice to inform the sector.

How can the business community be further persuaded of the case for working with CSOs? Whilst there is some evidence of the benefits of engaging with the sector in terms of reputation, employee engagement and specifically when engaging in issues or localities that are relevant to the business, many in the business community are still unclear about the benefits. Much of the research into the benefits of CSR and engagement with the sector also appear to relate to larger businesses.

Joint evidence from the sector and business on the benefits could be useful in persuading other businesses to provide support and could include benefits in terms of employee engagement, reputation and direct benefits to the business – for example in training and opportunities for staff through working with the sector. This evidence could include ‘champions’ – business of various types and sizes who benefit through their support of CSOs.

¹³ John Smyth (2009): viii

Emerging Recommendation – Developing mutual benefit

Background

- **There is considerable potential for increasing the level of different types of commercial support to CSOs**
- **The relationship between the commercial and civil society sectors needs to be developed into a more positive and mutually beneficial one**
- **The infrastructure and mechanisms for enabling this to happen need to be strengthened**

Proposal

- **NCVO and BITC should jointly convene a working group of relevant organisations, including the CBI and IoD, representatives of local chambers of commerce and rotary clubs and some of the specialist intermediaries working in this field, to:**
 - **Develop the business case for increased partnership between the sectors**
 - **Identify and promote good practice**
 - **recommend ways of increasing awareness of and access to brokerage services, particularly amongst CSOs**
 - **recommend ways of increasing awareness, particularly amongst SMEs, of the tax and fiscal incentives available**
- **Particular focus should be given to developing the relationship between CSOs and:**
 - **SMEs at the local level, working with community foundations and local support and development organisations**
 - **Companies working in the social media and new technology field (see Paper on Individual Giving)**
 - **Companies working in the financial services industry (see Paper on Capitalisation and Social Investment)**

Benefits: Potentially all CSOs, apart from micro organisations.

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Annexe – Tax and fiscal incentives

Current tax reliefs for corporate giving include:

- Gift Aid on financial donations
- Tax relief for sponsorship if a legitimate trading expense
- Businesses can re-claim VAT for sponsorship if it is for a business purpose (charities must account for standard rate VAT on all sponsorship income). Restrictions apply in the case of supplying VAT exempt items.
- There is tax relief on shares and land and on the donations of stock and equipment. There is some complexity here, as sales (as opposed to donations) may be tax liable, but with a possibility of re-claiming VAT.
- Staff time and secondments may qualify for tax relief
- Payroll Giving, which attracted some 717,000 employees donating more than £109m in 2007/8. Business can also re-claim the cost of setting up these schemes.
- Specific tax reliefs for urban regeneration and loans and investments in Community Development Finance Institutions (where there are reliefs of 5% reduction of the total invested in corporation tax liability for up to 5 years).

There could be much better publicity and more tangible benefit for the Quality Mark for payroll giving (which is available to all businesses where just 1% of employees give through payroll – a bar which could also be raised to encourage giving).

More clarity on the scope of urban regeneration projects eligible for tax relief could help in attracting funding for local and more difficult community projects¹⁴.

¹⁴ HM Treasury, Cabinet Office, HM Revenue and Customs, 2009, *A Guide to Giving for Business*: 6-17