

Ethics in Philanthropy

by

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Thank you everybody for coming.

The Telstra Foundation is part of my portfolio at Telstra, and I have to say that it has been a responsibility that has been the most exciting for me since I've been in Australia. I have a long standing interest in non-profit organisations and especially in foundations.

When I was at Ohio State University, in the U.S., I was involved in teaching non-profit management. Then a few years later I went to the University of Colorado and started a doctoral program in public administration - this was in the mid 1970s. After we got that program off the ground, about two years later, we started the nation's first doctoral program in non-profit management. Since 1977 and 1978, we've been turning out PhD's there in non-profit management.

It's really been fun to watch these young people go into all walks of life in the non-profit world, which in the U.S. is huge, not unlike it is here. Not to say it isn't big in Australia, but I think the U.S. has got a lot more non-profit activities per capital basis that you do in Australia. It's part of the genetic makeup of Americans to get involved in voluntary associations and if you're going to have big voluntary associations you have to have somebody to run them. We got into the business of producing people to do that.

Just before I came over to Australia, people would often ask me about the types of things that I would be interested in doing. I would reply, "I'm always interested in doing things that are some combination of lucrative, fun and consequential."

So during the three or four years before I came over to Australia, about 40 per cent of my time was taken with advising young, high net worth people on setting up family foundations - these people were who had, for one reason or another, made a lot of money as entrepreneurs or some other way and were between the ages of 40 to 50 years. These people were introspective enough to worry about what that meant for their family and their kids growing

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up.

Most of these people were people who had grown up in very modest situations. Then all of a sudden they have all this money and they worry about what the impact is going to be on their kids, and they want their kids to have the same kind of upbringing they had. So what we did was use foundations as a way for parents to pass on to their kids ideas of good stewardship.

We decided to put the kids on the board of a foundation when they were young, from the ages of 12, 14 or 16 years old. We did this to give them an understanding that:

- Number 1 - there are people out there that don't have as much as you do;
- Number 2 - you have a special responsibility when you are fortunate enough to make a lot of money; and
- Number 3 - you can't take it with you, so you might as well spend it while you're here... in fact we have bumper stickers in the U.S. that people put on their caravans that say, "I'm spending my children's inheritance".

But instead of spending their children's inheritance, what the families that I worked with do is give their funds away as part of a foundation and they let their kids be a part of that. We also found that there were situations where people used foundations as a way to mend rifts in families - maybe one part of the family had been very fortunate financially and the other part had not been, so they set up a family foundation that would bring the whole family together on the board. For this reason I am a big fan of the non-profit world and of foundations specifically.

Corporate foundations are a special kind of foundation. There's a big difference between personal philanthropy and corporate philanthropy. The differences are that individuals can have compassion, and be compassionate in the 'traditional' sense of the word. Today, compassion has come to mean caring for somebody or being sensitive... Bill Clinton used to say, "I feel the pain of the people, the down and out people"... well, he may have felt the pain but that's not necessarily compassion. That's sensitivity and other kinds of things - but it's not compassion.

Compassion, according to Webster's Dictionary of 1834, was defined as sharing in the suffering of others. That's the true meaning of compassion. Only individuals can share in the suffering of others - institutions can't do that. When I think about what sharing is all about, what compassion is all about, and what sharing in the suffering of others is all about, I think that's something for individuals to do. They may do it directly or they may do it in a very invisible way.

Bill Gates and Melinda Gates for example, are doing it their way. It's interesting that both the Gates family and Warren Buffett, the first and second richest people in the U.S., pledge that all their money will be given away within 20 years after they pass on. They don't want the foundation they've set up to carry on and on and on and on and on. Because they know what happens when foundations get their own life - they become a bureaucracy. All you have to do is look at the Ford Foundation to see what happens. The Ford Foundation was started by a guy who was one of the most conservative economic thinkers in all of human history. Now

it's one of the most liberal foundations that anybody has every seen. Henry Ford would turn over in his grave, maybe he has already, if he knew what was going on at the Ford Foundation.

Institutional corporate philanthropy is a very different thing. My guess is we're going to have people here tonight who might say that the job of the corporation is to give the money back to the shareholders. Of some of the people that I work with, while we've actually never had this conversation before, I know how they think and my guess is that they would think that way. There may be some others that think similarly as well. Actually I have to admit that for me it's a close call.

There's a lot to be said for giving the money back to the shareholders and letting them decide whether they want to do philanthropic activities rather than a corporation making that decision on their behalf.

The first and probably most important ethical issue that a corporate foundation has to face is whether the corporation should be investing the money in philanthropic activities or should you give it back to the shareholders and let them do it - it's their money anyway.

Today the Telstra Foundation had a meeting with John Stanhope (CFO, Telstra). We went in to talk about our idea about how we could raise the revenues of the Telstra Foundation. He had another idea, which I was surprised at. It's a pretty good idea... Herb (Elliott), we'll have to brief you on it, but things are looking good. But the point is that the questions that John Stanhope has to face and that Sol Trujillo has to face and the board of Telstra has to face, is should the board of the Telstra Foundation be spending that money or should they be give it back to the shareholders? That's the first and most important ethical question.

Now let's talk about institutions. My view is that because institutions can't give compassion in the technical sense of the word – that is that an institution can't share in the suffering of somebody else - what institutions have to do, in my view, is to look at root causes. If they're going to be involved in philanthropic activities, they need to look at the root causes of what's going on in society. They need to be in activities that are 'game changing' - so that the rules of the game are changed. So that the conditions for people or communities or other institutions change to give people a fair go.

That's going to be a controversial issue. I know there are some people in this room who believe that one of the things that corporate foundations ought to do is to engage in charity. That is, to address problems that people have where you find them and to try to solve those problems. If they're hungry, feed them. If they're thirsty, give them drink. If they're naked, give them clothes. If they're homeless, give them a place to live. If they're in jail, visit them. These are what the ancient scriptures called the Seven Mercies.

The Seven Mercies were about giving people relief in whatever situation that we find them in. I think that's an important thing for individuals to do. But I don't think institutions should have to do that.

Institutional philanthropy should be, and this is just my own personal view, but I think institutional philanthropy ought to be about changing the game. It should be about changing society, new horizons, better ways of doing things, social experiments... Social experiments should be done by the private sector, so if you screw up you don't really hurt a lot of people. When the public sector, the Government, does social experiments and they screw up they hurt a lot of people. Then there is no way to fight against it. When the private sector, that is the voluntary sector, does a social experiment and people don't like it, they can walk away from it. You can't walk away from it when the Government does it because the corrosive power of the Government is behind it.

The role of corporate foundations, I think, is to engage in institutional philanthropic activities which will change the game. This means, in the work we do, we ought not be talking primarily about individuals who have problems - that's a job for individual charity. We ought to be talking about projects, plans, activities and deliverables that can change the conditions under which those people operate.

In other words it's the old difference between giving a person a fish and feeding him for a day and giving them a fishing pole and feeding them for the rest of their lives. I think that corporate foundations ought to be in the fishing pole business, not in the fish business. Once again I invite different views but that's my opinion.

For both individuals and institutions there is a fundamental issue that everybody has to come to terms with. Is there a time when more than money matters? Is there a time when an individual or an institution has to decide when more than money matters? Therefore, not all of the money goes back to the shareholders or to the trust fund, but rather to others in society whether it's other institutions or individuals.

That raises another fundamental question. What's the purpose of the giving? This really gets into some very important issues and I don't want to get us off the track on issues that some people would rather not think about - but you've got to stop and think about where we get notions of right and wrong from? Where do we get the notion of what is the right thing to do? Almost every foundation in this country and every foundation in the United States has a basic view that our job is to make the world a better place. Now where does that come from? Where does the idea that we have an obligation to make the world a better place come from?

It comes from our Judaeo-Christian background. Whether we're practising Christians or practising Jews or not that's where it comes from. If you're in Japan and you're Shinto, your commitment is not to make the world a better place, your commitment is to harmony - what they call *Wa*, the Japanese word for harmony. If you read the Shogun novel you learn a lot about *Wa*. When that novel was popular, the underlying belief was that people could live and work together for a common good or a common cause.

If you live in a Buddhist culture, the world view is about goodness, equality and getting along with other people in day-to-day work and day-to-day activities. That's the world view and the mindset. That's the way people think about the world. But in the Judaeo-Christian culture the idea is that we are here to make the world a better place.

There are all kinds of theological reasons why that is the view but in the Judaeo-Christian world view there are four parts to the story. The four part story is, Creation, Fall, Redemption and Restoration. We all know what Creation is about - whether you think it's a story or for real it doesn't make any difference. We all know what the Fall is about - that's when sin came on man. Then we have the Redemption - that's where you make things better. That's what's driving almost all the things that are going on in Western civilisation today.

When you go to Japan and Korea and places like that, you don't find philanthropy. You don't find the kind of commitment that we have in Australia or Western Europe or in the United States. That is the commitment to giving money to people and institutions to improve the lot of society. Now why do we do that? We do it because of this Judaeo-Christian world view we have which has a third chapter which is Redemption - to make the world a better place.

Whether you come from a Jewish background, Christian background, or Islamic background, it is the dominant world view. I think that we really miss something if we don't go back to what forms the world views that we have. The four chapter gospel, whether you're a religious person or not, is in our genes as people born in Western civilisation. That's what is driving what most of us do, whether we're aware of it or not. I think it is better to be aware of it.

Let me just say a few words about what the purpose of a foundation is – the purpose of a foundation is not just to give money. The reason why we give money is what's important. What are we giving the money for? What is the purpose that's being driven? My answer to that is to try to build high performance communities. That is what I want to see.

In the 21st Century, my world view says we want to make the world a better place. We want to give people equal opportunity. We want to give every person the opportunity to use all their gifts to their fullest. We want people to do that in freedom and that is why I want to have a high performance community.

What is a high performance community? It's a place essentially where everything works. It's a place where, in the public sector water, sewers, streets, hospitals, schools and airports, all the things the Government runs, works properly. They are legitimate objects of investments for philanthropy because it's part of a high performance community. In the enterprise sector, we want a place where per capital wealth increases and where all the enterprises have a good chance to be fast, flexible, customised, network and global. All the hallmarks of a new economy enterprise and that's a legitimate object of philanthropic activity.

The civic sector is in many ways the most important sector. In civil society, we want neighbourhoods, churches, synagogues, sports organisations, libraries –all the things that voluntary associations do. And where there's a broad sharing of power, along with other values like education, well-being, skill and respect – all of these things can be affected positively by increasing wealth.

To me that's what our purpose is. I don't ask everybody to adopt that opinion, but I do think that you have to have that purpose spelled out. That's the way I spell out the purpose. I think

that we ought to operate in one of those three arenas or across all of them.

Now my own personal view is that the place to invest is in the civic sector. The strongest democracies are democracies that have the strongest civil societies and that have strong voluntary associations. That have strong and independent peak industry organisations. That have a free press. That have independent associations where people can not only talk to each other but talk back to the Government. You must remember that Governments are dangerous things. All through human history Governments have turned on their people - that's why a strong civil society is so important.

So for my money, anytime I have a chance to influence where money goes, it's going to be to strengthen the civic institutions of society. Not the Governmental institutions and the enterprise institutions that can take care of themselves.

In the U.S. modern philanthropy really started with the industrial revolution. It started with Andrew Carnegie, who himself, came from a very poor background. He then grew to start U.S. Steel and became the richest man in the world. That is until John D Rockefeller, who started Standard Oil Company, passed him. Carnegie personally wrote, he didn't have a ghost writer, he personally wrote one of the most important documents of philanthropy. He wrote *The Gospel of Wealth*.

This book became in a sense, the bible for the whole spirit of philanthropy which is very much rooted in U.S. culture today. It is very much reflected in Australian culture although not to the same extent. We have a very deep tradition of giving private money to get things done. That's because in large measure, Andrew Carnegie laid out the basis for doing that. His money went to libraries, secondary schools and universities. He set up public libraries in almost every community in the United States that you can still see today. He also set up the Carnegie Institute of Technology, one of the great educational institutions of the United States.

John D Rockefeller read *The Gospel of Wealth* and said that is was the most important thing that he'd read in his life. He then went out one week later and set up the Rockefeller Foundation and started doing the same kinds of things.

Those were two corporate foundations that made a huge difference in the life of one country. One of the things that we have to do here is to try, by our own behaviour and by working with others in the corporate community, is to light a candle so that more corporations give more money to philanthropic and charitable activities. This will help the civil sector become stronger, more vibrant and more independent, so it can grow and prosper. That is what is going to make Australian democracy grow and prosper.

When we talk about what the ethical issues are, to me these ethical issues are issues that we really need to pay attention to first and foremost. Things like 'Who should give the money away?' If we decide the corporations should give it away, then who is responsible? To me, the answer there is the Board of Trustees or the Board of Directors. There has to be accountability there because they're spending other people's money. When you spend other

people's money it must be done in a transparent way and must be accountable and it must be done in a way that's fair and open to everybody. It has to be lawful, free from waste, fraud and abuse. It has to be open and honest and serve the public interest. Those are all high standards but they're standards that we have to work to meet.

Let me just end by addressing the question of, 'What are the criteria that we use?' In the old days we used criteria related to traditions that no longer exist in most developed countries. When we think about making the world a better place or when we think about how a program works or doesn't work, there are really some interesting things that people come up with.

One is that you want to do something where you can affect per capital income or where you can make enterprises more productive. Or where you can affect social, economic or political values that are broadly shared in the society through education or some other kind of mechanism. These are the kinds of things that we think about on the board at the Telstra Foundation.

One of the things we've tried to do on our board is to deal with another major ethical issue. That issue is when you give money to a community; whether it's an ethnic community or a geographic community, you are intervening in that community. When you give money to a school, you are intervening in that school. The person who is the recipient of that money, their power of position in that institution is increased because they have the money.

So number one we have to be aware that we're having that impact, which is an ethical issue. Second, and once again this is a controversial position that we've talked about a lot in our board, I don't believe we ought to be giving money to things we don't know anything about. In other words, I think we ought to be giving money from the Telstra Foundation to things that have to do in some way with telecommunications - not for business reasons, but because we're going to be more responsible givers because we're going to know something about what we're giving to.

For example, if you are a food company, then you give things in the area of nutrition assistance. Or looking at health, Johnson & Johnson now has a whole program on how to raise kids because young people today don't have a grandmother around in many cases, to show them how to do things. These are the kinds of things I think that the corporations need to do.

I remember when I was at U.S. West I had oversight of their foundation but many decisions had been made before I came. One of them was to give millions of dollars to schools for computers - but the foundation knew nothing about education. As soon as that grant funding went away the computers went into warehouses and weren't being used because the foundation didn't do the things that had to be done to make the computers useful for the schools. Things like training teachers to use them, or making sure there were rooms set up to house them. In other words, the U.S. West Foundation didn't know what it was doing in that area - they were getting mixed up in education and they knew nothing about it.

It changed the power positions of people in education, and that disrupted longstanding

relationships. The education institutions were working things out and all of a sudden this big foundation comes in with millions of dollars and starts disrupting everything.

So we need to have humility when we give away money to understand that we can negatively affect things if we're not sensitive in how we give away money, if we're not knowledgeable about who we're giving the money to, and what we're giving the money for.

Those are some of the issues I think we ought to be addressing. Those are some of the issues we've addressed in our foundation. I'm proud to say that we're moving in the direction of trying to focus more on things that we know a lot about directly as a corporation or in the issues that we feel strongly about.

For example, at the Telstra Foundation we believe that the issues in the Aboriginal Community in this country are so important, that even though we don't have expertise as a telecommunications company, we have people coming in from the outside on our board to educate us so that we can be engaged in that issue. It's one of the most important issues in this country today. If you don't know about it, you need to get the expertise to learn about it. Those are the kinds of issues we're facing.

The last thing I'll say on that is that I also believe that a large portion of corporate philanthropy ought to be employee-directed. I believe in employee-directed giving. In fact I don't have any problem with 100 per cent employee-directed giving. Although when I look at what Georgia Symmons and the staff at the Telstra Foundation are doing with our programs, I would never want to take that away - they're doing some really creative things on issues like cyber safety and other programs that are just fantastic. But this comes back to the point that these are the things that we know something about. They are issues that we've got some of the best experts in the world in Telstra to help advise them on what we're doing. They're things that we ought to be doing and taking the lead on for moral or ethical or other reasons.

We also have the Telstra's Kids Fund program which is employee-directed giving. Employee's sign up to have a grant go to a sport team or some other group that their kid's are involved in.

I want to move to a situation where we will match employee gifts to non-profit organisations up to a certain amount of money. If an employee decides to give up to \$500 to somebody, we'll match that. Maybe \$1 for \$2 or maybe one-to-one, maybe some day two-to-one but we'll have a matching program.

Another thing that's high on my list, that I lobby for at our board meetings, is that I want to see us move to a situation where we provide a, for example, \$2500 grant to any organisation where one of our employees gets on the board. I think it's important for Telstra employees to engage in the community. Not necessarily to carry a message, but because we're going to be a richer corporation because our employees are out in the community. If they're out in the community we ought to support them by giving them something they can take to their board.

That's going to take a lot of money to do all that but we're under Herb Elliott and Georgia

Symmons' leadership, and the board's support we're starting to talk with the top leaders in this company and with the board of this company about how we get the resources freed up to do that kind of thing.

It's going to be good for Telstra. It's going to be good for the communities in which we operate. It's going to be good for the country if we're able to do those kinds of things.

Thanks very much.

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