CORPORATE GIVING BY THE FTSE 100

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CAF Charities Aid Foundation

Foreword

At CAF we work with thousands of businesses to support their giving and ensure it achieves maximum positive impact. Companies have huge potential to do social good and are increasingly seen as key to tackling some of society's greatest challenges. Businesses actively fed into the setting of the recent UN Global Goals and are expected to play a prominent role in helping to deliver them.

Our second report on levels of giving by the FTSE 100 provides a revealing insight into Britain's biggest companies and how they deploy their corporate philanthropy. For many these are considered leading lights and they set an example for the broader business community.

For the first time since 2011, we see that levels of giving by the FTSE 100 have decreased in real terms. This is in line with a similar fall in revenue. While disappointing, we appreciate that current market conditions can, in part, explain this drop in charitable contributions from several key industry sectors. Many firms deserve huge credit for maintaining, and in some cases increasing, their charitable endeavours.

However when we examine the results further, it is clear to see that corporate giving is unevenly distributed across the FTSE 100. Sectors which have traditionally committed large amounts of charitable funds are struggling to maintain levels of giving and newer players, whilst making significant contributions, are not yet matching the donations of the traditional industries. This raises interesting questions about whether certain industry sectors give a sufficient proportion of their revenue.

This is why it is of concern that increasing numbers of companies are no longer reporting on their giving activity. For many years this was a mandatory part of any annual report. Since a change in legislation in 2013 made it optional,13 of the FTSE 100 have now stopped reporting their corporate giving or now do so in a way which makes it difficult to ascertain clear figures. We recognise that this becomes more of a challenge for companies that aim to integrate sustainable value creation models into their core business and, therefore, do not separate out their reporting. However, without companies pulling together to create shared standards, it ultimately leads to an incomplete picture and reduces transparency despite the good work being done.

The nature of corporate giving has become more complex. Increasingly companies are taking a more sophisticated and smarter approach in which corporate responsibility is no longer just an add-on but is ingrained in the very DNA of a business and helps them to deliver on an integrated social purpose. We see businesses becoming much more hands-on in their philanthropy and requiring robust business cases and measurable outcomes when deciding how to deploy both their funds and other forms of support.

It is critical that information about corporate philanthropic activity is readily available and in the public domain. Finding a transparent and comparable way to include this information in an annual report is one way to support public understanding and debate about how companies contribute a sustained positive social impact. This will help to demonstrate the interdependence between business and society and the role of businesses as corporate citizens.

With the changing nature of the economy, with certain younger industry sectors thriving while some of the more established players struggling, it is more important than ever that we are able to establish best in class standards for corporate philanthropy which inspires the next generation of business leaders and ensures giving levels are maintained.

This report sets out a number of recommendations both for government and for businesses which seek to explore how best to create a standard in corporate philanthropy that reflects businesses' clear social purpose and drives meaningful social change.

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Introduction

What is corporate giving?

Corporate Giving describes the donations made by corporations and private companies towards charitable causes. This can be in the form of a cash or in-kind gift to a charity or community organisation.

In this paper, corporate giving has been defined as the total contribution by a company as calculated by the LBG model – one of the most commonly used methods by corporations. This includes cash and in-kind donations in addition to the value of work hours donated through employee volunteering schemes and any management costs incurred in implementing community investment initiatives. The sum of these donations constitutes the total donation figure and includes donations made both in the UK and overseas.

About the data

The figures used in this paper are those reported by FTSE 100 companies in their Annual Reports and/or Corporate Responsibility reports from 2009 to 2014. The companies used for this report are those that were constituents of the FTSE 100 as of 15th December 2015. For the sake of continuity, the list has remained unchanged and companies listed on this date have been included regardless of when they joined the FTSE 100.

There are 16 companies in this report that were not in the first report we produced on corporate giving by the FTSE 100 in 2014. These companies have all joined the FTSE 100 since December 2013 when the list for the previous report was taken.

Throughout the report, the year refers to the accounting year ending, i.e. 2014 refers to the accounting year 2013/14.

The donation figure produced in accordance with the LBG model has been used where supplied, otherwise the total 'charitable donations' or equivalent figure has been used. For the majority of companies, this donation figure is not supplied with any further information within the annual reports and/or corporate responsibility reports.

Since a change in legislation in 2013, a total of thirteen FTSE 100 companies have chosen not to specify their corporate donations for one or both financial years. As such, their contributions, if they made any, could not be included in this year's report. These thirteen companies collectively donated £17.2m (or 0.7% of the £2.4bn total) to charitable causes in 2012, the last financial year in which reporting corporate donations was mandatory.

1 Details of LBG model available: http://www.lbg-online.net/#about

Overview

Figures reported by FTSE 100 companies show that there has been a decrease in total charitable giving year-on-year between 2013 and 2014. After rising for the previous three consecutive years, total donations in 2014 fell to £2.1bn which is, in real terms, the lowest level over the six years examined in this report.

This does not necessarily mean, however, that these companies are less generous. The fall in donations corresponds with a fall in aggregate revenues and pre-tax profits. While the extent of the decrease in revenue and pre-tax profits is not as great, a closer look at the data shows that the overall decrease in charitable giving can mostly be attributed to a significant fall in donations by a small number of companies, while the majority have sustained giving at levels similar to previous years. In fact, year on year, more companies saw a fall in revenue than donations,[2] and as a proportion of revenue, the average charitable donation has actually increased.

Clearly the picture of charitable giving among the UK's biggest companies is not straightforward, and is further complicated by highly inconsistent reporting. Many companies are maintaining levels of giving seen in previous years, with some demonstrating a real commitment to integrating a charitable or social purpose into their business practices. However, there are likely to be some companies who do view 'corporate responsibility' as a box-ticking or PR exercise; something which is being picked up on by consumers, the majority of whom support greater transparency for corporate giving.[3] This attitude is evidenced by the number of companies who have stopped reporting on their charitable activity since it became optional rather than compulsory.[4]

It is disappointing to see the effect this change seems to be having on companies, particularly given that taking an active role in corporate responsibility can have a positive effect not only on communities and consumers but also the companies themselves.[5] The majority of companies who evaluate their corporate responsibility activities say it has a positive impact on their company's reputation and on customer engagement.[6]

It is not only in a direct, financial sense that companies are able to make a positive impact on the voluntary sector; they are able to facilitate giving in a number of ways. In a 2013 survey by CAF, more than half (56%) of working people in Britain said they had given money to charity at work in the past year, while more than a third (36%) had supported charities in the workplace in other ways.[7] In another CAF survey the following year, people in employment rated being offered paid volunteering leave and having fewer work commitments among the most important factors in encouraging more volunteering.[8] In fact, of those offered paid volunteering leave by their employer, 82 per cent had volunteered in their lifetime compared to 53 per cent of those offered none.[9]

Clearly there is great potential for businesses to make a positive social impact in ways that extend far beyond financial contributions, and the public are very much behind businesses giving back to their communities. In the absence of a legal mandate, it is left to businesses to decide how, or even if, they report their charitable behaviour: a situation which is undermining efforts to improve openness and transparency.

2 Using a fully matched data set for 2013 and 2014, 45 companies saw a fall in revenue while 40 saw a fall in donations

3 61% of British adults agree that corporate responsibility is just a PR exercise for businesses , 73% agree that businesses should be more open and transparent about their charitable giving (CAF (2014) 'Public Perceptions of Corporate Giving')

4 In 2013 the legal requirement, set out in the 2006 Companies Act, for companies to list their donations over £2000 was scrapped

5 A topic discussed in depth in our previous report: CAF (2014) 'Corporate Giving by the FTSE 100'

6 Among businesses who evaluate their corporate responsibility activity, 87% say it has a positive impact on their company's reputation and 64% report a positive impact on customer engagement (CAF (2012) 'Corporate Market Study')

7 CAF (2013) 'Employee Giving Survey'

8 Ibid. 59% of those in work rated each as important

9 CAF (2014) 'Volunteering Survey'

Conclusions

Two years after our first report, we return to corporate giving by the UK's biggest companies with a few points remaining the same. A small number of companies are continuing to account for the majority of charitable contributions while a number of big companies, and industries, continue to give relatively little. However, much has changed in two years: fewer companies are now reporting on their giving and donations have fallen across the spectrum year-on-year. However, revenues are also down overall and, relatively, FTSE 100 companies are more generous than in previous years, with a number continuing to make charitable contributions despite falling, or even negative, profits.

It is only through continued reporting on corporate responsibility that we are able to assess the collective good that so many of these businesses are doing. The £2.1bn contribution of the FTSE 100 companies in 2014 was equivalent to three per cent of the gross income of the charity sector for that year.[10] The contribution of businesses to the voluntary sector and communities in the UK and abroad is not to be undervalued. However, awareness of such giving is low among the British public, who on average only think 36 per cent of FTSE 100 companies donate to charitable causes in a typical year.[11]

This lack of awareness should be of concern to businesses, particularly given that knowledge of a company's charitable activity can impact behaviour positively. In a separate study, more than six out of seven (87%) companies who evaluate their corporate responsibility activities said they have a positive impact on their reputation and almost two-thirds (64%) said they impact positively on customer engagement.[12]

There is a clear case for improved reporting on corporate responsibility activities and, prior to the change in legislation, engagement with good corporate responsibility practices was improving. Although most continue to report on their charitable activity, there are signs that an increasing number are taking the opportunity to opt out. Given the size and influence these businesses have over the sector, it is concerning that, without knowledge of their contributions, they may no longer be able to set an example for the rest of the business sector in the UK.

10 The annual gross income of the 164,348 charities filing accounts with the Charity Commission for the year ending 31/12/2014 was £65.7bn. Source: https://www.gov.uk/government/publications/charity-register-statistics/charity-register-statistics-for-previous-years-charity-commission

11 CAF (2014) 'Public Perceptions of Corporate Giving'

12 CAF (2012) 'Corporate Market Study'

Recommendations

To improve the environment for corporate giving in the UK:

- The government should review the requirement for businesses to report on their charitable contributions, something which the Companies Act had previously ensured. A basic legal requirement for a minimal level of reporting provided certainty and transparency while also enabling benchmarking between and within sectors, allowing for a fairer measure of the value of corporate philanthropy by the UK's biggest businesses.
- A standardised reporting metric should be considered for companies to record corporate giving to ensure comparability and transparency.
- Companies should continue to aim to integrate social purpose into the core of their businesses. While the work of some businesses is certainly to be applauded, there are many whose efforts in giving back to the community could be improved. Given the scope for mutual benefit with well-implemented social or charitable initiatives, there is no need for 'corporate responsibility' to be seen as a burden for companies to bear, but rather a new way of doing business.
- With certain industries carrying the weight of FTSE 100 giving, the FTSE itself could look at ways of broadening this base to ensure future giving within the FTSE 100 is protected.
- As part of the UN's Global Goals, there is an opportunity for businesses, not just those in the FTSE 100, to increase their giving as the relative proportion given by businesses remains small compared to what could be given.
- Other models of 'giving' could be considered by business – the retail sector and its consortium approach around the plastic bag levy to charity is an example of this.
- Businesses should commit to developing a strategic plan for workplace giving based on successful initiatives and experiences elsewhere. This should build upon existing examples of best practice and include a commitment to allowing employees a range of ways to support good causes whilst in the workplace. The Confederation of British Industry and Federation of Small Businesses should build upon their existing work in this area and stress to their members the benefits of participation in workplace giving .[13]

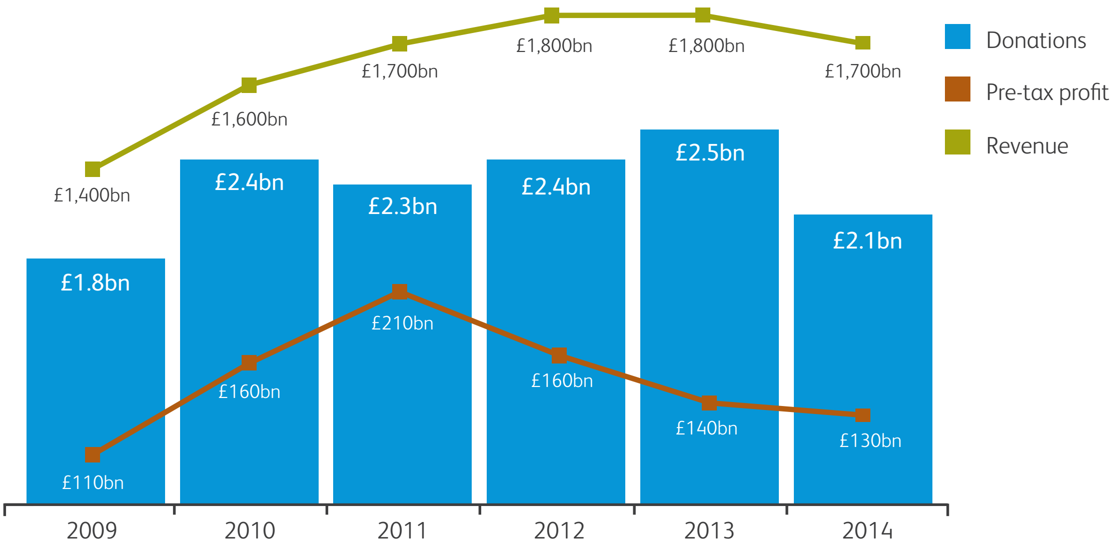
13 Recommendation from Growing Giving, Creating an Age of Giving June 2014 http://www.growinggiving.org.uk/assets/files/GUG-PART-Web.pdf

Main Findings

Total donations by FTSE 100 companies are down year-on-year

Total donations by FTSE 100 companies have fallen year-on-year for the first time since 2011. The fall, measuring £420m, or 17% in absolute terms, puts giving in 2014 at its lowest level since 2009.[14]

Figure 1: Total revenues, pre-tax profits and charitable donations by FTSE 100 companies



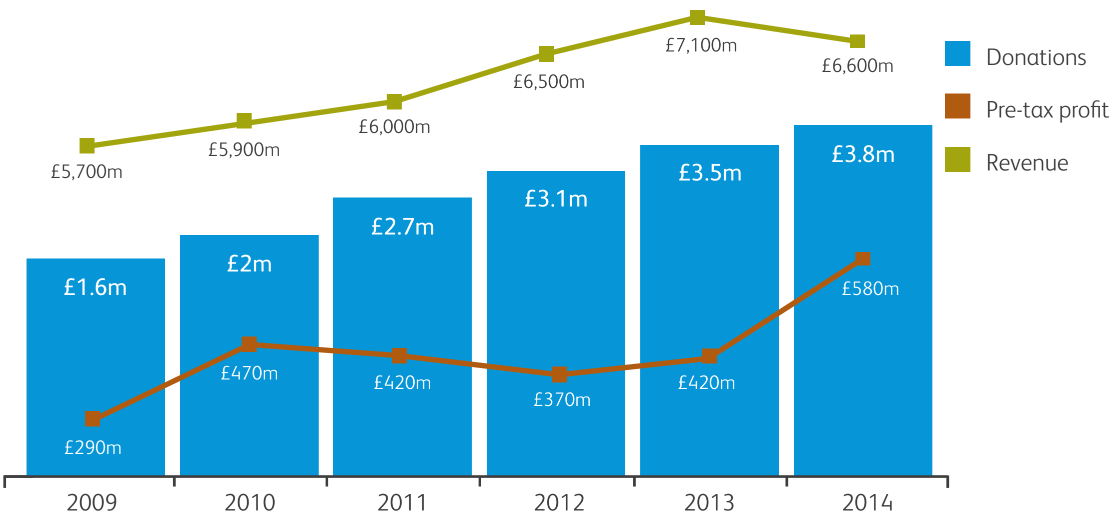
Base: FTSE 100 companies (n=100). Figures have been rounded to 2 significant figures

The decrease is seen, although to different extents, across eight of the ten industries represented in the FTSE 100. Between the six years examined in the report (2014 vs. 2009), aggregate revenues of the FTSE 100 have increased by 25%, while aggregate donations have only increased by 13 per cent.

However, the median donation continues to increase

The effect of extremes in the data is clear from the fact that the median donation actually rose in 2014, as it has done each year since 2009. This suggests that while a small number of companies may have reduced their giving, a large number continue to give at similar levels as previous years.

Figure 2: Median revenue, pre-tax profit and charitable donation by FTSE 100 companies



Base: FTSE 100 companies (n=100). Figures have been rounded to 2 significant figures

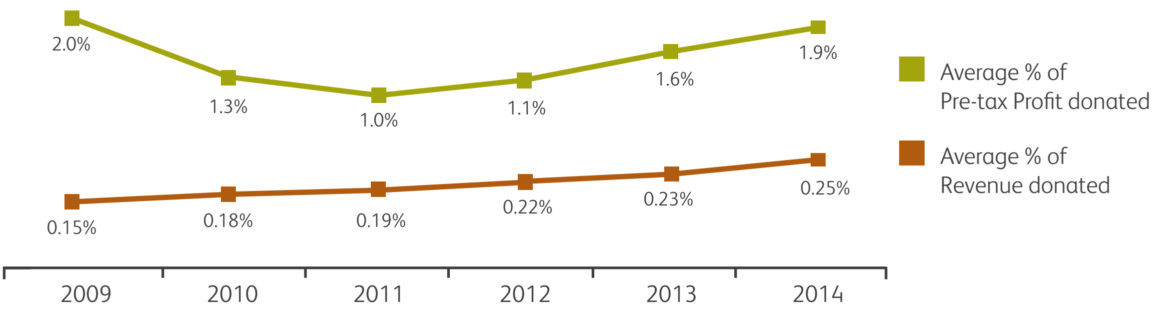
14 In real terms, giving in 2014 is slightly lower than in 2009

Giving has also increased as a proportion of revenue

It should be borne in mind that absolute giving levels do not tell the whole story. As seen in Figure 1, the year-on-year drop in total donations does correspond with a drop in revenue: in fact 52 of the 100 companies experienced a fall in revenue in that time.

As a result of this, when looking at giving as a proportion of returns, we see that the average FTSE 100 company is actually giving relatively *more* than in 2013.

Figure 3: Average donation as a percentage of pre-tax profit and revenue



Base: FTSE 100 companies reporting all 3 figures in a given year (n = up to 100)

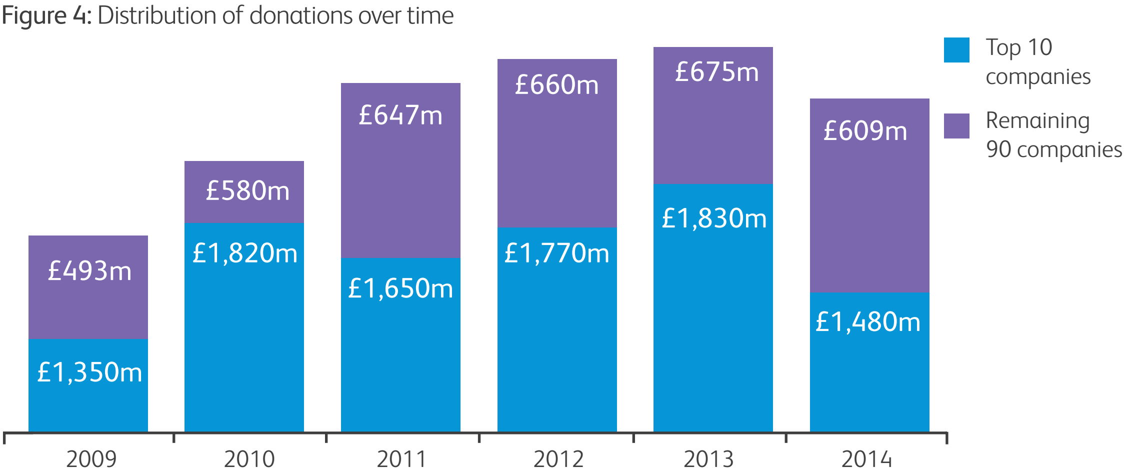
In the previous report we noted that only 22 companies donated at least 1 per cent of their pre-tax profits in a typical year between 2007 and 2012.[15] In 2014, this figure rose to 27 companies, which is clearly positive. In this year, 40 companies donated less than half a per cent (vs. 54 in the previous report), with 13 donating less than a tenth of a per cent (vs. 20 in previous report).

It is fair to say, then, that although total giving declined in 2014, FTSE 100 companies are actually relatively more generous than in previous years. Even when looking at the overall picture, the 17 per cent fall has mostly been caused by a small number of companies, while the majority have sustained similar levels of giving to previous years.

As before, a handful of companies account for the majority of total giving

As was the case in the previous report, and also when looking at individual giving trends, a small minority of donors account for the majority of total giving. Over the six years, the ten biggest donors (in absolute terms) in a given year have accounted for between 71% and 76% of all FTSE 100 donations.[16]

Figure 4: Distribution of donations over time



Base: FTSE 100 companies (n=100). Figures are rounded to 3 significant figures.

15 CAF (2014) 'Corporate Giving by the FTSE 100'

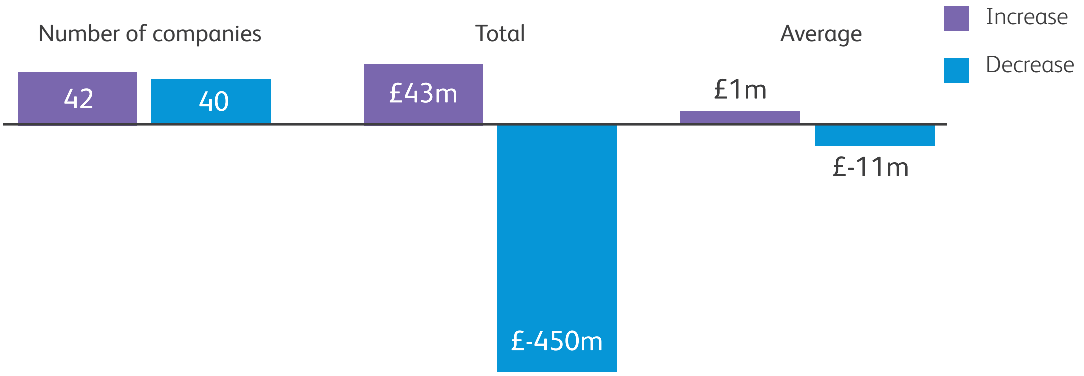
16 Over the six years, the ten highest-turnover companies in each year accounted for 55% of total revenue on average

As a result, a small number of companies are responsible for the overall decrease

A closer look at the year-on-year data shows that there are six companies whose 2014 donation has fallen by £20m or more each compared to 2013. These six companies account for £340m, or 81%, of the total £420m fall year-on-year. Conversely, the largest single *increase* in donations year-on-year is only £5.2m.

A matched data set for 2013 and 2014 shows that a similar number of companies have increased their charitable donations as decreased them. However, it is the extent of the decreases that causes the overall fall. The total decrease among those 40 companies amounts to £450m whereas the collective increase among the 42 amounts to only £43m.

Figure 5: Year-on-year changes in charitable donations

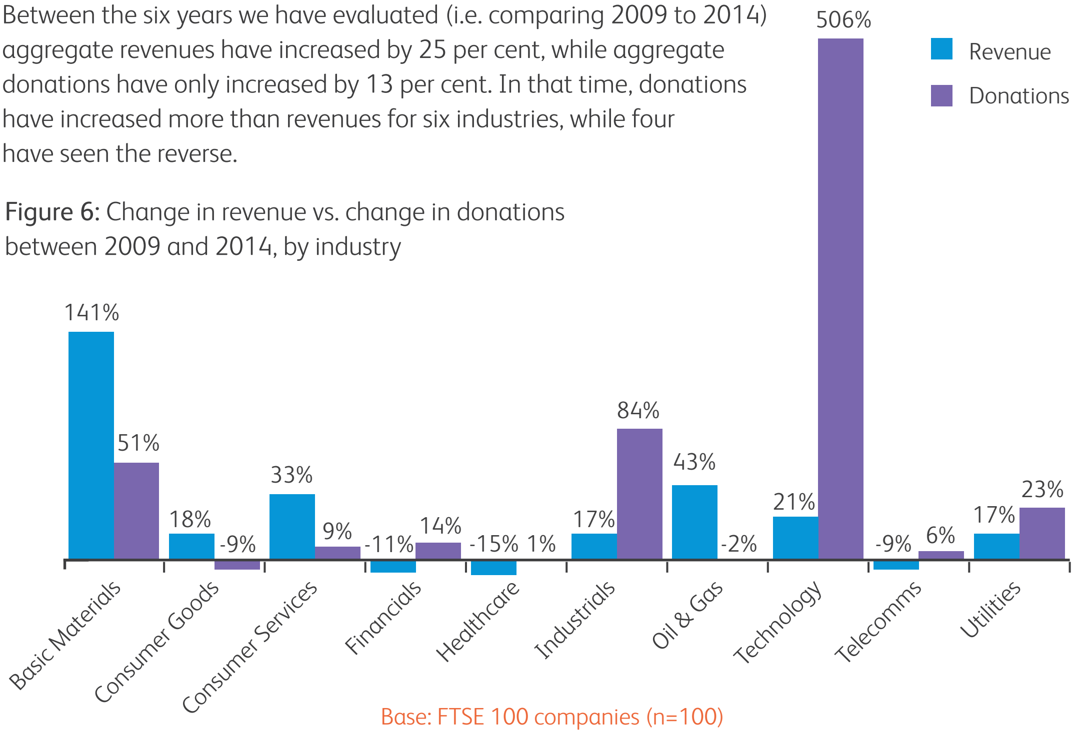


Base: Matched data set for FTSE 100 companies reporting an annual donation in both 2013 and 2014 (n=85)

Overall, revenue has increased more than donations in the long term

Between the six years we have evaluated (i.e. comparing 2009 to 2014) aggregate revenues have increased by 25 per cent, while aggregate donations have only increased by 13 per cent. In that time, donations have increased more than revenues for six industries, while four have seen the reverse.

Figure 6: Change in revenue vs. change in donations between 2009 and 2014, by industry

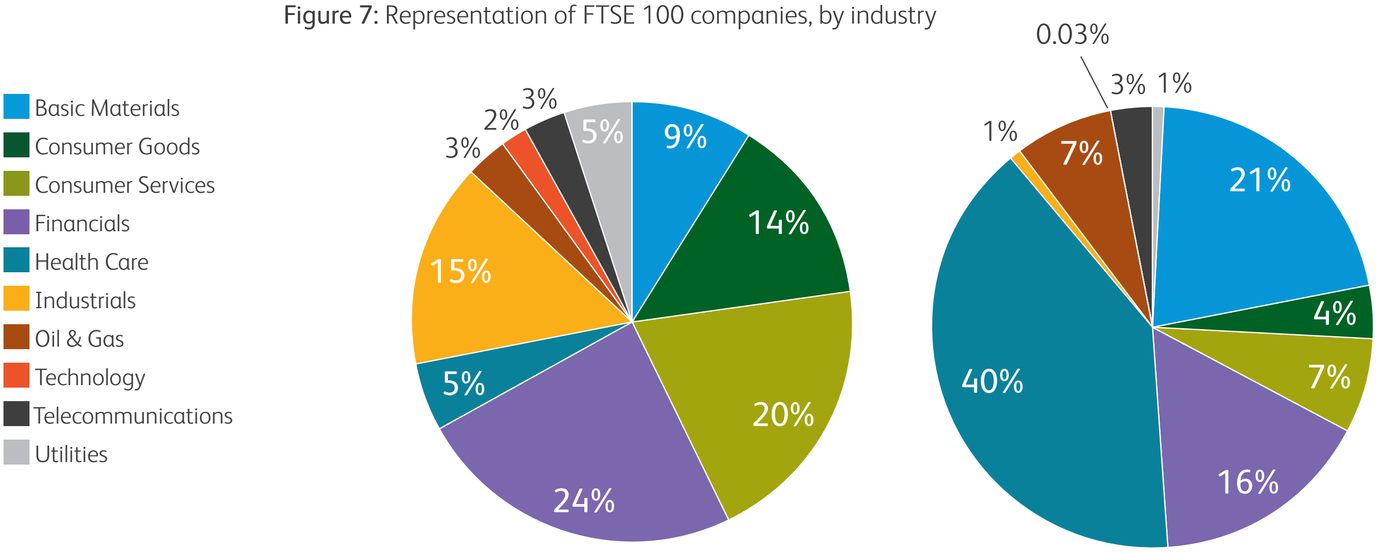


Base: FTSE 100 companies (n=100)

Pharmaceutical companies continue to dominate giving, but inconsistent reporting makes a clear view impossible

Each of the hundred companies has been assigned to one of ten industries as defined by the Industry Classification Benchmark.[17] Three-fifths (59%) of FTSE 100 companies belong to the Consumer Services, Industrials or Financial industries, however these companies only account for a quarter (24%) of all donations over the six-year period. Over three quarters of all donations during this time came from just three industries.

Figure 7: Representation of FTSE 100 companies, by industry



Base: FTSE 100 companies (n=100)

Healthcare remains the most generous industry when looking at giving proportionally, giving away a far greater proportion of both revenue and pre-tax profit than any other industry over the six years.

Although the Oil and Gas industry ranks as the fifth most generous over the six years in absolute terms, it ranks near the bottom of the table proportionally. Conversely, Telecommunications companies rank seventh in absolute terms but third when generosity is measured against revenues.

Table 1: Total donations by absolute amount and as a proportion of revenue and pre-tax profit

	Total donations 09-14	% total rev	% total ptp
Health Care	£5,437m	1.75%	7.88%
Basic Materials	£2,830m	0.22%	1.87%
Telecommunications	£460m	0.12%	1.32%
Financials	£2,166m	0.12%	1.41%
Consumer Services	£925m	0.08%	1.21%
Consumer Goods	£495m	0.05%	0.39%
Utilities	£179m	0.04%	0.57%
Technology	£4m	0.03%	0.15%
Oil & Gas	£904m	0.03%	0.39%
Industrials	£162m	0.03%	0.48%

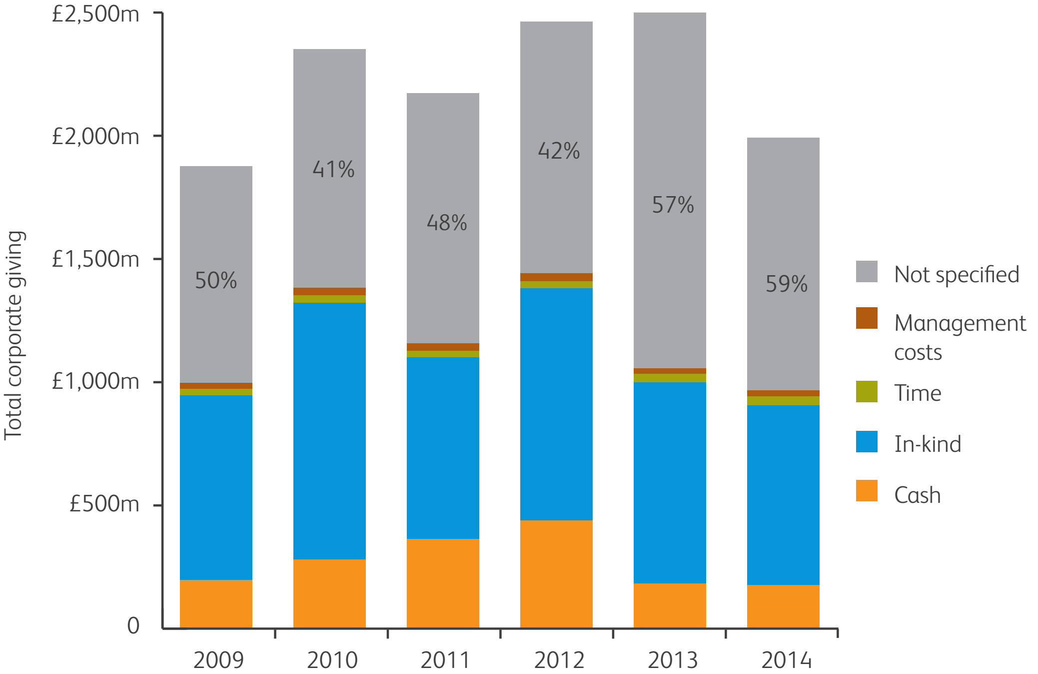
17 http://www.icbenchmark.com/

Over the six year period, the Health Care industry alone accounts for two-fifths of all FTSE 100 donations, the same proportion as in the previous report (39%). It is worth noting here that although some industries appear far more generous than others, it is common for companies in certain industries to be obligated to make certain donations. Mining and oil companies for example are often contractually obliged to make contributions towards the communities in which they operate.[18] In certain markets, utility companies must make a mandatory contribution towards particular vulnerable customers.[19] There are wide discrepancies, present in all industries but particularly health care companies, in how the value of in-kind donations is calculated. Those using, for example, retail or wholesale prices will appear more generous than those using cost price. Ideally, mandatory contributions would be considered separate from charitable giving and companies would all use the same criteria in calculating their donations, but this is not the case and in many instances it is not possible, due to a lack of consistency and clarity, to determine what exactly a company is counting as 'charitable giving'.

A change in legislation has undermined efforts to make corporate giving more open and transparent

A change to the Companies Act in 2013 meant it was no longer mandatory for companies to report their corporate donations. Figure 8 shows the extent of those not specifying their corporate donations over time, with an increase to 59% in 2014. The data also suggests this is having an impact among large companies: since the reporting of corporate donations became optional, a total of thirteen FTSE 100 companies have chosen not to specify their corporate donations for one or both financial years,[20] which may support the view held by the majority (61%) of the public, that corporate responsibility is just a PR exercise for businesses. This is despite almost three-quarters of the public (73%) agreeing that businesses should be more open and transparent about their charitable giving.[21]

Figure 8: Corporate donations over time, by type



Base: FTSE 100 companies (n=100)

At the time of the previous report there were suggestions that the environment may be improving for charitable giving. However, since returning to update the findings using data from two years on, fewer companies are reporting on their charitable donations.

18 http://www.energyandresources.vic.gov.au/earth-resources-regulation/licensing-and-approvals/minerals/guidelines-and-codes-of-practice/community-engagement-guidelines-for-mining-and-mineral-exploration

19 https://www.gov.uk/government/news/warm-home-discount-to-provide-money-off-energy-bills

20 The six companies who did not declare their donations in 2013 had accounted for 0.27% of all donations in the previous year and the seven not declaring in 2014 had accounted for 0.51% of all donations in the previous year

21 CAF (2014) 'Public Perceptions of Corporate Giving'

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