

CISCO CORPORATE PHILANTHROPY

Cisco philanthropy mirrors the strategy of all business at Cisco Systems. Cisco is about networking, and networking is ultimately about bringing people together in all aspects of life. We are working to translate the networking skills and resources we possess as a company into powerful possibilities for the community.

—Cisco Foundation Annual Report, 2000

Cisco Systems had been active in supporting the local community since the company's earliest days when it "adopted" an elementary school across the street from its first office. By the late 1990s, Cisco had become one of the most successful companies in the world, and its philanthropic efforts had grown with the company. In 1997, Cisco formed the Cisco Systems Foundation with \$65 million to formally establish the company's philanthropic efforts.

By 2002, Cisco's corporate philanthropy was based on a clear strategy of leveraging Cisco's unique Internet competencies to effect positive, global change. Toward this end, Cisco contributed more than \$205 million from the foundation and other corporate sources. As the foundation moved beyond its start-up stage, Cisco's director of corporate philanthropy, Tae Yoo, felt a need to assess the philanthropic program's results. She wanted to evaluate whether the foundation was effectively utilizing the company's core strengths to maximize its impact. Yoo also wished to demonstrate that the foundation's short-term costs to shareholders had yielded long-term benefits for both Cisco and its grantees.

CISCO SYSTEMS, INC.

Leonard Bosack and Sandra Lerner, a husband and wife team from Stanford University, founded Cisco Systems in 1984. The company developed and commercialized products that enabled computers to communicate with one another. After initially targeting universities, the

Lecturer Laura Arrillaga-Andreessen and David Hoyt prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. The Stanford Graduate School of Business gratefully acknowledges the assistance of Giving 2.0 (giving2.com) in the development of this case.

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government, and the aerospace industry, Cisco focused on large companies. It raised cash from venture capital financing, selling a majority stake in the business to Sequoia Capital. Donald Valentine, a partner at Sequoia capital, became Cisco's chairman. Valentine hired John Morgridge, a proven executive in the computer business, as president and CEO in 1988.

As networking took off, Cisco's sales grew rapidly—increasing from \$1.5 million in 1987 to \$28 million in 1989. The company went public in 1990, and Bosack and Lerner both left. As competition increased, Cisco rapidly expanded, completing more than 70 acquisitions from 1993 through 2001. In 1995, John Chambers, who had been executive vice president, was promoted to president and CEO, with Morgridge becoming chairman. By 2001, Cisco had achieved \$22 billion in revenue. Although a subsequent downturn in the technology industry prompted the company to reduce its workforce and reorganize, Cisco's commitment to its customers and community remained a priority.¹

Corporate philanthropy constituted an important element of Cisco's culture and its strategy from the company's earliest days. Co-founder Lerner set the tone, believing that a company should support the people and community that ensured its success, in addition to achieving profitability for shareholders. Beginning with small-scale activities focused on community relations, Cisco's philanthropic involvement gradually evolved into a substantial program that leveraged employees' technical and intellectual capabilities in tandem with the company's philanthropic investments.

TRANSACTIONAL PHILANTHROPY FOCUSED ON COMMUNITY RELATIONS

During Cisco's early years, the company had not achieved the financial position necessary to allocate financial resources to philanthropic activities. Morgridge instilled the value of frugality, which persisted throughout the company's development. He emphasized the necessity of profit and cash flow, asserting that the company could only contribute meaningfully to the community if it attained financial success. However, from the beginning, Morgridge made sure that employees had opportunities to give their time and intellectual capital.

Located in Menlo Park, Cisco's first facility sat across from Costano Elementary School. The school for low-income children became an early focus of Cisco's community involvement. Employees regularly climbed the school fence to play basketball with the children and engaged in improvement projects such as painting school buildings. Over the years, Cisco employees mentored students, and the company eventually contributed equipment and money. As Cisco achieved greater profitability, the company began making gifts in response to specific requests from the community in a largely transactional program that lacked an overall strategy. A single person in the Human Resources department handled Cisco's community relations.

In 1993, Cisco started supporting Second Harvest Food Bank, a national nonprofit that met a basic community need by providing food to low-income people. The organization represented an opportunity for broad impact as a single point of contact with a wide distribution network. Since Cisco understood the distribution business, the company could help to leverage Second Harvest's activities while serving all communities in which Cisco had employees. Cisco supported Second

¹ Information about the company's history comes from Hoover's Online.

Harvest through donations of money and food, and employees helped in Second Harvest's food sorting process as part of their team-building activities. Morgridge matched employees' financial contributions to the organization with his personal funds.

In 1994, Cisco moved to a new campus in San Jose. By that time, the company had revenues of \$1.2 billion and 2,400 employees worldwide. Mayor Susan Hammer attended the groundbreaking ceremony for the campus and treated Cisco as an important part of the community. She asked Morgridge to contribute to City Year, a program in which young people provided a year of service to their community—a "Peace Corps for the United States." Cisco continued to support Costano School and Second Harvest and added City Year and Wilcox High School in nearby Santa Clara to its community relations program.

THE CISCO FOUNDATION

In 1993, Cisco took a small equity position in Cascade Communications. When Ascend Communications acquired Cascade Communications in 1997, Cisco sold its position for \$64 million. Morgridge decided this money would be used to create the Cisco Foundation. Two years later, Cisco added \$73 million to the foundation after liquidating its investment in another company. The establishment of the foundation laid the groundwork for a long-term philanthropic effort through which the company planned to distribute 10 percent of the foundation's endowment annually.

To be effective, the foundation required a well-conceived strategy and a leader with a different set of skills and knowledge than those required for small-scale community relations activities. Morgridge realized that aligning the strategies of the foundation and the company could best be undertaken by someone with a thorough understanding of Cisco's business and corporate strategy. In addition, Morgridge wanted someone who had relationships with Cisco's senior executives. Yoo, who had been with the company from its early days, had been responsible for business development, and later, for European distribution channels. In early 1998, she was returning from an expatriate assignment in Europe and planned to retire to develop her own philanthropic foundation. Morgridge convinced Yoo to delay her retirement and lead the company's new foundation.

Establishing a Direction

Early on, the foundation's leadership team established a matching gifts program. Under this program, the foundation matched Cisco employees' charitable gifts up to a specified amount. The program aligned the foundation's grantmaking with the interests of employees, important Cisco stakeholders. Establishing a strategy for addressing grant requests proved more difficult than setting up the matching gift program. The foundation began to receive a flood of requests from employees, particularly senior executives, advocating support for projects of personal interest. Without a strategic direction and a coherent way of addressing these requests, the situation became chaotic.

The corporate philanthropy (CP) team studied the areas of employee interest based on information from the matching gift program and conducted a competitive analysis, benchmarking the activities of other corporate giving programs. They found that most

corporations exclusively donated cash. Cisco believed a program that utilized all of the company's resources—people, technology, and financial resources—could have a greater impact than more expensive programs that solely gave money. The team also found that many companies were driven as much by public relations as philanthropic intent. Cisco historically had not publicized its philanthropic activities, and the team felt that the foundation would benefit from developing a philanthropic strategy before increasing its communications efforts. Cisco expected to receive many solicitations once the public became aware that the company had a substantial philanthropic program.

To develop a philanthropic strategy, the CP team looked at Cisco's impact on its core business customers. The company's products helped customers to streamline processes, focus on their customers, and increase revenues. This same capability could be used to benefit strategic nonprofit partners whose missions aligned with Cisco's philanthropic goals. Rather than selling products to achieve a profit objective, Cisco could assist the nonprofit sector through donations to achieve a philanthropic objective. For instance, Cisco helped Second Harvest to reengineer a telephone response process. It reduced process time per call by minutes, improving efficiency and saving money.

Cisco's products had helped to increase the global presence of companies. Cisco wanted to apply this capability to nonprofits so they could have a greater impact and wider reach. Some organizations, such as the Red Cross, were known worldwide. But for every Red Cross, there were many small, grassroots nonprofits active in their local communities. For example, one small nonprofit might work with villagers in a rainforest community to help them develop economic alternatives to cutting down the rainforest for farmland. Such an organization might be of interest to companies and individuals that supported environmental causes, but without the Internet, those potential supporters would have no way of learning about the organization.

In considering Cisco's unique capabilities, the company's philanthropic vision was defined as follows: "Cisco and its employees apply their economic and intellectual assets to create strong global communities." The company's philanthropic mission was to "develop, support, and invest in programs that leverage the Internet to contribute to lasting positive change." Cisco focused on education, basic needs, and civic engagement. The mission could be viewed as a cycle—as basic needs, such as shelter and food, were met, this enabled improvement in education, which further empowered responsible citizenship and sustainable communities. Technology could be used by nonprofit organizations to increase efficiency and productivity in providing services that addressed these issues.

In line with this mission, the Cisco Networking Academy became one of Cisco's most effective programs. The rapid growth of the Internet in the late 1990s and the continued growth of Cisco's business depended upon the availability of qualified network administrators. In 1997, Cisco began to address the shortage of qualified network administrators by developing the Networking Academy, which supported schools in training students for technology careers. Cisco provided the curriculum, while schools purchased equipment at a substantial discount. As a result of the program's initial success, Cisco expanded it to all 50 states, and then to 147 different countries by 2002.

The Networking Academy became a powerful tool for philanthropic programs. For instance, Opportunities Industrialization Center West (OICW), a training program for welfare recipients, collaborated with other organizations that provided childcare, workplace wardrobes for the poor, and assistance with resume writing. Programs to train OICW clients for high-paying technology jobs could make a significant impact on their lives and also provide a source of trained workers for companies and nonprofits. In 2000, Cisco designed a total program package to meet the needs of OICW's clientele. The company donated equipment to OICW, designed an intensive six-month certification program, trained staff, gave technical support, and provided an employee to teach for the first two years. To expand the program further, OICW and Cisco partnered with Sun Microsystems. The resulting Cisco/Sun Academy utilized the resources of both companies and significantly affected the community.

Cisco also donated equipment to charitable causes. The company made donations through an employee product donation program. Employees bought equipment at cost and would then be responsible for installing and supporting it. In addition, Cisco had a formal product donation program, in which organizations applied for donations. This donation program had the potential to be burdensome as installation and technical support did not easily scale to large numbers of grantees. Cisco used distributor Tech Soup, a nonprofit organization that took online requests for equipment donations, to deliver the product to nonprofits and provide technical support.

When Cisco's business declined in 2001, the company reduced its workforce. As part of this reduction, the company created a Community Fellowship program that gave employees an incentive to work for a nonprofit for one year. Under the program, employees received one-third of their Cisco salary, as well as Cisco benefits and vesting, for the year that they worked for the nonprofit organization. Cisco also created an employee leadership program through which high-potential employees worked on specific projects at select nonprofit organizations for several weeks to months.

Providing Order to the Philanthropic Program

As of 2002, Cisco's philanthropic efforts were organized into three groups. First, Cisco had a Community Investment Fund (CIF) that had existed before the foundation was established, with \$1 million per year available for charitable spending. This group provided product donations, services, program development, and some funding for international programs. Global Partnerships, the second group, oversaw the Cisco Community Fellowships and relationships with the United Nations and other multilateral organizations, as well as relationships with organizations such as Habitat for Humanity. The Cisco Foundation constituted the third group.

With the formation of the Cisco Foundation, the visibility of Cisco's philanthropic activity increased dramatically, both within the company and among the general public. However, the CP team still did not have guidelines for addressing the large number of resulting requests for money. Cisco received many philanthropic requests that were typical for major corporations but inconsistent with Cisco's philanthropic focus. To gain some control of the overall effort, the CP team decided to approve all contributions that had the Cisco name attached, enabling the team to begin to provide order to the company's philanthropy.

For example, Cisco had many strategic relationships with universities. The CP team decided that the appropriate business units would cover the costs of university donations when the donations were considered a cost of doing business. The foundation would only make university grants as matches to employee contributions. With rare exceptions, it also stopped supporting the special interests of top executives through charity balls and other special events. The CP team believed this common corporate practice was difficult to justify since it did not align with the company's strategic direction.

As Cisco grew, the media often profiled the company and its leaders, Morgridge and Chambers. This enhanced public profile led to many requests for help from the general public. In one interview, Chambers described his problems with dyslexia, resulting in many solicitations from organizations interested in learning disabilities. Cisco subsequently partnered with the National Center for Learning Disabilities (NCLD) to streamline its process for reviewing these requests, referring them to NCLD for assessment.

CP also funded employee team-building programs such as employee participation in Habitat for Humanity projects. Cisco occasionally sponsored sporting events, a portion of which often went to charity. These events gave salespeople a chance to network and create goodwill for Cisco.

Philanthropic Partnering and Other Programs

In some cases, Cisco identified a need and solicited grants for a particular program, often establishing partnerships between nonprofits and one or more other corporate sponsors. For instance, after several widely publicized school shootings, Cisco worried that the Internet was being used for inappropriate purposes. Cisco partnered with the Southern Poverty Law Center (SPLC), which had already developed a curriculum for teaching tolerance. Cisco helped SPLC put this program on the Web.

In partnering with nonprofits and other corporations on a philanthropic project, Yoo noted that "humility was the key ingredient."² To make the greatest impact, it was imperative not to let corporate ego get in the way. Cisco wanted the nonprofit organization to get publicity, as the important point of focus was the work being accomplished, not Cisco's participation. Helping the nonprofit obtain publicity provided additional leverage that could further increase the impact of Cisco's philanthropic effort.

In cases where Cisco hoped to explicitly benefit from associated marketing, funding was provided by the company's marketing team rather than the foundation. For example, Cisco partnered with the Nobel Foundation to provide technical support and expertise to further the foundation's work in honor of the 100th anniversary of the Nobel Prize. The marketing team designed the Nobel program to: enhance the Nobel organization's Internet and back office operations; design and implement an electronic museum; develop the worldwide broadcast of programs about Nobel Laureates and their effect on the world; support an annual concert honoring the Nobel Peace Prize recipient; and sponsor a survey of Nobel Laureates regarding the Internet and its potential impact on education, innovation, and improved global living standards.

² All quotations from representative of Cisco Systems are from interviews conducted by the authors unless otherwise noted.

In partnering with nonprofits, CP preferred to work with organizations that knew what they needed and that “managed Cisco” rather than those that relied on Cisco to drive the effort. An organization that had a strong idea of what it wanted, what it needed from Cisco, and how it would use Cisco’s donation instilled a sense of confidence in the CP team. CP created a matrix for assessing partnering opportunities. These opportunities were evaluated based on the type of need they met and consistency with Cisco’s strategic philanthropy initiatives. Programs that matched Cisco’s interests and used Cisco’s core strengths stood the best chance of being adopted.

Large Strategic Partnerships

For large strategic partnerships (\$500,000 or more), the CP team developed a program launch process similar to the launch of a new product. For each new program, Cisco prepared an internal communication that outlined the program’s objectives, its possible risks, and how the program fit within Cisco’s corporate and philanthropic strategies. Key strategic programs were typically Internet-based and had a strong technical component. Examples of large partnerships included NetAid, the Acumen Fund, Comic Relief, and Habitat for Humanity.

NetAid

NetAid, an independent organization based in New York City, grew out of a partnership between Cisco and the United Nations Development Program (UNDP) to work toward eliminating world poverty. NetAid focused on engaging youth and adults in the education of young people in the developing world by providing an online community where people could learn about educational issues; mentor or sponsor students, teachers, and/or schools; and build ongoing relationships with other people interested in education in the developing world. By the end of 2002, the NetAid World Schoolhouse, one of NetAid’s major programs, had reached more than 72,000 children. The awareness of education and its importance had also greatly increased in the community.

Acumen Fund

In April 2001, Cisco, the Rockefeller Foundation, and other philanthropists created the Acumen Fund, which used a venture fund approach to address targeted social issues in the developing world.³ The fund operated through managed portfolios. Donors gave money to support an overall area of interest, such as access to clean water, and relied on portfolio managers to determine how best to meet the most pressing needs in the area of interest through grants, loans, and equity investments. Some of these investments generated a financial return, which Acumen reinvested in the portfolio, thus leveraging the initial investment. The Acumen Fund first targeted health technology, based on the belief that many solutions to global health problems already existed, but that inadequate distribution prevented their application in developing countries.

Comic Relief (U.K.)

Launched in 1985, Comic Relief sought to help the most poor and vulnerable people in the United Kingdom and Africa by raising money and contributing to effective nonprofit organizations. Comic Relief’s primary fundraising program, “Red Nose Days,” took place every

³ Acumen Fund, “About Us,” <http://www.acumenfund.org/About/> (August 16, 2006).

two years. The program culminated in the largest televised fundraising event in the U.K. It featured popular comics and documentary stories. During “Red Nose Days,” residents were encouraged to wear red clown noses and participate in silly events to raise money. Cisco partnered with Comic Relief to help the organization expand its fundraising through the Internet. The group’s fundraising increased dramatically in the late 1990s and early 2000s, in part due to improvements enabled by Cisco.

Habitat for Humanity

Cisco partnered with Habitat for Humanity, a nonprofit organization that builds homes for poor families around the world. Cisco provided funds for new houses, as well as work teams to build the houses. Believing that Internet access was integral to overcoming the digital divide, Cisco either pre-wired the houses for Internet access or partnered with a local company that built a technology center to provide residents with Internet access. Many parts of Africa, for instance, did not have Internet service providers for individuals. Having a community resource that enabled Internet access opened the community to the outside world. Cisco believed the Internet made it a global presence, regardless of whether Cisco had physical facilities in a particular country. The Cisco Foundation funded construction of hundreds of houses in Ghana, Kenya, and other countries where Cisco did not have an office or employees.

THE FUTURE

By late 2002, the Cisco Foundation had \$103.8 million in assets, down from \$132.2 million the previous year due to its high giving level in 2002 and investment losses resulting from the 2001-2002 recession and stock market collapse. The foundation’s giving for the fiscal year ending July 31, 2002 was \$11.4 million, of which \$2.8 million was for the employee matching program; \$2.8 million for grants to education, shelter, and community service organizations in communities near major Cisco facilities; and \$5.8 million for national invitation grants.

As director of corporate philanthropy, Yoo actively worked with Cisco’s country managers and philanthropic partners worldwide, encouraging local leaders to create civic councils that would develop philanthropic programs with their own strategies and leadership. Cisco valued local autonomy, and Yoo believed it was important for each country office to be seen as a local company, rather than as a small outpost of an American firm. This perception would give the local manager greater access to community leaders. In her travels, Yoo tried to build relationships and convey the culture that Morgridge, Chambers, and other senior executives had established by their personal involvement with philanthropic activities.

From Cisco System’s inception, philanthropy had constituted an important part of the company’s history and culture. The company’s philanthropic program had grown in scope and scale from limited community service activities to a major global enterprise focused on critical societal needs. This effort leveraged all aspects of the company’s resources: money, technology, and employee talent. As the program continued to develop, Yoo and Cisco’s management wanted to make sure that CP utilized the company’s core strengths and its resources well, and that the philanthropic effort was maximizing its intended impact. As the responsible executive, Yoo needed a way to evaluate the program’s effectiveness in order to justify its long-term value to shareholders and other external constituencies. As Cisco’s global presence continued to grow, the Corporate Philanthropy team would also face the question of how to facilitate greater

knowledge sharing and communication among the company's varied country offices while continuing to respect each unit's autonomy.

ASSIGNMENT QUESTIONS

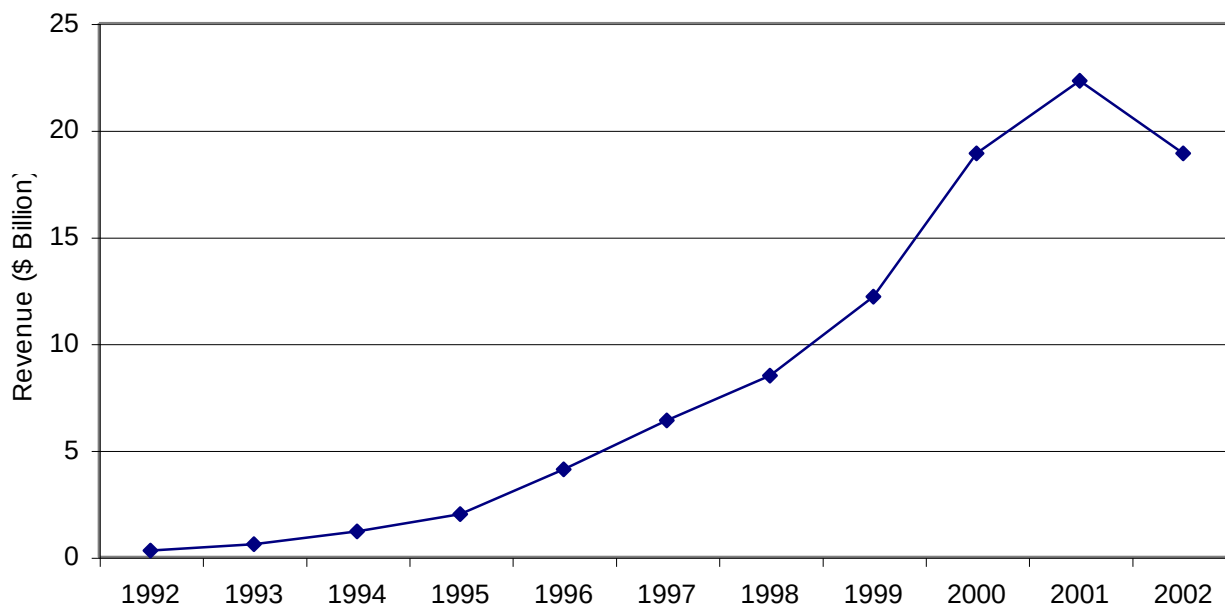
1. How did the evolution of Cisco's philanthropy program leverage the company's growing resources to make a social impact and provide value to Cisco's external constituencies?
2. If you were the CEO of Cisco, how would you justify the value of the philanthropy program to shareholders? In your opinion, did Cisco's philanthropy further the company's brand equity?
3. Looking forward, what opportunities, if any, do you see for philanthropic collaborations among Cisco's country offices? How might the central philanthropy program facilitate knowledge sharing and communication?
4. How was Cisco's philanthropy aligned with its business objectives? How was this evidenced?

Exhibit 1
Cisco Systems Financial Summary
 (All dollar values in \$000)

	2002	2001	2000	1999	1998
Sales	18,915	22,293	18,1928	12,154	8,459
Net Income	1,893	(1,014)	2,688	2,096	1,350
Income %	1.0%	--	14.1%	17.2%	16.0%
Cash Flow from Operations	6,587	6,392	6,141		
Cash, Cash Equiv, Investments	21,456	21,061	21,008	19,080	18,517
Employees	36,000	38,000	34,000	21,000	15,000

Note: Cisco's fiscal year ends July 31.

Cisco Revenue Growth, 1992-2002



Sources: Compiled from Hoover's Online and Cisco Systems financial reports.

Exhibit 2
Cisco Philanthropic Programs Financial Summary, 1998-2002
 (All values in \$ million)

Overall Philanthropic Giving

	2002	2001	2000	1999	1998 (2)
Foundation	11.4	7.1	6.2	7.7	2.0
CIF (3)	21.3	8.2	3.7	3.8	.05
Business Departments	19.4	31.2	43.4	29.3	11.1
Total	52.1	46.6	53.2	40.8	13.1

Notes:

1. All data for fiscal years ended July 31.
2. 1988 is partial year.
3. Includes cash plus in-kind.

Sources: Information provided by Cisco Systems.

Cisco Foundation

	2001	2000	1999	1998
Beginning Assets	132.2	65.4	65.0	0.0
Additions	0.2	91.0	0	64.4
Income, Gains/(Losses) (Net)	(7.0)	(15.9)	9.7	2.9
Expenses	1.0	2.1	1.6	0.3
Grants				
Matching	2.5	1.6	0.8	0.2
Natl. Invitation	3.7	2.6	5.1	--
Community	0.9	2.0	1.8	1.8
Total	7.1	6.2	7.7	2.0
Ending Assets	117.3	132.2	65.4	65.0

Note: 1998 data includes partial year 1997, beginning at formation of Cisco Systems Foundation.

Source: Cisco Systems IRS Form 990 Filings, Cisco Systems.