


Outline of studies


Analytical model: ‘three major types of more or less ethical management’
- Hypothesised distribution = Bell curve
- In real world not a continuum but ‘three styles [that] all operate at various times and under various circumstances’ // situational ethics

### Figure 2 Approaches to Management Ethics

<table>
<thead>
<tr>
<th>Ethical norms</th>
<th>Immoral management</th>
<th>Amoral management</th>
<th>Moral management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management decisions, actions, and behaviour imply a positive and active opposition to what is moral (ethical).</td>
<td>Management is neither moral nor immoral, but decisions lie outside the sphere to which moral judgments apply. Management activity is outside or beyond the moral order of a particular code. May imply a lack of ethical perception and moral awareness.</td>
<td>Management activity conforms to a standard of ethical, or right, behaviour. Conforms to accepted professional standards of conduct. Ethical leadership is commonplace on the part of management.</td>
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<table>
<thead>
<tr>
<th>Motives</th>
<th>Immoral management</th>
<th>Amoral management</th>
<th>Moral management</th>
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</thead>
<tbody>
<tr>
<td>Selfish. Management cares only about its or the company’s gains.</td>
<td>Well-intentioned but selfish in the sense that impact on others is not considered.</td>
<td>Good. Management wants to succeed but only within the confines of sound ethical precepts (fairness, justice, due process)</td>
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<thead>
<tr>
<th>Goals</th>
<th>Immoral management</th>
<th>Amoral management</th>
<th>Moral management</th>
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<tbody>
<tr>
<td>Profitability and organizational success at any price.</td>
<td>Profitability. Other goals are not considered.</td>
<td>Profitability within the confines of legal obedience and ethical standards.</td>
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<table>
<thead>
<tr>
<th>Orientation Toward Law</th>
<th>Immoral management</th>
<th>Amoral management</th>
<th>Moral management</th>
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</thead>
<tbody>
<tr>
<td>Legal standards are barriers that management must overcome to accomplish what it wants</td>
<td>Law is the ethical guide, preferably the letter of the law. The central question is what we can do legally.</td>
<td>Obedience toward letter and spirit of the law. Law is a minimal ethical behaviour. Prefer to operate well above what law mandates.</td>
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<thead>
<tr>
<th>Strategy</th>
<th>Immoral management</th>
<th>Amoral management</th>
<th>Moral management</th>
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<tbody>
<tr>
<td>Explicit opportunities for corporate gain. Cut corners when it appears useful.</td>
<td>Give managers free rein. Personal ethics may apply but only if managers choose. Respond to legal mandates if caught and required to do so.</td>
<td>Live by sound ethical standards. Assume leadership position when ethical dilemmas arise. Enlightened self-interest.</td>
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Key elements in making moral judgments:
Moral imagination
Moral identification and ordering (deciding relevance/nonrelevance)
Moral evaluation (making judgments)
Tolerance of moral disagreement and ambiguity
Integration of managerial and moral competence
A sense of moral obligation

Way forward (mechanisms)
Business ethics training and workshops
Codes of conduct
Corporate ombudsman
Tighter financial controls
More ethically sensitive decision processes
Leadership by example


Amplifies earlier article

Analytical model: 3 major approaches to corporate social responsibility
- Immoral
- Amoral
- Moral

4 kinds of responsibility (pyramid: see Fig.3 )
- Economic
- Legal
- Ethical
- Philanthropic

- Components not mutually exclusive but subject to tensions – e.g. economic vs the rest
- Total corporate social responsibility requires the fulfilment of all 4

5 major stakeholder groups ‘that are recognized as priorities by most firms, across industry lines and in spite of size or location’ (see Fig.5 for owners, employees, customers, local communities vs. immoral, amoral, moral)
- Owners (shareholders)
- Employees
- Customers
- Local communities
- Society at large

Way forward: leadership by example

<table>
<thead>
<tr>
<th>Population - givers and/or non-givers</th>
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<tbody>
<tr>
<td>Givers and non-givers but ‘firms surveyed by the ACA that did not contribute, or contributed very little, generally did not respond to the survey request’ – therefore, ‘truncated distribution of observations’</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Population - source</th>
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<tbody>
<tr>
<td>Giving data from American Council for the Arts’ <em>Guide to Corporate Giving</em>, 1978, 1981 and 1983 (based on written survey with telephone follow-up); data on advertising, price-cost margin, labour attraction, managerial discretion, tightness of constraint and profit maximization from Compustat; freerider data from <em>Census of Manufacturers</em>; managerial discretion data also from SEC 10k forms, <em>Million Dollar Directory</em> proxy statements and annual reports; tithing club data from Dayton Hudson</td>
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<thead>
<tr>
<th>Population - universe/sample</th>
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<tbody>
<tr>
<td>1,000 largest industrials (<em>Fortune Double 500 Directory</em>; all listed on Compustat database) → those in <em>Guide</em> for which complete set of regressors available; N = 249; note differential response rates to survey by size: top 200 62%, 201-300 47%, 301-500 29% and 501-1000 19% - ‘not random across strata’</td>
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<thead>
<tr>
<th>Longitudinal/single year</th>
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<td>Observations in years 1976-82 with no firm represented in more than one year</td>
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<table>
<thead>
<tr>
<th>Dependent variable</th>
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<tr>
<td>Log of contributions to sales</td>
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<table>
<thead>
<tr>
<th>Demand side motives</th>
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<tbody>
<tr>
<td>• ADVER = advertising expenses/sales (expected: +)</td>
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<td>• PCM = price-cost margin (expected: +)</td>
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<table>
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<tr>
<th>Cost side motives</th>
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<tbody>
<tr>
<td>• LINTENSE = labour and related costs/cost of goods sold x % of contributions directed to headquarters and plant communities (expected: +)</td>
</tr>
<tr>
<td>• FREERIDE = number of other firms in corporate HQs’ SMSA (expected: -)</td>
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<tr>
<td>• GOVT = 1 if contributions are for 1981 or 1982 and 0 for 1976-80 (expected: not stated)</td>
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<table>
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<tr>
<th>Managerial discretion</th>
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</thead>
<tbody>
<tr>
<td>• MANAGE = 1 if firm is managerially controlled and 0 if not (expected: -)</td>
</tr>
<tr>
<td>• DERATIO = debt/equity ratio (expected: -)</td>
</tr>
<tr>
<td>• DIVCHANGE = dividend in current year minus dividend in previous year (expected: +)</td>
</tr>
<tr>
<td>• SALARY = annual compensation of firm’s chief executive officer or other highest paid officer (expected: not given)</td>
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<tr>
<td>• MANSAL = SALARY x MANAGE</td>
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<tr>
<td>• FEDTXR = federal income taxes/pre-tax income (expected: + or -)</td>
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<tr>
<th>Other</th>
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<tr>
<td>• TITHE = 1 if firm operates in a city with a tithing club and 0 if otherwise (expected: +)</td>
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**Approach:**
- None of previous studies ‘develops a formal model that satisfactorily portrays the contributions process’
- Hampered by lack of firm-specific data
- 2 views (clearly characterised as political):
  - Conservative: ‘legalizing corporate contributions has sanctioned a flagrant abuse of shareholder property rights at the same time as granting tax-deductability status to contributions has encouraged an inefficient use of corporate and, by extension, societal resources’
  - Liberal: ‘corporations have a social responsibility to contribute that transcends any obligation to shareholders’
- Profit maximization is ‘a testable assumption, and it is the purpose of this paper to make that test within the context of a more general examination of corporate contribution motives’

**Findings:**
- 2 sets of findings for Equation 27 unweighted (OLS with and without MANAGE, MANSAL and FEDTXR) and weighted least squares (WLS)
- Explanatory power of models = ‘moderately high for cross-sectional data’
- TITHE: average ratio of contributions to sales = 2x in cities with tithing clubs (0.001258 vs 0.000632)
- LINTENSE: + and significant @ 2% plus; ‘strong support for the labor market hypothesis’
- FREERIDE: - and significant @ 5% plus in OLS and weakly significant in WLS
- GOVT: more significant in OLS: ‘larger firms are both more prone to free rider problems and, being more visible, more likely to take up the slack and substitute increased contributions for failing federal budget dollars’
- DERATIO: + and significant @ 10% 
- DIVCHANGE: - and significant @ 10%: ‘more highly leveraged firms systematically contribute lower levels, while an increase in the dividend is also likely to indicate an increase in contributions through a loosening of the shareholders constraint’
- FEDTXR: - but significant @ 10% in only WLS; ‘presence of utility maximization motives’
- MANSAL: - but significant @ 10% in only WLS
- MANAGE: - but weakly significant in only WLS: given FEDTXR, MANSAL and MANAGE ‘it would be imprudent to make any strong claims that utility maximization motives are an important factor in the contribution decision’ although managerial discretion may be more likely in small firms
- ‘In summary, the level of charitable contributions appears to rise with ADVER, PCM, LINTENSE, GOVT, DIVCHANGE and TITHE and fall with FREERIDE and DERATIO, while MANAGE, MANSAL and FEDTXR appear to weakly influence contributions, but only in the WLS model’
- Profit maximization motives = ‘important motive driving contributions’ but utility maximization less evidenced but tithe clubs = strong predictor of higher contributions’

**Theory:**
- Profit maximisation
Utility maximisation (profit motive nested within utility motive)
Paradigms seen as complementary rather than as competing

Model:
Contributions = function of demand side advertising motives, cost side labour attraction motives, free rider problems, substitutability of private sector contributions for public-sector welfare expenditure, shareholder-capital market constraint, other preferred expenditures and federal tax rate [see Equation 27, p.77; note complex and incomprehensible argument!]


Review of literature (mainly from United States)
Corporate contributions as ‘managerial masques’: uses a strategic management framework to look at ‘how managers promote managerial and corporate interests through corporate contributions’: ‘As the aristocrats used masques, managers use contributions to acquire audiences for their messages, to mime these messages symbolically to the audiences, and to vend managerial values to society’ = ‘metaphors to promote the understanding of the strategic uses of contributions in social systems’
- Necessitated investments to maximise profits, etc.
- Social currency to win approval of elites
- Social responsibility efforts for publics

Should not be used as a single perspective: researchers have not proposed ‘integrated assessments’: ‘Researchers need to understand in gestalt the complex interactions between economic and social forces surrounding contributions.’

Table 1: Three perspectives on corporate contributions

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<thead>
<tr>
<th></th>
<th>Necessitated investments</th>
<th>Social responsibility efforts</th>
<th>Social currency</th>
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<tbody>
<tr>
<td>Objectives advanced</td>
<td>Maximising corporate</td>
<td>Maximising social benefits</td>
<td>Maximising managerial</td>
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<tr>
<td></td>
<td>profits</td>
<td></td>
<td>benefits</td>
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<tr>
<td>Function of contributions</td>
<td>Advertising and research</td>
<td>Social contracts</td>
<td>Discretionary incomes</td>
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<tr>
<td>Key stakeholders</td>
<td>Stockholders</td>
<td>Labour, local committees,</td>
<td>Managers</td>
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<tr>
<td></td>
<td></td>
<td>publics</td>
<td></td>
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<tr>
<td>General level of analysis</td>
<td>Industries</td>
<td>Firms</td>
<td>Firms</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Dimension emphasised</td>
<td>Economic</td>
<td>Ethical</td>
<td>Social</td>
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How it works:
- ‘Essentially, the strategic uses of contributions in social systems have a sequential order. First, managers use contributions to acquire audiences by capturing the attention of key stakeholders. Second, managers use
contributions to mime messages by symbolically transmitting corporate interests to other stakeholders. Finally, managers use contributions to vend values by institutionalizing them in society [e.g. defence of free market]. Although the three strategic uses may overlap in managerial masques, they differ in their main thrusts.’

- Multiple examples by different stakeholders for United States
- Tendency to homogeneity (DiMaggio & Powell) → same professionalised decision-making processes and same recipients
- ‘This article has attempted to show that different vistas emerge if one classifies contributions as managerial masques rather than as necessitated investments, social responsibility efforts, or social currency. Social behaviours appear as active attempts to influence environments rather than as passive reactions to environmental demands. Future research could therefore enquire into specific masques that corporations project as environmental characteristics change.’


Discussion of analytical models:
- Neoclassical (Milton Friedman): ‘the corporation was to make a profit while avoiding inflicting harm’

Vs or including:
- Stakeholder (Ed Freeman): ‘the manager’s task was to protect and promote the rights of the various stakeholders’ = ‘members of groups whose existence was necessary for the survival of the firm’
- ‘In the classical view, the debate between Milton Friedman and Ed Freeman is not a debate about corporate ends, but rather about corporate means.’ – ‘What divides them is the strength of the causal arrow, a difference over which one should be the conscious objective of management’

Example of pro-social collective corporate culture: Twin Cities – list of corporations that give 2-5% of profits to charitable organisations (including General Mills, Honeywell, Pillsbury and HB Fuller Co plus local offices of Arthur Andersen, Price Waterhouse, Peat Marwick & Mitchell, Touche Ross & Co)

Robert Frank: altruists are the best people to deal with: ‘After all, if you have a contractual relationship with someone, the best person you can deal with is someone you know will honor the terms of the contract even if he or she could get away with not honouring them. An employer wants employees who won’t steal or cheat even if they could. A marriage partner wants a spouse who won’t cheat even if he or she could. Altruists rather than profit maximizers make the best business partners.’ Real altruists = out of conviction rather than instrumentality

Moral relations are reciprocal not just flowing from company to employees, customers, local community etc but flowing all ways: ‘Social responsibility under a stakeholder model requires that each stakeholder has reciprocal duties with others’ – e.g. buying from socially responsible companies, local communities supporting companies
Companies need a ‘just process so the various stakeholder voices in these matters can be heard and have some influence on the decisions’ – ‘a system of imperfect procedural justice’


**Population - givers and/or non-givers**
Givers: ‘It is not possible… to consider “participation rates”, only the giving of companies conditional on their giving at all.’

**Population - source**
*Charity Trends* and *Charity Statistics*, supplemented by ‘company reports, Datastream and Extel cards’: ‘Unfortunately we do not have available detailed statistics on the charitable donations of the whole corporate sector.’

**Population - universe/sample**
Companies ‘consistently’ in top 200 givers over period and those for which ‘consistent and consecutive information’ available N = 53 (names provided)

**Longitudinal/single year**
Longitudinal 1978/79 to 1985/86

**Dependent variable**
Amount of donations made by each company in sample to UK charities (log)

**Explanatory variables**
- Income variable: real pre-tax profits (including companies reporting worldwide rather than UK profits) = net profits before tax (log) – data available and commonly used
- Size of firm: Number of employees
- Price variable: Net cost of giving one more pound = £(1-t) where t is marginal tax rate on income; due to variations and carryovers = full rate of corporation tax at highest possible rate (from 52% to 35% over period)
- Industry: Assigned to major industries ‘depending on their major activities’ = finance and distribution; extraction and manufacture of metal, minerals and chemicals and printing and publishing; food, alcohol and tobacco; leisure (dummy)

**Findings:**
- Average increase in real giving per employee = 58% (despite fact that average number of employees and real average net pre-tax profits down)
- Total giving and giving per firm companies with 25,000+ employees > smaller companies
- Giving relative to pre-tax profits and giving per employee companies with fewer than 4,000 employees > larger companies
- Positive effect of tax rate variable: 1% increase in corporation tax → increase of 1.53% in giving (underestimate) with effect lagged by a year
- Small upward trend in giving of 2.4% per year
- Positive effect of size: 10% increase in number of employees over 50,000 → increase of 5.7% in giving
Long-term elasticities in giving/net profits = 0.315 for firms with net profits of < £100m; 0.370 for firms with net profits of £100-£250m; and 0.496 for firms with profits of > £250m

Theory:
• Profit maximisation (no altruism)
• Utility maximisation (impure altruism)

Model:
• Donations determined by tax rates (price of giving), industry, differences in benefits of goodwill, size and profitability (ability to donate)


Population - givers and/or non-givers
Not applicable

Population - source
Not stated

Population - universe/sample
Postal survey of 1000 CEOs of ‘companies identified from a public database and selected according to their size and industry characteristics’; industries represented ‘a broad but controlled range of service and manufacturing, traditional and new, public and private, industrial and domestic types as well as… an even spread of sizes from small (100 employees) to large (several thousand)’; industries included ‘chemicals; construction; distribution and retail; energy; engineering; financial services; food, drink and tobacco products; newspapers; pharmaceuticals; publishing; radio and television; textiles; water; and other services’; N completed = 299 or allowing for undelivered forms = 32%; 118 also sent company documentation

Longitudinal/single year
Not stated (but probably single year)

Variables
• Industry
• Size = number of employees
• Type of stakeholders addressed: employees, consumers, community, environment

Findings:
• Analysis of company documents see Bowman & Haire 1975 – positive relationship between attention to corporate social responsibility in annual reports and firm’s financial performance; Abbott & Monsen 1979 Social Involvement Disclosure Scale; other research re social disclosure and industry characteristics, firm characteristics, public pressures v profitability, economic performance
• Assumptions: ‘The presence of policy does not necessarily indicate the presence of social responsibility’
• Hierarchy of 3 levels of social responsibility disclosure
  o Corporate rhetoric: ‘Cynicism seems justified when descriptions of corporate social responsibility across a range of annual reports from
different companies read as though they were written by the same person, and are so general as to be meaningless’
  o Specific endeavours: initiatives specifically tied to form and its operating environment
  o Implementation and monitoring: consistent with an overall goal-setting approach
• Differences by industry re stakeholders addressed
  o Shareholders: food, drink and tobacco products - least emphasis; financial services – comparatively less emphasis; electricity – combination of employees and shareholders (shareholding for employees)
  o Employees: chemicals – great emphasis on employee development as part of skilled workforce; pharmaceuticals – emphasis on research but not on people who do it; electricity and water – emphasis on training as good investment in productivity; construction – emphasis on employee safety
  o Consumers: especially food, drink and tobacco products, newspaper, television, financial services – customer satisfaction
  o Community: mainly in terms of protection of environment
  o Environment: largest proportion of respondents formulating policies
  o Missing stakeholders = competitors, government (other than construction) and corporate alliances
• Conclusion: ‘Our study has found the following in relation to corporate social responsibility disclosure: (1) more variability in the treatment of social responsibility in internal corporate communications than in external communications; (2) industry differences in emphasis on stakeholder groups; and (3) greater predominance of corporate rhetoric than delineation of specific action plans.’ – public vs private face

Theory:
• (From Wood 1991) Principles of corporate social responsibility:
  o Legitimacy: institutional level - ‘concerned with the institutional relationship between business and society and specifies what is expected of business’
  o Public responsibility: organisational level – ‘responsibilities are confined to those problems directly related to the firm’s activities and interests’
    THIS STUDY
  o Managerial discretion: individual level – ‘choice of activities designed to achieve socially responsible outcomes’

Hypothesis:
• Difference between ethical communication and action
  o ‘To what extent are firms issuing general statements about corporate social responsibility versus making specific commitments to social responsibility initiatives? In other words, how likely are firms to “walk the talk”?’
  o ‘Do corporate statements about social responsibility tend to resemble one another or are they firm- or industry-specific?’
Which stakeholders receive the greatest attention from corporations? Do firms in particular industries tend to emphasize their responsibilities to certain stakeholders?

**Future research:**
Look at industry characteristics
- Extent of government regulation: increased regulation $\rightarrow$ increased CSR
- Level of competitiveness: increased competition $\rightarrow$ increased CSR
- Proximity to end users: increased closeness $\rightarrow$ increased CSR

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Analytical model: 4 faces
- Economic: ‘Be profitable (carry their own weight or fulfil their economic responsibilities)’; includes complete quote from Friedmann “to make as much money as possible while conforming to the basic rules of society, both those embodied in the law and those embodied in ethical customs” (last phrase usually left out)
- Legal: ‘Obey the law (fulfil their legal responsibilities)’; concept of law as ‘codified ethics’
- Ethical: ‘Engage in ethical behaviour (be responsive to their ethical responsibilities)’; distinguishes between ‘knowing ethics’ and ‘doing ethics’ and ‘descriptive ethics’ (describing morality or behaviour of people or corporations) and ‘normative ethics’ (describing what they should do): ‘Normative ethics requires a more meaningful moral anchor than “everyone is doing it”
- Philanthropic: ‘Give back through philanthropy (engage in corporate contributions)’

4 faces ‘are intimately related, though they are in frequent tension with one another’


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<thead>
<tr>
<th>Population - givers and/or non-givers</th>
<th>Givers and non-givers</th>
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<tbody>
<tr>
<td>Population - source</td>
<td>Data on CSR from New Consumer Group (see below); data on economic performance from DataStream</td>
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<tr>
<td>Population - universe/sample</td>
<td>Companies quoted on London Stock Exchange for which CSR ratings by New Consumer Group were available; N = 56; in 20 industries ‘although there was a deliberate limitation in terms of industry coverage since main focus of NCG’s coverage = consumer sector; therefore financial services and media not included</td>
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<tr>
<td>Dependent variables</td>
<td>Corporate social responsibility: multiple sources used by New Consumer Group to produce ratings, including commercial cuttings service, trade associations, trade unions, business directories and databases, research and public relations firms, national and international public interest groups; primary data collected through multi-wave mail survey with data triangulated; 13 different aspects of CSR including CSR disclosure (5-point scale), extent to which company encourages advancement of women and of ethnic minorities (3-point scale each), philanthropic or charitable giving and involvement to community projects (cash plus in-kind) plus membership of Business in the Community and PerCent Club (3-point scale), environmental action (3-point scale), donation to political parties (not usable and not used), subscription to Economic League (blacklisting; yes/no), extent to which activities have a significant effect on the environment (4-point scale), respect for life (animal testing; not used), respect for people (alcohol, tobacco, gambling; not used), doing business with oppressive regimes (South Africa as proxy; not used), production/sales of military equipment (not used), business relationships with least developed countries (not used); in this study disclosure = measured by first category above; CSR performance measured by women’s position, ethnic minorities’ position, philanthropy and environmental actions with donations to Conservative Party and Economic League = complementary measures; effect on the environment = intervening variable</td>
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<tr>
<td>Economic performance variables:</td>
<td>Accounting-based measures</td>
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<tr>
<td></td>
<td>• ROCE = return on capital employed</td>
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<td>• ROE = return on equity</td>
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<td>• GPS = ratio of gross profit to sales</td>
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<td>Capital market-based measures</td>
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<td></td>
<td>• EMV = excess market valuation</td>
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<td>• Beta = measure of firm’s systematic risk</td>
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</table>
Control variables:
- Size
- Sector: due to small size of sample used environmental impact instead

Reasons for research:
- ‘Sparse evidence’ of linkage between CSR and economic performance outside North America – useful literature review: studies mainly theoretical rather than operational
- Shift in focus of CSR 1970s = disclosure of information to shareholders, disclosure of the board of directors, monopolistic behaviour, equality of treatment of minorities, profit sharing, environmental protection, ethics in advertising and social impact of technology; 1990s = environmental protection (reduction of emissions and waste through recycling), philanthropy, involvement in social causes, urban investment, employee schemes (from Vyarkarnam 1992)
- Empirical research not definitive: positive link, negative link and no effect

Findings: [note copy used not PDF but printed off internet so no tables]
- 4 CSR variables ‘identified one factor (explaining 42.3 per cent of the total variance). That confirms the unidimensionality of all four variables which seem to be manifestations of the same underlying factor, that is CSR performance.’
- Strong relationship between CSR disclosure and performance (performance variables explain 36% of CSR disclosure): firms with good performance are likely to disclose more
- 21 firms (37.5%) donated to Conservative Party and 8 (14.3%) to economic League: members of Economic League ‘rated significantly lower’ than non-members re women’s position and ethnic minorities’ position
- Size and environmental impact = ‘inter-correlated’
- ‘Surprisingly… environmental impact of a firm’s industry is not statistically related to the firm’s activities to alleviate it’
- Financial and capital market performance = ‘strongly inter-correlated’
- ‘Philanthropy was found to be positively related to both excess market valuation and gross profit to sales ratio. It seems that firms with higher pre-tax (gross) profits and gains in market value feel more comfortable investing in community projects and charitable donations.’
- ‘Past financial and capital-market performance fail to predict the probability of a company donating to the Conservative Party or being a member of the Economic League’
- Gross profit to sales ratio was positively related to CSR disclosure
- ‘Firms that combine high disclosure and high CSR performance (and firms that combine low disclosure and low CSR performance) perform better in terms of ROE (and financial performance in the concurrent period) than others, namely firms that combine low CSR performance with high disclosure and the ones with high CSR performance and low disclosure…. In general, firms that combine high CSR performance and high CSR disclosure outperform the ones that combine low CSR performance and low disclosure (in terms of contemporaneous ROE and financial performance factor scores).’
- Environmental initiatives are negatively related to ROCE, but CSR disclosure is positively related to subsequent GPS: ‘It seems that costly CSR activities such
as environmental action have a negative carry-over effect on subsequent financial performance

- Membership of the Economic League has a negative effect on subsequent ROCE and EMV
- Only a few of hypotheses supported
- Past financial performance linked with philanthropic activity (gross profit to sales ratio and excess market valuation)
- CSR associated with current financial performance (especially gross profit to sales ratio)
- CSR activities with a significant cost (environmental) negatively related to subsequent financial performance (ROCE) while those with lesser cost positively related to subsequent effect on capital markets (effects emerge over time)
- Does not strongly support hypothesis of ‘ethical investor’: ‘Quite the opposite, findings suggested that the capital market seems to be rather indifferent to firms that undertake some CSR activities. Even more surprisingly the degree to which a firm discloses CSR information had a negative effect on capital market participants (postulated to be one of the main motives and targets of disclosure). Overall, the findings seem to suggest that other factors than CSR concerns were more important determinants of investors’ behaviour. Obviously the relationship is more complex than has been hitherto suggested. Future research should examine the impact of CSR concerns in conjunction with other factors which might affect decision making and expectations formation of different segments of investors.’

### Theory:
- ‘Test the hypothesis that there is a relationship between CSR and economic performance of firms in terms of their contemporaneous or subsequent economic performance; and past economic performance’

### Hypotheses:

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<thead>
<tr>
<th>Hypothesis</th>
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<tbody>
<tr>
<td>H1a:</td>
<td>The higher the level of past financial performance, the higher the level of CSR disclosure – partially supported</td>
</tr>
<tr>
<td>H1b:</td>
<td>The higher the level of past financial performance, the higher the level of CSR disclosure</td>
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<tr>
<td>H2a:</td>
<td>The higher the level of a firm’s CSR performance, the higher its concurrent and subsequent financial performance – not supported</td>
</tr>
<tr>
<td>H2b:</td>
<td>The higher the level of a firm’s CSR disclosure, the higher its concurrent and subsequent financial performance – partially supported</td>
</tr>
<tr>
<td>H3:</td>
<td>The higher the level of a firm’s involvement in costly CSR activities, the lower its concurrent and subsequent financial performance – mixed support</td>
</tr>
<tr>
<td>H4a:</td>
<td>The lower a firm’s past systematic risk or beta, the higher its CSR performance – not supported</td>
</tr>
<tr>
<td>H4b:</td>
<td>The lower a firm’s past systematic risk or beta, the higher its CSR disclosure – not supported</td>
</tr>
<tr>
<td>H5a:</td>
<td>The higher a firm’s level of CSR performance, the lower the concurrent and/or subsequent systematic risk or beta</td>
</tr>
<tr>
<td>H5b:</td>
<td>The higher a firm’s level of CSR disclosure, the lower the concurrent and/or subsequent systematic risk or beta</td>
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</tbody>
</table>
H6a: The higher a firm’s past excess market valuation, the higher its CSR performance – partially supported
H6b: The higher a firm’s past excess market valuation, the higher its CSR disclosure
H7a: The higher a firm’s level of CSR performance, the lower the concurrent and/or subsequent excess market valuation
H7b: The higher a firm’s level of CSR disclosure, the lower the concurrent and/or subsequent excess market valuation


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<thead>
<tr>
<th>Population - givers and/or non-givers</th>
<th>Givers and non-givers</th>
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</thead>
<tbody>
<tr>
<td>Population - source</td>
<td>Published annual reports</td>
</tr>
<tr>
<td>Population - universe/sample</td>
<td>Random sample of companies quoted on London Stock Exchange N = 100; approximately 5% of all companies quoted with about 30% of market capitalisation; ‘latest and most complete source of data available at the time the study was carried out in 1996’</td>
</tr>
<tr>
<td>Longitudinal/single year</td>
<td>Single year 1994</td>
</tr>
<tr>
<td>Dependent variable</td>
<td>DON: ‘Level of corporate discretionary donations’ = ‘aggregate of charitable, community and political contributions’; ‘conceptually very difficult to distinguish between them’</td>
</tr>
</tbody>
</table>
| Independent variables                | LEV: Leverage: ratio of the total long-term debt at book value plus prior charge capital (e.g. preference shares) to the total value of assets’
|                                      | SIZE: Company size: total value of assets
|                                      | PROF: Profitability/financial performance: ‘ratio of net profit before interest and taxation to turnover’
|                                      | OWN: Ownership structure: ‘proportion of the total number of shares issued held by the top three shareholders’ |
| Sensitivity tests                    | Industry = construction; services/utilities; manufacturing/engineering; other (dummy)
|                                      | Ownership: Majority ownership by UK or multinational (binary) (dummy) |
| Reasons for research:               | Linkages between donations and specific characteristics like leverage and size ⇒ better-informed business decisions
|                                      | Policy implications
|                                      | Insights into strategic management functions of companies
|                                      | Yardstick re future research |
Findings:
- Average all discretionary donations = £950,000 and assets = £4,81b;
  services/utilities = £1,400,000 and £9.81b; manufacturing/engineering = £530,000 and £2.67b; construction = £140,000 and £740m; and other industries = £1,510,000 and £3.41b
- Leverage: Lowly-leveraged companies donate more than highly-leveraged companies: 10% increase in leverage → 2.1% decrease in donations)
- Company size: Large companies donate more than small companies but x% increase in size → x% increase in donations (applies to all sizes)
- Profitability: Profitable companies donate more than less profitable companies: 10% increase in profitability → 2.8% increase in donations
- Ownership structure: no significant effect
- Industry: no significant effect
- Ownership nationality: no significant effect

Theory:
- Stakeholder theory: stakeholders = shareholders, creditors, managers, employees, customers, government and general public: ‘The major strategic objective of corporate management is… to balance the conflicting claims (both explicit and implicit) of the various stakeholders’; ‘generalized form of agency theory’, ‘the dominant paradigm in the financial economics literature’

Hypotheses:
- Leverage: Lowly-leveraged companies will donate more than highly-leveraged companies
- Company size: due to demands of political exposure and scrutiny large companies will donate more than small companies
- Profitability: due to existence of ’slack resources’ profitable companies will donate more than less profitable companies
- Ownership structure: companies with widely dispersed shareholdings will donate more than those with concentrated shareholdings

Future use to predict levels of giving:
- ‘For example, a large, profitable company with low leverage (say, assets of £10 billion, a profit rate of 0.25 and leverage of 0.05) would be predicted to contribute as much as £1.65 million per annum in discretionary donations. On the other hand, a small, unprofitable company with high leverage (say, assets of just £10 million, a profit rate of 0.05 and leverage of 0.5) would be predicted to contribute only £6,500 per annum.’

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<tr>
<th>Population - givers and/or non-givers</th>
<th>Givers and non-givers (?)</th>
</tr>
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<tbody>
<tr>
<td>Population - source</td>
<td>Report of Council on Economic Priorities (corporate philanthropic behaviour) and information from SEC (board composition)</td>
</tr>
<tr>
<td>Population - universe/sample</td>
<td>Fortune 500 companies selected to represent ‘a broad range of industries’ N = 98</td>
</tr>
<tr>
<td>Longitudinal/single year</td>
<td>Not stated</td>
</tr>
<tr>
<td>Dependent variable</td>
<td>‘Corporate philanthropy’ = charitable contributions as reported by CEP as a percentage of pre-tax earnings (self-reported or taken from ‘objective secondary sources’)</td>
</tr>
</tbody>
</table>
| Independent variables                 | • Board diversity – percentage of inside members (current or former employee of firm or one of its subsidiaries) 41% in sample  
• Board diversity – percentage of women members 10% in sample  
• Managerial control – percentage of total stock owned by inside board members  
• Managerial control – ratio of stock owned by outside board members to stock owned by inside board members 3.7 in sample |
| Findings:                             | • 2 significant variables explain 17.8% of variation in level of charitable giving  
• Ratio of insiders/outsiders on board positively related e.g. increase in number of insiders → increase in charitable contributions = contradictory to board diversity thesis (@5%)  
• Ratio of women/men on board nearly significant e.g. increase in number of women → increase in charitable contributions (@ 10%)  
• Percentage of stock owned by insiders on board positively related e.g. increase = supportive of managerial control thesis  
• ‘The managerial control thesis, which received support in this study, suggests that a substantial component of charitable giving can be ultimately traced to instrumental motives’ including personal motives – not always in company’s best interests and managers = major beneficiaries of philanthropy (benefits non-economic)  
• ‘Inside directors, not outside directors, are essential to firm performance.’ |
| Theory:                               | • Board diversity thesis: positive relationship between outsider representation on corporate boards and corporate philanthropy: charitable donations = altruistic; insiders are preoccupied with short-term economic outcomes; philanthropy giving is consistent with long-term economic outcomes; board diversity will increase decision-making effectiveness  
• Managerial control thesis: positive relationship between managerial control and corporate philanthropy: charitable giving = instrumental; insiders are preoccupied with both short-term economic and non-economic utilities; |
philanthropic giving may not be consistent with long-term corporate interests; board diversity does not necessarily increase decision-making effectiveness

**Hypotheses:**
- **H1a:** An increase in the diversity of the board of directors will be positively related to corporate philanthropy
- **H1b:** An increase in the managerial control of the board will be negatively related to corporate philanthropy
- **H2a:** An increase in managerial control of the board will be positively related to corporate philanthropy
- **H2b:** There is no significant relationship between the diversity of the board and corporate philanthropy

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**Historical context**
- Privatisation of utilities by Conservatives 1980s and early 1990s motives =
  - Remove investment burdens from PSBR
  - Strong belief in market forces
- Utilities transformed from ‘merit goods’ (provision determined by government) to ‘economic goods’ (provision determined by the market)
- Regulation included consumer protection but ‘driven by efficiency rather than equity considerations’; competitiveness enforced through RPI-x mechanism as ‘the next best alternative to market (e.g. not actually the market)

**Change under New Labour**
- Included windfall tax of £5.2b and fundamental review of regulation which generally endorsed the system but inserted a new emphasis on social consequences – e.g. fairness, social responsibility: ‘Rather than regarding social issues as separate to be dealt with by “safety net” policies as intended in the original conception, the Government is advocating direct intervention in the operation of the free market inspired regulatory frameworks…. The intention is to compel the companies to be socially responsible’

**Theory**

**Stakeholder**
Ref Carroll (1991) pyramid of responsibilities
- Philanthropic (‘society’s expectation that businesses be good citizens’)
- Ethical (‘the standards, norms or expectations that reflect a concern for what consumers, employers, shareholders and the community regard as fair, just or in keeping with the respect or protection of ‘stakeholders’ moral rights’)
- Legal
- Economic

Layers not mutually exclusive but all responsibilities must be fulfilled
### Friedman and Sternberg and other free marketeers: business only has economic and legal responsibilities (lower 2 layers)

Ref Carroll (1987) ethical management approaches [quotes from Carroll]:

- **Moral managers** – “want to be profitable, but only within the confines of sound legal and ethical precepts, such as fairness, justice, and due process, [they] not only conform to accepted and high levels of professional conduct, they also commonly exemplify leadership on ethical issues”
- **Amoral managers** – “are neither immoral nor moral but are not sensitive to the fact that their everyday business decisions may have deleterious effects on others. These managers lack ethical perception or awareness…. Typically their orientation is towards the letter of the law as their moral guide. [Some may] simply think that ethical considerations are for our private lives, not for business.”
- **Immoral managers** – “whose decisions, actions and behaviour suggest an active opposition to what is deemed right or ethical, care only about their organization’s profitability and success, see legal standards as barriers or impediments management must overcome to accomplish what it wants [and with] a strategy to exploit opportunities for personal or corporate gain”

### Friedman and Sternberg and other free marketeers: amoral or immoral managers

Bowie (1991) on stakeholder theory: ‘Essential to Bowie’s stakeholder argument for social responsibility is that ethics cannot be contrived or grafted onto an organisation, **it must be a way of life for it.**’ (ref Canadian study)

<table>
<thead>
<tr>
<th>Impact on utilities of New Labour’s social responsibility demarche</th>
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<tbody>
<tr>
<td>- Churn of managers: public sector managers out and private sector managers in</td>
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<tr>
<td>- Change in remuneration structures (e.g. increased pay)</td>
</tr>
<tr>
<td>- Regulatory interface ‘conducted in a business-like style akin to commercial contract negotiations. Inevitably, it is confrontational and game-playing behaviour is prevalent.’</td>
</tr>
<tr>
<td>- Prediction: ‘Government is likely only to succeed in codifying specific social responsibility related objectives into the legal layer and not in making the companies truly socially responsible.’</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Alternative strategy</th>
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<tbody>
<tr>
<td>‘An alternative policy for the Government would be to foster a utility sector climate where longer term thinking including socially responsible action towards stakeholders is commended and short term gains made at the expense of stakeholders denounced. This could be achieved by engendering a political and regulatory climate designed to increase the future potential gains that could be made by companies through behaving in the desired way.’</td>
</tr>
</tbody>
</table>


### Population - givers and/or non-givers
- Givers

### Population - source
- Annual reports (5 measures), factsheets from Ethical Investment Research Service (EIRIS) (9 measures), advertising from Advertising Standards Authority and Independent Television Commission (complaints) and data for suppliers from Ethical Trading Initiative (1999)

### Population - universe/sample
- Supermarkets in UK N = 8 = Budgens PLC, Iceland Group PLC, Marks & Spencer PLC, William Morrison Supermarkets PLC, Safeway PLC, J Sainsbury PLC, Somerfield PLC, Tesco PLC (Waitrose and Co-operative Retail Services excluded due to lack of EIRIS data and ASDA excluded due to takeover by Wal-Mart)

### Longitudinal/single year

### Data used:
- Social measures of performance (not disclosure) divided among 6 stakeholder groups = employees, customers, shareholders, suppliers, community and environment plus one ‘general measure of firms’ disclosed acknowledgement of responsibilities to these stakeholder groups’ (each valued at 1-10 and given equal weight; turned into index)
  - **General**
    - Mission statements
    - Employees
    - Equal opportunities policy
    - Proportion of women managers
    - Proportion of ethnic minority managers
    - Number of women on board
    - Highest paid director divided by turnover
  - **Customers**
    - Genetically modified organism (GMO) avoidance and labelling
    - ASA/ITC complaints
    - Health and safety convictions
  - **Shareholders**
    - Corporate governance compliance
  - **Suppliers**
    - Supplier code
  - **Community**
    - Community contribution as percentage of pre-tax profits
  - **Environment**
    - Environmental pollution convictions, complaints, cautions
    - Environmental policy
    - Environmental management systems
    - Environmental reporting

**Financial measures = accounting-based rather than market-based (each valued at 1-10 and given equal weight; turned into index)**
- Growth in turnover
- Profitability
- Return on capital employed
- Growth in earnings per share
- Profit before depreciation
- Firm size = average turnover over the period
- Firm age = from year of incorporation
- Average gearing

Findings:
- ‘The comparison of corporate social performance with corporate performance has been a popular field of study over the past 25 years. The results, while broadly conclusive of a positive relationship, are not entirely consistent.’
- Most have concentrated on large-scale cross-industry studies with a single variable for corporate social performance but many for financial performance – e.g. Griffiths and Mahon 1997 80 measures in 51 studies, 40 or 78% multiple industries
- This = single industry study with multiple social variables based on stakeholder theory: ‘It seems clear from the above discussion that the most profitable areas to future empirical work will locate themselves within stakeholder theory, will use multiple measures of social disclosure and/or performance to investigate the multiplicity of stakeholder relationships, will focus on single industry studies, and will take account of lead/lag issues.’
- ‘Contemporaneous social and financial performance are negatively related, while prior-period financial performance is positively related with subsequent social performance.
- ‘Positive relationships between both age and size of company with social performance are also found.’
- Negative association between social performance and gearing (not expected) - -? ‘no relationship here that is worth pursuing in future research’
- Need for further empirical research

Theory:
- Preston & O’Bannon typology – distinction between
  - Causal sequence ‘whether one type of performance follows another or whether they are synergistic’
  - Direction of the relationship – positive or negative
  - 6 hypotheses (not explicitly described)

<table>
<thead>
<tr>
<th>Causal sequence</th>
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<th>Negative</th>
</tr>
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<tbody>
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<td>Social performance leads to financial performance</td>
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</tr>
<tr>
<td>Financial performance leads to social performance</td>
<td>Available funding hypothesis</td>
<td>Managerial opportunism hypothesis</td>
</tr>
<tr>
<td>Social performance and financial performance are synergistic</td>
<td>Positive synergy hypothesis</td>
<td>Negative synergy hypothesis</td>
</tr>
</tbody>
</table>
Problems = managerial opportunism hypothesis (not straightforward) plus does not allow for study (Bowman & Haire 1975) which reports inverted U relationship between median return on equity and percentage of prose in annual reports devoted to corporate responsibility

- So need to extend to allow for ‘complex negative relationships’

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<th>Complex positive</th>
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Strategic stakeholder management models (Berman et al)

- 1a Direct effect model: ‘stakeholder relationships and firm strategy are assumed to have direct and separate impacts on firm financial performance’: Berman et al ‘found that two stakeholder relationships – employees and customers – directly affected financial performance’
- 1b Moderation model: ‘firm strategy is assumed to have a direct impact on firm financial performance but moderated by the impact of stakeholder relationships’: ‘all five stakeholder relationships tested – employees, customers, natural environment, community and diversity of workforce – moderated the strategy-performance relationship’
- 2 Intrinsic stakeholder commitment model: ‘the firm is assumed to have an intrinsic commitment to its various stakeholders which puts their interests at the heart of strategic decision making’
- Thus empirical research supports 1a and 1b but not 2

### Population - givers and/or non-givers
Givers

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- Growth in earnings per share
- Profit before depreciation
- Firm size = average turnover over the period
- Firm age = from year of incorporation
- Average gearing

Findings:

Within context of previous study (Moore 2001) and reports on:

- Derivation of 2 indices
- Discussions with 2 firms re results – Safeway and Tesco; satisfied with indictors which gave results they would have expected; suggestion by Safeway to add sales per employee and sales per square foot; 3-year period OK; age and size associations not surprising and argument about embeddedness accepted; Tesco suggested 2 clusters - 4 largest (Tesco, Sainsbury, M & S, Safeway) and 4 smallest (Somerfield, Morrisons, Iceland and Budgens); subjects for debate: whether there was a relationship of social performance to social class of customers and whether there was a threshold of social performance

- Inter-relationships between individual financial performance measures; if one measure only, then return on capital employed (current but not lagged)
- In-relationships between individual social and financial performance measures; growth in turnover negatively correlated with 5 of social performance measures and social performance in total – ‘lends more detailed, and statistically significant support, to the Negative Synergy Hypothesis’; positive association between profitability and community contributions (slightly stronger for lagged than current); correlation between profitability and women managers but no indication of direction of flow

- Inter-relationships between individual social performance measures; all associations between these measures are positive (= mutually reinforcing rather than contradictory): ‘This is an encouraging result for companies and society alike in that it suggests that, once a firm begins to take social performance seriously, it becomes self-reinforcing within the firm’; positive associations between mission statements and most other measures; between proportion of women managers and six measures; between number of women on boards and 4 measures; Safeway and Tesco thought that women were attracted to socially responsible firms; existence of compliance mentality – if compliant in one area will also be compliant in others; strong correlation between environmental managements systems and environmental reporting and between environmental policy and environmental management systems; more good performance in environmental policy than in environmental managements systems than in environmental reporting (only Sainsbury has ‘real credibility’ in this area)

- Stakeholder group analysis: negative associations between employees’ total and 2 financial measures of return on capital employed and financial performance total; positive associations between employees’ total and environment total with social performance total: ‘The latter suggest that, if a
surrogate for social performance is required, either employees or environment would make an adequate substitute’ but combination of measures still better

- Inter-relationships between turnover, age and gearing with individual social performance measures: strong correlations between size and corporate governance compliance, supplier codes and environment; no statistically significant association between turnover and community contributions (larger firms not necessarily more generous than smaller firms); no statistically significant associations between age or gearing and any social performance measure

Factor analysis of 15 social performance indicators (not health and safety convictions): 4 factors accounted for 86% of the variance but little underlying logic so not pursued

Cluster analysis:
- Cluster 1: Budgens, Iceland, Morrisons
- Cluster 2: M & S, Safeway, Sainsbury, Somerfield, Tesco: turnover higher @ 5%; environmental policy higher @ 1%
- Cluster 3: Somerfield
- Turnover: 2>3>1 @ 10%
- Environmental pollution convictions: 1 = 2>3 @ 5%
- Environmental policy: 2>3>1 @ 5%
- Environmental management systems: 2>3=1 @ 5%

Theory:
- Stakeholder theory

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Argument for better strategic philanthropy – not window dressing but fundamental and structural

Rehearses debate on ‘Should corporations engage in philanthropy at all?’ (Friedman): two assumptions:
- ‘social and economic objectives are separate and distinct’
- ‘corporations, when they address social objectives, provide no greater benefit than is provided by individual donors’

But not true if
- ‘corporations use their charitable efforts to improve their competitive context – the quality of the business environment in the location or locations where they operate’ and also ‘leverage [their] capabilities and relationships in support of charitable causes’
‘It is only where corporate expenditures produce simultaneous social and economic gains that corporate philanthropy and shareholder interests converge’

Competitive context and what can be done:
- Factor conditions (available inputs of production) = human resources, capital resources, physical infrastructure, administrative infrastructure, information infrastructure, scientific and technical infrastructure, natural resources → e.g., improve education and training, improve local quality of life
- Demand conditions = presence of sophisticated and demanding local customers, presence of local demand in specialized segments that can be served nationally and globally, presence of customer needs that anticipate those elsewhere
- Context for strategy and rivalry = presence of local policies and incentives, such as intellectual property protection, that encourage investment and sustained upgrading and presence of open and vigorous local competition → e.g., create productive and transparent environment for competition
- Related and supporting industries = presence of capable, locally based suppliers and companies in related fields and presence of clusters instead of isolated industries → e.g., foster clusters

‘The more tightly corporate philanthropy is aligned with a company’s unique strategy – increasing skills, technology, or infrastructure on which the firm is especially reliant, say, or increasing demand within a specialized segment where the company is strongest – the more disproportionately the company will benefit through enhancing the context.’

‘When corporations support the right causes in the right ways – when they get the where and the how right – they set in motion a virtuous cycle. By focusing on the contextual conditions most important to their industries and strategies, companies ensure that their corporate capabilities will be particularly well suited to helping grantees create greater value. And by enhancing the value produced by philanthropic efforts in their fields, the companies gain a greater improvement in competitive context. Both the companies and the causes they support reap important benefits.’

3 categories of philanthropy:
- Communal obligation = ‘support of civic, welfare, and educational organizations, motivated by the company’s desire to be a good citizen’
- Goodwill building = ‘contributions to support causes favored by employees, customers, or community leaders, often necessitated by the quid pro quo of business and the desire to improve the company’s relationships’
- Strategic giving = ‘philanthropy focused on enhancing competitive context’

Most activity in first two categories; aim = shift to third by assessing existing corporate giving initiatives against strategic criteria, seeking opportunities for collective action within a cluster, rigorously tracking and evaluating results

‘There is no inherent contradiction between improving competitive context and making a sincere commitment to bettering society.’

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<tr>
<td>Population - source</td>
<td>Datastream</td>
</tr>
<tr>
<td>Population - universe/sample</td>
<td>All companies in FTSE Allshare index at end of 2000 excluding those for which information was incomplete for whole period (data assumed to be correct) N = 598</td>
</tr>
</tbody>
</table>

**Longitudinal/single year**
Longitudinal 1985-2000 (incorporates findings from Arulampalam and Stoneman above); = ‘the most comprehensive longitudinal study of U.K. charitable donations behaviour to date’

**Dependent variable**
Generosity = ‘a percentage of the ratio of charitable donations (in currency units) divided by pre tax (but after interest) profits (PBT in currency units’); intuitive measure but also used by UK Percent Club

**Data used**
- PBT: Profit before tax and after interest
- CHT: Charitable donations measured in cash donations only
- TOS: Total sales (not available for banks and other financial institutions)
- ROS: Return on sales = measure of financial performance = PBT/TOS x 100

**Findings:** We have sought to extract indicative findings, which notwithstanding their qualified nature, may inform the literature and provide a basis for further research in this area.’
- UK longitudinal analysis: increase from a mean of 0.11% of PBT to 0.405% but not linear
- Comparison with Arulampalam & Stoneham: higher gradient (x 3.4) and greater variability but rate has increased
- Link between CCI and economic performance: steady increase in CCI nearly linear despite dip in PBT due to recession in 1990s – possibly because scale of CCI too small to be ‘considered material to any discussion on the allocation of earnings’
- UK/USA comparison: USA rate is consistently higher (by 11x in 1986 and 4.5 in 1996) but trend line down
- Comparison of Percent Club members and non-members: members’ mean performance > others' by at least 10% outperformed non-members; importance of ‘tithing clubs’ *see Figure 5

**Theory:**
- Charitable giving = ‘expression’ of corporate social responsibility
- Motivations for corporate charitable involvement (4 possible)
  - Strategic = ‘a form of practical benevolence’/profit maximisation
  - Altruistic = ‘noblesse oblige’
  - Political = ‘securing rewards and reducing penalties from significant external publics’
  - Managerial = utility maximisation and managerial discretion
Explanation = fuzzy; one explanation insufficient; need some combination of two or more

- Beneficiaries of benevolence
  - Related or not to core business (strategic or non-strategic)

Hypotheses:
- Explanations too limited to describe the complexities of CCI
- CCI is ‘not a strong proxy for social responsibility’ because ‘so little effort is invested in decisions on the level of donations that studies seeking patterns and explanations are rendered vacuous.’


Population - givers and/or non-givers
Givers; matched pairs of companies, same industry and same environmental conditions, deemed to be ‘big givers’ and ‘small givers’

Population - source
Foundation Centre (list of all US corporations which gave more than $1 million in a year, either through direct giving or company-sponsored foundations) all but a few in Fortune 1000; Compustat (SIC and total assets), Taft’s *Directory of Corporate Giving*

Population - universe/sample
Sample of big givers that gave more than $5 million (N = 135) minus those without shareholder data (privately owned, foreign owned, mutuals, subsidiaries of other firms) and banks; minus those for which big/small pairing not possible (soft drink, automobile, retail, pharmaceutical and telecommunications industries); match = at least 2 digit SIC match; small givers’ assets within 50% of big givers’ and corporate donations less than 20% of big givers’; N of big givers = 41; N of small givers = 34; apples to apples but small and medium-sized companies eliminated

Sample A (cash donations) = 34 pairs
- 59% matched at 4 digit level SIC
- Assets big givers from $1.6 billion to $302 billion (mean $39.2 billion)
- Assets small givers from $1.2 billion to $154 billion (mean $26.9 billion)
- Cash donations big givers from $5 million to $95 million (median $9 million); 5 with $25 million plus
- Cash donations small givers from nil to $4 million; 5 with $1 million plus

Sample B (charity receipts) = 31 pairs
- 65% matched at 4 digit level SIC
- Assets big givers from $260 million to $302 billion (mean $42.9 billion)
- Assets small givers from $150 million to $154 billion (mean $29.5 billion)
- Charity receipts big givers from $5 million to $150 million (median $14 million); 5 with $5 million plus
- Charity receipts small givers from nil to $10 million; 10 with $1-10 million and 2 with $10 million plus
### Longitudinal/single year
One year with some before and after comparators; year not stated

### Dependent variables
Sample A: cash donations = ‘the cash a firm contributes directly to charities and/or to its corporate-sponsored charitable foundations’ (H1 and H3)

Sample B: charity receipts = ‘the sum of the monetary value of a firm’s in-kind contribution, the cash the firm contributes directly to charities, and the cash gifts from corporate-sponsored foundations to charities’ (H2)

### Independent variables

<table>
<thead>
<tr>
<th>General</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Total assets</td>
</tr>
<tr>
<td>• Total sales</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Available resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Cash flow = operating income before depreciation minus interest expenses minus (income tax total minus change in deferred taxes and investment tax credit) minus preferred cash dividends minus common cash dividends</td>
</tr>
<tr>
<td>• Cash flow/total assets</td>
</tr>
<tr>
<td>• Cash flow minus capital expenditure = cash flow as above minus cash outflow or the funds used for additions to the firm’s property, plant and equipment (proxy for free cash flow)</td>
</tr>
<tr>
<td>• Cash flow minus capital expenditure/total assets</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accounting returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Return on assets (%) = (income before extraordinary items/total assets) x 100</td>
</tr>
<tr>
<td>• Return on equity (%) = (income before extraordinary items/common equity) x 100</td>
</tr>
<tr>
<td>• Return on sales (%) = (income before extraordinary items/net sales) x 100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Market returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Market to book ratio = (stock price x common shares outstanding)/common equity</td>
</tr>
<tr>
<td>• Total return to shareholders (%) = [(stock price at end of year minus stock price at beginning of year + dividends)/stock price at beginning of year] x 100</td>
</tr>
</tbody>
</table>

### Findings:
- ‘Rigorous industry controls, which are rarely implemented in studies of corporate philanthropy’
- Distinction between cash payouts by companies and cash receipts by charities
- ‘Weak positive relationship between cash resources available and cash donations… but found no significant relationship between firm giving and overall financial performance’
- ‘Big givers… had more cash available (in absolute dollars as well as relative to assets) for charitable and other purposes, after having paid operating expenses, interest charges, taxes, and dividends, and even after funding additional property, plant, and equipment.’
- ‘Failure to find a significant positive or negative relationship between corporate giving and profitability, where accountability is measured by accounting returns…. The weight of our evidence does not point to a significant relationship between corporate giving and stock market returns.’
• Observations = correlations not causality but ‘it is more logical to presume that available cash leads to corporate philanthropy than the reverse, that corporate giving leads to more cash available.’

Theory:
• Corporate social responsibility (stakeholder): balance of interest of all stakeholders → more corporate philanthropy; various levels – economic (just return for shareholders - required), legal and ethical (diverse workforce, safe working conditions, safe products, care for environment - required), corporate philanthropy (discretionary); therefore linked to discretionary funds (available resources)
• Agency theory (neoclassical economics): interests of shareholders = paramount → less corporate philanthropy; shareholders vs executives
• Strategic philanthropy (resource dependence): compromise between the two = ‘corporate philanthropy aimed at helping the bottom line’ – e.g. building corporate reputation or brand, creating a differentiation advantage, increasing revenues through customer loyalty

Hypotheses:
H1: Corporate philanthropy is positively related to cash resources available (cash resources) Supported
H2: There is a positive relationship between corporate philanthropy and a firm’s financial performance (strategic philanthropy) Not supported
H3: There is a negative relationship between corporate philanthropy and a firm’s financial performance (agency theory) Not supported


Population - givers and/or non-givers
Givers

Population - source
Datastream and DSC Guide to UK Company Giving published 2000 (detailed information on policies and management), PerCent Club annual benchmarking survey, annual reports and websites

Population - universe/sample
‘Cross-section data sample’ of members of PerCent Club (established 1986 N of members = approximately 300; minimum contribution of 0.5% pre-tax profits to community investment) N = 148; responsible for ‘over 70% of the total community involvement expenditures made by U.K. firms’

Longitudinal/single year
Not stated ?1998

Dependent variable
Corporate community involvement including charitable donations, other cash transfers in the form of sponsorships, non-monetary contributions in the form of donated staff time and inventory
**Data used**
- Industry (DataStream for listed companies and researchers’ attribution for non-listed companies) → over-sampling for industries where companies very large (utilities and oil/gas/mining) and under-sampling for those where they are small (retail)
- Job title of correspondent (locus of decision-making)
- Policies on employee involvement
- Statements on prioritised and excluded areas of community involvement
- Operation of payroll giving scheme that facilitates direct contributions to charities by employees (binary variable)
- Matching of individual donations (binary variable)
- Employee volunteering to community initiatives on company time (binary variable)

**Findings:**
- Organisational form ‘highly statistically significant’ for corporate community involvement:

<table>
<thead>
<tr>
<th></th>
<th>CSR department</th>
<th>Central administration</th>
<th>Marketing/PR</th>
<th>All forms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Count</td>
<td>52</td>
<td>35</td>
<td>61</td>
<td>148</td>
</tr>
<tr>
<td>Av CCI</td>
<td>3,926,495</td>
<td>343,511</td>
<td>1,528,092</td>
<td>2,085,735</td>
</tr>
<tr>
<td>Highest CCI</td>
<td>35,300,000</td>
<td>3,252,500</td>
<td>15,900,000</td>
<td>35,300,000</td>
</tr>
<tr>
<td>Lowest</td>
<td>32,000</td>
<td>32,000</td>
<td>32,000</td>
<td>32,000</td>
</tr>
<tr>
<td>Av % of CCI in cash</td>
<td>70.40</td>
<td>76.26</td>
<td>71.95</td>
<td>71.10</td>
</tr>
</tbody>
</table>

- Organisational form varied according to industry: Significantly higher percentages in CSR departments (68%) in finance; in marketing/PR departments (93.8%) in utilities; in central administration (37.8%) in services
- Types of community involvement varied according to organisational form CSR department > marketing/PR > central administration

<table>
<thead>
<tr>
<th>Per cent</th>
<th>CSR department</th>
<th>Central administration</th>
<th>Marketing/PR</th>
<th>All forms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Composite indicator of employee involvement</td>
<td>84.62</td>
<td>57.14</td>
<td>70.49</td>
<td>72.30</td>
</tr>
<tr>
<td>Support volunteering on company time</td>
<td>38.46</td>
<td>22.86</td>
<td>36.07</td>
<td>33.78</td>
</tr>
<tr>
<td>Match employee giving</td>
<td>51.92</td>
<td>28.57</td>
<td>42.62</td>
<td>42.57</td>
</tr>
</tbody>
</table>

- Priorities for community involvement varied according to organisational form; education - marketing/PR and CSR department > central administration; disability - CSR department > marketing/PR or central administration; environmental issues - marketing/PR > CSR department or central administration
- Exclusions: religion 74.32% of all; politics 62.84% of all and animal welfare 38.51% of all; medical research - marketing/PR or CSR department > central administration; religion - CSR department or marketing/PR > central administration; politics - PR/marketing > central administration
- Size and industry ‘systematically related’ to organisational form of management
Organisational form ditto to form of corporate community involvement

Proviso: Similarities as well as differences: ‘Most significantly, the most popular involvement priority (education) and the ranking of the three most popular exclusions from involvement (respectively, religion, politics and animal welfare) were common to the alternative forms of organization. This is consistent with the argument … that the general preferences and attitudes of society may play a significant role in conditioning the ways in which community involvement initiatives are implemented. The observation of a higher degree of similarity across organizational structures in the patterns of exclusions from community involvement than in the pattern of priorities suggests that firms might design their community involvement policies so as to avoid the risk of alienating groups of stakeholders by supporting unpopular or controversial activities.’

Theory:
- Decision-making → corporate community involvement: ‘This study is among the first to attempt an exploratory empirical analysis of the significance of decision-making structures in the context of community involvement.’
- Importance of broad societal stakeholders = ‘an important influence on the design and implementation of community involvement activities’; impact of disillusionment with politics and religion and of interest in social issues, especially education
- Focus not on charitable contributions but ‘corporate community involvement expenditures and policies’ – including ‘employee involvement programmes, prioritized areas of community support and areas of community involvement that are excluded from CCI activities’

Hypotheses: (stakeholder management)
- ‘Whether there are systematic patterns in the way firms choose to manage their community involvement’
- ‘Whether there are systematic patterns in the relationships between the chosen organizational form and the type of community involvement activities companies undertake’


<table>
<thead>
<tr>
<th>Population - givers and/or non-givers</th>
<th>Givers and non-givers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population - source</td>
<td>Company reports for charitable contributions via DataStream</td>
</tr>
</tbody>
</table>
| Population - universe/sample        | All companies quoted on London Stock Exchange in 1999 and 735 companies quoted in both 1989 and 1999 (‘years at roughly equivalent stages in the business cycle’) from manufacturing, financial, service and distribution sectors = accounted for 80% of total turnover of firms in these sectors quoted on LSE in 1999; ‘emerging’ industries = manufacturing or service industries that ‘are characterised by rapid
technological change and/or the creation of new markets such as that for computer software’

**Longitudinal/single year**
Longitudinal 1989 and 1999

**Dependent variable**
Charitable contributions (cash)

**Data used**
- Industry = grouped into manufacturing, financial, service and distribution and emerging [no methodology given]
- Assets

**Findings:**
Change over last ten years in relationship between industrial structure and corporate charitable giving especially in the case of ‘sensitive’ industries
- Structure of UK industry (de-industrialisation, growth of ‘new industries’, growth of service sector)
- ‘Significant increase in stakeholder pressure for socially responsible behaviour’ (environmental legislation, consumer boycotts, FTSE4Good UK Index)

**Overview:**
- Importance of manufacturing companies albeit not through disproportionate giving (% of pre-tax profits)
- Turnover in manufacturing static but increasing in services and emerging industries
- Underperformance in giving in emerging industries and finance (% of pre-tax profits)
- Overall increase in propensity to give
- Overall increase in amount given

<table>
<thead>
<tr>
<th>Sectoral distribution 1989</th>
<th>All firms</th>
<th>Manufacturing</th>
<th>Service &amp; distribution</th>
<th>Emerging</th>
<th>Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample size</td>
<td>735</td>
<td>398</td>
<td>298</td>
<td>89</td>
<td>39</td>
</tr>
<tr>
<td>% of firms that contribute</td>
<td>60</td>
<td>65</td>
<td>53</td>
<td>39</td>
<td>51</td>
</tr>
</tbody>
</table>

| % share of total contributions | 100 | 72 | 19 | 4 | 9 |
| % share of total contributions less finance | 100 | 79 | 21 | 4 |  |
| % share of total turnover less finance | 100 | 77 | 23 | 7 |  |
| Charitable contribution less pre-tax profits | 0.1 | 0.08 | 0.13 | 0.08 | 0.11 |
### Sectoral distribution 1999

<table>
<thead>
<tr>
<th></th>
<th>All firms</th>
<th>Manufacturing</th>
<th>Service &amp; distribution</th>
<th>Emerging</th>
<th>Finance</th>
</tr>
</thead>
<tbody>
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<tr>
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<td>71</td>
<td>74</td>
<td>65</td>
<td>62</td>
<td>74</td>
</tr>
<tr>
<td>% share of total contributions</td>
<td>100</td>
<td>70</td>
<td>15</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>% share of total contributions less finance</td>
<td>100</td>
<td>82</td>
<td>18</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>% share of total turnover less finance</td>
<td>100</td>
<td>67</td>
<td>33</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Charitable turnover less pre-tax profits</td>
<td>0.25</td>
<td>0.26</td>
<td>0.25</td>
<td>0.07</td>
<td>0.12</td>
</tr>
</tbody>
</table>

### Change 1989 to 1999 (adjusted for inflation)

<table>
<thead>
<tr>
<th></th>
<th>All firms</th>
<th>Manufacturing</th>
<th>Service &amp; distribution</th>
<th>Emerging</th>
<th>Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample size</td>
<td>735</td>
<td>398</td>
<td>298</td>
<td>89</td>
<td>39</td>
</tr>
<tr>
<td>% change in number of firms that contribute</td>
<td>18</td>
<td>14</td>
<td>23</td>
<td>59</td>
<td>45</td>
</tr>
<tr>
<td>% change in contributions by sector</td>
<td>190</td>
<td>185</td>
<td>127</td>
<td>20</td>
<td>361</td>
</tr>
<tr>
<td>% change in turnover by sector</td>
<td>13</td>
<td>1?</td>
<td>57</td>
<td>52</td>
<td></td>
</tr>
<tr>
<td>% change in charitable contribution less pre-tax profits</td>
<td>145</td>
<td>222</td>
<td>93</td>
<td>6</td>
<td>8</td>
</tr>
</tbody>
</table>

Impact of firm size via concentration ratios (proportion of total corporate donations contributed by the largest givers ranked by size), based on N = 735 in 1999

- Overall corporate giving = highly concentrated among largest givers and becoming more concentrated; in 1989 70% by Top 25 and 80% by Top 50; in 1999 82% and 92%
- Overall assets = less concentrated but becoming more concentrated; in 1989 50% and 60%; in 1999 60% and 85%
- Note changes in corporation tax (until October 1996 tax relief only available to limit of 3% on dividends or £5 million; upper limit abolished March 1991) but did not act as constraint upon giving in early years (none approaching limits) but would have later: ‘The removal of tax constraints would appear both to have encouraged corporate charitable donations and to have contributed to the increasing level of concentration of donations among the largest companies’
• Membership of top groups remained relatively stable: Top 25 13 in both 1989 and 1999; Top 50 31 in both 1989 and 1999
• In Top 25 manufacturing declined (from 13 to 7) and finance increased (from 3 to 6)
• Contribution of > 1%: none by Top 25 in 1989; 7 by Top 50 in 1999; mean contribution up from 0.25% to almost 0.75%
• Sets out lists of Top 50 for 1989 and 1999

<table>
<thead>
<tr>
<th>Size &amp; concentration of charitable contributions and assets 1989 &amp; 1999</th>
<th>1989</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charitable contributions</td>
<td>Assets</td>
<td>Charitable contributions</td>
</tr>
<tr>
<td>1-25</td>
<td>73</td>
<td>50</td>
</tr>
<tr>
<td>1-50</td>
<td>84</td>
<td>60</td>
</tr>
<tr>
<td>1-100</td>
<td>95</td>
<td>78</td>
</tr>
<tr>
<td>1-250</td>
<td>99</td>
<td>87</td>
</tr>
<tr>
<td>1-500</td>
<td>100</td>
<td>95</td>
</tr>
</tbody>
</table>

Ranked from largest to smallest

Environmentally and socially sensitive industries: including those with national or international environmental impacts with high visibility, large social externalities = brewers and distillers, tobacco, oil, mining, energy production and distribution, and ethical issues = pharmaceuticals
• 1989 18 companies → 44% of charitable donations; 1999 → 30%; 1989 6 of Top 50 and 1999 7 of Top 50
• Disproportionate share of pharmaceuticals: 1999 3% of aggregate turnover but 17% of aggregate charitable contributions; also 2 of Top 10; sample pharmaceuticals 339% increase in period (all = 190%) = mainly directed to university research programmes (‘may therefore be viewed as subsidised investment in R & D or labour’)
• 25 companies in pharmaceuticals and socially and environmentally sensitive industries 1999 accounted for over 50% of aggregate corporate charitable giving but only 25% of aggregate turnover

Theory:
• ‘Consistent with stakeholder theory, suggesting that managers in large, visible organisations in sensitive industries use corporate charitable contributions instrumentally to manage stakeholder perceptions’
• ‘It is perhaps a matter for concern that such a high proportion of corporate charitable contributions come from socially and environmentally damaging industries.’
• Also proportion of pre-tax profits still relatively small → ‘Charities should seek to diversity their sources of corporate funding’

<table>
<thead>
<tr>
<th>Population - givers and/or non-givers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Givers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Population - source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Published annual reports and accounts via Datastream</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Population - universe/sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies in manufacturing and service industries listed on UK stock exchange in all four study years and identified as charitable givers; ‘comprise a complete population of those firms which were listed in each of the study years and for which financial information was available on Datastream’; N = 416 (but N = 302 for shareholding data); accounted for over 80% of total charitable donations in these sectors in 1999; excludes finance companies</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Longitudinal/single year</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Dependent variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHARCON: Charitable contributions (cash) = ‘an excellent mechanism through which to observe and analyse the interface between stakeholders, corporate strategy and CSR’; = ratio of corporate contributions to turnover</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Explanatory variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>ENVLOC: firm produces industrial commodities with local environmental impacts (binary) (dummy)</td>
</tr>
<tr>
<td>SOCENV: firm is in an industry with significant environmental or social costs and a consumer focus (binary) (dummy); Halme &amp; Huse classification - includes chemicals, oil, metal, pulp and paper, mining, water and energy production and distribution, tobacco, alcohol</td>
</tr>
<tr>
<td>HTECH: pharmaceutical and defence industries (binary) (dummy); includes computing hardware and software, internet providers, semiconductor manufacturers, computing services, cable and satellite companies and business support companies</td>
</tr>
<tr>
<td>SERVICE: in a service industry (binary) (control)</td>
</tr>
<tr>
<td>EMERGE: in an emerging industry (binary) (control)</td>
</tr>
<tr>
<td>CONTROL: proportion of firm’s share capital controlled by largest single shareholder</td>
</tr>
<tr>
<td>AGGSHA: aggregate proportion of share capital held by shareholders with &gt; 3%</td>
</tr>
<tr>
<td>LEVER: ratio of total debt to total assets</td>
</tr>
<tr>
<td>LOGASS (size): total asset value</td>
</tr>
<tr>
<td>ROP (profitability): ratio of net profit before interest and taxation to turnover</td>
</tr>
<tr>
<td>LAGPROF: ROP lagged by one year</td>
</tr>
<tr>
<td>RETAIN: retained profits = net profit after tax less dividends divided by turnover</td>
</tr>
</tbody>
</table>

**Findings:**

- Changes in pattern and determinants of corporate charitable donations/cross-sectional
Methodology draws explicit links between stakeholder pressures and industry effects → classification of industries that relates directly to social and environmental impacts: 6 models

Table 4: All companies quoted on LSE in 1989 and 1999 for which suitable data available (givers and non-givers)

<table>
<thead>
<tr>
<th>Distribution of charitable contributions by industry 1999</th>
<th>SERVICE</th>
<th>EMERGE</th>
<th>SOCENV</th>
<th>PHARM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry turnover as % of aggregate turnover</td>
<td>25</td>
<td>8</td>
<td>22</td>
<td>3</td>
</tr>
<tr>
<td>Industry charitable contributions as % of aggregate charitable contributions</td>
<td>14</td>
<td>2</td>
<td>33</td>
<td>18</td>
</tr>
</tbody>
</table>

Consistent with Adams & Hardwick (1998): leverage, size and profitability all significant at 5% or better level; LOGASS (size) negative and significant @ 5% in 1989 but positive and significant @ 1% in 1998 and 1999 and difference is significant @ 1% between two sets of years; ROP, LAGPROF and RETAIN all positive and significant but ROP @ 1% has best explanatory power – current profit levels more important that lagged profits or retained earnings but association weakened over time; LEVER negative and significant @ 1% and 5% in 1998 and 1999 (average leverage up 50% over the period from 10% to 15%)

Change over time: from early on with contributions largely determined by return on sales (with stakeholder considerations AGGSHA & CONTROL playing little part): = ‘suggest that pure philanthropy and discretionary behaviour by managers may play a significant role’ but later = reverse with firm size as proxy for visibility, leverage and social and environmental concerns

Industry variables: EMERGE negative and significant @ 5% overall – emerging companies contribute roughly half as much as companies in other industries and not increasing over time; SERVICE positive and significant in all but 1999 – service companies contribute more than manufacturing companies (?higher labour intensivity); ENVLOC consistently negative but not significant – ‘Local environmental impacts do not, therefore, appear to influence corporate charitable giving’; SOCENV positive and significant @ 5% in 1999 and increasing; difference between 1989 and 1999 is significant @ 10% so relationship becoming stronger – ‘tentative support for the contention that the relationship between charitable contributions and environmental and social sensitivity will be stronger in industries with a consumer focus’; HTECH positive and significant @ 5% and 10% in 1998 and 1999 but negative and insignificant in 1989 – rate of giving of pharmaceutical companies = 3x that in other companies

‘Positive and increasingly significant relationship between an industry classification which reflects stakeholder pressures and corporate charitable contributions’; ‘Firms in socially and environmentally sensitive industries were found to have higher levels of relative and absolute expenditure’ but restricted to those firms with consumer focus and in socially and environmentally sensitive industries; emerging industries under-performing
Theory:
- Stakeholder theory ‘places the firm within a constellation of interests which may lie inside or outside the company and have conflicting or competing demands’ – task is to manage or balance potentially competing demands

Model (see Figure 1):
- External stakeholders
  - Legislative and political (constrain/restrain anti-competitive, socially and environmentally damaging activities) \(\rightarrow\) improve external perceptions, reduce risk of regulation; encourage charitable contributions via tax regime
  - Community and consumer (modify corporate behaviour directly through negative publicity or discriminatory purchasing and indirectly via encouraging government action or changes in shareholder behaviour \(\rightarrow\) mould perceptions in positive way)
  - Financial including owners and creditors (push for ethical investment, especially pension funds, etc)
- Firm characteristics:
  - Managerial preferences
  - Industry (visibility)
  - Ownership (ability of stakeholders to influence)
  - Leverage (ability of stakeholders to influence; role of financial constraints)
  - Size (visibility)
  - Profit (role of financial constraints)
- Output:
  - Corporate charitable contributions
- Firm and industry variables = ‘mediating variables between stakeholder influences and corporate charitable contributions’

Hypotheses:
H1: Charitable contributions will be positively related to industry environmental and social costs
H2: A stronger relationship will be expected between charitable contributions and social and environmental costs in firms with a strong consumer focus
H3: Charitable contributions will be higher in the pharmaceutical industry and the defence industries
H4: Expenditure on charitable contributions will have increased in each of the sensitive industries during the study period
H5: Shareholder dispersion will be positively related to charitable contributions
H6: The positive relationship between shareholder dispersion and charitable contributions is expected to weaken through time
H7: Leverage will be negatively related to the level of charitable contributions
H8: Firm size will be positively related to expenditure on charitable contributions
H9: The positive relationship between firm size and charitable contributions will have strengthened during the period under consideration
H10: Corporate profits will be positively related to charitable contributions
H11: The positive relationship between corporate charitable contributions and profits will have weakened during the period under consideration

Population - givers and/or non-givers
Givers

Population - source
USA: TAFT’s Corporate Giving Directory 25th edition supplemented by mail and telephone surveys and corporate tax returns
UK: PerCent Club benchmarking report 2001 (300 companies that pledge at least 0.5% of profits and participate in annual benchmarking exercise including survey; data on principal business activity from Datastream

Population - universe/sample
USA: 100 top corporate philanthropists ranked according to total community expenditures including direct cash gifts, money donated via foundations, and gifts in kind
UK: 100 top corporate philanthropists ranked according to total of cash gifts, gifts in kind, donations of staff time and expenditure on managerial costs

Longitudinal/single year
Single year 2001

Dependent variable
Corporate community contributions (see above)

Explanatory variable
Sector (Datastream) 12 sectors → automotive, chemicals/pharmaceuticals, IT, food/drink/tobacco, other manufacturing, retailing, other services, banking, insurance, other finance, telecommunications and water/electricity

Findings:
• USA > UK in scale: total contributions by top 100 = $4.8 billion in USA vs $429 million (1/10th) in UK; Pfizer’s contributions > UK’s top 100
• UK more concentrated than USA: top 10 account for 58% of giving done by top 100 in UK vs 46% in USA
• Different mix: USA’s top 4 are all pharmaceuticals and top 10 include no banks; UK’s top 10 include 4 banks and no pharmaceuticals; USA’s top 25 include no utilities/water companies; UK’s top 25 have a ‘significant presence’ (1 utilities and 3 water); both countries 4 major retailers in top 25; manufacturing in USA = 2x UK; food/drink/tobacco in UK = 3x USA; chemical/pharmaceutical in USA = 3x UK; all finance in UK = 2x USA (Table III)

Table III Corporate community contributions among 100 largest contributors in the United States and the United Kingdom (% of total CCC)

<table>
<thead>
<tr>
<th></th>
<th>USA</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>All manufacturing</td>
<td>61.33</td>
<td>28.59</td>
</tr>
<tr>
<td>All services</td>
<td>12.42</td>
<td>19.74</td>
</tr>
<tr>
<td>All finance</td>
<td>17.36</td>
<td>32.50</td>
</tr>
<tr>
<td>All utilities</td>
<td>8.88</td>
<td>19.17</td>
</tr>
<tr>
<td>Food/drink/tobacco (part of manufacturing)</td>
<td>4.67</td>
<td>13.37</td>
</tr>
<tr>
<td>Chemical/pharmaceutical/medical</td>
<td>29.92</td>
<td>9.05</td>
</tr>
</tbody>
</table>
USA > UK as proportion of profits: 1.74% vs 0.78% (see Table IV)

Table IV Sectoral decomposition of community contributions as a % of pre-tax profits among 100 largest contributors in the United States and United Kingdom

<table>
<thead>
<tr>
<th>Sector</th>
<th>USA</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>All manufacturing</td>
<td>1.90</td>
<td>0.53</td>
</tr>
<tr>
<td>All services</td>
<td>1.84</td>
<td>1.32</td>
</tr>
<tr>
<td>All finance</td>
<td>1.23</td>
<td>1.08</td>
</tr>
<tr>
<td>All utilities</td>
<td>2.00</td>
<td>0.66</td>
</tr>
<tr>
<td>All sectors</td>
<td>1.74</td>
<td>0.78</td>
</tr>
<tr>
<td>Telecoms</td>
<td>1.97</td>
<td>0.47</td>
</tr>
<tr>
<td>Electricity/water</td>
<td>2.85</td>
<td>1.53</td>
</tr>
<tr>
<td>Chemical/medical/medical</td>
<td>3.49</td>
<td>0.32</td>
</tr>
</tbody>
</table>

Differences in intensity and level of corporate giving ‘may have arisen out of systematic differences in the institutional, cultural, political, economic and organisational contexts within which the companies in our study operate’ – e.g. Hofstede’s ‘power distance’ = ‘a society’s values regarding the equality with which power and wealth are distributed’ and individualism vs collectivism = focus on the relative importance of individual/family needs vs broader social needs

- USA: ‘greater tendency for social issues to be addressed through individual, rather than collective, action’; therefore, higher level of individual giving (2% of GDP vs 0.75% in UK)
- USA: ‘stronger preference… for non-governmental redistribution via philanthropy’
- UK: ‘stronger preference for dealing with social issues via redistributive taxation’
- USA: profit taxes higher (35% maximum payable on profits over $10 million) than in UK (30% payable on profits over £1.5 million but greater importance of corporate tax to government in UK (20% of total government tax receipts vs 10% in USA)
- Public face: in communications in USA emphasis on community issues such as quality of life and education as extension of core values; in UK, on environmental and employee health and safety issues as performance-driven
- Visibility: 80% of USA firms in sample had corporate foundation which accounted for the ‘lion’s share’ of giving vs less than 25% in UK

‘Thus, the relatively strong record of philanthropy of US firms seems to reflect a general primacy of community responsibilities in the United States; the weaker record of U.K. firms may, consistent with Carroll’s (1979) hierarchy of responsibilities, reflect the subsidiary importance of philanthropic versus economic responsibilities of the firm’

However, cross-national comparison accounts for only 16% of variation in firm-level CCCs

Of greater importance = ‘industry-specific’ factors: in top 100 firms in USA high level associated with healthcare, technology and industrial sectors; in UK, with utilities; e.g. pharmaceuticals in USA no NHS, prevalence of advertising of products direct to customers (controversial) ‘may have increased the salience of consumer stakeholders to US companies and intensified the need to
demonstrate a greater commitment to social responsibility'; banks UK ‘have taken a leadership role’ (concerns over branch closures, proposed charges for use of ATMs and ‘extremely high levels of industry profitability’)

**Theory:**
- Stakeholder theory: managers are subject to an array of influences and must decide which are the most salient and then design suitable responses within limits of stakeholder wants and discretion available

---


**Population - givers and/or non-givers**
Givers and non-givers

**Population - source**
Reputation data from a survey of chairmen, managing directors and selected main board directors of 10 largest companies in 24 industrial sectors drawn from ‘Britain’s most admired companies’ survey in Management Today, 2002; data on level of philanthropic expenditures from DataStream; data on corporate community involvement from DSC’s Guide to U.K. Company Giving (based on financial data from annual reports and survey of companies), including a range of policies re employee involvement in community activities and prioritised/excluded areas of community involvement and from PerCent Club’s annual benchmarking report, 1999; financial/accounting data from DataStream; data on media coverage from Factiva database produced by Reuters and Dow Jones (archive of news content from 8,000 global sources, 1998-2002); market performance data from Barra Inc; ownership data as at June 2002 from share ownership analysis database

**Population - universe/sample**
N = 240 ‘most admired companies’; ‘not necessarily representative of the general run of economic activity in the U.K.’ but includes 90% of FTSE100

**Longitudinal/single year**
Single year 2002

**Dependent variable**
REPScore (see above)

**Explanatory variables**
- CHARITY = level of philanthropic giving in 000 pounds
- PROWAGE = operated payroll giving scheme (binary)
- PROMATCH = matched individual donations to charity with company donations (binary)
- PROVOL = supported employee volunteering to community initiatives on company time (binary)
- ANTIREL = excluded religious causes from community involvement (binary)
- ANTIPOL = excluded political causes from community involvement (binary)
- PROED = identified educational charities as priority (binary)
- SIZE = natural log of the value of total assets
- INDUSTRY = principal activity (approximately = 3-digit NACE) → based on DataStream classification organised into 12 sectors: business services,
chemicals, construction, consumer products, engineering, finance, high technology, publishing, resources, retail, transportation, utilities

- **NONEXEC** = number of outside (non-executive) company directors
- **ROTA** = ratio of pre-tax profits to total assets
- **LEVERAGE**: ratio of long-term debt to total assets
- **SOCIAL** = operated in an industry with significant social externalities (dummy) (binary)
- **ENV** = operated in an industry with significant environmental impacts (dummy) (binary)
- **VISIBILITY**: natural log of the average number of annual news hits
- **BETA** = expected response of the stock to the overall market (risk associated with stock ownership)
- **GROWTH** = growth in assets and earnings over a 5-year period
- **VALUE** = composite based on 3 performance ratios: earnings to price, book value to price and cash flow to price
- **LONGTERM** = sum of proportion of firm equity held by long-term institutional investors (pension funds, insurance companies, life assurors)

### Approach:
3 contributions of this study:
- 'first to distinguish between the impact of level of philanthropic expenditures and corporate policies concerning the focus of their philanthropic initiatives on corporate reputation'
- 'permits the impact of philanthropy upon reputation to vary across industries’
- 'among the first evidence concerning the drivers of corporate reputations in the U.K. context'

### Findings:
- Model explains around half the variance in the dependent variable
  - **Model 1**: firm reputation is positively influenced by current performance as measured by profitability, degree of ownership by long-term institutional investors and with market performance (positively for GROWTH and negatively for VALUE): suggests that 'reputational indices are highly correlated with facets of corporate financial performance'
  - **Model 2**: includes industry effects; significant variation in reputation across industries 'and the coincident leap in the explanatory power of the model'
  - **Model 3**: includes level of charitable donations as an explanatory variable; level of firm donations is positively associated with firm reputation; 'may suggest that philanthropic activities are increasingly viewed as an important part of corporate responsibility strategies'
  - **Model 4**: includes 6 variables that capture most common policies: 'Broadly the findings suggest that community involvement policies have no significant impact upon corporate reputations' except negative effect of support for staff volunteering on company time on reputation: 'may suggest that such activities are viewed as a waste of corporate resources and, therefore, as being incompatible with the financial objectives of the firm'
  - **Model 5**: includes 2 industry effects, SOCIAL and ENV, and 'also includes interaction terms between firm charitable donations and membership of these environmentally and socially damaging industries and therefore permits the impact upon reputation of being in a sensitive industry to vary with the level of
corporate philanthropy': ‘The results suggest that operating in an environmentally sensitive industry is not associated with a lower corporate reputation but that firms in industries with significant social externalities have significantly poorer reputations’ and negative effects of operating in a socially damaging industry are equivalent to 10% of mean reputational score – but reputational cost is significantly influenced by level of corporate philanthropic expenditures – e.g. mitigating effect of philanthropy

• In sum: ‘we find that cash giving generates more significant reputational payoffs than does involving employees through matched giving or volunteering. Therefore, our analysis suggests that firms seeking to maximise the reputational impacts should make more cash donations.’ Might have a more powerful effect internally than externally
• ‘We find no strong evidence that community involvement policies have any direct or indirect effect on corporate reputation, neither failing to exclude unpopular causes, nor including popular ones appears to have any impact on reputation…. Perhaps in the light of our findings, firms can be more confident about supporting unpopular or unattractive causes given that there is no reputational loss associated with doing so’

Theory:
• Existing literature → ‘has identified a close relationship between corporate reputational capital and social responsibility’; see especially Fombrun & Shanley’s ‘seminal study’ (1990) and Williams & Barrett (2000)
• Corporate reputations ‘represent publics’ cumulative judgements of firms over time’ which hinge on ‘relative success in fulfilling the expectations of multiple stakeholders’ (Fombrun & Shanley) → this study will therefore differentiate between various types of signals and information which emanate from within and outside the company, including that about philanthropy, financial performance, ownership, board composition, size, media visibility and industry

Hypotheses:
H1: There is a positive relationship between the level of a firm’s philanthropic expenditures and its reputation
H2: Firms involving employees in philanthropic activities have better reputations
H3: Firms that focus their philanthropic expenditures upon causes that are congruent with broad societal preferences have better reputations
H4: The link between reputation and philanthropy is stronger in industries that have significant social externalities
H5: The better is a firm’s current financial performance, the better its reputation
H6: The greater is a firm’s market risk, the worse its reputation
H7: The greater is a firm’s degree of leverage, the worse its reputation
H8: The greater is the degree of long-term institutional ownership, the better is a firm’s reputation
H9: The more non-executive directors a firm has, the better its reputation
H10: The larger the firm, the better its reputation
H11: A firm’s media exposure influences its reputation
H12: A firm’s reputation is partly determined by its principal business activities

Further research:
• Would benefit from improved availability of data and longitudinal focus

| Population - givers and/or non-givers | Givers and non-givers |
| Population - source | Published annual reports and accounts; *Marketing* magazine’s top 100 advertisers for 1999 (ADVERT) |
| Population - universe/sample | ‘Broad cross-section’ of UK companies quoted on London Stock Exchange N = 550; account for 98% of charitable donations made by largest 750 quoted companies and 93% of total sales; ‘drawn approximately proportionally from size strata and hence we are confident that our sample is representative of the population of large UK enterprises’; charitable donations = £230 million; participation rate in giving = 83%; charitable donations = 0.36% of pre-tax profits |
| Longitudinal/single year | Single year 1999 |
| Dependent variable | Participation decision: yes/no (no includes donations of < £10,000) |
| | Expenditure decision: ratio of charitable donations to total sales |
| Explanatory variables | SIZE: total assets |
| | ADVERT: significant advertiser or not (binary) (dummy) |
| | RDS: R&D intensity: ratio of R&D expenditures to total sales |
| | PCM: price-cost margins = ratio of pre-tax profits to total revenues |
| | DIR/SAL: rate of directors’ remuneration = ratio of total directors’ remuneration to total sales; proxy for alternate use of discretionary funds |
| | LARGSHA: proportion of share capital held by largest shareholder > 3% (binary) |
| | AGGSHA: aggregate proportion of share capital held by significant shareholders |
| | CONTROL: proportion of firm’s share capital controlled by a single shareholder = > 50% (binary) (dummy) |
| | AGGCONT: proportion of firm’s share capital controlled in aggregate = > 50% (binary) (dummy) |
| | LABINT: ratio of total employment costs to total sales |
| | TAX: marginal rate of corporation tax |
| | DIV: increased dividend in 1999 over 1998 (binary) |
| | LEVERAGE: ratio of long-term debt to total assets |
| | HIDEBT: ratio of total debts/total assets = > 30% (binary) |
| Findings: | Participation decision: probability |
| | Positive (but non-linear) for size (@ 1%) - £50 million assets 3.5%; £1 billion assets 68.3% |
| | Positive for advertising - significant advertisers 37% more likely |
| | Negative for concentrated aggregate shareholding (@ 5%): where large shareholders control > 50% 10% less likely to participate |
Negative for rate of directors’ remuneration (@ 1%): ‘This suggests that senior management may often view self-reward as preferable to engaging in significant charitable contributing’

Expenditure decision: probability
- Positive for largest single shareholder (@ 1%)
- Positive for price-cost margins increase of 1% → increase of 2% in ratio of charitable donations to sales
- Positive for R&D expenditure increase of 0.1% in ratio of R&D expenditure to sales → increase of 0.04% in ratio of charitable donations to sales (cost-reducing motives)
- Positive for directors’ salaries increase of 0.1% → 10% rise in rate of giving
- Importance of economic rather than discretionary motivations (but little support for hardship or tax explanations) with some issues/groups more attractive
- Importance of changing context: institutional ownership, growth of Socially Responsible Investment, increased regulatory and social investment requirements

Theory:
- Profit maximisation including R&D-intensive firms → increase supply of skilled labour and outsourcing basic research; and highly-visible firms
- Managerial utility maximisation: managers vs shareholders (concentration of ownership, board diversity, insider vs outsider); requirements = extra resources (profitability, lack of indebtedness, taxation)
- Improved board remuneration and charitable giving = substitutes
- Reasons why corporate charitable contributions = interesting form of CSR
- Decisions made at board level and potentially integrated into strategic decision-making
- Not motivated by desire to comply with regulatory requirements
- Operationally distinct from other aspects of business activity

Hypotheses:
- Distinction between givers and non-givers (not dealt with in existing literature)
- Analysis split into two parts; decision to give (‘participation decision’) and amount given (‘expenditure decision’) → two models
- Participation decision: ‘expected to coincide with significant advertising and R&D expenditures, high price-cost margins, labour-intensive production, weak corporate governance, resource availability, low opportunity costs of giving and high corporate marginal tax rates’
- Expenditure decision: ‘expected to coincide with a high degree of sensitivity of market demand to donations, high firm price-cost margins, highly labour-intensive or R&D intensive production, the presence of abundant spare resources, weak corporate governance, low opportunity costs of giving, and high marginal tax rates’

Future research:
- Disaggregate company ownership into institutional and non-institutional investment
**Purpose:**
- So far no consensus on development of literatures on CSR and CSP over last 30 years and so review explores 3 views:
  - ‘Progressive view’: ‘Development occurred from conceptual vagueness, through clarification of central constructs and their relationships, to the testing of theory – a process supported by increased sophistication in research methods’
  - ‘Normative view’: ‘Hardly any progress is to be expected because of the inherently normative character of the literature’
  - ‘Variegational view’: Literature ‘is obscured or even hampered by the continuing introduction of new constructs’

**Method:**
- Bibliometric analysis → overview of the intellectual structure of the fields of CSR and CSP
- Based on abstracts of papers published in peer-reviewed journals; search in Web of Science Social Science Citation Index and ABI/Inform Archive Complete, Global and Trade & Industry databases, 1969-2002
- Search terms: CSR, corporate social responsib*, corporate social responsive*, corporate social performance and CSP; excluded literatures on management, corporate citizenship, corporate philanthropy; and stakeholder concept
- CSR dataset = 505 entries
- CSP dataset = 155 entries
- Combined dataset = 549 entries (‘suggests that CSR and CSP literatures cover the same domain’)

**Classification system**
- **Theoretical**
  - Conceptual: ‘Major focus is on developing propositions, hypotheses, or (cor)relations between theoretical constructs, based on a discussion of state of the art literature; no new empirical material has been collected for this work’
  - Exploratory: ‘Major focus is on developing propositions, hypotheses, or (cor)relations between theoretical constructs, based on the examination of extensive, new empirical data’
  - Predictive: ‘Major focus is on testing (refutation, confirmation) of propositions, hypotheses, or (cor)relations between theoretical constructs, based on the examination of extensive, new empirical data’
- **Prescriptive**
  - Instrumental: ‘Major focus is on providing prescription (means, ideas, recipes for action) to practitioners and professionals, that are instrumental in the realization of some desired end, such as improved performance along some dimension’
  - Normative: ‘Major focus is on providing prescription (means, ideas, recipes for action) to practitioners and professionals that are valuable in
themselves when considered from some ethical, moral, or religious point of view

- **Descriptive**
  - Descriptive: ‘Major focus is on reporting fact or opinion; no intention of a theoretical or prescription contribution’

**Number of papers:**
- On average number constant until 1990 and steady increase thereafter (increased interest or problems with data)
- CSR and CSP datasets completely overlap until 1990 and thereafter start to differentiate

**Journals:**
- CSR papers in 132 journals and CSP in 42; most important = *Business & Society* (CSP) and *Journal of Business Ethics* (CSR)
- CSP more concentrated – 4 journals contain 59% of all; CSR 8 journals contain 56%

**Authors:**
- CSP: 155 papers by 189 authors (1.2 each); CSR 505 papers by 621 authors (1.2 each)

**Orientation:**
- Theoretical: 48.7% of CSR/CSP dataset (CSP 65.6%; CSR 47.1%)
- Prescriptive: 14.3% (CSP 9.3%; CSR 14.0%) including normative: 2.9% (CSP 0.7%; CSR 3.2%)
- Descriptive: 37.0% (CSP 25.2%; CSR 38.9%)
- CSR descriptive > theoretical and prescriptive until mid-1990s; then theoretical > rest
- CSP: theoretical = 60% by 2002 with decrease in prescriptive and descriptive

**Other issues omitted**

**Discussion:**
- CSR/CSP increasingly integrated with regular business and management studies (integration in mainstream journals)
- Field well-established (growth in number of publications)
- Descriptive studies stuck – ‘do not so much build on each other’s work but mainly repeat or critique it without providing underlying causal relationships’
- Normativist view not substantiated (very small part of literature)
- Progressive view supported (increase in theoretical papers and especially in predictive papers)
- Variegation view supported (increasing number of differentiated concepts and strong position of both descriptive and theoretical papers)
- 2 processes occurring at the same time: ‘There is a tendency to build on each other’s work, to develop propositions, and to test theories. But at the same time, new constructs and new linkages are continually being proposed, as shown in the diverging number of issues found in the title word analysis.’

**Purpose:**
- Answer questions on CSR literature
  - What has been the focus of research and how has this changed over time
  - What is the nature of knowledge generated and how has this changed over time
  - What is the level of interest in CSR and how has this changed over time
  - What are the intellectual influences and have they changed over time

**Method:**
- Divide focus into 4 categories – social, environmental, ethics and stakeholders
- Analyse by theoretical (normative and non-normative) and empirical (quantitative and qualitative)
- Address salience by analysing quantity and proportion of CSR articles in the management literature
- Address influence by analysing the proportion of references cited by CSR literature in management to sources in management literature, literature of related disciplines and CSR literature itself
- Treat CSR as a field within management rather than as a discipline (without ‘substantive/systematic distinctiveness’)
- Source: Social Science Citation Index → focus on journals with high impact; use of keywords (listed) to produce list of 176 articles in 10 management journals 1992-2002

**Findings:**
- 15% social, 36% environmental, 31% ethical, 18% stakeholder N = 176
- 53% empirical and 47% theoretical but increase in theoretical over time (from 33% in 1992 to 67% in 2002) and decrease in empirical (from 67% to 33%)
- 80% quantitative and 20% qualitative but increase in qualitative (from 0% to 33%) and decrease in quantitative (from 100% to 67%)
- 11% normative and 89% non-normative but increase in normative (from 0% to 17%) and decrease in non-normative (from 100% to 83%)
- Salience 4% (increase from 2% in 1992 to 3% in 2002) of journals in management journals; peak year 1999 7%
- Citations in CSR articles: 2.6 citations to CSR journals per article; 11.78 to academic management journals, 1.94 to practitioner management journals, 0.96 to economics journals, 0.94 to sociology journals, 1.64 to psychology journals, 0.14 to philosophy journals, 0.01 to environmental studies journals, 0.04 to political science journals, 0.14 to political science journals; total citations 67.47

**Discussion:**
- Most popular issues in CSR research in management journals = environmental concerns and ethics
- Persistence of non-normative papers – suggests inter-disciplinary nature and rolling programme of revision of basic assumptions and concepts
- Persistence of empirical research
- ‘Surprisingly’ low impact of disciplines other than management
- No domination of a particular theoretical approach, assumptions and method
- = ‘a field without a paradigm’
- Driven by ‘scientific momentum’ and by ‘developments in business-society relations which themselves provoke redefinitions of the nature and scope of the field’
- = ‘in a continuing state of emergence’

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**Population - givers and/or non-givers**

Givers and non-givers [not entirely clear; previous studies of givers = ‘censored sample’ but this is not]

**Population - source**

Financial control variables from DataStream; data on significant shareholdings from annual reports and accounts; data on visibility from Factiva database produced by Reuters and Dow Jones (archive of news content from 8,000 global sources)

**Population - universe/sample**

All companies in FTSE AllShare index for which complete data were available; N = 334 out of a possible 650

**Longitudinal/single year**

Single year 2001 (fiscal year; except data on organisational visibility)

**Dependent variable**

Natural log of corporate philanthropic expenditures (as per Adams & Hardwick)

**Independent variables**

- HITS: organisational visibility = incidence of news media stories involving companies for 1998, 1999 and 2000 – natural log of average number of annual hits; these ‘capture a very broad notion of “social visibility” that crosses countries, media and audience’
- SIZE: organisational size = natural log of firm total assets
- Industry (set of dummy variables) ‘roughly consistent’ with SIC 2-digit level and based on DataStream industry code: 14 industries: basic manufacturing; information technology; banking; retailing; media; chemical and pharmaceutical; resources; telecommunications; utilities; other financial; transport; consumer goods; manufacturing; construction; and other services with basic manufacturing as comparator

**Control variables:**

- LARGSHA: corporate governance = size (percentage of common stock) of largest beneficial shareholding
- NONEXEC: number of outside (non-executive) company directors
- ROTA: profitability = ratio of pre-tax profits to total assets
- LEVERAGE: ratio of total debt to total assets
Approach:
- ‘Within the UK context, corporate charitable giving has become an increasingly visible component of business social performance’ – e.g. PerCent Club and Business in the Community, *Guardian* Giving List from November 2001
- Few systematic attempts to link organisational visibility and social responsiveness – general use of size as a proxy for visibility
- = ‘first systematic analysis of the corporate philanthropic expenditures that controls simultaneously for the influence of firm size, organizational visibility and industry’
- Empirical model explains ‘approximately two-thirds’ of the variance in the dependent variables: Model 1 excludes interactions between size and media visibility and industry; Model 2 allows the effect of media visibility to vary across industries; Model 3 permits the influence of industry on philanthropy to vary with firm size but ensures that visibility has a symmetrical effect across industries; Model 4 permits the impacts of firm visibility and size on philanthropy to vary simultaneously across industries

Theory:
- Stakeholder theory with emphasis on sensitivity to stakeholder pressure/function of stakeholders’ legitimacy, power and urgency (Mitchell *et al* 1997)
- Visibility: reduces information asymmetry and prompts greater levels of scrutiny → greater sensitivity to stakeholder environment

Findings:
- ‘Industry may play an important role in shaping corporate philanthropic activities’: resource industry companies give significantly more than basic industry companies and telecoms companies give significantly less (Model 1)
- ‘The change in the pattern of significance among industry effects suggests a significant degree of variation in the intra-industry distribution of philanthropy’: all things being equal, chemical and pharmaceutical companies ‘are found to have a lower propensity for philanthropy’ but within the sector ‘there is a positive relationship between firm media profile and philanthropy’ (Model 2)
- More visible and more profitable companies engage in more philanthropy but some significant industry variation by size with size of the largest company shareholding being negatively associated with the extent of corporate philanthropy; and ‘significantly weaker relationship between firm size and philanthropy in the telecommunications sector than in other sectors’ (Model 3)
- ‘No support for a statistically significant direct relationship between firm visibility and philanthropy’; rather media visibility plays a significant role in media, retail, telecommunications, other finance (mostly insurance) and other service sectors; if controlled for size, ‘more visible companies engage in more philanthropy’; if controlled for visibility, relationship between size and philanthropy is significantly weaker in those sectors vs basic industry sector (Model 4)
- ‘Consistent with earlier studies, our findings suggest that, on average, larger firms give more to charity. However, the magnitude of the effect of size on philanthropy is, once visibility has been controlled for, roughly half the size of
the effect identified in earlier studies (e.g. Adams & Hardwick 1998). At the same time, we find strong support for a positive relationship between organizational visibility and philanthropy that is approximately as large as that between size and philanthropy. The study therefore provides powerful evidence that organizational visibility, a variable absent from most analyses of firm philanthropy and social responsiveness, plays a significant role in shaping firm behaviour.’

- ‘Within industries, size and visibility operate as conflicting influences on philanthropy’ support for Meznar & Nigh 1995

**Hypotheses:**

H1: The level of corporate philanthropic expenditure is positively associated with organizational visibility

H2: The relationship between corporate philanthropic expenditure and industry is stronger for more visible organizations

H3: The level of corporate philanthropic expenditure is positively associated with organizational size

---


**Population - givers and/or non-givers**

Givers and non-givers [not entirely clear]

**Population - source**

Reputation data from a survey of chairmen, managing directors and selected main board directors of 10 largest companies in 24 industrial sectors drawn from ‘Britain’s most admired companies’ survey in Management Today, 2002; social performance data from Ethical Investment Research Service (EIRIS) = ‘the largest and most complete multidimensional social performance coverage of UK firms, covering issues relating to employment, the environment, community, human rights and supply chain management’, with ratings based on objective criteria; financial/accounting data from DataStream; market performance data from Barra Inc; data on media coverage from Factiva database produced by Reuters and Dow Jones (archive of news content from 8,000 global sources); advertising data from Marketing magazine 2002 Top 100 advertisers or owners of ‘Biggest Brands’; ownership data as at June 2002 from share ownership analysis database

**Population - universe/sample**

UK PLCs for which reputational data were available N = 210; not randomly selected but selected to focus on largest firms in each industrial sector; includes 90% of FTSE100 companies

**Longitudinal/single year**

Single year 2002

**Dependent variable**

Reputation: from survey (see above); companies rated 1-10 on 9 criteria (quality of management; financial soundness; ability to attract, develop and retain top talent; quality of products/services; value as a long-term investment; capacity to innovate; quality of marketing; community and environmental responsibility; use of corporate assets; assessment for each firm averaged across criteria and respondents to produce a single reputational score
Independent variable

- Social performance: EIRIS alphabetical ratings translated into numerical ratings for 3 of 5 subject areas: community performance graded 1-4; environmental performance graded 1-5 (for policies, systems, reporting and performance; T = 20); employee performance graded 1-3 (for health and safety, training and development, equal opportunities, employee relations, job creation, job security; T = 18); aggregate measure = sum of three scores normalised to a 1-4 grading; overall score = 12

Control variables:

- Profitability: ratio of pre-tax profits to total assets (DataStream)
- Corporate leverage: ratio of total debt to total assets (DataStream)
- Market performance: measure of risks associated with stock ownership that gauges the expected response of a stock to the overall market (Barra Inc)
- Size: natural log of the value of total assets (DataStream)
- Visibility: incidence of news in 1998-2002 – natural log of the average number of news hits per year (Factiva)
- Ownership: sum of the proportions of firm equity held by long-term institutional investor groups June 2002 (share ownership analysis database)
- R & D intensity: ratio of R & D expenditures to total assets (DataStream)
- Advertising: classification as one of ‘Top 100 Advertisers’ or owner of one of ‘Biggest Brands’ in 2002
- Sector: principal business activity = approximately 3-digit NACE (DataStream) → 12 sectors: business services, chemicals/pharmaceuticals, construction, consumer products, engineering, finance, high technology, publishing, resources, retail, transportation and utilities

Approach:

- ‘Very little systematic research’ on potential links between CSR and corporate reputation → approach = ‘present the first systematic analysis of the relationship between reputation and social performance that permits different elements of corporate social performance to have varying effects upon reputations’ and ‘explore how the reputational effects of different types of responsiveness initiatives vary across industries’
- Multiple regressions: Table II 3 regressions with third = best; Table III 3 regressions with sixth = best of all

Theory:

- Model based on ‘seminal’ study of Fombrun & Shanley 1990: ‘evidence that social responsiveness as measured by the level of corporate charitable donations and the presence of a separately endowed corporate charitable foundation, is positively associated with corporate reputation’; reputations = ‘summative representations of stakeholders’ opinions of firms which depend on their success in meeting the expectations of those stakeholders’; firm’s reputation is ‘determined by the signals that publics receive concerning its behaviours, whether directly from the firm or via other information channels, such as the media or the stock market’ – signals vary: origination within/outside the company; type of information they contain; salient issues = ‘particularly high environmental impacts’ (metals, resources, paper and pulp, power generation, water and chemicals); ‘highly visible social issues’ (alcohol, tobacco); ethical
issues (defence, pharmaceuticals); workplace health and safety concerns (construction and resource extraction)

- See also Williams & Barrett 2000 evidence in support of link ‘is stronger among companies that more frequently violate occupational health and safety and environmental regulations. They argue that, among other things, charitable giving can partially restore a firm’s reputation after it has committed illegal acts’

Findings:
- The impact of CSR activism on reputation is jointly contingent upon which type of CSR activity is undertaken, and which industrial sector the firm is primarily associated with. In this sense, the effect of a firm’s social performance on its reputation is importantly determined by the fit between sector-specific characteristics of the firm’s business environment and the type of social performance the firm exhibits’
- Significant role in determining reputation = financial performance, market risk, long-term institutional ownership; no significant role = leverage, size, media exposure, R & D intensity and advertising intensity
- Reputation varies systematically across sectors: greatest predisposition to good reputation is in engineering and construction; to bad reputation is in resources, finance and utilities
- ‘In particular, our results demonstrate the need to achieve a “fit” between the type of corporate social performance and the firm’s stakeholder environment. For example, a strong record of environmental performance may enhance or damage reputation depending on whether the firm’s activities “fit” with environmental concerns in the eyes of stakeholders. Community involvement, by contrast, is shown to have a more generally positive impact upon corporate reputations, suggesting that good community performance is expected by stakeholders in almost all industrial contexts.’

Hypotheses:
H1: There is a positive relationship between corporate social performance and reputation – mixed: support for community performance in all but resources; for environmental performance in chemicals, consumer products, resources and transportation; negative effect for community performance in resources and for environmental performance in all but chemicals, consumer products, resources and transportation; and employee performance in resources

H2: Industrial sector moderates the relationship between social performance and reputation, such that the relationship is stronger in sectors that are associated with salient social and environmental issues; supported by Regressions 2 and 6

H3: Industrial sector and type of social performance interact to influence the relationship between social performance and reputation, such that the link between reputation and community (employee; environmental) performance is stronger in sectors that are associated with salient social (employee; environmental) issues – supported by Regressions 4, 5 and 6

Population - givers and/or non-givers
Givers

Population - source
FTSE All Share Index

Population - universe/sample
Sample = companies in FTSE All Share Index as at 25 March 2002 N = 650; all e-mailed to identify a senior manager involved with the management of the company’s charitable giving and e-mailed person named to confirm involvement (cross-checked with Corporate Giving Directory); willing respondents identified N = 245; postal survey with covering letter and pre-paid reply envelope; N of responses = 200 = companies that made cash donations of £163 million-plus in 2000 (approximately 55% of all cash donations in UK) and on average worth £11.2b of assets (vs £6.6b for FTSE All Share Index as a whole); divided into 13 sectors = ‘roughly consistent with the distribution of economic activity in the UK’ but higher response rate among construction firms and utilities and under-representation of services

Longitudinal/single year
Single year 2002 [or 2000?]

Approach:
• Prevailing methodology re motivations for corporate philanthropy ‘involves drawing inferences concerning philanthropy’s purposes from cross-sectional correlations between corporate giving and firm characteristics using secondary data’; spectrum from altruism to strategic
• Minority methodology = directly surveying companies
• = ‘first direct evidence concerning how UK companies manage their corporate philanthropy’
• Focus on ‘(i) where and how firms make decisions concerning philanthropy and (ii) the influences on the level and distribution of philanthropic expenditures that firms make’

Theory:
• Organisational theory: distinction between (at least) 3 dimensions:
  o Centralization: ‘extent to which decision-making authority for a given activity is concentrated in a single point or dispersed throughout the organization’
  o Formalization: ‘extent to which an activity is governed by factors such as rules, policy statements, plans and formal documents’
  o Specialization: ‘extent to which the activities of an organization “ have been allocated among specialists and how far the rules of these specialists have been narrowed down” (Hickson & MacDonald 1964: 31)’

Findings:
• Control within organizations
Formalization: 81% had a dedicated budget for philanthropic expenditure; 84% had a plan for dealing with charitable contributions; 49% had a committee dedicated to making decisions about distribution of philanthropic expenditure

Centralization - location of responsibility for setting dedicated budget: mix – main board of directors 32% and main board or sub-set > 75%; designated corporate officer 25%, CEO 18%

Centralization/specialization - location of responsibility for managing donations: 13 job titles and 5 main groups – top team (CEO, chairman, company secretary and finance director) 29%, HR director 5%, marketing/advertising director 5.5%, external relationship management 29.5%; and CSR management 23%: significant involvement of top team 'suggests that firms view CSR policy as a significant part of overall corporate strategy'; centralized with policy at high level but management delegated downwards

Influences on the level and distribution of philanthropic expenditures

Level of contributions: rating 1-5 of 10 factors that influence total level of contributions: highest scores – CEO discretion, level of previous contributions, levels of current and past profits; lowest scores – volume of requests, levels of rivals’ contributions and variations in corporate tax rates: ‘This evidence suggests… that discretionary and operational concerns play a more significant role in shaping the size of corporate philanthropic donations than do the actions of charities (in requesting support), rival firms (in setting their contributions), and the Government (in constructing the tax system). These findings run contrary to the characterization of strategic philanthropy offered in Propositions 4, 5 and 7.’

Management of contributions: rating 1-5 of 6 activities: scores – evaluation and processing of applications (av 3.71), internal communication of philanthropic activities (3.63), development of corporate policies relating to charitable donations and developing relationships with community groups (both 3.50), external communication of charitable policies and achievements (3.47) and benchmarking activity against competitors (2.40) – concerns = ‘largely operational rather than strategic’

'It seems, therefore, that there is an important distinction between the role played by strategy in the determination of the extent of philanthropic expenditure and its role in the implementation of the firm’s philanthropic activities. While strategy plays little or no role in determining how much firms give, it plays a very significant role in determining how firms manage their philanthropy’

Propositions:
P1: (Centrality): Philanthropy, if strategic, is subject to the control of the main board of directors – supported
P2: (Structural adaptation): Philanthropy, if strategic, is associated with specialized CSR roles within organizational structures – supported (involvement of CSR specialists)
P3: (Proactivity): Strategic philanthropy is underpinned by the existence of formal budgeting and planning - supported

P4: (Managerial discretion): The level of a firm’s philanthropic expenditures, if strategic, is determined independent of managerial discretion – not supported

P5: (Tax sensitivity): The level of a firm’s philanthropic expenditures, if strategic, is sensitive to corporate tax rates – not supported (importance of resource availability, previous commitments and senior managerial discretion)

P6: (External communication): A firm’s philanthropic expenditures, if strategic, are widely communicated externally to the organization – supported (involvement of external relations management)

P7: (Competitive advantage): The level of a firm’s philanthropic expenditures, if strategic, is sensitive to those of rival organizations – not supported


Population - givers and/or non-givers
Givers and non-givers

Population - source
Published annual reports and accounts for 2002 from Datastream; social performance data from Ethical Investment Research Service (EIRIS) = ‘the largest and most complete multidimensional social performance coverage of UK firms, covering issues relating to employment, the environment, community, human rights and supply chain management’, with ratings based on objective criteria; advertising data from Marketing magazine 2002 Top 100 advertisers or owners of ‘Biggest Brands’; ownership data as at June 2002 from share ownership analysis database

Population - universe/sample
All companies in FTSE AllShare index (includes 98% of overall capitalisation) for which information on firm-level geographical diversification is available N = 420; ‘wide range of industrial sectors’ and 2/3rds of all those in index

Longitudinal/single year
Single year 2002

Dependent variable
Social performance: EIRIS alphabetical ratings translated into numerical ratings for 3 of 5 subject areas: community performance graded 1-4; environmental performance graded 1-5 (for policies, systems, reporting and performance; T = 20); employee performance graded 1-3 (for health and safety, training and development, equal opportunities, employee relations, job creation, job security; T = 18); aggregate measure = sum of three scores normalised to a 1-4 grading; overall score = 12

Independent variables
- Diversification: total number of countries listed among countries of operation or country of incorporation of firm’s principal subsidiaries as listed in notes to accounts
- Specific location (binary): Western Europe, Eastern Europe, North America, Central and South America, Africa, Middle East, Central Asia, East Asia, Australasia (see appendix)
Control variables:
- Size: natural log of the value of total assets
- Principal business activity: approximately = to 3-digit NACE
- Firm profitability: ratio of pre-tax profits to total assets
- R & D intensity: ratio of R & D expenditures to sales
- Corporate leverage: ratio of total debt to total assets
- Number of non-executive directors
- Industry: Datastream industry classification → 6 sectors: construction, consumer manufacturing, consumer services, energy and water, producer manufacturing, producer services
- Advertising: classification as one of ‘Top 100 Advertisers’ or owner of one of ‘Biggest Brands’ in 2002
- Ownership: sum of proportions of firm equity held by long-term institutional investor groups

Approach:
- ‘Very little systematic analysis of the link between corporate geographical diversification and social performance’
- Contributions of this research: set of empirical models that control for firm and industry attributes and make distinction between number of countries in which a firm is active and presence in particular geographical regions: ‘More generally, we wish to draw a distinction between region-specific stakeholder preferences for social performance and region-specific social issues, and assert that the international patterns of the two are starkly different’: ‘highly-developed’ = Western Europe, North America and Australasia; ‘developing’ = Central and South America, Africa and Central Asia
- Points of analysis on corporate social performance = communities, employees, environment (degree of strategic discretion)
- 4 models using dependent variable: all performance and each of components; multiple regressions (6, 7, 8 = best)

Theory:
- Stakeholder theory ‘has become a core conceptual approach within the business and society arena through its emphasis on the linkages between business organizations and wider constituencies within society’
- ‘The basic point is that geographical diversification tends to increase the number and diversity of stakeholder pressures in the firm’s external environment that arise because of social, cultural, legal, regulatory, and economic variations between companies’ → pressure to adopt global standards and policies or impetus to choose locations that minimise pressures
- Possibility of isomorphism: ‘However, the globalization of both consumption and media exposure, the institutionalization of pressure for international environmental and labour standards, and the efficiencies gained from implementing standardised global practices have created significant interdependencies between corporate behaviour in disparate geographical areas and an imperative for MNCs to behave similarly in all locations.’
Findings:

- Greater diversity = positive and significant for community and environmental performance @ 5%
- Ten geographical diversity variables highly jointly significant in determining community and environment performance but not employee performance
- Diversity = general positive influence on community performance except in Eastern Europe; no significant influence on employee performance; no significant general influence on environmental performance but countervailing effects – positive in Western Europe and negative in Eastern Europe (negative effect = 40x positive effect)
- ‘No special tendency for strong (or weak) social performance, or any component thereof, in those regions previously characterised as most closely associated with social issues, i.e. Central and South America, Africa and Central Asia’ but strong environmental performance in Western Europe; negative tendency in Eastern Europe: ‘The significance of a presence in Eastern Europe for community and environmental performance is perhaps a little surprising. That the region is not associated with a positive effect on CSP is unsurprising – Eastern Europe is not as closely associated with high profile social issues as some other regions, and does not harbour a strong preference for CSP among local stakeholder constituencies. Perhaps the negative impact is due to the relative lack compare to elsewhere in Europe of a local stakeholder preference for CSP. Across our results as a whole, the importance of regional presence resides entirely within Europe, and the split between east and west is broadly coincident with the eastern boundary on the heightened interest in CSP amount key stakeholder groups.’ → ‘This finding lends support to the notion that firms can reduce their obligation to fulfil localised demands for social performance by shifting some part of their operations to foreign production environments where the stakeholder preference for SCP is less pronounced’ – limited support for H1 and H3
- Diversified firms = ‘superior social performance compared to those firms whose activity is more narrowly confined geographically’
- In sum: Diversification has no impact on employee performance; positive impact on community performance except in Eastern Europe and positive impact on environmental performance in Western Europe

Hypotheses:

H1: The more geographically diversified a firm’s operations, the better is its social performance – supported but with provisos as to type of social performance and geographical region
H2: The effects of geographical diversification on social performance is stronger for community and environmental performance than for employee performance - supported
H3: Social performance varies across firms according to the pressures to demonstrate CSP found among local stakeholder constituencies in the geographical regions in which each firm is present – partially supported (Western Europe)
H4: Social performance varies across firms according to the presence of highly-focal social issues relating with the geographical regions in which each firm is present – both supported and contradicted (not expected social issue countries but Eastern Europe)

<table>
<thead>
<tr>
<th>Population - givers and/or non-givers</th>
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<tbody>
<tr>
<td>Givers and non-givers</td>
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<thead>
<tr>
<th>Population - source</th>
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</thead>
<tbody>
<tr>
<td>All Fortune 500 firms in 1998; matched with data from 1999 <em>Corporate Giving Directory</em> 1999 (published in 2000), which includes firm-level data on allocation of giving by subject, management of corporation and giving programme or linked foundation; and data from Compustat on corporate governance (SEC filings) and other corporate data</td>
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<table>
<thead>
<tr>
<th>Population - universe/sample</th>
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<tr>
<td>All Fortune 500 companies for which data available; N = 207 firms (and 701 firm years of observations)</td>
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<tr>
<th>Longitudinal/single year</th>
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<tr>
<td>Single year 1999 (with extra observations for surrounding years)</td>
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<table>
<thead>
<tr>
<th>Dependent variable</th>
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<tbody>
<tr>
<td>Cash contributions to not-for-profit organizations, both directly and indirectly through foundations (84% of those in sample)</td>
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<table>
<thead>
<tr>
<th>Agency cost and monitoring variables</th>
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</thead>
<tbody>
<tr>
<td>Total board size</td>
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<tr>
<td>Ratio of number of insiders to total board size</td>
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<tr>
<td>Debt-to-value ratio (value = total assets)</td>
</tr>
<tr>
<td>Percent equity held by blockholders (who own 5% or more)</td>
</tr>
<tr>
<td>Percent equity held by institutions</td>
</tr>
<tr>
<td>Market-to-book ratio (control)</td>
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<tr>
<th>Value enhancement variables:</th>
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</thead>
<tbody>
<tr>
<td>‘Regulated industry’ = non-financial industry that faces rate and entry regulation (communications, television broadcasting, electrical services, natural gas)</td>
</tr>
<tr>
<td>‘Environmental impact industry’ = industry that may pose a significant threat to the environment (paper products, chemicals and plastics, petroleum)</td>
</tr>
<tr>
<td>‘Financial regulated industry’ = banking or insurance industry primarily regulated at state level</td>
</tr>
<tr>
<td>Ratio of R &amp; D expenses to sales</td>
</tr>
<tr>
<td>Ratio of advertising expenses to sales: ‘Public displays of charity are a form of advertising and likely to be driven by the same underlying considerations’ – e.g. highest for pharmaceuticals (ratio of 11.7% vs 2.5% for manufacturing)</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Legal considerations (variation by state)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Following <em>A.P. Smith Manufacturing Co. vs Barlow</em> [1953] (legality of cash donations to Princeton University even if no direct benefit to company) all states have philanthropy statutes that validate corporate authority to make contributions to charity:</td>
</tr>
<tr>
<td>o 24 enable corporations “to make donations for the public welfare or for charitable, scientific or educational purposes”</td>
</tr>
<tr>
<td>o 19 allow contributions for either “furthering the business affairs of the corporation” or for “charitable purposes”</td>
</tr>
<tr>
<td>o 7 authorise contributions “irrespective of corporate benefits”</td>
</tr>
</tbody>
</table>
Approach:
- ‘Comprehensive tests of alternative theories using a large sample of firms that
  represent a variety of industries’

Theory:
- ‘Agency cost’ theory: ‘managers and board members increase their own utility
  through corporate philanthropy’
- Alternatively but not mutually exclusively
  - ‘Value enhancement’ theory: ‘philanthropy creates value for shareholders’ →
    ‘employee morale, customer loyalty, and more lenient treatment by regulators
    or government officials’

Findings:
- ‘Our results indicate that, controlling for firm size, agency cost considerations
  play a prominent role in explaining corporate giving. In particular, monitoring by
  debtholders appears to curtail giving (firms with more debt give less) and firms
  with large boards are more “generous” givers. Like Navarro, we find a positive
  relationship between advertising and giving. Perhaps more edifying is that firms
  subject to more public policy scrutiny, such as regulated firms and firms with
  high levels of investment in R&D (e.g. pharmaceutical companies) give
  significantly more than other firms. Overall, results suggest that managers may
  view charity as a business expense but it is significantly more likely to be
  incurred when financial constraints and monitoring constraints are weak.’
- ‘Much of our evidence is consistent with the agency cost hypothesis. We find
  that larger firms with larger boards give significantly more to charity. Charitable
  donations per director = ca. $800,000 and pharmaceutical firms’ donations per
  director = $10 million

Table 1: Descriptive statistics for corporations reporting charitable donations

<table>
<thead>
<tr>
<th>Firm attributes</th>
<th>Mean</th>
<th>Median</th>
<th>SD</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income ($m)</td>
<td>880.715</td>
<td>433.000</td>
<td>1,364.235</td>
<td>2,138.000</td>
<td>9,296.000</td>
</tr>
<tr>
<td>Assets ($m)</td>
<td>26,977.820</td>
<td>10,951.000</td>
<td>50,126.710</td>
<td>961.830</td>
<td>355,935.000</td>
</tr>
<tr>
<td>Employees (000)</td>
<td>56.739</td>
<td>32.039</td>
<td>87.643</td>
<td>0.050</td>
<td>745.000</td>
</tr>
<tr>
<td>Firm age</td>
<td>94.686</td>
<td>95.000</td>
<td>45.695</td>
<td>2.000</td>
<td>213.000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Giving rates</th>
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</thead>
<tbody>
<tr>
<td>Annual dollar giving ($m)</td>
<td>10.700</td>
<td>3.855</td>
<td>18.300</td>
<td>0.025</td>
<td>141.000</td>
</tr>
<tr>
<td>Annual giving per employee</td>
<td>279.021</td>
<td>142.180</td>
<td>470.419</td>
<td>1.613</td>
<td>4,578.314</td>
</tr>
<tr>
<td>Annual giving per director (000)</td>
<td>846.021</td>
<td>311.111</td>
<td>1,488.218</td>
<td>2.083</td>
<td>12,800.000</td>
</tr>
<tr>
<td>Annual giving per million sales</td>
<td>968.935</td>
<td>570.500</td>
<td>2,003.378</td>
<td>8.000</td>
<td>28,102.500</td>
</tr>
<tr>
<td>Annual giving per million assets</td>
<td>712.209</td>
<td>447.700</td>
<td>994.932</td>
<td>3.812</td>
<td>8,225.332</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Agency cost and monitoring variables</th>
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</thead>
<tbody>
<tr>
<td>Total directors</td>
<td>12.502</td>
<td>12.000</td>
<td>2.752</td>
<td>4.000</td>
<td>29.000</td>
</tr>
<tr>
<td></td>
<td>0.201</td>
<td>0.182</td>
<td>0.106</td>
<td>0.056</td>
<td>0.800</td>
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<tr>
<td>Ratio inside directors to total directors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ratio inside plus gray directors to total directors</td>
<td>0.241</td>
<td>0.222</td>
<td>0.124</td>
<td>0.056</td>
<td>0.818</td>
</tr>
<tr>
<td>Ratio of book equity to market equity</td>
<td>0.429</td>
<td>0.388</td>
<td>0.254</td>
<td>0.017</td>
<td>2.385</td>
</tr>
<tr>
<td>Ratio of total debt to value</td>
<td>0.218</td>
<td>0.175</td>
<td>0.172</td>
<td>0.000</td>
<td>0.782</td>
</tr>
<tr>
<td>Percent equity held by institutions</td>
<td>59.702</td>
<td>61.000</td>
<td>14.708</td>
<td>4.000</td>
<td>96.000</td>
</tr>
<tr>
<td>Percent equity held by blockholders</td>
<td>14.574</td>
<td>9.800</td>
<td>16.823</td>
<td>0.000</td>
<td>95.800</td>
</tr>
<tr>
<td>Value enhancement variables</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ratio of advertising to total advertising to total</td>
<td>0.015</td>
<td>0.000</td>
<td>0.038</td>
<td>0.000</td>
<td>0.361</td>
</tr>
<tr>
<td>Ratio of R &amp; D to total sales</td>
<td>0.018</td>
<td>0.002</td>
<td>0.033</td>
<td>0.000</td>
<td>0.227</td>
</tr>
<tr>
<td>Regulated industry</td>
<td>0.074</td>
<td>0.000</td>
<td>0.262</td>
<td>0.000</td>
<td>1.000</td>
</tr>
<tr>
<td>Environmental impact industry</td>
<td>0.124</td>
<td>0.000</td>
<td>0.330</td>
<td>0.000</td>
<td>1.000</td>
</tr>
<tr>
<td>Financial regulated industry</td>
<td>0.175</td>
<td>0.000</td>
<td>0.381</td>
<td>0.000</td>
<td>1.000</td>
</tr>
<tr>
<td>Governance of giving programme</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent of firms with charitable foundation</td>
<td>83.9</td>
<td>1.0</td>
<td>36.8</td>
<td>0.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Percent of firms with a foundation that identify the</td>
<td>42.0</td>
<td>0.0</td>
<td>49.4</td>
<td>0.0</td>
<td>100.0</td>
</tr>
<tr>
<td>CEO as running the foundation</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Percent of firms with a foundation that identify a</td>
<td>62.4</td>
<td>1.0</td>
<td>48.5</td>
<td>0.0</td>
<td>100.0</td>
</tr>
<tr>
<td>corporate officer (CEO, CFO, COO) as running the</td>
<td></td>
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<tr>
<td>giving program</td>
<td></td>
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</tr>
<tr>
<td>Percent of firms without a foundation that identify</td>
<td>2.7</td>
<td>0.0</td>
<td>16.2</td>
<td>0.0</td>
<td>100.0</td>
</tr>
<tr>
<td>the CEO as running the giving program</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Percent of firms without a foundation identifying a</td>
<td>6.2</td>
<td>0.0</td>
<td>24.2</td>
<td>0.0</td>
<td>100.0</td>
</tr>
<tr>
<td>corporate officer</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
Reporting by reported givers (*Directory*) and non-reporters (Fortune 500) – 5 models with binary 1 if firm reports data on giving and 0 if not (Model 1 includes only agency cost/monitoring variables; Model 2 only value-enhancement variables; Model 3 plus firm characteristics related to size and age; Models 4 and 5 plus industry dummy variables) → Table 2

- Choice to report reflects managers' perception of whether public disclosure serves their goals
- Firms with larger boards and with relatively more outsiders are more likely to report
- Firms with higher debt-equity ratios and with relatively more blockholders are less likely to report
- Firms that advertise intensively are more likely to report
- Industry effects are important, with regulated firms less likely to report and firms with environmental impacts more likely to report
- Utilities, retailers, wholesalers and service firms are significantly less likely to report (data not in Table 2)

Analysis of giving by industry: 13 industries based on primary SIC code with refinements of 2-digit SIC if sufficient numbers of observations – each group has roughly similar numbers of observations except manufacturing with 45% → Table 3

- Pharmaceutical firms give significantly more to health causes than others (43% of their giving)
- Petroleum firms give significantly more to environmental causes than others (4% but 33% to education)
- Mining and construction firms give nil to environmental causes
- Firms in industries with international exposure (utilities, wholesalers, retailers and transportation firms) generally do not give to international causes
- Firms in every industry give to the arts, especially securities dealers and investment banks (22%)
- Firms in utilities, transportation and retail industries most likely to give to ‘general’ causes (36%, 52% and 45%)

Firm’s choice to establish a charitable foundation → Table 4; firms with foundations on average (relative to firms without foundations):

- are 10 years older (96.31 vs 86.24)
- have 15,500 more employees (59,240 vs 43,740)
- have larger boards (12.58 vs 12.11)
- have lower debt ratios (0.17% vs 0.22%)
- have lower institutional holdings (59% vs 63.2%)
- have lower blockholdings 13.4% vs 20.67%)
- are more likely to specify priorities than use the ‘general’ category (variable vs 48.67%)
- give more to the arts (9.34% vs 6.32%), education (29.77% vs 14.37%), religion (0.84% vs 0%), social services (15.28% vs 6.58%) and science (0.20% vs 0%)
are much more likely to involve corporate officers in the management of giving programs

BUT

- Presence of a foundation does not result in significant differences in giving (total giving, giving per employee, giving per dollar assets or giving per dollar sales)
- Firms in mining and construction, pharmaceuticals and communications have foundations (all) and manufacturing (most) but all other industries except utilities are less likely to have foundations (Table 5)

Determinants of corporate giving → Table 6 regressions with dependent variables = natural log of total cash giving inclusion/exclusion of industry variables (Models 1 and 2); dollar giving standardised by employees (Model 3), dollar sales (Model 4) and dollar equity (Model 5)

- Larger boards are associated with significantly more giving (less effective as monitors; inside/outside no effect)
- ‘Managers spend more on charity when they face fewer constraints on how cash flow is used, as indicated by a lower level of fixed debt obligations’
- Blockholders and institutional investors do not have systematic impact
- Firms with high advertising intensity give more
- Firms that invest more heavily in R & D give significantly more (especially pharmaceutical firms)
- Regulated firms give more (except Model 5) but are less likely to disclose giving (Table 2)
- Regulated utilities characterise a large portion of giving as ‘general’
- Financial firms (banks and insurance companies) give less absolutely and per employee
- Mining and construction, transportation and retail firms give significantly less than manufacturing firms
- Utilities, petroleum and pharmaceutical firms give significantly more than manufacturing firms

---


**Population - givers and/or non-givers**
- Givers

**Population - source**
- IRS *Corporation Sourcebook for the Statistics of Income*

**Population - universe/sample**
- Zero asset class deleted so 11 asset classes covering 83 industries (6 digit NAICS) N = 719 ‘a very broad cross-section of US industries’

**Longitudinal/single year**
- Single year 1999

**Dependent variable**
- GIFT-RATIO: Charitable contributions divided by total receipts
Independent variables
Strategic effects
- ADIN: Advertising intensity = advertising expenditure divided by total receipts
- FSIZE: Firm size = average assets
- ROA: Return on assets = sum of net income and interest paid divided by total assets

Industry effects
- IND: Industry fixed effects M-1 where M = number of industries in sample (binary) (dummy)

Findings (exposition gnomic!)
- Evidence of a cubic relationship between charitable giving ratios and firm size: small and large firms have higher giving ratios than medium-sized firms
- Industry effects explain 20%-22% of the total variation in giving ratios
- Giving culture affects giving ratios: ‘The inter-industry differences could be the result of special public relations vulnerability related to product characteristics or the presence of particularly philanthropic minded firms that set the tone for all members of the industry. Industry giving culture may create an environment that requires firms to meet or exceed competitor philanthropy in order to maintain customer and community goodwill. Such industries challenge corporations to not only meet giving level norms but also to better target and promote philanthropy, receiving maximum benefit from each charitable dollar given.’

**NOTE**

Hypotheses:
- H1: Large firms give more in philanthropic contributions relative to total receipts than do smaller firms
- H2: A cubic function best captures the non-linear relationship between firm size and philanthropic contributions relative to total receipts
- H3: A positive relationship exists between philanthropic contributions relative to total receipts and profit as measured by ROA suggesting that slack resources contribute to a firm’s philanthropic contributions
- H4: A positive relationship exists between the ratio of charitable giving to receipts and advertising intensity
- The ratio of charitable giving to receipts varies across industries

Models (and findings):
- Linear firm size, industry effects excluded: Support H1, H3, H4
- Cubic firm size, industry effects excluded: Support H1, H2, H4
- Linear firm size, industry effects included: Support H3, H4, H5
- Cubic firm size, industry effects included: Support H1, H2, H4, H5

### Population - givers and/or non-givers
Givers and non-givers

### Population - source
Annual reports and accounts

### Population - universe/sample
Mutual building societies N = 31 including top 20 by asset value and remaining ‘spread evenly throughout the remaining size distribution’ and accounting for 94.5% of total asset value of building societies 2002; banks including high street banks and excluding merchant banks N = 7; those for which full information available over period

### Longitudinal/single year
Longitudinal 1990-2003 (before and after demutualisation)

### Variable
‘Giving rates’ = ratio of cash donations (from mandatory disclosure in directors’ report) to profits before tax (as used by PerCent Club)

### Findings:
- Mean giving rate increased for both mutual and banks, mutual initially lower but convergence later on

<table>
<thead>
<tr>
<th>Year</th>
<th>Mean mutuals</th>
<th>Mean banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>0.03</td>
<td>0.34</td>
</tr>
<tr>
<td>1991</td>
<td>0.06</td>
<td>0.9</td>
</tr>
<tr>
<td>1992</td>
<td>0.076</td>
<td>1.7</td>
</tr>
<tr>
<td>1993</td>
<td>0.07</td>
<td>0.31</td>
</tr>
<tr>
<td>1994</td>
<td>0.07</td>
<td>0.18</td>
</tr>
<tr>
<td>1995</td>
<td>0.09</td>
<td>0.16</td>
</tr>
<tr>
<td>1996</td>
<td>0.13</td>
<td>0.2</td>
</tr>
<tr>
<td>1997</td>
<td>0.2</td>
<td>0.25</td>
</tr>
<tr>
<td>1998</td>
<td>0.3</td>
<td>0.26</td>
</tr>
<tr>
<td>1999</td>
<td>0.32</td>
<td>0.27</td>
</tr>
<tr>
<td>2000</td>
<td>0.58</td>
<td>0.3</td>
</tr>
<tr>
<td>2001</td>
<td>0.45</td>
<td>0.36</td>
</tr>
<tr>
<td>2002</td>
<td>0.54</td>
<td>0.49</td>
</tr>
<tr>
<td>2003</td>
<td>0.57</td>
<td>0.53</td>
</tr>
</tbody>
</table>

- Case studies of Northern Rock, Alliance & Leicester, Woolwich, Halifax and Bradford & Bingley inconclusive

### Hypotheses:
- Mutual societies historically donate to charity at a higher rate as a proportion of PBT than public banks; not proved
- Demutualisation is associated with a decline in the rate of charitable giving as a proportion of PBT: not proved

<table>
<thead>
<tr>
<th>Population - givers and/or non-givers</th>
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<tbody>
<tr>
<td>Givers</td>
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<table>
<thead>
<tr>
<th>Population - source</th>
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<tbody>
<tr>
<td>UK companies listed in FTSE All-share Index 2001 via Datastream (Thomson-Reuters) supplemented by company reports, Factiva news database</td>
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<table>
<thead>
<tr>
<th>Population - universe/sample</th>
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</thead>
<tbody>
<tr>
<td>Companies that ‘exhibit a relatively high degree of corporate philanthropy (Top 35%)’ by either high rank by the ratio of donations to asset size or donations per employee N = 316</td>
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<thead>
<tr>
<th>Longitudinal/single year</th>
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<tbody>
<tr>
<td>2001</td>
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<table>
<thead>
<tr>
<th>Dependent variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Ratio of donations to asset size</td>
</tr>
<tr>
<td>• Ratio of donations per employee</td>
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<table>
<thead>
<tr>
<th>Sets</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Influence: large number of non-executive directors and high degree of single shareholders</td>
</tr>
<tr>
<td>• Observation: high media visibility or high institutional membership (FTSE)</td>
</tr>
<tr>
<td>• Industry: high degree of philanthropy (separation out of industries with low degree of philanthropy)</td>
</tr>
<tr>
<td>• Size: number of employees</td>
</tr>
<tr>
<td>• Age: number of years since incorporation</td>
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<table>
<thead>
<tr>
<th>Findings:</th>
</tr>
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<tbody>
<tr>
<td>‘Preliminary analyses suggest that this approach will yield some distinct characteristics that are not documented in the current literature, particularly relating to the effects of stakeholder influence which appears to have different consequences depending on the size and age of the corporation, and the level of institutional observations.’ → ‘a diverse picture of UK corporate philanthropy that has been somewhat masked in studies using linear-based quantitative models’</td>
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<table>
<thead>
<tr>
<th>Model:</th>
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<tbody>
<tr>
<td>• ‘Whether the various factors that have been discussed in the philanthropy literature can be interpreted using configurations and comparative techniques’</td>
</tr>
<tr>
<td>• = alternative perspective ‘through a fuzzy-set lens’ – fuzzy-set qualitative comparative analysis = ‘a middle path between traditional quantitative analysis and qualitative case studies’</td>
</tr>
<tr>
<td>• Extent to which high philanthropy is associated with membership in a set or sets</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Population - givers and/or non-givers</th>
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<tbody>
<tr>
<td>Givers and all publicly committed to CSR</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Population - source</th>
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</thead>
<tbody>
<tr>
<td>Previous study (2002) of 119 Canada-based firms (space given to CSR in public-facing documentation)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Population - universe/sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEDAR (System for Electronic Document Analysis and Retrieval) dataset; minus those not based in Toronto plus additional invitees (30 declined) N = 14; 2 natural resources, 2 retail, 3 technology, 2 communications, 2 food and beverage, 3 finance and insurance; 8 global, 4 national, 1 regional; 4 subsidiaries of Canadian companies and 2 of USA companies; 4 business to consumer, 2 business to business, rest mixed</td>
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</tbody>
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<thead>
<tr>
<th>Longitudinal/single year</th>
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<tbody>
<tr>
<td>Single year (not specified)</td>
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<table>
<thead>
<tr>
<th>Method</th>
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<tbody>
<tr>
<td>1 hour in-depth IVs with manager or executive designated as decision-maker in charge of corporate philanthropy; taped and transcribed; content analysis</td>
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<table>
<thead>
<tr>
<th>Findings:</th>
</tr>
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<tbody>
<tr>
<td>Data on:</td>
</tr>
<tr>
<td>• Motivations for engaging in philanthropy (11 companies)</td>
</tr>
<tr>
<td>• Outcomes (10 companies)</td>
</tr>
<tr>
<td>• Implementation features (10 to 14 companies)</td>
</tr>
</tbody>
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Typology of roles:

<table>
<thead>
<tr>
<th>Donors N = 2</th>
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<tbody>
<tr>
<td>• Community: Separate from</td>
</tr>
<tr>
<td>• Motivation: Reactive, responsive ‘under duress to protect their reputation, to support the pet projects of senior executives or board members or… respond to a community crisis’</td>
</tr>
<tr>
<td>• Time frame: Immediate, short term, mainly overseas beneficiaries/projects</td>
</tr>
<tr>
<td>• Application process: Very informal</td>
</tr>
<tr>
<td>• Employee involvement: No</td>
</tr>
<tr>
<td>• Expectations of giving: Minimal expectations with emphasis on overseas: ‘The relationship appears to revolve around the exchange of dollars for a modicum of legitimacy.’</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Sponsors N = 9 (weak or strong)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Community: In</td>
</tr>
<tr>
<td>• Motivation: Benefits to company ‘based on their geographical proximity to the company’s operations, or based on their emotional proximity to the company’s employees’: create goodwill, support brands</td>
</tr>
<tr>
<td>• Time frame: Mid- to long-term</td>
</tr>
<tr>
<td>• Application process: Somewhat formal</td>
</tr>
<tr>
<td>• Employee involvement: Opportunities to participate</td>
</tr>
</tbody>
</table>
- Expectations of giving: ‘The relationship with nonprofits for these companies is not so much about giving dollars in exchange for community legitimacy as it is about exchanging their resources for community recognition and public relations – recognition that can ultimately translate into commercial benefits.’

**Partners N = 3**
- Community: Engaged with
- Motivation: Improve society
- Time frame: Long-term, sometimes multigenerational
- Application process: Very formal
- Employee involvement: ‘Part of organizational expectations’
- Expectations of giving: Mostly societal; ‘building multiplexed partnerships to address widely recognized social problems’; adopted after investigation/consultation with stakeholders – ‘less about being seen to do the right thing and more about identifying and actually executing the right thing’

**Change over time:** Roles = discrete and not on a continuum of in a hierarchy i.e. donors do not over time evolve into partners although within groups role of philanthropy is evolving, developing and shifting

**Why are partners different?** Founding vision, philanthropy as part of core business from the beginning and sustained - not an add-on: ‘What seems to differentiate partner companies from the rest is that the organization’s vision of its core business included philanthropy from the outset. The data suggest that without this founding vision, no matter how many renewals, revisits, or revisions are made to philanthropic activities, they never become thoroughly integrated into the sour of a company. Partner companies are most likely born, not made.’

**Analytical context:** (// might have been better with UK)
Comparison USA and Canada: voluntary organisations as allies of the state, with less pressure on companies; also less favourable tax breaks so lower levels of corporate giving (0.064% of pre-tax profits in 1988 and 1.04% in 2000; influence of Imagine Canada campaign; but cuts in state funding → pressure on voluntary organisations to seek different sources of funding

<table>
<thead>
<tr>
<th>Population - givers and/or non-givers</th>
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<tbody>
<tr>
<td>Givers and non-givers</td>
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<table>
<thead>
<tr>
<th>Population - source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information on locations of corporate HQs of publicly traded companies year by year:</td>
</tr>
<tr>
<td>• from CompactDisclosure corporate addresses for all active US firms listed in New York, American and NASDAQ stock exchanges between 1989 and 2002 (if possible May SEC filing at end of financial year)</td>
</tr>
<tr>
<td>• Commercial zip code conversion programme plus hand coding → cities (N = 335 or which 146 or 147 selected)</td>
</tr>
<tr>
<td>• From CompactDisclosure market value of firms (value of all outstanding shares) and CUSIP identifier (unique for firm); all ranked and top 1000 identified for each year; in 1989 N = 5,642 (657 AMS, 1,371 NDQ, 2,288 NMS and 1,326 NYS); in 2000 N = 6,506 (551 AMS, 897 NDQ, 3,390 NMS and 1,668 NYS)</td>
</tr>
<tr>
<td>• 146 cities (which had HQs of approximately 85% of all US traded corporations in 1990 and 2000; 15 cities which had HQs of approximately 46% of top firms); note substantial turnover in locations – only 1,310 firms (29%) present in 146 cities in 1990 still there in 2000 = larger firms</td>
</tr>
</tbody>
</table>

| Information on contributions received by local charitable organisations: |
| • IRS 501c(3) via National Centre for Charitable Statistics (excluding trade unions, business organisations, social and recreational clubs and beneficiary societies) N = sample of 11,000 to 16,000 per year; information includes zip codes; in calculations samples weighted to reflect under-sampling of smaller charities; cities included in sample if they had a minimum of 9 charities in sample in each year |

<table>
<thead>
<tr>
<th>Population - universe/sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>N = 2,805 firms ever in top 1000 list between 1989 and 2002 (524 continuously active in all years); account for 90% of total value of all firms in sample</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Longitudinal/single year</th>
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<tbody>
<tr>
<td>1989-2002 with emphasis on 1990 and 2000 (Census years)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Dependent variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘public contributions received by charitable organizations’</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Cross-sectional regressions (1990 and 2000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Change in total contributions for all organisations (Cols 1-3)</td>
</tr>
<tr>
<td>• Change in contributions for nationally-oriented organisations (4-6)</td>
</tr>
<tr>
<td>• Change in contributions for locally-oriented organisations (7-9)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Dynamic regressions (all years) 1,470 observations on 147 cities 1990-1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Unweighted sum of public contributions to all charities in a city in a given year</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Independent variables</th>
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</thead>
<tbody>
<tr>
<td>Cross-sectional regressions (1990 and 2000)</td>
</tr>
<tr>
<td>• Count of HQs of top firms (1 &amp; 5)</td>
</tr>
</tbody>
</table>
Count of HQs of all firms (2 & 6)  
Market value of all firms (weighted; 3 & 7)  
Count of HQs of all firms and market value of all firms (4 & 8)

Control variables:  
- Adult population  
- Employment population rate aged 16-59  
- Fraction of adults with college degree or higher

Dynamic regressions (all years) 1,470 observations on 147 cities 1990-1999  
- Count of HQs of all firms (1-5)  
- Market value of all firms (6-10)

Control variables:  
- Fixed effects for city and year (1-5)  
- City-specific linear trends (6-10)

Findings:  
- Relationship between presence of corporate headquarters and the level of charitable giving in a city: whether corporate HQs exert causal effect: ‘attracting or retaining the headquarters of an average firm yields approximately $3-10 million per year in public contributions to local non-profits’; impact in changes of market capitalisation: ‘each 1000 dollar increase in the market value of the firms headquartered in a city yields $0.60-1.60 to local non-profits’; increases distributed to both nationally- and locally-oriented charities  
- Channels through which corporate HQs might affect local charities: direct donations by corporates or donations by high-paid individuals; ‘Most of these increases in charitable contributions seem to be due to the fact that the presence of corporate headquarters raises the number of rich individuals in an area. The addition of a new headquarters in a city is associated with an increase in the number of individuals with income larger than $100,000 equal to 275. By contrast we find limited support for the notion that the presence of corporate headquarters benefits charities directly, through corporate donations. Given that the vast majority of firms in our sample produce nationally traded goods, this finding may be not too surprising. Profit-maximizing firms with customers all over the country should have limited incentives to contribute only to local charities.’  
- Relationship of private sector donations generated by corporate HQs to government funding: whether there is crowding out: ‘government funding is essentially unaffected by fluctuations in private donations. Increases in donations from the presence of local headquarters do not appear to be offset by reductions in government aid.’

Theory:  
- Agency: managers vs shareholders  
- Profit maximisation  
- ‘Both views suggest that corporations will tend to focus much of their overall giving on local charities.’ but for different reasons - local recognition and perquisites (agency) vs improved community relations (profit-maximisation)
Other studies (few):
- McElroy & Siegfried (1986) 229 large companies in 14 cities: 70% of corporate donations targeted to HQ cities
- Galaskiewicz (1987) companies in Minneapolis-St Paul: 63%


**Population - givers and/or non-givers**
Givers and non-givers

**Population - source**
- Published company accounts
- Datastream: firm specific information
- Marketing magazine 2002: ‘top 100 advertisers’ and owners of ‘Biggest Brands’
- Share ownership analysis database ‘managed by one of the UK’s largest company registrars’ 32 types of beneficial owner

**Population - universe/sample**
From FTSE All-Share index (98% of total capitalisation of LSE) → availability of data [mysterious black box] N = 305 ‘from a wide range of industrial sectors’ including half of FTSE All-Share companies

**Longitudinal/single year**
Single year 2002

**Dependent variable**
Corporate charitable expenditures (natural logarithm as per Adams and Hardwick 1998)

**Independent variables**
- Firm-level degree of internationalisation: proportion of turnover that derives from overseas
- Geographical diversification: principal subsidiaries in 2002 Annual Report
- Countries of concern (with negative social issues): Countries of Concern list in *FTSE4good Index Series: Inclusion Criteria* (2003) listing based on environmental sustainability, stakeholder relations and attitudes to human rights and drawn up by EIRIS with input from Freedom House, Human Rights Watch and Amnesty International; N in March 2003 = 27; = binary variable one or more subsidiaries listed as operating or being incorporated in a country of concern; and continuous variable of total of countries in which each firm is present
- Intensity of concern: scoring based on Freedom House and Transparency International political rights and civil liberties indicators (1-7 with 7 = worst) Transparency International corruption indicator (0 to 10 with 0 = worst; inverted and harmonised on a 1-7 scale with 7 = worst) → 3 variables political rights, corruption = value of worst-rated country in which firm is present and controversy (political rights plus corruption)

**Firm attributes:**
- Size = natural logarithm of the value of total assets
• Principal business activity = approximately equivalent to 3-digit NACE industry → aggregated to 7 sectors (construction, consumer manufacturing, consumer services, energy and water, finance, producer manufacturing, producer services)
• Firm profitability = ratio of pre-tax profits to total assets
• Corporate leverage = ratio of total debt to total assets
• R & D intensity = ratio of R & D expenditures to total assets
• Advertising (dummy) = owner of one of the ‘Biggest Brands’ or ‘top 100 advertisers’ from Marketing magazine in 2002
• Ownership = sum of the proportions of firm equity held by long-term institutional investor groups (pension funds, insurance companies and life assurors)

Dummy variables (to eliminate or minimise threshold effects which represent ‘hurdles of ascending heights for country political and civil rights); all binary with 1 if the firm is present in at least one country that attracts a sufficiently poor rating with UK as the lowest score (2 for corruption)
• Corruption at least 3
• Corruption at least 4
• Corruption at least 5
• Corruption at least 6
• Corruption at least 7

Findings:
• ‘Aggregate charitable giving is significantly positively associated with firm size… and long-term institutional ownership…, is significantly negatively associated with the degree of leverage…, and also tends to vary across industrial sectors’ but ‘no significant effect associated with internationalization per se’ (regression 1)
• There is ‘a significant positive effect to be associated with a presence in one or more of these countries’ (regression 2) but ‘no such significant effect for the number of countries in which a firm is present’ (regression 3): ‘It seems that, for stakeholders’ tendency to question the social responsibility of firms, a presence in even one controversial country is enough to risk an inference that corporate decision-making disregards social welfare.’
• Political rights more important than corruption: ‘Specifically, it appears that the salient feature of a country in this connection is a lack of political rights and/or civil liberties, rather than a presence of high levels of corruption.’ (regression 4)
• How bad must it be (regressions 6-10) to create an effect: only at least 7: ‘Therefore, we find that the effect on corporate charitable giving operates only at the highest degree of controversy, and specifically that associated with a lack of political rights and/or civil liberties.’ ‘Starting with the average level of charitable giving across our sample of firms, approximately £1.148m, if we add the effect of a presence in one or more of these countries, the predicted increase in donations is roughly £830,000, up to a total of approximately £1.977m… an increase of over 70%.’
• Other influences: positive for size (larger), sector (active in consumer-oriented industries) and institutional share ownership (high); negative for leveraging (high)
‘Our evidence does not necessarily imply that multinationals generate significant net contributions to social welfare in host countries (or, of course, that they do not). Conceptually, our suggestion is that companies may seek to use greater levels of charitable giving to offset the concerns of stakeholders regarding the possibly negative connotations of their operation in controversial countries; notably, these higher levels of donations may, or may not, be directed towards projects within the controversial countries themselves.’

Charitable giving does not increase in accordance with the extent of involvement – number of countries: ‘This finding is perhaps indicative of relatively token responses to corporate exposure to political and civil rights issues rather than significant attempts to address, or atone for, these issues through giving aimed at impacted communities.’

Variation by sector (see B & M 2004 and Brown et al 2006): consumer-oriented industries give more – ‘may be an important part of the competitive armoury of firms in these industries’

Why not withdraw from bad countries: location of resource deposits, commercial pressures to lower production costs, long-term involvement (before emergence of concerns)

Supports mechanism of offsetting rather than buffering or bridging

Theory:
‘Systematic analyses of the relationship between corporate internationalization and corporate social performance (CSP) are rare and findings are inconclusive.’

Research fails ‘to properly account for the importance of salient attributes of countries e.g. particular countries’ ‘significant ethical controversies’

Research uses conceptualisations that focus on corporate responses (‘buffering’, ‘bridging’ and ‘engaging in cooperative dialogue with relevant stakeholders’) that are ‘proximate to the issue or pressure the organization faces rather than modes of response to pressures that are potentially not directly related’

Focus = ‘the significance for the level of corporate charitable expenditure of a firm’s presence in foreign countries negatively associated with particular social issues’ \( \rightarrow \) set of empirical models ‘that examine the link between corporate charitable giving and multinationality within a framework that controls for other firm and industry attributes’

Within stakeholder theory; social responsibility = ‘the extent to which corporate decision-making is undertaken with a regard for social issues’; however managerial decision-making is not directly observable by stakeholders who therefore need to use proxies such as reputation; therefore firms have an incentive to invest in CSP especially those whose ‘stakeholders have some information that raises concerns regarding social irresponsibility’ and threaten sanctions – e.g. customer boycotts, shareholders’ withdrawal of capital – with consequences of lost revenues, employee churn, more expensive capital, damaged brands; therefore the aim is to offset negativity with positivity

Hypotheses:
• H1: Corporate charitable giving is not directly affected by the degree of firm-level internationalization - supported
H2: A firm’s presence in one or more countries connected with a (set of) negative social issue(s) is associated with greater charitable giving - supported

H3: A presence in a country that is associated with a lack of political rights and/or civil liberties is to a greater degree associated with charitable giving than a presence in a country that is associated with high levels of corruption - supported


Reiteration and updating of previous article (2002) but with increased urgency

‘The capitalist system is under siege. In recent years business increasingly has been viewed as a major cause of social, environmental, and economic problems. Companies are widely perceived to be prospering at the expense of the broader community.' → over-emphasis on short-term financial performance while ignoring customer needs and factors for long-term success – e.g., depletion of natural resources, disregard of customers’ well-being, undermining viability of key suppliers, economic distress of communities. ‘Businesses must reconnect company success with social progress’ and ‘learning how to create shared value is our best chance to legitimize business again’

Shared value (replaces competitive context as lead concept):
- ‘The concept of shared value can be defined as policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates. Shared value creation focuses on identifying and expanding the connections between societal and economic progress.’
- Not about redistribution of value but ‘about expanding the total pool of economic and social value’
- Done by:
  - ‘reconceiving products and markets’
  - ‘redefining productivity in the value chain’ – e.g. energy use and logistics, resource use, procurement, distribution, employee productivity
  - ‘building supportive industry clusters at the company’s locations’ – ‘Clusters include not only businesses but institutions such as academic programs, trade associations, and standards organizations. They also draw on the broader public assets in the surrounding community, such as schools and universities, clean water, fair-competition laws, quality standards, and market transparency’

‘Next evolution in capitalism’: ‘Shared value holds the key to unlocking the next wave of business innovation and growth. It will also reconnect company success and community success in ways that have been lost in an age of narrow management approaches, short-term thinking and deepening divides among society’s institutions’ → ‘a more sophisticated form of capitalism, one imbued with a social purpose. But that purpose should arise not out of charity but out of a deeper understanding of competition and economic value creation. This next
evolution in the capitalist model recognizes new and better ways to develop products, serve markets, and build productive enterprises."

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<tr>
<td><strong>Population - givers and/or non-givers</strong></td>
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<tr>
<td>Givers</td>
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<td><strong>Population - source</strong></td>
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<tr>
<td><em>Source Book: IRS Corporate Statistics of Income</em> → construction of dataset; ‘a broad range of firm sizes as well as industry groupings that encompass the entire retail sector’; <em>Corporation Sourcebook</em> (charitable donations)</td>
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<tr>
<td><strong>Population - universe/sample</strong></td>
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<tr>
<td>All industries in retail sector (NAICS) except new and used car dealers and 2 catchalls; 14 retail industries and 12 size classes N = 636</td>
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<td><strong>Longitudinal/single year</strong></td>
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<td>Longitudinal 1999-2004</td>
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<tr>
<td><strong>Dependent variable</strong></td>
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<tr>
<td>GIFTRATIO: ‘Relative charitable contribution’ = ‘charitable contributions divided by total receipts’ includes cash contributions and in-kind gifts</td>
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<tr>
<td><strong>Independent variables</strong></td>
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<tr>
<td>Strategic effects</td>
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<tr>
<td>- ADIN: Advertising intensity = advertising expenditure divided by total receipts</td>
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<tr>
<td>- FSIZE: Firm size = average assets for each firm in size class</td>
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<tr>
<td>- ROA: Return on assets = sum of net income and interest paid divided by total assets</td>
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<tr>
<td>Business cycle environment</td>
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<tr>
<td>- RECESSION: 0.1 dummy variable that takes on the value of 1 if the observation was within the recession otherwise 0</td>
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<tr>
<td>Industry effects</td>
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<tr>
<td>- IND: Industry fixed effects M-1 where M = number of industries in sample (1/0)</td>
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<tr>
<td>- Income variable: real pre-tax profits (including companies reporting worldwide rather than UK profits) = net profits before tax (log) (dummy) – data available and commonly used</td>
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<tr>
<td><strong>Findings:</strong></td>
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<tr>
<td>- ‘The past 20 years witnessed the emergence of philanthropy as an important component of retail strategy with recent contribution rates outpacing those of non-retailers’</td>
</tr>
<tr>
<td>- Firm size: positive and significant; cubic large and small &gt; medium-sized</td>
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<tr>
<td>- Advertising: not significant</td>
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<tr>
<td>- ROA: not significant</td>
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<tr>
<td>- RECESSION: not significant</td>
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<tr>
<td><strong>Theory:</strong></td>
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<tr>
<td>- Corporate social responsibility as business strategy (enhance image, increase sales, enhance profitability) corporate giving → profitability</td>
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</table>
• Slack resource (agency theory) managerial discretion leads to greater emphasis on non-profit goals when resources permit profitability → corporate giving
• Legitimacy: ‘A firm’s legitimacy depends upon the perceived degree of conformity between the firm’s actions and societal expectations’ *NOTE

**Hypotheses:**
- H1: Large firms make larger philanthropic contribution relative to total receipts as compared to small firms
- H2: The relationship between corporate giving and firm size is best captured by a non-linear cubic function
- H3: There is a positive relationship between philanthropy measured as relative charitable giving and profitability measured as return on assets
- H4: There is a positive relationship between relative charitable giving and advertising intensity as measured by the ratio of advertising to total receipts
- H5: The ratio of charitable giving to total receipts varies by industry
- H6: The ratio of giving to total receipts is expected to be negatively impacted by a downturn in the overall economy

**Models (and findings):**
- Linear firm size, industry effects excluded: Supports H1
- Cubic firm size, industry effects excluded: Support H1, H2
- Linear firm size, industry effects included: Support H1, H5
- Cubic firm size, industry effects included: Support H1, H5


**Introduction**

3 papers/sections:
- Impact of financial crisis on giving: test of theories: if giving up, then support for ‘good citizen’ hypothesis, intrinsic stakeholder commitment model and strategic stakeholder management model; if giving down, then pro-cyclical relationship and profit maximisation model; if having a foundation can insulate decision making from cyclical change: ‘Our contribution here is finding that firms differ in their reaction to economic shocks because of differences in their motivations and costs’
- Impact of strategic giving on growth of revenue; 127 studies on whether it has an + or – impact but none on impact of method of giving on growth of revenue; therefore division of sample into strategic and non-strategic giving programmes; if strategic giving improves financial performance, then support for strategic stakeholder management model
- Impact of change in CEO on giving
- Overall then need for ‘an integrated theoretical framework that incorporates the heterogeneity of motivations, as well as the role, strategy and the CEO in determining a firm’s generosity, and the relationship between corporate social
and financial performance’; needs to be independent of existing paradigms of stakeholder, agency and leadership theories

### Review of literature

- Research began in 1960s but gap until 1990s when the increase in the importance of CSR → increase in research; ‘there is very little historical data on CP in the UK from before the 1970s’
- Consensus that CP correlated to ‘financial performance, measured by profits, profitability or dividends’
- Emerging trends influencing corporate giving: ethical consumerism → pressure to boost visibility of CSR and CP spending; and shareholder capitalism → pressure for transparency and need to justify spending (including CP)

### Definitions:

- **Corporate social responsibility (CSR)** ‘company activities – voluntary by definition – demonstrating the inclusion of social and environmental concerns in business operations and in interactions with stakeholders (Van Marrewijk); types responsive to economic, legal and ethical responsibilities (Carroll); motivations = value, performance (profit and competitive position) and stakeholder-driven (in response to pressure) (Maignan and Ralston)
- **Corporate philanthropy (CP)** = allocation of resources (required by publicly-listed companies in accounts) includes cash and non-cash giving and ‘measures the total value of a company’s donations to charities, including gifts-in-kind, employee time, product donations, and others’; excludes government grants
- **Strategic corporate philanthropy (SCP)** – practice of linking contributions to recipient needs and corporate strategy objectives (used checklist to assess characteristics set out in reports and accounts, including governance and planning (accountability, evaluation and reporting), congruence (similarity between corporate mission and social initiative) and geographical location (fit with business practices/stakeholders); consistent with profit maximisation and stakeholder theories  *NOTE*

### Motivational theories

- **Managerial utility maximisation**: diversion of discretionary profits away from the firm or its shareholders to enhance managers’ personal reputations, etc → explanation for non-strategic giving
- **Profit maximisation**: making of contributions to increase profits, either by increasing sales or increasing costs; little empirical support
- **Stakeholder**: satisfaction of conflicting demands of stakeholders – customers, employees, suppliers, government bodies, creditors, public interest groups
  - Strategic stakeholder management: concern for a stakeholder group determined by perceived financial gains for showing concern; ultimate concern = marketplace
  - Intrinsic stakeholder commitment: normative commitment to treating stakeholders well; ultimate concern = moral concern or sense of duty
- **Agency**: incompatibility of interests of principals (e.g. shareholders) and agents (e.g. executives); in the absence of monitoring and control agents may expropriate organisational resources; conflicting goals, information asymmetry
Leadership: crucial importance of managerial discretion
  o Stewardship: managers have pro-organisational, collectivistic rather than self-servin and individualistic behaviours (opposite to agency theory)
  o Transformational leadership: emotional (charisma and inspirational) and intellectual (strong relationships with shareholders)
  o Upper echelons: organisational outcomes partially predicted by managerial background characteristics

Summary of potential factors for analysis:
• Generosity or contribution ratio: ratio of giving to profits (see Campbell et al 2002)
• Profitability and firm characteristics
  o Profitability
  o Lagged profitability (previous year)
  o Economics of scale and visibility – firm size, higher information disclosure
• Discretionary spending
  o Dividends
  o Research and development expenditure
  o Cash flow
• Other
  o Leverage
  o Risk
  o Corporation tax rate
  o Governance and ownership (owner-controlled, insider/outsider share ownership)
  o Ownership concentration

1 Impact of financial crisis on giving

Population - givers and/or non-givers
Givers and non-givers

Population - source
• Firms: Datastream
• Corporate community investment: CaritasData = 1 figure for total cash and non-cash giving (drawn from company reports of all publicly-listed companies in the UK); manually matched to firm data from Datastream for all in panel; excludes giving through corporate foundations
• Corporate philanthropy divided into cash and in-kind giving: Directory of Social Change N = 585 in 2009

Population - universe/sample
‘strongly balanced panel’ of firms listed in 2009 FTSE Allshare Index; ‘representative and make up a large sample of UK firms’ including large range of firm sizes and industries N = 622; N of observations = 9,330; 6 cases reported negative revenues and were removed

Longitudinal/single year
Longitudinal 1995-2008

Dependent variable
Giving:
• Absolute level
- **Generosity ratio**: ratio of giving to sales (avoids negative profits)

**Independent variables**
- Economic crisis – indicator of perceived credit risk in the general economy (dummy for 2008 with October as peak of crisis)
- GDP proxy: seasonally adjusted at constant prices – percentage year on year change
- Consumer confidence: Nationwide Consumer Confidence Index from 2004
- Ethical consumer pressure: Co-operative Bank stats - changes in total value of ethical purchase and investments in the UK 1999-2009
- Profitability: ratio of net profits before interest and tax to turnover (also Adams and Hardwick 1998)
- Corporate foundations: List from Think Consulting Solutions with those not covered looked up in DSC’s *Company Giving Directory*; assumes that if a firm had a corporate foundation in 2010 it did for whole period (dummy)
- Marginal cost estimate: from Datastream cost of materials (cost directly related to the purchase of raw materials and supplies used in manufacture) divided by the sum of research and development costs plus the cost of goods sold (direct manufacturing cost of materials and labour involved in the production of finished goods); divided into high and low based on median value
- Industry categories: not usual 2-digit SICs but FTSE industry sector name categories (see Brammer & Millington 2008)
- Corporation tax: HMRC 1995-2010
- Gift Aid change in 2000 (dummy)

**Control variables**
- Ownership structure: from Datastream percentage of closely-held shares (insiders plus individuals who held at least 5% of outstanding shares)
- Industry concentration: from ONS sum of gross value added for the largest 15 businesses in an industry divided by the total GVA for the industry
- Dividends: dividend payout per share = dividends per share over the last 12 months divided by earnings per share over last 12 months
- Firm characteristics: from Datastream
  - Size = natural log of the value of total company assets
  - Age = number of years since incorporation
  - Leverage = total debt as a percentage of equity (long-term debt plus short-term debt plus the current portion of long-term debt) divided by common equity x 100
  - Cash flow over sales = funds from operations over net sales or revenues; beta = number describing the relationship between the returns on that stock or portfolio and those of the financial market as a whole 0 means price not correlated with the market; plus means asset generally follows the market

**Findings**:
- Both giving levels and generosity increased due to increase of firms reporting giving but mean amount given decreased → support for good citizen hypothesis and intrinsic stakeholder commitment model (response to greater need); when controlled for ethical consumerism → support for strategic stakeholder management model (giving to please sceptical consumers); smaller firms give more in response to positive changes in ethical consumerism
• ‘Giving firms tend to be much larger, with higher profits and better market performance; 12% of them have a corporate foundation, and they have a slightly higher percentage of insider ownership, and a higher cash flow over sales ratio than non-giving firms. On the other hand, they tend to have higher marginal costs, are typically in less-concentrated industries, and give fewer dividends per share

Theory (see above)

Hypotheses:
H1: Corporate contributions are counter-cyclical to GDP and so have increased since the financial crisis of 2008
H2: Rises in overall national ethical consumer spending will lead to rises in corporate contributions and we expect this link to be stronger with more visible firms and firms in more visible industries
H3a Firms with low marginal costs will make greater contributions than other firms since they give more in-kind donations
H3b: Firms with low marginal cost are more likely to give in-kind donations in times of economic downturn
H4: Firms with corporate foundations will make more stable corporate contributions that are affected less heavily by economic shocks, such as the recent financial crisis
H5a: The levels of generosity of giving will be significantly and positively related to the corporation tax rate
H5b: The levels and generosity of giving will be significantly and positively affected by the introduction of Gift Aid in 2002

Models (and findings): run against three models (without controlling for ethical consumerism, controlling for ethical consumerism, controlling for ethical consumerism and industries)
• H1 GDP negatively related to giving not supported
• H2 ethical consumerism positively related to corporate giving and effect magnified as firms become more visible not supported – and ‘the larger the firm, the less the impact of ethical consumerism has on their giving’
• H3a firms with low MC give more in-kind donations supported (see below)
• H3b firms with low MC will increase giving in response to crisis supported: ‘Broadly speaking, we observe that giving follows profits up to 2008. However, after that, despite a negative shock to profits, giving continues to rise in 2009 for both groups, and even more sharply for low MC firms’
• H4 firms with foundations give more consistently supported (average of £4 million vs £0.7 million for those without foundations); greater stability: ‘It shows that giving is higher for those firms with foundations and that, after 2008, firms without foundations decreased their giving, whilst those with foundations increased their giving.’ → ‘agency problems arise when choices are given’; intrinsic stakeholder commitment model
• H5a ‘some support’ if corporation tax increases by 1%, then GR increase by 0.7%
• H5b ‘some support’
• Insider ownership negatively related to giving – confirmed
Industry concentration: significantly but only slightly negatively related
Cash vs in-kind (DSC sample) H3a confirmed pharmaceutical industry highest percentage of in-kind giving and low MC vs aerospace, defence and automobiles lowest level of in-kind giving and high MC → support strategic stakeholder management and profit manipulation theories


Purpose:
- Introduction to special issue of the journal – ‘going beyond grounding CSR in the voluntary behaviour of companies, and understanding the larger historical and political determinants of whether and in what forms corporations take on social responsibilities’

CSR research and its strange neglect of institutions
- Use of institutional theory to inform research on CSR = recent in mid-2000s: ‘Given that C’S’R includes the aspect of ‘society’ already in its very label, one would have thought that institutional theory would have been a core conceptual lens in understanding the “social” responsibilities of business all along’
- But literature has treated ‘social’ as a black box, ‘a set of external requirements which are translated into a functionalist, instrumental and business case rationale for social engagement by companies’ see meta-studies De Bakker *et al.* 2005 and Lockett *et al.* 2006; focus on companies and on their voluntary behaviour – dominance of agency theory and ‘relegation of business ethics to the sidelines’
- Growing intellectual unrest
  - limited value of business-centred approach with CSR as one of many ways of increasing firm’s performance = ‘patently unfit to explain why businesses engage or disengage in socially desirable outcomes’
  - impact of globalization on business studies but CSR still dominated by North American/Anglo-Saxon thinking
  - growing scrutiny of the role of private corporations in the public sphere (e.g. impact on indigenous people, working conditions in developing companies, environment) – companies not passive but active
- ‘The corporation has always been a political creation – the state granted the corporation the benefit of limited liability in order to facilitate the accumulation of capital…. But it is not simply a matter of how managers are to be made accountable to the more diffuse group of shareholders as agency theory tells us, but a more fundamental issue of what responsibilities society places on the corporation itself in exchange for the legal privilege of limited liability’ – lesson of the current crisis: ‘the limited liability of the privately owned corporation has re-emerged as the collective liability of society’

CSR as an interface between business and society: broadening the debate
- Institutional theory puts CSR ‘explicitly within a wider field of economic governance characterized by different modes, including the market, state regulation and beyond’
• Diversity of CSR – cross-national variations
• Dynamics of CSR – change through imitation and adaptation outside the Anglo-American system of capitalism – e.g. different forms in different countries
• Contribution of institutional theory =
  o *descriptive* ‘a more accurate grasp of what CSR in a specific institutional setting actually means’ – problems with creating a standard definition not due to imprecision but multiplicity: ‘in as much as the ‘S’ in CSR differs in terms of societal institutions we will also end up with different definition and understandings of the concept’
  o *instrumental/managerial* – different responsibilities in different contexts
  o *normative* ‘which institutions, historically and comparatively, have led to the most desirable, efficient and stable ways of organizing business activities, in particular with regard to the modalities in which business discharges its basic responsibilities to society’

Institutional dynamics of CSR: emerging themes
• ‘The process of institutionalization is tied to history’ – institutions are ‘the result of historical struggles over prevailing understandings and rules of the game’; ‘shaped by contestation, conflict and compromises’; ‘reflect the particular power relationships at a particular point in time’ so durable and slow to change; constrain and enable
• Institutionalization in companies → CSR departments, stock market indices for sustainability, branding initiatives, ISO standard on CSR
• Parallel rise of neo-liberal economics and CSR = ‘hand in hand as part of a particular political compromise over the institutional nature of the corporation’ but with emphasis that CSR must be voluntary, free of state regulation and excluding major stakeholder groups such as labour unions: ‘Rather than rights for labour, Americans got responsibility on the part of managers – of a purely self-designated kind’ – ‘part of a wider conception of “enlightened” shareholder value’; see art.172 of UK Companies Act 2006, which requires a company director to act in good faith to promote the benefit of the company’s shareholders but ‘in doing so have regard to’ employee interests, other business relationships, impacts on the environment and community and long-term consequences; considerable discretion to pursue CSR as defined as a positive contribution to shareholder value: ‘While preserving the primacy of shareholders, UK corporate law has created a social space for CSR, albeit a small one, as its institutional corollary’
• Institutional diversity: 2 hypotheses - CSR = substitute for ‘institutionalized solidarity’ or = reflection (mirror); weaknesses – what is measured is not necessarily what is there – e.g. low correlation with ‘more formal institutions of worker participation’ (WERS), lack of attention to quality of outcomes, lack of attention to role of state in market economies (corporatist, statist, welfarist), and focus on larger firms (to exclusion of the rest)
• Transnational governance = greatest emphasis: in transnational or global institutions (UN Global Compact), ISO 26000 – norms, rules, standardised pressures; in transnational organizational structure (multi-national corporations like Coco-Cola, Nestle, Walmart); within countries that host multi-national corporations on those corporations’ global performance
Just fluff or a new era of accountability? Rethinking the public and the private

- ‘The legacy of CSR is ambiguous, but its future is open.’
- Each element of CSR = ‘highly contested’ – ‘how much corporations (“C”) should set the agenda, what standards for social (“S”) responsibility are acceptable and to whom the company is ultimately responsible (“R”)’
- From an inside job to occupywallst.org: CSR = responsibility of all: ‘Consumers must reward companies for doing good and punish companies for doing bad. Shareholders must hold stocks for the long-term and avoid companies engaged in less sustainable models of business. Employees have enough voice and representation in the enterprise to reward responsible behaviour or withdraw their loyalty from irresponsible firms. NGOs must have sufficient access to information and engagement from companies to play an effective role in promoting accountability.’ Now more necessary than ever given ‘irresponsibility on a grand scale’ that brought on the current financial crisis
- From business research to political science and back? Need for new scholarship on institutions and how CSR fits in and ‘business scholars must engage more deeply with the political science literature on governance, including aspects of transnational institution building and comparative capitalism’

Conclusion

- Need to go beyond ‘creation myth’ of CSR, that CSR is a set of practices ‘largely at the discretion of companies or individual managers’ and that it is voluntary: rather that ‘corporate responsibility to society is defined by the expectation of “society” that are entrenched and embodied in institutions’


Approach

- ‘My argument shows how different national associations defend their interests in exporting certain regulatory models to the global level and in making commitments more or less binding. It turns out that a tension between safeguarding transparency to the external world and keeping RC [Responsive Care] membership attractive for a wide variety of industry interests divides the global chemical industry and hampers the development of a uniform CSR model’
- Method = qualitative; IVs with representatives of the global, US, EU and German chemical associations and representatives of multi-national chemical firms immediately after the launch of the Responsible Care Global Charter in 2006 and 2007
- Club theory perspective: companies’ non-altruistic attempts to improve reputation, help consumers identify products manufactured in a socially responsible or environmentally responsive way, avert regulatory threats, help create a level playing field cannot be reaped in isolation from firms in the same sector or country
- Global initiatives include Global Reporting Initiative, United Nations Global Compact, Social Accountability International (SA8000 verification) plus sector-specific initiatives include Sustainable Forestry Initiative, Business Social Compliance Initiative and Responsible Care)
• Adds to club theory in 2 ways:
  o Unpacks the concept of ‘voluntary club sponsors’: ‘by showing how different factions within a voluntary club bring different concerns and interests to the institutional bargaining table and create a multifaceted programme which offers different responses to the collective action problems highlighted so ably in the club theory literature’
  o Gives detailed picture of one specific episode in the evolution of RC, the negotiation of the Responsible Care Global Charter in early 2000s, now adopted by 54 nations (upgrading and streamlining, creating level playing field between ‘Anglo-Saxon and Rhenish’ factions and others

**Common reputational problem and two institutional answers**

• What is the optimal size of club? How to exclude non-members from benefits?
• How can it be ensured that all actors who in terms of optimal size considerations should belong to the club actually join the CSR programme and comply with its standards?
• How can it be credible and attractive?

**Motivating factors**

• High-profile disasters – Seveso 1976 (Hoffman LaRoche) and Bhopal 1984 (Union Carbide) – blowback on companies and on industry as a whole; RC established by Canadian Chemical Producers Association in 1979; US chemical industry galvanised by Bhopal and determined to reduce free rider problem: US Chemical Manufacturers Association made adoption of RC principles mandatory for membership
• emerging view that optimal size should be global and reputation benefits should be high: ‘It is only those more demanding clubs which are likely to provide the reputation benefits for which companies strive. The challenge for designers of CSR programmes, then, is to pitch club standards at a level which is high enough to satisfy critical stakeholders and to provide reputation benefits, but not so high as to turn away broad fractions of an industry and to leave only the top performing companies in the membership roster’

**Problems with diversity – different national environments**

• Central role of International Council of Chemical Associations: responsible for global RC but not mandatory for national members – requires acceptance of ‘fundamental features’ and 8 ‘guiding principles’ but no teeth so emphasis on communicating and rewarding best practice rather than naming and shaming
• USA, Canada and Germany associations: access to RC = mandatory
• USA and Canada – codes of management practices which aim to give precision and teeth to implementation
• Aggregated performance data published but not individual firm data (in some cases provided to representatives of national associations) but Canada and USA have begun to publish company-specific data on key indicators (some mandated by government anyway) and to move toward third-party verification
• Negotiation of RCGC: Contentious issues = standardised reporting, common metrics and external verification (USA, Canada and Brazil vs Europe) → toned down so members have a choice of self-verification (first party), verification by
respective chemical associations (second party) or verification by chartered accountants (third party)

Conclusion
- Efficacy of gradualism towards enforcement and transparency ‘the demands of 54 different national associations have to be negotiated under the roof of a single initiative’: ‘The RCGC story demonstrates that sector-wide business self-regulation can make only modest steps towards the goals of enforcement and transparency in order to remain attractive for newcomers, and also in order not to lose support internally and to remain manageable for firms’


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<th>Population - source</th>
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<td>FTSE All Share Annual Reports 2001-11</td>
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<td>Interviews and focus groups N = 35; companies (N = 333) (gnomic)</td>
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<td>Longitudinal for dataset 2011-11; single year for IVs and focus groups</td>
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<th>Dependent variables</th>
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<td>Human resource (employee volunteering)</td>
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<td>Financial resource (corporate donations)</td>
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<tr>
<th>Independent variables x employee volunteering and corporate donations</th>
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<tr>
<td>Organisation and administration: EV department/staffing, data collection and policies/practices; CD department/staffing, policies/practices</td>
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<tr>
<td>Communication and promotion: EV recognition, awareness/PR, information/recruitment; CD awareness/PR</td>
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<tr>
<td>Relationship and activities EV VSO causes supported, placement arrangements, activity team/individual CD VSO causes supported, themes supported</td>
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<tr>
<td>Resources and investment EV manager support, time off/flexibility, matched funding/rewards; CD manager support, amount donated</td>
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Findings:

How are decisions made about corporate community investment?
- Grid resource commitment x strategic management: reactive, embedded, unsupportive, superficial

What determines choice between corporate community investment of different types?
- Size matters FTSE100 > FTSE250 > FTAll Share for resource commitment
- History matters (decision-making stable)
- Allocation of human resources associated with internal factors (size, industry, peer group)

How do philanthropic practices disseminate?
- Finance: Complementary, early adopters, leaders
- Service: Complementary, lower adoption
- Wholesale and retail: Substitutational, late adopters

Influence on donations
- Employees – limited – donations per head early growth but then capped with size
- Profits – early importance but reduces over time
- Media visibility – early and significant (no influence on volunteering)
- Membership of BitC – catalyst but weak (no influence on volunteering)
- Money spent first (previous donation = strongest predictor of future practices)
- Finance sector as role model
- BiTC as influencer

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<td>Not stated</td>
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<tr>
<td><strong>Population - universe/sample</strong></td>
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<td>250 largest (market capitalisation) UK firms in 2011</td>
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<td><strong>Longitudinal/single year</strong></td>
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<td>Single year 2011</td>
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<tr>
<td><strong>Dependent variables</strong></td>
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<td>Membership of Business in the Community</td>
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<td>Size (in £) of corporate charitable contributions</td>
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<td><strong>Independent variables:</strong></td>
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<td>Directors’ social backgrounds</td>
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<tr>
<td>Economic controls – logistic regression model for BitC membership; ‘generalised linear model with gamma distribution assumed for dependent variable to deal with outliers/heteroscedasticity’</td>
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<td><strong>Findings:</strong></td>
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<td>Boards are male-dominated: 0.8% have female chairs (N = 2); 4.4% have female chief executives (N = 11); 10.67% of board members are females; 32.8% of boards are all male (N = 82)</td>
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<td>Boards are globalised: 30.4% have foreign chief executives (not from GB or Eire; N = 76); 21.2% have foreign chairs (N = 53)</td>
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<td>Boards are ‘posh and sociable’: minimum 17.2% of chairs attended traditional public schools; minimum 6% of chief executives ditto; minimum 16% of chairs were members of elite clubs; minimum 2.4% of chief executives ditto (based on smaller numbers identified in directories)</td>
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• What to do: ‘Would increasing levels of female representation and reducing the number of foreigners in the boardroom lead to increased levels of corporate philanthropy? Or is there something more fundamental about firms that leads them both to increase the number of women on their boards and engage in greater levels of corporate philanthropy?’

Theory:
• Stakeholder: ‘Responsible corporate directors have a range of duties they must tend to - -shareholders and wider community; ‘Corporate philanthropy can be a way of meeting both sets of duties and ‘improve a company’s reputation and ‘create positive community benefit’
• Ultimate control is held by directors but ‘boards of directors are typically unrepresentative of the communities their companies serve’ and corporate philanthropy likely to reflect ‘particular personal characteristics of directors’

Model:
‘The effects of lack of representation can be studied by measuring the effects of boards ‘social’ backgrounds controlling for economic factors that are associated with corporate philanthropy’; ‘If effects net of economic factors is nil then representation is not an issue. If the effects net of economic factors differs from zero then representation becomes a concern.’

Other literature of interest:


