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CORPORATE PHILANTHROPY:
ARE CORPORATIONS STRATEGIC IN THEIR PHILANTHROPIC PRACTICES?

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ABSTRACT

This paper examines the diversity of corporate philanthropic practices and aims to determine whether corporations are strategic in their philanthropic giving. Using an original database including firm-level data on dollar donations for charitable purposes among American Fortune 500 companies, this paper looks at the kind of firms that participate in giving, the kind of giving programs these firms set up, and the structure of the foundation giving these firms chose. The definition and identification of strategic philanthropy is discussed and explored. The main empirical findings of this paper provide evidence that at present time firms continue practicing non-strategic philanthropy.

Key words: Strategic philanthropy, corporate philanthropy, and corporate social responsibility.

INTRODUCTION

In 2006, Giving USA estimated overall corporate contributions in the US, including both foundation and direct corporate giving, at $12.72 billion[1]. Total corporate giving has been on the rise since 1990 and almost doubled in the last 20 years. As of 2006, the share of companies' pre-tax profits devoted to corporate giving has been just under 1 percent[2]. Still, little is known about how exactly corporate giving programs spend their money and whether any of this money is being spent strategically[3].

"Strategic philanthropy" is a relatively new concept that has become popular with the publication of Porter and Kramer (2002) article. Unlike previous theoretical ideas that have mainly discussed if corporate philanthropy is beneficial for a company or if companies should practice philanthropy in the first place, Porter and Kramer (2002) have asserted that corporate philanthropy can not only be superior to individual foundations', non-profit organizations', and government work in solving societal issues but also can bring tangible financial value to

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[1] *Giving USA* estimated overall corporate contributions in the US in 2006, including both foundation and direct corporate giving, at $12.72 billion. Estimated giving by corporate foundation was $4.2 billion (about 30% of total giving). The $2.7 billion of direct giving was in in-kind medication giving by operating foundations established by pharmaceutical manufacturers. Thus, there were around $5.8 billion in direct giving, excluding medication giving.

[2] *Source:* Foundation Director Online "Key Facts on Corporate Foundations", April 2008.

[3] Corporate philanthropy is truly strategic only when corporate expenditures produce simultaneous social and economic gains and where corporate philanthropy and shareholder interests converge (Porter and Kramer, 2002).

companies[4]. Although the authors have not developed any formal theoretical model, some empirically testable hypotheses can be inferred from their work.

In this paper, I look at the current corporate philanthropic practices and make a first step in empirically identifying strategic corporate philanthropy by testing the inferred hypotheses. I examine firm characteristics that choose to establish a giving program, choose to segregate giving into a separate entity (i.e., a foundation), choose to commit significant amounts of money to their giving program and finally choose to give significant fraction of their pretax earnings for charitable purposes. These hypotheses combined provide an indication of whether companies are pursuing philanthropy in the way that benefits the society.

The results indicate that corporations are not engaged in practicing philanthropy strategically. The firms with strong management are more likely to have foundations and giving programs, but at the same time are less likely to set aside significant amounts of money to pursue

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[4] In 2002, Porter and Kramer have published an article outlining some characteristics of the strategic philanthropy. The authors say that corporations can "practice and implement strategic corporate philanthropy by bringing corporate social and economic goals into alignment and in turn improving a company's long-term business prospects. These companies [can] leverage their capabilities and relationship in support of charitable causes producing social benefits far exceeding those provided by individual donors, foundations, or even governments. These companies [can] provide strategic philanthropy by organizing education, safety, health, and decent housing for their employees by improving the long-term demand for their services and training the talent needed to provide these services and by building the infrastructure required to expand their markets. Strategic givers [can] achieve their goals by creating strategic partnerships with nonprofit institutions and governments and by utilizing nonprofit infrastructure and complementing it with the company's internal knowledge. Strategic givers [can] work closely with local nonprofits over extended periods of time to achieve meaningful improvements to the organizations".

long-term strategic philanthropic objectives. Also, the bigger givers are firms that also spend significant dollar amount on advertising, most likely implying that the corporate philanthropy these firms practice is closer in nature to public relations.

The paper proceeds as follows: Its first section provides an overview of the theoretical and empirical literature concerning corporate philanthropy. The second section discusses testable hypotheses. Section 3 reviews the data source, the data set properties, and discusses the firm characteristics that are used as control variables, while Section 4 investigates, presents, and discusses empirical results. I conclude with limitations of this empirical work.

SECTION 1: LITERATURE OVERVIEW

Most of the previous theoretical and empirical studies have sought to understand if companies should practice philanthropy in the first place and the importance of the corporate philanthropy to firm value (Smith, 1994). One strand of literature views corporate charitable giving as a transparent conflict of interest between the shareholders and the manager of a company. Some scholars argue that shareholders are likely to have a low, or perhaps an indifferent, propensity for charitable giving (Friedman, 1970; Ullman, 1985). Shareholders are less likely than managers to approve of corporate charitable giving because the funding is ultimately coming out of their own pockets (Wang and Coffey, 1992). As investors, they are likely to perceive little tangible short-term or even long-term utility in dollars spent to improve

social conditions. In another strand of literature, researchers show that firms engage in corporate giving to preempt the introduction of new government regulations; to avoid environmental scandals, consumer boycotts, or law suits (Friedman, 1985, 1999); to differential their products (Bjorner et al, 2004); to improve employee productivity; to lower the cost of capital (e.g.,Mattingly and Berman, 2006). Some studies conclude that corporations directly substitute corporate contributions for more traditional advertisements (Navarro, 1998). Sharfman concludes that companies donate money to charitable causes to reduce tax burdens and to increase their reputations in their communities and among various stakeholder groups (1994). Parket and Eibert (1975) and McGuire et al. (1988) deduce that companies benefit from charitable giving through increased employee morale and improved reputation. Devis et al. (1997) suggest that CEOs act in the best interest of the company and argue that greater CEO discretion is likely to benefit the company even under issues of potential conflicting interest.

My contribution to the previous literature is twofold. First, I use a unique data set on corporate charitable giving, including companies that choose not to give. Observing companies that choose not to give allows me to assess whether companies that are engaged in giving are different than those that are not. Consistent with the previous literature, I continue investigating the determinants of corporate philanthropy. I allow for the possibility of companies providing corporate giving to satisfy personal interests of individual managers or board member, and thus

lead to agency cost. Second, I control for companies conducting corporate philanthropy that has little strategic content or long-term value (e.g., transaction-based giving, public relations, advertising).

SECTION 2: HYPOTHESES

The following section discusses four hypotheses to be tested in the empirical section of this paper. To test a general story of whether the current practice of corporate philanthropy is strategic, these hypotheses are to be viewed not individually but in combination. Strong management is an indicator of whether a practice is favored by corporations with strong management. Alternative interpretations will be discussed along the way.

2.1. Participation in Giving

The first piece of information that will be tested is whether there is a difference between corporations that select to give versus not. In other words, I will be comparing firms with a giving program and a foundation to those without any kind of giving program. This will allow us to assess whether the two kinds of firms are different on any major observable characteristics, and especially strong management. If firms with strong management select to give, then giving is viewed as beneficial for a company.

It is important to note that a small fraction of firms in Fortune 500 set has no giving program of any kind (only 15%). The following general model will be tested. Because the

dependent variable is binary, I will estimate the coefficients with a Probit model, reporting marginal effects for each parameter.

$$(\text{Company Gives} = 1) = \alpha_i + \beta_1 * \overline{X} + \beta_2 * \overline{Z} + \varepsilon_i$$

where betas are parameters to be estimated

X is a vector of firm covariates

Z is a vector of strong management controls

eta is a firm specific error term.

2.2. Establishing Giving Programs

The next hypothesis is inferred from Porter and Kramer (2002) as well as from discussions with philanthropic authorities. To be truly strategic, corporate philanthropy should be intimately integrated with a company's business strategy and should utilize internal firm knowledge and resources. To achieve this intimate connection, firms that are indeed strategic will tend to bring their giving practices in-house.

At this stage I am not able to observe if firms actually utilize their internal resources and knowledge to conduct corporate philanthropy. What I am able to observe, however, is whether companies conduct their corporate philanthropy through a giving program, i.e. an internal corporate group that administers giving. If a company has a foundation and a giving program, this company is moving towards becoming strategic. This hypothesis

assumes that a completely independent charitable foundation segregates giving from the business and forgoes opportunities to create greater value for society and the firm itself. Alternatively, having an integrated foundation and giving programs allows a corporation to identify and implement a corporate giving strategy focused on improving long-term company benefits.

$$\left(\text{Company Giving Program} = 1\right) = \alpha_i + \beta_1 * \overline{X} + \beta_2 * \overline{Z} + \varepsilon_i$$

An alternative interpretation of corporate charitable giving moving in-house can be that corporations want to disclose little about their charitable activities. Unlike corporate foundations that are required to report all of their giving with IRS, corporate in-house giving programs are completely exempt from IRS reporting and any public discourse. To differentiate between these competing hypotheses, I will look at corporations with strong management.

2.3. Establishing Endowments

Porter and Kramer hypothesize that "the most successful programs will not be short-term campaigns but long-term commitments that continue to grow in scale" (2002). One possible way to measure long-term commitment of a company is by checking whether a company-sponsored foundation is setting aside significant dollar amounts for its foundation as a way to ensure uninterrupted sponsorship of its strategic sponsorship charities. Alternative activity is a

transaction-based giving, when a corporate foundation spends all the money it receives from a host corporation in a given year.

$$(\text{Company Endowment} = 1) = \alpha_i + \beta_1 * \overline{X} + \beta_2 * \overline{Z} + \varepsilon_i$$

It is important to note that this hypothesis will be tested only for firms with corporate foundation. If a corporation moved all of the giving in-house, I won't be able to observe this corporation's charitable giving activity.

2.4. Dollar Giving

Combined with the previous hypotheses, larger percentage of pre-tax earning devoted to giving indicates a stronger commitment to charitable purposes. This hypothesis assumes that the quantity of charitable dollars is equivalent to the quality of dollars spent, which should not necessarily be true. If one corporation spends its money strategically, it can spend less and achieve greater results. Nonetheless, combined with hypotheses 1-3 this piece of information is helpful in determining whether the current practice of corporate philanthropy among firms with strong management is strategic.

$$Log(\text{Giving Amount}) = \alpha_i + \beta_1 * \overline{X} + \beta_2 * \overline{Z} + \varepsilon_i$$

SECTION 3: CORPORATE GIVING DATA

3.1. Corporate Charitable Data

The corporation sample consists of 2006 Fortune 500 companies[5]. I exclude private and mutual companies because they do not have a stock exchange symbol (20 companies or 4% of companies excluded). The information on company-sponsored foundations and corporate giving programs[6] is collected from *Foundation Directory Online*[7]. The online directory contains information on all company-sponsored foundations as well as some corporate giving programs[8]. The information on foundation giving is compiled from IRS information returns (Forms 990 and

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[5] http://www.aggdata.com/business/fortune_500

[6] The difference between a company-sponsored foundation and a corporate direct giving program is outlined below. Company-Sponsored Foundations a) are separate legal entities, that maintain close ties with and promote interests of the parent company in their giving; b) generally maintain small endowments and rely on regular contributions from the parent company and/or subsidiaries to support their giving programs; c) often grow their endowments in profitable years and tap them in leaner years; d) must follow the appropriate regulations governing private foundations. Such regulations require companies to file an annual Form 990-PF with the IRS. Corporate Direct Giving Programs a) are not separately incorporated and do not adhere to private foundation laws or regulations or file a Form 990-PF; b) enable the corporation to deduct up to ten percent of its pre-tax income for direct charitable contributions (this includes giving to the company's foundation), while the average corporate contribution is closer to one percent; c) make other kinds of donations, sometimes treated as business expenses, which are not necessarily included in giving statistics; d) are often used by the company to supplement its support programs that do not fall under the guidelines of the company-sponsored foundation; e) do not have an endowment; f) frequently include employees' matching gifts and in-kind gifts as part of their grant-making activities.

[7] http://foundationcenter.org

[8] Some corporations also make in-kind contributions (complimentary use of corporate facilities, donations of products, services, employee voluntarism), but given the ambiguity and inconsistencies in how firms value these contributions, we do not include non-cash items in the measure of giving.

990-PF[9]), grant-maker web sites, and annual reports. Using an option of "Trend Tracker" in the Foundation Directory Online, I extract two variables for corporate foundations: foundation assets (Line I of 990-PF form and Line 21 of 990 form) and foundation giving (Line 25 of 990-PF form and Line 22a of 990 form)[10]. For firms with corporation giving program, I extract giving for a particular year, if the information is available. Since companies are not required to report giving activities, only 33 percent of companies with a giving program, report their giving program amounts. In the following analysis, I will utilize all information available on giving program dollar amounts and indicate when a lack of information on giving program dollar donations leads to a loss in sample size.

Table 1 reports summary statistics of the firms' chosen giving program. Fifteen percent of the sample report no giving program, 39 percent have only foundation, 25 percent have only giving program, and 20 percent have both giving and foundation programs. Seventy-six percent of the largest Fortune 500 companies have a charitable foundation, while only 47 percent of the fifth hundred have one.

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[9] The IRS requires that every private foundation file a Form 990-PF each year. IRS returns provide detailed financial data, a complete list of grants awarded, the names of the foundation's trustees and officers, and other information on the foundation.

[10] The details of 990-PF are available at http://foundationcenter.org/findfunders/990pffly.pdf.

Table 1. Choice of Giving Program, 2006 Fortune 500 Companies

	Foundations (%)	Giving (%)	Foundation & Giving (%)	None (%)
All Companies	39%	26%	20%	15%
By Firm Ranking/Size				
0 - 100	43%	20%	33%	4%
100 - 200	40%	23%	24%	13%
200 - 300	38%	34%	15%	12%
300 - 400	38%	24%	15%	22%
400 - 500	35%	27%	12%	26%
By selected industries*				
Services (N=16)	25%	25%	50%	-
Finance (N=62)	42%	29%	16%	13%
Retail (N=53)	25%	23%	40%	13%
Transportation (N=69)	37%	17%	30%	15%
Manufacturing (N=169)	46%	21%	23%	10%
All Firms				
$/Million of Sales	948	149	509	
	(4,845)	(344)	(473)	
$/Million of Assets	522	120	334	
	(1,550)	(361)	(281)	

Note: All 2006 Fortune 500 companies are included, except 20 companies that are mutually owned, subsidiaries and private companies. SIC categories are based on two digit codes.

The fraction of companies with both foundation and giving program decreases from 33 to 12 percent between Fortune 100 and Fortune 400-500. Twenty six percent (26%) of companies in the fifth hundred of Fortune 500 have no giving program of any kind (compared with only 4 percent of the first hundred). There is a strong association between the size of the company and its choice program. The lower part of the table examines the distribution of choice of giving

program by selected industries. The companies in similar industries tend to choose similar kinds of giving programs. Service and Retail have most of giving through a joint foundation and giving programs (50 percent and 40 percent, respectively), while Transportation, Manufacturing and Financing concentrate their giving through foundation (42 percent, 37 percent, and 46 percent, respectively). Interestingly, companies with Foundation only give much more than companies with Foundation & Giving Programs or companies with Giving Programs only (compare $948 to $509 and $149 per million of sales).

Porter and Kramer hypothesize that "the most successful programs will not be short-term campaigns but long-term commitments that continue to grow in scale" (2002). Fifty percent of companies with foundations have assets of their foundations triple the current year's giving amount, and 25 percent of companies have foundation assets exceeding giving by a factor of eight. Out of 500 companies, only about 60 have a foundation with significant assets that may be used for planned long-term programs. Companies in retail and service industries are less likely to have endowments, probably due to the volatility of the cash flows. The probability of a company having an endowment seems to be uncorrelated with firms' size. "Endowments" may be industry specific. For example, in financial industries they may have a tendency to have foundations for tax exempt investment.

3.2. Control Variables

Two sets of control variables are used in the analysis: firm characteristics and strong management indicators.

3.2.1. Firm Characteristics

I extract companies' annual income statements, balance sheets, and cash flow statement variables from the research data-base Compustat[11]. I control for firm profitability, size, market power, and leverage. To control for a firm's profitability, I use Market-to-Book ratio. More profitable companies are likely to be willing to give more away for corporate social responsibility purposes. The assets and the number of employees of the company are good proxies for company size. The analysis uses a logarithm of the company's assets and a logarithm of its number of employees. Larger companies are likely to give more both because they may have more market power and thus extract more economic rents and because they may have more issues to tend to and more regulations to preempt. Debt-to-equity reduces free cash flow and limits a manager's ability to spend money. Thus, companies with higher debt are less likely to give to charities. Jensen argues that debt acts as a check on managerial discretion by enabling managers to effectively bond their promise to pay out future cash flows (1986). In the context of this study, I expect higher debt-to-value ratios to be associated with less charitable giving. I

[11] Produced by Standard & Poor's Institutional Market Services.

expect positive correlation between R&D spending and giving. Public display of charity is a form of advertising and likely to be driven by the same underlying considerations. The potential targets of the advertising may be customers, employees, suppliers, and policymakers. This argument may mostly apply to firms with intangible assets. I also include two-digit SIC codes to control for potential differential industry effect (Alchian and Demsetx, 1972 and Alchian and Kessel, 1962). Companies in the same industry may pursue similar giving practices.

3.2.2. Strong Management

Strong management controls include CEO variable compensation, board of directors composition, and outside stakeholders ownership. A CEO's compensation is very responsive to company performance (Hall and Liebman, 1998) and CEOs with higher variable component in their compensation are much better managers. Several studies examine the relationship between corporate giving and board composition. Consistent with the agency theory that oversight of the CEO by the board of directors is typically viewed as an effective means to mitigate agency problems (Shleifer and Vishny, 1997), Coffey and Wang find that increasing the number of corporate outsiders on the board serves to minimize the amount of corporate charitable activity (1998). I use the percent equity held by block-holders (i.e., those shareholders who own 5% or more of the firm) to control for more effective shareholder monitoring. Block-holders are more likely to involve themselves directly in oversight and to seek redress for perceived abuses.

The controls for corporate philanthropic laws are not included for a couple of reason. All states have philanthropy statutes that validate corporate authority to make contributions. Also, Brown et al, find that state philanthropic laws have no correlation with corporate philanthropic behavior (2006). Table 2 provides summary statistic of the control variables.

Table 2. Summary Statistics

	All	Foundations	Foundation & Giving	Giving
Firm Characteristics				
Assets (M)	53,544	60,294	107,874	24,001
	(169,491)	(184,483)	(261,846)	(51,868)
Debt/Common Equity	97.98%	102.59%	106.84%	94.55%
	(192.81%)	(233.44%)	(205.08%)	(160.91%)
Advertising/Sales	1.14%	0.86%	1.45%	1.49%
	(2.62%)	(1.98%)	(2.75%)	(3.38%)
R&D/Sales	1.72%	2.28%	1.94%	1.26%
	(5.04%)	(6.54%)	(4.57%)	(3.84%)
Market-to-Book	3.46	3.87	3.27	3.44
	(6.19)	(8.96)	(2.49)	(4.24)
Employees (1,000)	56.35	66.41	69.58	47.22
	(115.25)	(163.85)	(82.47)	(65.26)
Company Age	55.04	56.31	69.14	47.53
	(45.98)	(44.52)	(53.69)	(38.68)
Strong Management				
CEO Variable Compensation	74.25%	73.46%	76.57%	75.15%
	(22.07%)	(22.71%)	(20.02%)	(21.14%)
Outsiders/Total Directors	85.44%	86.26%	86.61%	85.49%
	(7.77%)	(6.60%)	(5.95%)	(8.13%)
Ownership of Block-holders	17.31%	18.66%	14.67%	17.11%
	(14.78%)	(16.65%)	(13.17%)	(13.06%)

SECTION 4: EMPIRICAL RESULTS

This section starts with examining which firms choose to give. The section continues with investigating what determines if a firm establishes a corporate giving program vs. a company named foundation. Further, I look at what firm characteristics predict a firm establishing an endowment. Finally, the determinants of the giving amounts are examined.

Table 3 shows the characteristics of firms that predict if a firm chooses to give. Larger firms (determined by both logarithm of assets and employees) and more profitable firms (price-to-book) are significantly more likely to give. Coefficients of all the governance characteristics are statistically and economically significant, indicating that firms with more inside directors, with CEOs whose salary is mainly comprised of variable compensation, and firms with more block-holders are all more likely to give.

This results stands in contract with some of the previous empirical literature that claimed that CEOs who are owners of a significant part of the company and firms with more block-holders give less. The previous literature has not address a question of selection to give (i.e., selection bias). As the result, previous authors might have misinterpreted their results as indicative of giving levels, while if they have controlled for selection to give, their results and conclusions might have been different. In particular, the selection results indicate that firm with strong management are more likely to give. This does not imply that they give more (or less). It

may be that these companies bank on being known as givers by establishing a giving or a foundation program. This result may be confirmed with examining if the companies with strong governance characteristics give more or less. This question will be examined in Table 6.

The comparison of the first and second column results in Table 3 shows another pattern worse noting. Most firm characteristics are insignificant, while all strong management characteristics are. The inclusion of strong management controls in column (2) makes the number of employees control, which was significant in column (1), insignificant. The result indicates strong interrelationship between strong management and the number of employees in the company controls. In layman's language, the result may imply that firms with strong management would be more likely to have a giving program if a firm has more employees. The result may also imply that the employees are the main target group in firm's conducting its charitable giving[12].

Table 3. Choice to Give

The dependent variable equals 1 if the firm reports having a giving program or the charitable foundation, and 0 otherwise. Model: Probit. Coefficients are marginal effects and standard errors are hetroskedasticity corrected. *, **, *** z-statistic significant at the 0.1, 0.05 or 0.01 levels, two-tailed test. Firm data and SIC codes are from Compustat. Board composition ad block-holdings are from proxy statements.

[12] The next logical step would be to examine the interaction term between the number of employees and strong management characteristics, as well as to examine heterogeneity of firms with strong management. The results may be due to firms with strong management being homogeneous, e.g., coming from the same industry or from different industries but with consistently high number of employees.

	(1)		(2)	
Firm Characteristics				
Log(Assets)	0.04		0.04	
	(1.63)	*	(1.79)	*
Debt/Common Equity	0.01		0.01	
	(0.83)		(0.46)	
Ads/Sales	0.20		0.33	
	(0.4)		(0.76)	
R&D/Sales	0.07		0.12	
	(0.24)		(0.44)	
Price/Book	0.01		0.01	
	(0.8)		(1.04)	
Log(Employees)	0.03		0.02	
	(2.21)	***	(1.18)	
Log(Company Age)	0.02		0.02	
	(1.35)		(1.35)	
Strong Management				
% CEO Variable Comp.			0.10	
			(1.68)	*
Inside/Total			0.35	
			(1.99)	***
% Blockholders			0.22	
			(2.04)	***
Industry	Yes		Yes	
N[13]	345		331	
Pseudo-R2	0.15		0.24	

Table 4 presents the results of a choice of a giving program. I present the results for two slightly different models. I have three distinct groups of firms: those that give through a giving

[13] The size of the sample is decreased from the original 460 due to some financial characteristics not being available for some companies. The original and the reduced samples are similar on all observable characteristics and thus there is no concern for the analyzed sample being unrepresentative.

program alone, through foundation alone, and through foundation and giving program simultaneously. The theoretical literature predicts firms that are strategic in their giving moving towards a in-house giving program to integrate giving with business objectives. The two models presented in Table 2 include first a group of firms that choose to use only an in-house giving program versus a foundation, and a second group of firms that choose to have both an in-house giving program and a foundation versus only a foundation.

The results in specifications (1) indicate that firms with significant advertising budget, as well as firms in service and retail industries are much more likely to give through an in-house giving program, while firms with more employees are much more likely to give through a foundation.

Table 4. Choice of a Giving Program

Coefficients are marginal effects, ***=z statistic significant at the 0.01 level, two-tailed test; **=z statistic significant at the 0.05 level; *=z statistic significant at the 0.10 level.

	(1)		(2)	
	Giving/F		F+G/F	
Firm Characteristics				
Log(Assets)	0.04		0.11	
	(1.03)		(2.32)	***
Debt/Common Equity	0.00		-0.08	
	-(0.15)		-(1.90)	**
Ads/Sales	3.69		1.23	
	(2.67)	***	(1.05)	
R&D/Sales	-0.54		-0.46	
	-(0.89)		-(0.80)	
Price/Book	-0.01		-0.01	

	-(1.47)		-(0.58)	
Log(Employees)	-0.08		-0.01	
	-(2.19)	***	-(0.20)	
Log(Company Age)	0.03		0.04	
	(0.86)		(1.53)	
Strong Management				
% CEO Variable Comp.	0.03		0.10	
	(0.22)		(0.61)	
Outsider/Total	-0.34		0.12	
	-(0.74)		(0.24)	
% Blockholders	-0.32		0.06	
	-(1.29)		(0.23)	
Industry				
Mining*	0.36		-0.02	
	(1.16)		-(0.10)	
Construction*	-0.02			
	-(0.09)			
Transportation *	0.03		-0.14	
	(0.30)		-(1.44)	
Wholesale*	0.00			
	(0.02)			
Retail*	0.31		0.05	
	(3.77)	***	(0.26)	
Finance*	0.00		-0.18	
	-(0.01)		-(2.56)	***
Services*	0.32			
	(3.41)	***		
N	345		190	
Pseudo R2	0.074		0.1228	

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Specification (2) examines whether firms that choose to have both a foundation and a giving program are different from those with only one program. The significant coefficient on

debt to equity indicates that firms with more debt on their books are much less likely to have both programs. This result may indicate that firms that have a lot of oversight from the debt-holders, maybe more conservative (less experimental) in their giving behavior and go with one program only. The firms in financial industry are much less likely to have two giving programs as well. The insignificance of strong management coefficients in either specification (1) or (2) indicates that firms with strong management have no preference for a in-house giving program or a foundation, holding all the other control constant.

The results from Table 3 and 4 combined provide evidence that corporate charitable giving practice is non-random. Larger firms and firms with more employees tend to establish corporate charitable giving programs or foundations and tend to prefer foundations to in-house giving programs. Firms that are customer oriented prefer to set up in-house giving program. Strong management seem to be indifferent between the choice of a giving program until the program serves corporate needs.

Further I will explore in more details firms that choose to have a foundation or a foundation and an in-house giving program simultaneously. Table 5 presents results for a firm's choice to establish an endowment. The endowment is defined as a firm's foundation having assets as least three times of their annual giving. As expected larger firms have an

endowment more frequently. Firms with more employees are much less likely to have an endowment.

Table 5. Endowment Establishment

Dependent variable is a binary, =1 when a firm's foundation assets are at least three times that of the annual giving for the previous 6 years. Model: Probit. Coefficients are marginal effects and standard errors are hetroskedasticity corrected. ***, **, * are z-statistic significant at the 0.01, 0.05 or 0.1 levels, two-tailed test. Firm data and SIC codes are from Compustat. Board composition ad block-holdings are from proxy statements.

	(1)		(2)	
Firm Characteristics				
Log(Assets)	0.10		0.18	
	(2.13)	***	(2.75)	***
Debt/Common Equity	-0.04		-0.06	
	-(0.77)		-(1.22)	
Ads/Sales	-2.91		-4.56	
	-(1.53)		-(2.18)	***
R&D/Sales	0.50		-0.05	
	(0.77)		-(0.07)	
Price/Book	0.00		0.06	
	-(0.36)		(2.18)	***
Log(Employees)	-0.09		-0.10	
	-(2.09)	***	-(1.85)	***
Log(Company Age)	0.02		0.01	
	(0.52)		(0.21)	
Strong Management				
% CEO Variable Comp.	-0.32		-0.47	
	-(1.59)		-(2.12)	***
Outsider/Total	-0.50		-0.02	
	-(0.78)		-(2.05)	***
% Blockholders	0.32		0.26	
	(1.01)		(0.36)	
Industries				

Construction		0.43	
		(1.18)	
Manufacturing		0.26	
		(0.76)	
Transportation		-0.25	
		-(1.02)	
Wholesale		-0.25	
		-(0.99)	
Retail		-0.24	
		-(0.96)	
Finance		-0.40	***
		-(2.4)	
Service		-0.38	
		-(1.98)	***
N	191	190	
Pseudo-R2	0.06	0.12	

are much more likely to have a foundation, but much less likely to establish an endowment, one possible explanation is that firms with more employees maybe much less strategic in their giving. Firms in service sector as well as those that advertise a lot are not likely to have endowments. The result maybe due to selection bias: firms in service and retail industries as well as those that do a lot of advertising selecting give through a giving program mainly, as observed in Table 4. All strong management characteristics are statistically significant and indicate that firms with stronger management are much less likely to have endowments and for that reason strategic giving as defined by Porter & Kramer (2002).

Table 6 describes OLS regression results for the determinants of annual corporate giving. The regression is only for firms that have a foundation or a giving program and report a giving amount. Only 33% of firms with a giving program report their giving amount. Thus, the results will be biased towards explaining what determines giving amounts among firms with foundations.

Table 6. Corporate Cash Giving

Dependent Variable: Log of cash giving. Model: OLS. Robust standard errors, ***=t statistic significant at the 0.01 level, two-tailed test; **=t statistic significant at the 0.05 level; *=t statistic significant at the 0.10 level. Dollar giving amounts as reported in Foundation Directory Online. Firm data is from Compustat. Board composition and blockholdings are from proxy statements. SIC codes are from Compustat.

	(1)		(2)	
Endowment (0 or 1)			-0.96	
			-(4.98)	***
Firm Characteristics				
Log(Assets)	0.14		0.17	
	(1.32)		(1.65)	*
Debt/Common Equity	-0.04		-0.04	
	-(0.41)		-(0.41)	
Ads/Sales	11.11		9.87	
	(2.68)	***	(2.42)	***
R&D/Sales	4.50		4.92	
	(1.41)		(1.65)	*
Price/Book	0.01		0.03	
	(0.26)		(0.73)	
Log(Employees)	-0.05		-0.12	
	-(0.53)		-(1.37)	
Log(Company Age)	0.21		0.22	
	(2.18)	***	(2.61)	***

Strong Management		
% CEO Variable Comp.	0.13	-0.13
	(0.25)	-(0.29)
Inside/Total	1.18	1.34
	(0.75)	(0.91)
% Blockholders	0.14	0.41
	(0.18)	(0.53)
Industry	Yes	Yes
N	190	190
R2-Adj.	0.24	0.34

The results in Table 6 indicate that older companies give more. Also, companies with more advertising and R&D expenditures give more. This latter result is similar to has been observed in Table 5: firms within high intensity advertising are likely to not establish foundations or endowments, but they are still much bigger givers.

In a specification (2) of Table 6 I also add a control of whether a firm has an endowment. The variable is statistically significant and indicates that firms with endowments give less. The more interesting result is that the inclusion of this variable into the regression significantly raises the explanatory power of the regression.

This section examines different hypothesis about strategic giving and finds that there is a systematic pattern in the current firms' giving, but it hardly support the idea that giving is strategic in a sense described in Porter and Kramer (2002) article.

SECTION 5: DISCUSSIONS

The goal of this paper has been to identify different ways firms conduct corporate philanthropy, and to investigate what determines firms' choice to give, to give through a giving program, to establish an endowment and to give more. These characteristics help shed light at which firms conduct corporate giving in a strategic way.

In the process of conducting empirical examinations, I find considerable diversity in the ways firms pursue philanthropy and little evidence that currently firms pursue philanthropy strategically as defined by Porter and Kramer (2002). I find that firms with strong management are much more likely to choose to give, but at the same time are much less likely to establish an endowment (e.g., set aside a significant amount of money for a long-term corporate philanthropy project) or to contribute a greater share of pre-tax earning than other firms. This result is consistent with previous literature that finds that firms engage in corporate giving to preempt the introduction of new government regulations; to avoid environmental scandals, consumer boycotts, or law suits; to increase their reputations in their communities and among various stakeholder groups (Friedman, 1985, 1999; Sharfman, 1994). To achieve those benefits, firms need to only be known to policymakers and stakeholder groups for being involved in philanthropy (e.g., a signaling leading to a separating equilibrium), but not necessarily spend

more or conduct any special strategic projects which are not likely to bring any additional financial or tangible benefits.

Another important observation is that firms in service and retail sectors as well as firms in high advertising intensity sectors are much more likely to employ a giving program for their corporate philanthropy and give significantly more. This result is consistent with previous empirical findings that corporations substitute corporate contributions for more traditional advertisements (Navarro, 1998). The question is if this giving is truly philanthropic or is aimed primarily on promoting public relations.

Finally, firms with a large number of employees are much more likely to give and to give through a foundation, while not necessarily establish an endowment. The result is consistent with intuition that firms do conduct charitable giving to increase their reputations within one of the most important stakeholder groups, e.g. employees (Sharfman, 1994).

Thus, the empirical findings support the notion that there is a great diversity of charitable practices among corporations. Corporations do choose a specific method of charitable giving to lure their most important stakeholder groups. This kind of charitable giving is strategic in a sense that firms maximize their return on dollar spend on charitable purposes. This result also reveals that, to be strategic, firms in different industries, with different stakeholder groups may need to employ different charitable practices that best fit a particular corporate profile.

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