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Management of the corporate gift-giving function : an empirical study in the life insurance industry.

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MANAGEMENT OF THE CORPORATE GIFT-GIVING FUNCTION: AN EMPIRICAL STUDY IN THE LIFE INSURANCE INDUSTRY

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(Month) (Year)

To My Wife, Sara

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MANAGEMENT OF THE CORPORATE GIFT-GIVING FUNCTION:
AN EMPIRICAL STUDY IN THE LIFE INSURANCE INDUSTRY

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ABSTRACT

Over the past decade, corporate charitable contributions have averaged nearly $900 million annually, or approximately one percent of corporate pre-tax earnings. Accordingly, discussions have evolved in recent years on the need to upgrade the management of corporate charitable activity to a level that is consistent with its magnitude and importance. Thus far, a limited body of normative literature has been generated that is specifically concerned with the improvement of contributions management. We maintain, however, that the appropriateness of existing prescriptions is questionable in that the prescriptions are typically founded in a mode of logic which may be inappropriate to the present state of evolution and capabilities in corporate gift-giving.

We argue, as others have, that before pragmatic and appropriate normative approaches to the management of corporate charitable activity can be meaningfully undertaken, we must satisfy the requisite condition of gaining a perspective on present contributions techniques and processes. To date, however, there has been a noticeable lack of detailed, theory-grounded expository research designed to satisfy that requisite condition.

The purpose of this study was to investigate the report in detail, techniques and processes in the management of charitable activities in a

sample of five firms selected from the life insurance industry (Prudential, Equitable, Aetna, Massachusetts Mutual, and Berkshire Life) and to cast those techniques and processes in a positive analytical framework. Of particular interest in this exploratory field study were: (1) fundamental rationale for contributions; (2) relevant organization structures; (3) formal and informal objectives and policies; (4) processes and decision criteria in budgetary allocations and recipient choice; and (5) discrepancies between existing prescriptions and the techniques and processes exercised in the subject companies.

After gathering data through structured interviews conducted at the five relatively large life insurance companies (composite assets in excess of $73 billion and contributions over $7 million annually), profiles were developed of each company's contribution program.

The field research findings and prescriptions in the normative literature were then mapped into positive analytical frameworks consisting of organization, policy, and decision-making models founded in: (1) the logic of "rationality;" and (2) modes of logic that serve as alternatives to the "rational" approach.

Through the analysis we were led to conclude that prescriptions in the literature are typically based on classical models that emphasize (or totally adhere to) principles of rationality (the goal-policy-decision-evaluation paradigm). We were also led to conclude, however, that the techniques and processes in evidence from the field studies were more consistent with the alternatives to the rational models (the alternatives including among others, Thompson's "open system," Lindblom's "incrementalism," and Dye and Zeigler's "elitism" models). Further investigation revealed that this discrepancy is at least in part a function of the inability of practitioners and theorists to provide an essential element for the proper application of rational principles--*explicit*, *operational*, *institutional-level goals for a given contributions program*. In effect, the "state of the art" has not yet progressed to the point where an operational utility or welfare function for corporate social activity can be stated such that the prescribed rational principles could be applied effectively. We note, therefore, that corporate charitable activity has often taken on a primarily *expenditure* (versus return) orientation.

Through the use of the theoretical models we are further able to demonstrate that the corporate contributions programs under study are "open systems" *by design*, and that the application of principles based in the logic of rationality may result in the premature sacrifice of *organizational* effectiveness for sub-organization efficiency.

TABLE OF CONTENTS

APPENDICES Page

LIST OF TABLES

LIST OF FIGURES

C H A P T E R I

INTRODUCTION

Over the past decade, corporate charitable contributions have averaged nearly $900 million annually, or approximately 1% of corporate pretax earnings. In each of the years 1968 and 1969, total corporate contributions actually exceeded $1 billion.[1] The form of corporate largess has ranged from traditional monetary gifts in response to annual federated campaigns to more creative gifts-in-kind, including such abstruse contributions as gifts of electric freezers to Alaskan Eskimo tribes.[2]

Behind the magnitude and direction of corporate eleemosynary activity has been a variety of both public and private support and challenge. Until 1953 the validity of corporate gift-giving was open to question in federal and state courts and legislatures. In that year a declaratory judgment was reached in the landmark A.P. Smith case that had the effect of minimizing future challenges to management decisions involving corporate contributions as ultra vires.[3] With this decision, and with earlier tax support from the Internal Revenue Act of 1936, gift-giving has gained a solid foothold in corporate activity, left only to be challenged in most recent years by activist shareholders at annual meetings.

In philanthropic circles, much discussion has arisen concerning "professionalizing" the corporate gift-giving function. This discussion

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[1]Joan McC. Lundberg, ed., Giving U.S.A. (N.Y.: American Association of Fund Raising Counsel, Inc., 1974), p. 17.

[2]"Charity's Surprise Packages," Chemical Week, Vol. 95, No. 24 (December 12, 1964), pp. 96-97.

[3]A.P. Smith Manufacturing Co. v. Barlow, 13 N.J. 145, 98 A. 2nd 581, appeal dismissed, 346 U.S. 861 (1953).

primarily revolves around the need to upgrade the status and stature of the management of philanthropic activity to a level that is consistent with its magnitude and importance to the firm. Concurrently, a good deal of popular social rhetoric has emerged dealing with the greater realm of corporate "social responsibility" in which corporate gift-giving is treated as a major exercise of that "responsibility."

A number of professional institutions, including The Conference Board, the Council for Financial Aid to Education, and The Foundation Center, are making serious efforts to aid business organizations in more effectively organizing and managing their gift-giving affairs. Until recently, however, most efforts were confined to reporting aggregate survey data and making available information on legal requirements and potential contribution recipients. Accordingly, there has been a noticeable lack of detailed descriptive literature dealing with corporate eleemosynary activities, particularly thorough case studies of the management of these activities in any particular firms or industries. This void has most likely resulted from the combination of a lack of potential researcher interest and the reluctance of business firms to make public their policies, techniques, and the amount, nature, and direction of their gifts. Presently, however, there appears to be a more liberal trend developing in the disclosure of corporate philanthropic activities--a trend offering greater opportunities for the project reported herein.

Purpose of the Research

Paine and Naumes have bluntly stated that, "Prescribing what we should do is meaningful only when it is grounded in valid description."[4] Utilizing this premise, we argue here that before theorists and practitioners can undertake pragmatically valuable normative approaches to the management of the corporate gift-giving function, we must satisfy the requisite condition of gaining a proper perspective on the present state of contributions management.

The purpose of this research project is, therefore, to investigate and report in detail techniques and processes employed in the management of corporate charitable contributions in a sample of firms from a single industry (the life insurance industry), and to cast in a positive analytical framework the techniques and processes in evidence.

Among the major questions to be investigated in this exploratory field study are:

(1) What organization structures have been established for participants in the administration of corporate gifts?

(2) What are the basic rationale employed for including gift-giving among the activities of the firm?

(3) What formal and informal objectives and policies have been generated to guide administration of contributions programs?

(4) What processes and decision criteria are exercised in budgetary allocations and recipient choice?

(5) Are existing prescriptions and evaluative conclusions in the literature founded in a frame of reference appropriate to contributions activity?

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[4] Frank T. Paine and William Naumes, Strategy and Policy Formation (Philadelphia: W.B. Saunders Co., 1974), p. 16.

Significance of the Research

The significance of the study will be realized in multiple modes:

(1) as a contribution of filling the void of much needed detailed descriptive literature dealing with the management of corporate contributions,

(a) so that eventually detailed evaluative and description-grounded normative approaches may be validly undertaken, and

(b) so that practitioners may become aware of the composite of techniques employed by their counterparts in this relatively non-competitive area;

(2) as a contribution toward better understanding of why discrepancies exist between prescriptions and present-day donative management;

(3) as a contribution to the organizations under study in the form of an encapsulated, outsider's view of the management of their gift-giving activities; and

(4) as a contribution to the body of business policy literature.

Overview

To provide insight into the general nature and background of corporate giving, Chapter II "Corporate Donative Activity in Perspective" includes a review of the relevant literature dealing with historical trends, supporting rationale and the legal and tax dimensions of giving. Also included are summaries of relatively recent studies that have dealt with corporate donative management issues.

Chapter III, "Patterns in the Life Insurance Industry" provides a general introduction to the industry to which the present study is confined, including discussions of the peculiar tax status of life insurance companies and the results of recent studies of contributions patterns in the industry.

In Chapter IV, "Sources and Methods" the methodologies employed in the empirical portion of the research are outlined including the rationale behind the choice of the insurance industry for study, the selection of sample firms from the industry, and the procedures used in data collection. Additionally, definitions are given for some of the common terms used throughout the remainder of the report.

As a means of reporting the field investigation findings, profiles are developed for the contributions programs of each of the five life insurance companies selected for study. These profiles are presented in Chapters V through IX. Emphasis in each of the corporate profiles is placed on program rationale, objectives and policies, organization structure, and on parameters and processes associated with budgeting, recipient choice and evaluation.

In Chapter X, "Analysis and Interpretations," the empirical findings reported in the corporate profiles are mapped into an analytical framework consisting of a number of organization, policy, and decision-making models. The intent here is to point out a potentially more appropriate perspective for interpreting the present state of contributions management than that traditionally employed in the literature. The report is then closed in Chapter XI with a brief summary, concluding remarks, and notation of relevant areas for future research.

Initial Definitions

To provide a common orientation to "corporate charitable contributions," the following definitions are offered for use in the initial stages of this report. Further definitions of these terms and others are offered later in the report.

Charitable contributions (also "contributions," "gifts," "donations," "largess"):

Expenditures involving the transfer of tangible or intangible property having a material value by the donor, who or which was under no previous legal obligation to make such expenditure, and where the nature of the property and the donee are such that the expenditures meet the requirements for tax deductibility status under the Internal Revenue Code.[5]

Corporate:

Used in the ordinary sense to mean having to do with private, profit-seeking organizations established as legal entities, and endowed with the capacity of perpetual succession (as distinct from having to do with non-profit seeking corporations or non-incorporated organizations).

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[5]Portions of this definition are from Ralph Lingo Thomas, Policies Underlying Corporate Giving (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1966), pp. 13-14.

The requirements set forth in the Internal Revenue Code are discussed at some length in the next chapter.

CHAPTER II

CORPORATE DONATIVE ACTIVITY IN PERSPECTIVE

In the earliest primitive traditions of private gift-giving, elemental economic needs and familial responsibilities severely limited any giving outside the nuclear family. As societies developed both economically and socially, religious beliefs began to provide motivation for philanthropy--Greek, Roman, and early Christian cultures put emphasis on giving as a means of serving their gods.[1]

With the passage of time in early English society, the church was slowly displaced from its sole almoner role as the power and the wealth of individuals and the state became more pronounced. While religious motivation for philanthropy remained, state and non-religious interests began to play a more important role in channeling efforts toward improving conditions of the time, particularly in providing relief for the poor. In 16th and 17th century England, the earliest forerunners of the modern corporation--"city companies"--were established by merchants or guilds to serve as trusts for charitable distributions. Of particular interest to these groups was the relief of prisoners, particularly prisoners of debt (many of the merchants and tradesmen were themselves speculators, occasionally in danger from their creditors).[2] In a study of

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[1] F. Emerson Andrews, "A Glance at History," Philanthropic Giving (N.Y.: Russell Sage Foundation, 1950), pp. 27-42.

[2] For a comprehensive study of 16th and 17th century English philanthropy, see W.K. Jordan, Philanthropy in England (2nd ed.; N.Y.: Russell Sage Foundation, 1964).

data collected from ten counties in England for the period 1480-1660, Jordan found that merchants and tradesmen contributed more than 48% of the total private charitable gifts noted during the period.[3] The colonization of America was characterized by an extremely high degree of interdependency of people and by a strong maintenance of the residual religion-philanthropy relationship. As economic conditions improved and religion became a highly personal concern, a new interest in humanitarian and secular giving developed.

Much of this interest concerned the role of private business in responding to new and complicated social problems. As the power and wealth of business developed rapidly and industrialization made social problems more acute, business's role in social problem solving became more visible.[4] Of particular concern was the role that the corporate form of business would play in the maintenance and improvement of social welfare. As advancing industry brought with it new clientele and new philanthropic settings, public sentiment generally turned toward permissiveness in corporate giving, although this sentiment evolved admist much debate over the proper domain of corporate activity. Eventually, landmark court decisions, legislation in the states, and federal tax regulations evolved to solidify the propriety of corporate giving.[5]

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[3]Jordan, p. 384.

[4]For an interesting and thorough disscussion of the impact of industrialization on social welfare, see Harold L. Wilensky and Charles N. Lebeaux, Industrial Society and Social Welfare (N.Y.: The Free Press, 1965).

[5]See "Legal and Tax Dimensions of Giving" (this chapter).

The response of corporations to changes in the social and economic climate is portrayed in the rapid growth of corporate donative activity. Drastic increases in sheer dollar amounts have been accompanied by new means and directions of giving and, in many instances, by the integration of gift-giving as a legitimized management function in the modern corporation.

Amounts, Sources, and Directions of Corporate Gifts

A number of studies have been conducted to gather and analyze corporate contributions data, but all have been wrought with recognized innaccuracies.[6] First, in the years prior to 1936, the data available is at best sketchy. Secondly, survey data, the most common method of gathering contributions information, is often biased in favor of firms of a certain size (or other characteristic) due to survey design. Internal Revenue data is often the most reliable, but suffers primarily from occasional gift being included in tax filings as "business expenses" rather than "charitable contributions," thus becoming undetectable.[7]

[6] See F. Emerson Andrews, Corporation Giving (N.Y.: Russell Sage Foundation, 1952); John H. Watson III, series of Biennial Survey(s) of Company Contributions (N.Y.: The Conference Board); Frank G. Dickinson, The Changing Position of Philanthropy in the American Economy (N.Y.: National Bureau of Economic Research, Inc., 1970); and Ralph L. Nelson, Economic Factors in the Growth of Corporation Giving (N.Y.: National Bureau of Economic Research and Russell Sage Foundation, 1970). A brief discussion on the sources of data in each of these studies is included in Marion R. Fremont-Smith, Philanthropy and the Business Corporation (N.Y.: Russell Sage Foundation, 1972), pp. 31-55.

[7] In a survey of contributions to the arts, one researcher revealed that his sample companies gave approximately $9 million as deductible contributions and gave an additional $8 million which they reported as business expenses. See Gideon Chagy, ed., Business in the Arts '70 (N.Y.: Paul S. Erickson, Inc., 1970), cited by Fremont-Smith, p. 32. Another researcher further estimates that if donations of employee time (where salaries are typically deducted as "ordinary business expenses") constituted .3% of total compensation of employees of corporations, they would exceed the amount of corporate gifts as presently reported. See, Dickinson, p. 56.

Additionally, IRS data is gathered through sampling (although scientifically acceptable procedures are employed).[8]

Accepting these limitations, the data available does provide a relatively clear indication of the trend of corporate giving. Responding to the economic demands of the war years 1917 and 1918, the year when corporate contributions reached their first significant total), corporate contributions to the YMCA and Red Cross totalled between $40 and $50 million.[9] In 1920, contributions to community chests alone were estimated at $2.5 million, growing to approximately $13.5 million in 1929. Much of this increase reflected a growth in the community chest movements and a <u>shift</u> in corporate giving from other categories of corporate recipients.[10]

Contributions statistics for the years 1929-1973 are presented in Table 1. Clearly the most abrupt percentage increases occurred during the years of World War II. Studies by Nelson have indicated that as a percentage of GNP, corporate contributions have risen three fold, from 1/30 of 1% in 1936-40 to approximately 1/10 of 1% in recent years, again with the major growth in the four war years 1941-44. Nelson also found

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[8] Dickinson, p. 56. Other sources of error in IRS data, including computation bias and use of averages or aggregates, are pointed out by Orace Johnson, "Corporate Philanthropy: An Analysis of Corporate Contributions," Journal of Business of the University of Chicago, Vol. 39 No. 4 (October, 1966), p. 490.

[9] Andrews, Corporation Giving, p. 28. There has been no summary data presented on total corporate giving for years prior to 1929, therefore, the analyst can look only to data reflecting gifts to specific areas as "indicators" of trends during the early years.

[10] Nelson, p. 17.

Table 1

FISCAL CONTRIBUTIONS BY CORPORATIONS

Year	Dollars in Millions	Year	Dollars in Millions	Year	Dollars in Millions
1929	32	1944	234	1959	482
1930	35	1945	266	1960	482
1931	40	1946	214	1961	512
1932	31	1947	241	1962	595
1933	27	1948	239	1963	657
1934	27	1949	223	1964	729
1935	28	1950	252	1965	785
1936	30	1951	343	1966	805
1937	33	1952	399	1967	830
1938	27	1953	495	1968	1005
1939	31	1954	314	1969	1055
1940	38	1955	415	1970	797
1941	58	1956	418	1971	840*
1942	98	1957	417	1972	840*
1943	159	1958	395	1973	950*

Source: Internal Revenue Service Statistics of Corporations Income--various years.

Years 1929-1944 from Frank G. Dickinson, The Changing Position of Philanthropy in the American Economy (New York: National Bureau of Economic Research, Inc., 1970), pp. 41-42.

*Estimated by American Association of Fund Raising Counsel, Inc., Giving USA: A Compilation of Facts and Trends on American Philanthropy for the Year 1973 (New York, 1974), p. 17.

that the annual percentage of pre-tax corporate income given in the form of contributions grew from .31% for the period 1936-40 to approximately 1% for the years 1960-64.[11] Contributions as a percentage of corporate pretax earnings for the most recent years are presented below.[12]

Year	% of Profits Subject to Tax	Year	% of Profits Subject to Tax
1964	1.09	1969	1.24
1965	1.01	1970	1.08
1966	.96	1971	.99
1967	1.04	1972	.86
1968	1.15	1973	.75

While many studies use different bases and measures for analytical purposes, the data taken from IRS statistics is sufficient to demonstrate the long-term growth trend of corporate giving. Of additional significance, however, is a trend not noted in the IRS data--that involving the relationship of corporate giving to total recorded philanthropy. An analysis of the data reveals that in 1929 corporate gifts comprised an estimated 1.4% of the total from all sources, rising to 3.2% in 1959 and continuing upward above 5.3% in 1969-70, only to fall below 4% in 1973.[13]

Sources of Giving and Areas of Support

A continuing series of survey studies conducted by the late John

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[11] Nelson, pp. 5, 21-22, 95.

[12] American Association of Fund Raising Counsel, Inc., Giving USA: A Compilation of Facts and Trends on American Philanthropy for the Year 1973 (N.Y.: American Association of Fund Raising Counsel, 1974), p. 17.

[13] From data in Dickinson, pp. 40-41; The Commission on Foundations and Private Philanthropy, Foundations, Private Giving and Public Policy (Chicago: University of Chicago Press, 1970), p. 1; and American Association of Fund Raising Counsel, p. 6.

Watson, III of The Conference Board provide insight into the rates of giving for groupings of corporations along various classification schemes. Tables 2 and 3 present some of the findings of the most recent study utilizing data for the year 1972.[14] Significantly, this data suggests that manufacturing industries gave at a rate (contributions as a percentage of net taxable income) higher than non-manufacturing industries and that the smaller companies, as measured by number of employees, tended to give at a higher rate (contributions per employee) than the larger companies.

The distribution of corporate gifts, as found in The Conference Board studies, is presented in Table 4 for the years 1972, 1968, and 1965 (the distribution of gifts by the insurance industry alone is also depicted for 1972). This data indicates that there has been a steady increase in the percentage allocation of gifts to civic causes (5.8% in 1965 to 9.14% in 1972) and a relatively recent decline in gifts to education (36.2% in 1972 versus 38.8% in 1968). At least a portion of this

[14]Variations in the findings of studies utilizing IRS data and The Conference Board surveys are in part the result of the sampling error and and bias introduced in the latter studies (small samples with systematic bias toward large firms). Additionally, Conference Board studies include as "contributions," direct payments by companies to recipients and payments by company-sponsored foundations to recipients. IRS data includes direct payments by companies to recipients and payments made by companies to their foundations. (The Conference Board reports that in their sample, contributions from company sponsored foundations accounted for 60% of the total in 1970, declining to 58% in 1972, as cited by Watson, Biennial Survey of Company Contributions, 1972, p. 1).

TABLE 2

Per Cent Contributions to Net Income, Before Taxes-- Companies
Grouped by Industry Class, 1972
(Insurance companies excluded)*

Industrial Classification	No. of companies in sample	% of contributions to income
Chemicals and Allied Products	33	.85
Elec. Machinery and Equipment	21	.80
Fabricated Metal Products	25	.43
Food and Kindred Products	18	.97
Machinery, Nonelectrical	15	.97
Paper and Like Products	10	1.34
Petroleum Refining	15	.83
Primary Metal Industries	19	1.47
Printing, Publishing	6	.55
Rubber, Misc. Plastic Products	7	.82
Stone, Clay and Glass Products	8	1.41
Textile Mill Products	10	4.21
Tobacco Manufacturers	2	.38
Transportation Equipment	11	1.02
Misc. Mfr. Industries	30	.78
Total: Manufacturing	230	.83
Banking	40	1.07
Finance, Real Estate	6	.60
Public Utilities	52	.44
Trade, Wholesale, Retail	12	.46
Other Non-Manufacturing	17	1.07
Total: Non-Manufacturing	127	.55
Total: All Companies	357	.73

*Insurance companies are excluded here since "net income," as used by industrial companies, is not applicable for insurance companies. This point is discussed at greater length in the next chapter.

Source: John H. Watson, III, Biennial Survey of Company Contributions (New York: The Conference Board, Inc., 1973), p. 5.

TABLE 3

Contributions Per Employee and Per Cent of Contributions to Assets--
Companies Grouped by Number of Employees, 1972

Company Size by Number of Employees	No. of Cos	Contr. per Employee	No. of Cos	% of Contr. to Assets	Insurance Cos only* No. of Cos	% of Contr. to Assets
Below 250	11	$174	11	.04	3	.020
250-299	7	83	7	.03	4	.010
500-999	20	88	18	.02	4	.066
1000-4999	133	69	126	.02	23	.009
5000-9999	78	47	76	.02	9	.012
10000-24999	97	40	95	.03	8	.016
25000+	92	29	91	.03	4	.001
Total	438**	34	424**	.03	55	.003

Source: John H. Watson, III, Bienniel Survey of Company Contributions (New York: The Conference Board, Inc., 1973), pp. 3-5.

*Insurance company data is reported separately in consideration for the fact that insurance company assets are of an entirely different character from industrial companies.

**Totals in the tabulations differ since respondents did not reply to all survey questions.

TABLE 4

The Contributions Dollar

	1972 443 Cos	1972 55 Insurance Cos	1968 401 Cos	1965 540 Cos
	% of Total	% of Total	% of Total	% of Total
Health and Welfare (Federated Drives, Hospitals, etc.)	42.01	50.9	37.15	41.5
Education (Higher and Secondary)	36.23	26.2	38.81	38.4
Culture (Cultural centers, Museums, etc.)	4.09	3.4	4.95	2.8
Civic Causes (Community improvement, Government, etc.)	9.14	12.8	7.19	5.8
Other (Religious, Aid to other countries, etc.)	7.33	5.8	10.39	9.2
Not Allocable (Donee unknown)	1.20	.9	1.51	2.3
Total	100.00	100.0	100.00	100.0

Source: John H. Watson, III, Biennial Survey of Company Contributions (New York: The Conference Board, Inc. 1973), pp. 7-11.

shift may be accounted for by the "crises in the cities" of the late 1960's, as many corporate gifts were made to meet local community needs in the form of urban redevelopment and aid to the inner city disadvantaged.[15]

As clearly depicted in the data, the allocation of insurance industry support differs substantially from the cross-industry averages for 1972. The greater financial stake of insurance companies in health and welfare probably accounts for their greater support of this area. This allocation differential and higher support of civic causes is, however, offset by lesser support of education.

Supporting Philosophies and Rationale

While it is relatively easy to note the amount and direction of corporate gifts, it is considerably more difficult to ascertain the true underlying philosophies and rationale that support such giving. Here we shall review at least a few of the supporting doctrines and findings advocated by philosophers and field researchers.

An Early Survey

As part of a 1951 survey sponsored by the Russell Sage Foundation, 326 cooperating companies were requested to: "Please name the factors you give most weight in deciding on a contribution." The survey analyst divided the responses into nine categories and calculated the percentages

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[15] A 1970 study by Cohn of 247 large companies found that 175 of these companies had revised their support programs to include contributions to groups associated with urban affairs. Of these 175 companies, 45 had reduced donations to traditional recipients. Jules Cohn, "Is Business Meeting the Challenge of Urban Affairs?" Harvard Business Review, Vol. 48 (March-April, 1970), pp. 71-73, as cited by Fremont-Smith, p. 55.

of responding companies that mentioned each of the factors (Figure 1.)[16]

While the bare statistics do not allow an analyst to clearly distinguish between those motivating factors which are associated with corporate "self-interest" (direct or indirect benefit to the firm) and those which are not, it is apparent that there is variation between companies in the rationale for deciding on a contribution.

Fundamental Rationale

Without continuing the large scale survey approach to ascertain the underlying forces behind corporate giving, a number of writers have developed theories based on their experiences and intuitions to provide the needed rationale.

Among the more esoteric approaches to developing a rationale, is that advocated by Dr. W. Homer Turner, former Executive Director of the U.S. Steel Foundation. In a 1965 seminar paper, he discusses at length what he refers to as the "etiology" (causation) and "teleology" (conscious purpose) of corporate giving.[17] Through reference to the "Mutual Aid" (social cooperation) tenets set forth by Kropotkin (a social scientist), Turner notes the support for corporate giving at the "macrocosm" (culture) level pointed to in biological and sociological laws. The corporation is only one of many institutions (including the family, church, government, and so on) which should, and do, contribute to the "improvement of people."[18]

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[16] Andrews, Corporation Giving, pp. 114-117.

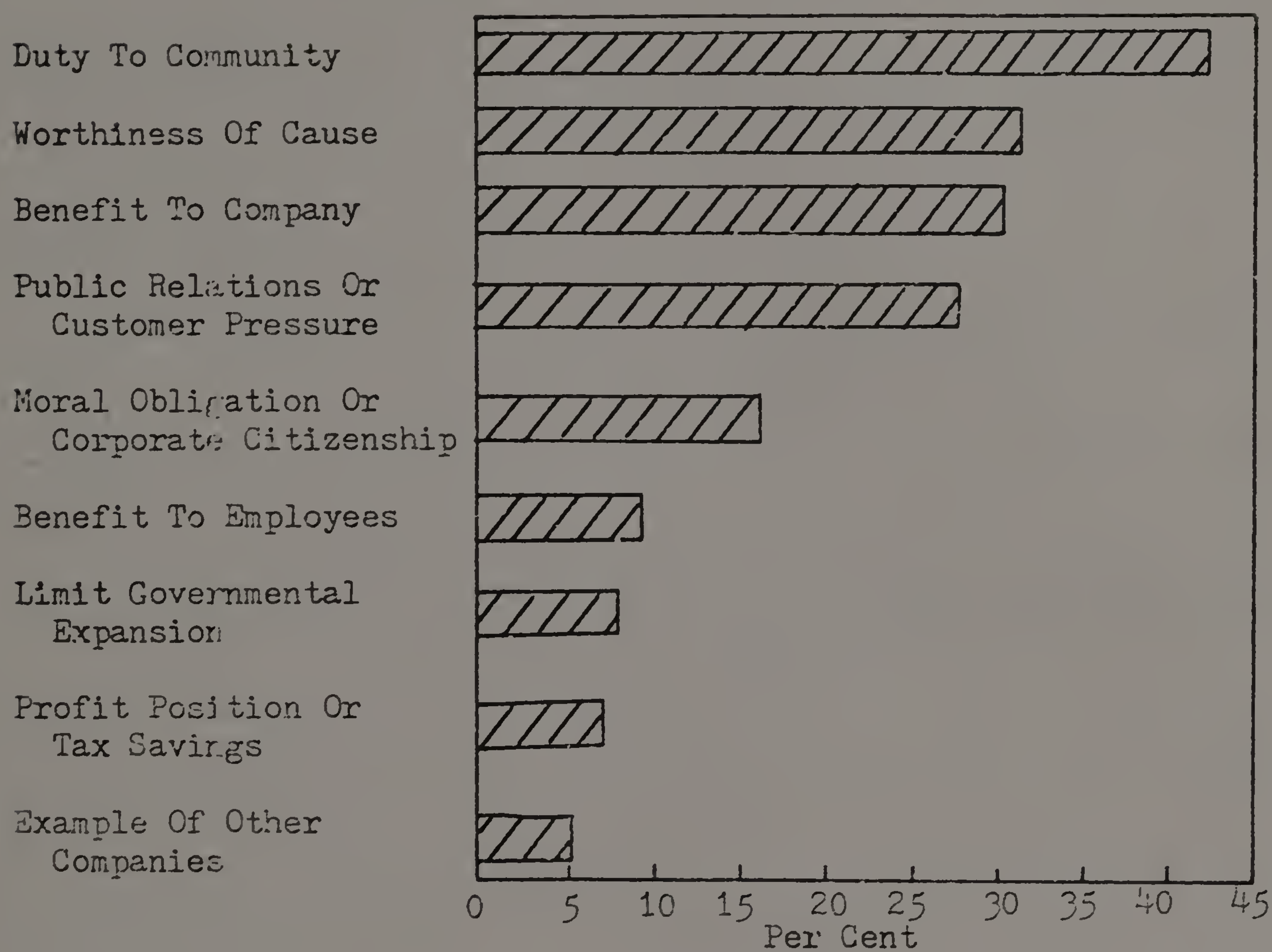
[17] W. Homer Turner, "The Rationale for Corporate Philanthropy," (unpublished background paper for the Management Seminar on Company Contributions sponsored by the National Industrial Conference Board, Princeton, N.J., October 27, 1965).

[18] See also, W. Homer Turner, "The Societal Role of the Corporation," The Conference Board Record, Vol. 5, No. 1 (January, 1968), pp. 11-13.

Figure 1

Per Cent of Corporations Reporting

Certain Factors Influencing Their Gifts



Source: Russell Sage Foundation survey as reported in F. Emerson Andrews, Corporation Giving (N.Y.: Russell Sage Foundation, 1952), p. 115.

Corporate gifts, he argues, are but one way in which this occurs.

Other theorists have channeled their attention more closely to the "microcosm" level--that of the individual corporation. While their theories have come by many names (with attendant semantic abuse and confusion), they will be presented here dichotomized along the lines of "altruism" and "prudential investment," with the latter further broken down to "defensive postures" and "offensive postures."

Altruism

While apparently unsatisfying to many corporate contributions theorists, altruism (selfless concern for the welfare of others) may often be the prime motivating force behind private giving by individuals. There are, however, indications that corporate gifts are on occasion made under a similar philosophy where "the corporation sees no obligation to justify its gifts beyond the fact that a need exists, and it has a moral obligation to help meet this need."[19] A number of writers including Watson, Neal, Reuschling, and to some degree, Turner, have suggested that we can account for at least a portion of corporate giving through the exercise of the altruistic motive.[20]

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19. Thomas Reuschling, "Marketing Philanthropic Causes to Corporations" (unpublished manuscript, University of Northern Iowa, 1974), p. 4. The legal ramifications of this approach to giving are clearly open to question, but are readily resolved by resort to the following "Prudential Investment Theory."

20. John H. Watson, III, "Making Company Contributions More Effective," The Conference Board Record, Vol. 6, No. 1 (January, 1968), pp. 20-22; Alfred C. Neal, "A More Rational Basis for Non-Profit Activities," The Conference Board Record, Vol. 5, No. 1 (January, 1968), pp. 5-7; Reuschling, pp. 4-5; and Turner, p. 190.

Most theorists, however, appear to be more intellectually satisfied with a rationale for donative activity based on principles of return.

Prudential Investment

The "prudential investment" theory generally holds that corporations make charitable contributions on the basis of their own "enlightened self-interest," that is, in expectation of direct or indirect, tangible or intangible returns.[21] This theory is a corollary of the profit maximizing formulae of classical economics, although the returns need not be identifiable in the profit profile of the firm. Further, there is no stipulation that the returns be realized in the short-run. In fact, much of giving done on this premise is designed to have long-run ramifications.

Defensive Posture

A number of writers have pointed to the justifications of corporate contributions on the basis of the need for corporate response to external pressures which, if left unattended, could jeopardize the earning potential of corporations and which ultimately could alter the nature of the private enterprise system. Richard Eells has written that "corporate giving has correctly been justified as a preventive measure."[22] Alfred

[21] The "Prudential Investment Theory," while a composite of the thoughts of many writers, is based on Richard Eels' concept of "constitutionalism" and is discussed in his Corporation Giving in a Free Society (N.Y.: Harper and Bros., 1956), and "A Philosophy for Corporate Giving," The Conference Board Record, Vol. 5, No. 1 (January, 1968), pp. 14-18.

[22] Richard Eells, "A Philosophy," p. 17.

Neal notes that corporate non-profit activities (which in his definition include contributions), are:

> . . . supported to ensure the goodwill of groups and interests whose favor is essential to the continued existence and growth of the company, and the freedom of management to manage.[23]

This defensive posture may in part be characterized as a "pleasure-pain calculus" wherein corporations can maintain their viability (pleasure) only as long as they submit to certain societal demands (pain). In a massive field study conducted by Shapiro in the late 1950's, he found that 78% of his sample of over 500 Chicago firms either "frequently" (36%) or "occasionally" (42%) received "pressure" from influential groups to make contributions.[24] Similarly, Jacoby concludes, after examining contributions ratios for different industries, that "corporate giving is generally in proportion to the extensiveness of local public contacts which generate social pressures."[25] Other analysts have pointed specifically to the significant charitable response of corporations during the Depression Thirties as evidence of defensive reaction, some labeling the contributions of the time, "riot insurance."[26] Today we hear similar remarks in regard to corporate response to the "urban crisis" of the late sixties.

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[23] Neal, p. 6.

[24] Leo J. Shapiro, Company Giving (Chicago: Survey Press, 1960), p. 13.

[25] Neil Jacoby, Corporate Power and Social Responsibility (N.Y.: Macmillan Publishing Company, Inc., 1973), p. 199.

[26] Bert S. Prunty Jr., "Love and the Business Corporation," Virginia Law Review, Vol. 46, No. 1 (1960), p. 471.

Offensive Posture

In suggesting the "Prudential Investment Theory" Eells pointed not only to the defensive need for corporate giving, but also to the positive treatment of giving as any other investment decision of the firm:

> ...corporate giving can sometimes be shown to be a very good, often the very best, way to achieve a company's business objectives.[27]

Most writers concerned with the rationale for giving mention the obvious quid pro quo of donative efforts, not only in preventing calamity or loss, but also in improving the economic climate for a corporate donor.[28] The public relations value of a gift can aid in shifting the demand curve for a firm's products or services; it might provide increased benefits for employees, hopefully improving the quality and quantity of employee output; community improvement might be realized, providing greater attraction for potential employees; and research projects might be "farmed out", with the firm realizing later benefit through a higher level of technology. In effect, the firm making a contribution under this rationale is making an investment decision which is not unlike decisions relating to advertising commitments or the purchase of capital equipment, although the returns may not be as accurately or precisely forecasted.

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[27] Eells, "A Philosophy," p. 17.

[28] See, for example, Elliott G. Carr and James F. Morgan, et al., Better Management of Business Giving (N.Y.: Hobbs, Dorman, and Co., 1966), pp. 5-10: Reuschling, p. 5; and R.A. Schwartz, "Corporate Philanthropic Contributions," Journal of Finance, Vol. 23, No. 3 (June, 1968), p. 48.

Managerial Self-Interest--A Note

While not a part of the more traditional philosophies for corporate giving, the motivations of the individual manager (which are obviously not always in consonance with the objectives of the firm) cannot be discounted in the analysis. Clearly, certain charitable contributions made in the name of a corporation, with corporate funds, might be traced back to the needs and desires of an individual or small group of individuals who possess the power to authorize grants of their own choosing. Here again, however, grants made under conditions of individual self-interest can be either defensive or offensive in nature.

In a lengthy treatise, Walter Held points to the precarious defensive position of many top level managers who are personally drawn into participating in fund raising drives--they soon discover that they are caught in a web of reciprocation, unable to deny support to drive chairmen whose companies previously supported drives on the request of the now-solicited managers.[29]

In the offensive posture, managers with authority are often in a position to make grants that lead to little more return than the self-satisfaction of the decision-maker. A 1969 Conference Board survey found a direct correlation between the personal interests of business executives and the likelihood that their companies contribute to the arts:

[29] Walter J. Held, The Technique for Proper Giving (N.Y.: McGraw-Hill Book Company, Inc., 1959), pp. 1-33.

> ...companies often report that an exceptionally high level of giving in one year may reflect the fact that a major company officer served as the head of an art organization or led its drive for funds that year.[30]

Unfortunately, there is little way to accurately ascertain the aggregate impact of the "managerial ego" on the amount, nature, and direction of corporate support. Studies have been conducted, however, that begin to shed light on the posture of corporate rationale toward giving. A brief review of some of these studies follows.

Explanatory Statistical Studies

In an attempt to "capture" the underlying motivations for giving, a few statistical studies have been undertaken that utilize time series and cross-sectional data taken from IRS compilations.

In a mid 1960's study, Schwartz regressed varying levels of corporate giving on a number of variables including "price" (after tax cost of a contribution), advertising expenditures, cash flow, and income.[31] He found donations to be positively related to income (yet relatively inelastic--range from .41 to .63) and negatively related to price (clearly elastic--range from -1.06 to -2.00). While his justification in his report is not clear, he was led to conclude that, "the significant response

[30] Joanne Wojtusiak, "In Support of the Arts, Companies Know What They Like," The Conference Board Record, Vol. 7, No. 1 (January, 1970), p. 62. For a detailed case study of a significant corporate commitment to a fund raising drive led by a company officer, see Nicholas Speranzo and Arthur Elkins, "Society Life Insurance Company," in Arthur Elkins and Dennis W. Callaghan, A Managerial Odyssey: Problems in Business and Its Environment (Reading, Mass.: Addison-Wesley Publishing Company, 1975), pp. 110-117.

[31] Schwartz, pp. 479-497.

of corporate giving to a tax determined price is meaningful evidence that corporate donations are not simply profit motivated."[32] Through cross-sectional analyses he was further led to conclude that there are both "expenditure" and "consumption" orientations in corporate giving, with the "consumption" orientation representative of "corporate responsibility toward community."

Johnson, in a somewhat similar time series and cross-sectional regression study attempted to analyze the relationship between corporate contribution ratios and the level of concentration in different industries.[33] Using utilities, finance, and mining industries as representative of monopolistic industries, agriculture as competition, and manufacturing, services, and trade as what he termed "rivalry," he was led to conclude:

> ...the significant association of rivalry with higher than average contribution ratios--and the lack of any general tendency for the largest-sized firms to give at the highest rates--confirms the prediction that corporate contributions are motivated by a striving for a competitive advantage. But this showing leaves much room for contributions to be affected by concepts of responsibility...[34]

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[32] Schwartz, p. 496. For a critique of the Schwartz study, particularly of his conclusions relating to income elasticity, see Orace Johnson and Walter Johnson, "The Income Elasticity of Corporate Philanthropy: A Comment, "Journal of Finance, Vol. 25, No. 1 (March, 1970), pp. 149-157.

[33] Orace Johnson, "Corporate Philanthropy: An Analysis of Corporate Contributions," Journal of Business of the University of Chicago, Vol. 39, No. 4 (October, 1966), pp. 489-504.

[34] Johnson, "Corporate Philanthropy," p. 503.

A later comprehensive statistical study of corporate giving was undertaken by Nelson in 1970 in efforts to identify the economic determinants of giving.[35] A number of his findings contradicted the previously mentioned studies, including his finding a "price" elasticity of -1.0 (versus Schwartz' -1.06 to -2.00) and a "scale" elasticity (corporate size by net assets and income) close to 1.0 (versus Schwartz's .41 to .63 and Johnson's noting a bell-shaped relationship between contributions and corporate size). One of his findings not previously addressed was that, "corporations engaged in labor intensive production gave proportionately more than those engaged in capital intensive production."[36] While the nature of this finding does not provide support peculiar to any one of the philosophies previously presented, it and further findings will begin to "capture" the true underlying motivations for giving which have appeared so elusive.

Legal and Tax Dimensions of Giving

Legislative and Judicial Background

The propriety of corporate gift-giving has been an issue of debate in corporate board rooms, the halls of academia, and, of particular universal importance, in the courts. Considering that the broad powers granted corporations in the general acts of incorporation are not unlimited, the modern corporation is generally thought to be restricted to

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[35] Nelson.

[36] Nelson, p. 10.

applying its capital to the production of profit, necessarily precluding altruism.[37] This concept is epitomized by the nineteenth century English court's Hutton ruling that "charity has no business sitting at the board of cirectors, qua charity."[38]

Traditional challenges to corporate giving have been based on the doctrine of ultra vires. As held in the early Dodge v. Ford Motor Company case:

> A business corporation is organized and carried on primarily for the profit of the shareholders. The powers of the directors are to be employed for that end. The discretion of directors is to be exercised in the choice of means to attain that end and does not extend to a change in the end itself, to the reduction of profits or to the nondistribution of profits reduction among shareholders in order to devote them to other purposes.[39]

While this decision did not relate specifically to corporate donations, (the decision dealt with retaining earnings for corporate expansion in lieu of distribution through dividends), it clearly reflected and directed a profit orientation for all corporate activities with shareholders designated as ultimate beneficiaries. Further, the earlier Hutton case, which undoubtedly influenced American jurisdictions, emphatically set forth the showing of "direct benefit" to a donor corporation. The "direct benefit" provision was gradually relaxed through "a mutation in the public image of...the business corporation," and formally overturned in the landmark case of A.P. Smith Manufacturing Company v. Barlow (1953).[40]

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[37] Fremont-Smith, p. 6, and Prunty, p. 467.

[38] Hutton v. West Cork Rwy. Co., 23 Ch.D. 654, 673 (1883), cited by Fremont-Smith, p. 6.

[39] 204 Mich. 459, 507, 170 N.W. 668, 684 (1919), cited by John A.C. Hetherington, "Corporate Social Responsibility, Stockholders, and the Law," Journal of Contemporary Business (Winter, 1973), p. 59 f.n.

[40] Quoted from Prunty, p. 468; 13 N.J. 145, 98 A. 2d 581, appeal dismissed 346 U.S. 861.

Beginning in 1917, individual states gradually began to enact legislation expressly permitting corporations to make charitable contributions. It has been noted, however, that the importance of the statues lay more in their psychological importance than in their legal basis.[41] Thus the "mutation" that led to the A.P. Smith decision.

In this test case, generated in response to protests by friendly shareholders, the directors of A.P. Smith sought a declaratory judgment that a donation of $1,500 to Princeton University was permissible.[42] The New Jersey Superior Court upheld the contribution on three grounds:

1. The gift reasonably promoted corporate objectives (therefore was valid at common law).
2. Statutory confirmation (N.J. enabling legislation) was retroactive to chartering of the corporation.
3. The court moved on the responsibility of business to community:

> Modern conditions require that corporations acknowledge and discharge social as well as private responsibility as members of the communities in which they operate.[43]

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[41] Fremont-Smith, p. 9 and Prunty, pp. 467-471.

[42] This test case was actually generated on the initiative of Standard Oil Company of New Jersey to gain a declaratory judgment so that it could clear a legal path for its contributions to education program. Standard Oil enlisted the help of the less well-known and less visible A.P. Smith Co., a firm chartered in the same year as Standard Oil, and sought out stockholders that would agree to disagree. Further, a gift to Princeton University for the University's general maintenance was chosen so that the gift would bear no relation to the manufacturing activities of A.P. Smith Co. (a manufacturer of industrial valves). Council for Financial Aid to Education, The Twenty Year Old Idea That's Still Producing, (N.Y.: Council for Financial Aid to Education, no date), pp. 10-11.

[43] 13 N.J. at 154, 98 A. 2d at 586, cited by Phillip I. Blumberg, "Corporate Responsibility and the Social Crisis, " Boston University Law Review, Vol. 50, No. 2 (Spring, 1970), pp. 174-175.

The appellate court upheld the decision and the U.S. Supreme Court dismissed appeal for want of a federal question. The few cases which have been brought since this landmark decision have resulted in further judicial support for the prerogative of corporations to make contributions without demonstration of direct benefit.[44]

Today, therefore, there is virtually no legal restraint on the causes to which a corporation may make charitable contributions. All states except Arizona and Idaho presently have permissive legislation.[45] Financial considerations resulting from the tax laws, however, implicitly serve to limit the level and direction of corporate giving.

Tax Dimensions

In a tax oriented business world, tax tests often become the ultimate decisive test of validity of corporate activities. In the area of corporate contributions, tax statutes and interpretations have served to bolster the propriety of charitable activity.

Following the imposition of the corporate income tax in 1913, and until the passage of the 1936 Internal Revenue Act, corporate charitable contributions were typically treated as "ordinary and necessary" business expenses and were deducted as such in determining taxable income.[46]

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[44] Union Pacific Railroad v. Trustees, Inc., 8 Utah 101, 329 P.2d 398 (1958); Theodora Holding Co. v. Henderson, Del. Ch., 257 A.2d 398 (Ch. 1969); Kelly v. Bell, Del. Ch., 254 A.2d 62 (Ch. 1969).

[45] For a brief of the permissive legislation for each of the states, see Ralph Lingo Thomas, Policies Underlying Corporate Giving (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1966), Appendix I, pp. 102-116. Many of these statutes are based on the ABA-ALI Model Business Corporation Act, Section 4 m (revised, 1969).

[46] Thomas, p. 49-50.

Treasury Regulations, under the Revenue Act of 1921, explicitly permitted such deductions under Section 162 of the Code when, in effect, they represented a "business proposition" and did not stem from purely "philanthropic motives."[47]

The early Code led to a great deal of litigation as to the "business relatedness" of certain contributions. Eventually, however, Congress passed the Revenue Act of 1936, which expressly permitted corporations to deduct gifts as "charitable contributions" as long as they were made to certain classes or types of charities.[48] For tax purposes, the propriety question became irrelevant. Further, the 1936 Act limited

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[47] The qualifying phrases are from <u>Sugarland Industries</u>, 15 B.T.A., 1265, 1269 (1929), as cited by Blumberg, p. 178.

[48] For a comprehensive discussion of the legislative background of the 1936 Act, see Morrell Heald, <u>The Social Responsibilities of Business</u> (Cleveland: The Press of Case Western Reserve University, 1970), pp. 148-173.

The Provisions of the 1936 Act are now incorporated in Section 170 of the Internal Revenue Code of 1954. The Code outlines the qualifiable donees of deductible contributions as those which are:

> ...organized and operated exclusively for charitable, religious, educational, scientific, or literary purposes, or for the prevention of cruelty to animals; and
> ...organized or created in the U.S. or its possessions, or under their laws; and
> ..."non-political"; and
> ...no part of its net earnings inures to the benefit of any private shareholder or individual.

See <u>Tax Guide</u> (New York: Research Institute of America, 1974), para. 7200-7202.

In addition, the Treasury Department publishes the "Cumulative List of Organizations Described in Section 170(c) of the Internal Revenue Code of 1954," (Pub. No. 78), which includes the names of those donee groups that have been <u>ruled to be specifically qualified</u> through the Treasury.

the deduction for contributions to five percent of taxable income (applied before the contribution is deducted and with disregard for net operating loss carryback and certain other deductions).[49] These provisions were supplemented two years later with one designed to prohibit corporations from deducting as "business expenses" any amounts that would also qualify as "charitable contributions"--in effect preventing them from exceeding the five percent limitation.[50]

Since 1936, most tax questions relating to corporate contributions have been in regard to valuation (as opposed to the earlier litigation involving questions of propriety). The law states that contributions may be made, "by gifts of cash or property or in direct ways such as by paying expenses for a charity's benefit, cancelling a debt from a charity, or making a bargain sale to charity."[51] Particular valuation problems arise in the case of gifts of property where the law permits deductions, "to the extent of the fair market value at the time of the gift." Except under certain conditions, donors are generally allowed to deduct their basis in the property as well as any "paper profit" on the pro-

[49]This provision now appears in Section 170 (b) of the 1954 Code and includes special considerations for corporations on the accrual basis. Additionally, later legislation (1964) permits corporations to carry forward deductions in excess of the five percent limit to the five succeeding years (Section 170 (d)92)).

[50]Regs 1.162-15(a), Tax Guide, para. 7224.

[51]Tax Guide, para 7230. One exclusion that is particularly important is that for the "performance of services for charity." Here, no deduction as a charitable contribution is allowed for such services other than those that represent an "out-of-pocket expense" for the "taxpayer" (para. 7236). Typically, then, corporations deduct such services as "ordinary business expenses."

perty at the time of the contribution.[52] Here, then, the corporation is typically allowed a deduction for a "paper profit" which need not be reported as an addition to income. Difficulty often arises, however, in the determination of "fair market value" and the resultant "paper profit."

The latest round of legislation to significantly influence corporate giving is contained in the Tax Reform Act of 1969 which significantly altered the tax position of charitable foundations, many of which are directly sponsored by business corporations.[53] Although the foundation form for organizing corporate giving is not of major issue in this report, the latest legislation is of importance since it effects the array of recipients of corporate gifts that are organized as foundations.

Basically, the 1969 Act altered the tax exempt status of foundations which had been under severe scrutiny in Congressional investigations since the late Forties.[54] First, the Act imposed an excise tax equal to

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[52] Tax Guide, para. 7231. The major exception to deducting the "fair market value" of contributed property arises when the property would give rise to "ordinary income," in which case the amount deemed contributed is reduced by the amount of the appreciation (para. 7232).

[53] The generic term "foundation" refers to certain corporations and trusts organized under state law for charitable, educational, or religious purposes that have qualified for tax exemption under Sec. 501 (c) (3) of the Internal Revenue Code. Foundations are distinguishable from other charitable organizations by the fact that they make grants rather than operate the ultimate charitable facility. See Fremont-Smith, p. 16.

[54] Including the much publicized investigations of Congressman Wright Patman, reported periodically between 1962 and 1968. See F. Emerson Andrews, Patman and Foundations: Review and Assessment (N.Y.: Foundation Center, 1968).

four percent of a foundation's net income from investments. Secondly, it outlined a series of limitations on foundation activities, designed to remove loopholes existing in earlier statutes. Furthermore, the Act reinforced prohibitions of "unreasonable accumulations" of income by requiring foundations to expend annually an amount equal to the higher of net income from investments or a fixed percentage (to be determined by the Secretary of the Treasury) of the fair market value of their assets held for investments.[55]

While the far-reaching effects of this legislation are yet unknown, studies have shown that many foundations have been terminating operations and the financial condition of those continuing is generally unstable.[56] Undoubtedly, if a major change in the organizational and financial form of these traditional recipients results, the direction of many corporate contributions will necessarily be altered.

Recent Donative Management Studies

In attempts to unveil the "state of the art" of the contributions function, a few researchers have investigated and reported on the internal management of gift-giving affairs in a variety of business organization settings. The investigative techniques and general findings of the

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[55]Fremont-Smith, pp. 20-22.

[56]For an interesting report on the impact of the Act, see John H. Watson, III, The Impact of the Tax Reform Act of 1969 on Company Foundations (N.Y.: The Conference Board, Inc., 1973).

Presently a major study is being undertaken by the privately-funded Commission on Private Philanthropy and Public Needs to study the role of philanthropy in our society. With encouragement by the House Ways and Means Committee, the Commission is including in its study examination of the impact of the T.R.A. of 1969.

more recent studies will be briefly discussed here.[57]

Shapiro

One of the earliest and most comprehensive studies was undertaken in the late fifties by the firm Leo J. Shapiro and Associates under the sponsorship of the Public Relations Society of America.[58] In this well executed survey study of 513 Chicago Metropolitan area companies, the research group combined written questionnaires with a number of follow-up personal contacts in order to gain the desired information. The sample was segmented according to the size of the participating firms (as measured by number of employees) and the statistical findings were reported for each class. Among the aggregated findings and conclusions were:

> *...far too few companies have taken the time or trouble to properly evaluate their company contribution problem and to formulate a sound and workable program to meet this problem...a majority of companies have no real program at all.
>
> - ...only about 10% have a formal giving policy.
> - ...policies that do exist typically are made de facto instead of de jure.
> - ...budgeting appears to be a "defensive" process rather than a positive tool of management policy.
>
> *There is a trend over time for company contributions to become more an organized, integral part of normal business activity.

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[57] Studies reported prior to 1960 which will not be discussed here include surveys undertaken by the Russell Sage Foundation (1950, n=326), the Harvard Business School Club of Cleveland (1952, n=207), and the American Society of Corporate Secretaries (1954, n=276). See Shapiro, p. iv.

[58] Shapiro.

- As company size increases, the responsibility for administering contributions is delegated away from the Chief Executive Officer, and becomes more and more a functional activity of management.

*With the exception of the small percentage of companies with really well-organized contributions programs, there is little difference in how companies give. The major differences are in how much they give.

*The most generous companies (as measured by contributions ratios) tend to be the middlesized firms...

*As the contribution program becomes an integral part of the business activity, not only does the amount of money contributed increase but giving is executed with greater attention to the benefits which will accrue to the community and to society.

*Generally speaking, "business reasons" for many contributions are not valid explanations of actual behavior.

- The search for rationality is essential for the large scale, publicly owned, professionally managed corporation.[59]

Watson

In a series of surveys, the late John Watson of The Conference Board, Inc. addressed specific problem areas in the administration of corporate contributions programs. In a 1965 survey of 226 companies, he studied how management responds to federated appeals.[60] His findings included the following:

*There is little agreement on "fair share" formulas.

- Those suggested by united funds and other groups are not generally accepted.
- Formulas "run the gamut", generated on such bases as number of employees, net income, fund goal, capital investment, payroll size, sales volume, and past gifts.

[59] Shapiro, pp. vii-xiii, 3, and 98-110.

[60] John H. Watson, III, "Industry Support of Federated Appeals," The Conference Board Record, Vol. 2, No. 10 (October, 1965), pp. 17-24.

*Most companies lean toward small-to-moderate-annual increases during periods when campaign goals are expanding.

*Comparisons are typically made between companies of the same industry and between companies of similar size within the community.

*In decentralized companies, local managers are usually allowed some degree of discretion in allocating contributions funds.

•Companies tend to be more generous, however, at their headquarters than elsewhere.[61]

In a later study, Watson surveyed fifty large companies, which in aggregate gave one-fifth of the total annual corporate contributions reported annually.[62] His aim was to ascertain the impact of, and managerial response to, shareholders dissident to certain contributions policies. While finding that relevant shareholder resolutions at annual meetings have not generally drawn much support from the shareholding populace, he did find that more and more companies seem to be giving way to greater disclosure of contributions information to their owners.[63]

A truly descriptive study was undertaken by Watson in 1970, wherein he developed a compendium of case profiles of the programs and policies of twenty company-sponsored foundations.[64] While the profiles, written by officials of the foundations themselves, where very brief, they did reflect the various programmatic orientations of the different organizations. Watson concluded that company sponsored foundations, at least as represented in the sample, "brought creative giving and greater sophis-

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[61] Findings taken from Watson, "Industry Support," pp. 20-24.

[62] Watson, "Corporate Contributions Policy," pp. 12-14.

[63] Watson, "Corporate Contributions Policy," p. 14.

[64] John H. Watson, III, Twenty Company-Sponsored Foundations (N.Y.: National Industrial Conference Board, Inc., 1970).

tication to company giving."[65] At the same time, however, he noted that the foundation form of organizing is not indispensible to orderly and effective giving programs.

Holder

In 1966, J.J. Holder undertook a survey study of the aid to education programs of 93 leading manufacturing companies in Indiana.[66] Following the survey, he conducted very brief (45 minute) on-site interviews with officials at 21 of the companies. Significantly, Holder found that 43% of the companies in the study had written policies.[67] He was led to conclude, however, that the existence of a written policy did not significantly influence corporate rationale for support, corporate support programs, nor dollar amounts contributed.[68]

Thomas

A study conducted by R.L. Thomas, reported in 1966, involved personal interviews with corporate officials with gift-giving activities from an unspecified sample of firms.[69] As a result of his field research, Thomas drew a number of interesting, although not clearly supported, conclusions:

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[65] Watson, Twenty Company-Sponsored Foundations, p. 1.

[66] Jack J. Holder, Jr. Corporate Support Programs to Institutions of Higher Learning (Danville, Illinois: The Interstate Printers and Publishers, Inc., 1967).

[67] Holder, p. 66.

[68] Holder, p. 144. Unfortunately it is not clear in Holder's report how this conclusion was justified.

[69] Thomas.

*Many companies lack a specific policy and are not certain as to the exact areas they will and will not support.

*Most companies have little knowledge of the policy used by other companies.

*Most companies wait until they are asked for donations (seldom choose before asked).

*Quite a few companies have a board of directors that approves all donations. There is a lack of individual authority for approving or disapproving of contributions.

*Most companies like to donate to organizations which have received past donations.

*Most contributions are not considered carefully enough. There are too many rush decisions.

*Local donations are favored over national ones because there is direct community benefit.

*There is a great lack of continual research on contribution problems and progress.[70]

Reuschling

In 1973, T. Reuschling investigated the contributions programs of 34 large firms whose donative activities ranged from $85,000 to approximately $2,000,000 annually.[71] Through relatively brief interviews (one to two hours each) with the "coordinators" of the programs in each of the firms, Reuschling focused his primary attention on organization, strategy, planning, and evaluation.

Reuschlings findings and conclusions included:

*<u>Organization</u>

- The program coordinator typically is at a comparatively high level (although there is a wide divergence of titles and specific location).

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[70] Thomas, pp. 99-100.

[71] Thomas Reuschling, "A Critical Look at the Management of the Corporate Philanthropic Function" (unpublished manuscript, Kent State University, 1973).

- The function is often tied to a man rather than a position.
- Over 61% of the coordinators spent less than 25% of their work week on the function (only two out of the sample spent more than 84% of their time on the function).
- Nine of the coordinators responded they did not know why contributions were their responsibility.

*Strategy

- Most companies attempted to remain average ("fair share") or slightly above in their level of giving--most did not want to be leaders.
- Taking leadership by being the first to give to a new organization is discouraged.
- 26 of the coordinators said their companies never engaged in any "creative giving."

*Planning

- Planning processes seemed to be nonexistent.
- Budgets were typically built in the image of last year's with slight modification for inflationary pressures and changing financial position.
- Most coordinators did not anticipate any changes either in the management or the kind of requests expected in the next five years.

*Evaluation

- There was no indication that any of the coordinators had undergone a formal evaluation of the philanthropic aspect of his job.
- There was no indication of a formal yearly evaluation of the total philanthropic function (except yearly budgeting).
- 24 of the 34 companies attempted to get little, if any, formal feedback on the use or effectiveness of their gifts.

- Coordinators did, however, pass much information between one another.
- Management by exception seems to be the rule in control over coordinators' activities by supervisors.[72]

In conclusion, Reuschling noted that top management typically views philanthropy as a "fixed cost," and approaches it with a critical lack of goal orientation. Further he states that if the sample is representative, then "professional donative management" is the exception rather than the rule.[73] Overall, then, the relatively recent field studies paint a rather dim picture of the management of corporate contributions programs.

Summary

As one facet of corporate life, contributions activity has received varied attention in the literature. Reports have well established that such activity has gained a variety of public and private support over time. State governments have provided permissive legislation, tax statutes have generally favored charitable contributions, and corporations have responded accordingly.

Consistent with the gradual time-trend increase in corporate giving, there appears to be greater interest in improving the sophistication of the rationale and mechanics of giving. While uncodified, the variety of

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72 Reuschling, "A Critical Look," pp. 3-14.

73 Reuschling, "A Critical Look," p. 13.

existing research and literature provides an enlightening, although occasionally contradictory, introductory profile of the past, present, and possibly future states of corporate donative activity.

CHAPTER III

PATTERNS IN THE LIFE INSURANCE INDUSTRY

Before proceeding to the examination of the contributions programs of the firms chosen for study, a brief review of the industry to which they belong is in order. The following is meant to provide an introduction to phenomena in the life insurance industry that may influence the nature and management of donative activity of member firms.

General Nature of the Business

The grand design for life insurance, as well as most other forms of insurance, is to provide for a pooling of risks among many persons who are exposed to similar possibilities of loss. The specific purpose of life insurance is to provide financial assistance at the time of death. The long period of coverage involving risk of death, a risk which increases with age, is the distinguishing characteristic by which life insurance is set apart from other forms of insurance.[1]

Life insurance is a relatively modern development, although its origin can be traced back to 18th century England. As organizations formed for the purpose of issuing life insurance policies, they concomitantly developed means for maintaining reserves and investing the residual policyholder payments in order to earn a return on the uncommitted funds. The social function performed by such a process then became recognized as not only as risk transfer, but also as a collective form of

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[1]Committee on Insurance Accounting and Auditing, Audits of Stock Life Insurance Companies (New York: American Institute of Certified Public Accountants, 1972), pp. 5-6.

investment.

Today, the activities of life insurance companies typically involve more than the simple issuance of life policies, the investment of paid-in funds, and payment of death benefits. The complex nature of the present day functions of life insurance companies varies across firms to the point where a clear definition of what constitutes a life insurance company is necessary.

Definition

The most consistent definition available is that provided in the Internal Revenue Code:

> Definition - A life insurance company is one which is in the business of issuing life insurance and annuity contracts (either separately or combined with health and accident insurance), or noncancellable health and accident insurance contracts, if its life insurance reserves plus unearned premiums and unpaid losses (whether or not ascertained), on non-cancellable life, health or accident policies not included in life insurance reserves, comprise more than 50 percent of its total reserves...[2]

For purposes here, then, the "acid test" of whether or not a firm is considered a "life insurance company" is dependent on whether it qualifies to be federally taxed under special Internal Revenue Code provisions for "life insurance companies."

Differentiating Characteristics of Member Firms

Member firms of the life insurance industry differ on a number of significant dimensions. In addition to varying in terms of size (i.e., assets, premium income, insurance in force) and the location of their

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[2] Federal Tax Reporter (New York: Commerce Clearinghouse, Inc., 1975), para. 4003, p. 46,039.

management centers, a number of other differentiating variables may be considered.

Lines of Insurance

The life insurance policies issued by life companies are traditionally classified as "ordinary," "group," "industrial" or "credit." Ordinary (or "individual") policies are those contracts which usually cover only one insured, but which sometimes cover several, such as the members of a family. Group policies are issued, usually without medical examination, to a group of persons with related interests. These are usually issued to employers or associations covering their employees or members. Industrial life insurance is that generally sold in amounts of less than $1,000, with premiums typically collected weekly or monthly at the address of the insured. Credit policies are those issued on the lives of borrowers to cover payment of loan balances in case of death.[3] These distinctions are of importance since the mix can vary significantly across firms in the industry. The distinction between ordinary and group policies is of particular importance since the degree of *concentrated* collective interest in the fiduciary and peripheral responsibilities of the insuror will likely vary with the proportion of group policies issued.

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[3] Robert W. Osler and John S. Bickley, eds., *Glossary of Insurance Terms* (Santa Monica, California: Insurors Press, Inc., 1972), pp. 67, 75, and 113.

Chartered Organization

The vast majority of all life insurance in force is issued by companies organized in either "stock" or "mutual" form.[4] The following definitions clearly point out the distinction between these two forms:

> Stock company - a corporation organized to earn profits for its stockholders by performing services for the benefit of its policyholders and their beneficiaries. Generally, the stockholders are not liable in case of bankruptcy or impairment of capital. In most states, stock companies may issue both participating and non-participating policies.[5]
>
> Mutual company - an incorporated entity without private ownership interests which operates for the benefit of its policyholders and their beneficiaries. With limited exceptions, mutual companies issue only participating policies.[6]

The differing form of "ownership" between stock and mutual companies is of significance since the legal relationship between the corporate entity and the owners (at best, *pro tempore* "owners" in the case of

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[4] Other organizational forms include "fraternal benefit societies," assessment associations, mutual aid groups, and burial societies. In three states, (Connecticut, Massachusetts, and New York), savings banks may also issue life policies. These groups, however, represent only a minor segment of the industry. The largest, fraternal benefit societies, issued less that 2% of all life insurance in force at the end of 1973. See *Life Insurance Fact Book, 1974* (New York: Institute of Life Insurance, 1974), pp. 99-100.

[5] Committee on Insurance Accounting and Auditing, p. 7. Participating policies are those under which a portion of the earnings arising from those policies are returned to policyowners in the form of dividends. Non-participating policyholders have no right to share in the earnings of their policies.

[6] Committee on Insurance Accounting and Auditing, p. 7.

mutual companies) differs. The courts have uniformily held that the relationship between a policyholder of a mutual life insurance company to his company is merely that of creditor and debtor. In effect mutual policyholders are owners only in the sense that there are no others who could be classe as "owners."[7]

Mutual policyholders' interests are particularly concerned with the maintenance of solvency of the company and the net reduction in their premium payments through the award of dividends. Stockholders' concerns may go well beyond this through their interest in the market value of their subscriptions, as well as dividend payments and the maintenance of solvency. These differing interests, as well as the typically differing tax structures for stock and mutual companies, can provide the bases for differing managerial orientations toward corporate expenditures.

Affiliation with Other Companies

The management structures of life companies, both mutual and stock, vary significantly in that a number are organized as part of insurance "groups," where common management oversees the operations of the life company and other affiliated insurance companies. In the case of stock companies, a number are organized as operating subsidiaries of a parent company and thus may share a common management with other subsidiaries on the basis of common ownership. Here again, management orientation to specific fund expenditure and internal organization may differ between independent companies and those sharing common management with affili-

[7]Buist M. Anderson, "Policyholder Control of a Mutual Life Insurance Company," Best's Review: Life/Health Edition, Vol. 74, No. 11 (March, 1974), pp. 16f.

ated companies.

Internal Organization

As an incorporated entity, each life insurance company gains its charter to organize in a particular state. Further, each gains access to markets in the states it wishes to sell insurance through licensing agreements with the respective states. In some instances, the larger life companies with licensed access to markets in most, if not all, states, have geographically decentralized and maintain major offices in various parts of the country. The resulting decentralized decision-making of these companies, versus the more centralized of other firms, is yet another basis upon which the managerial orientation and operations of life companies differ.

Key Industry Statistics

The life insurance industry has grown to such proportions through time that today it is clearly a major and indispensable element in the U.S. economy. The fact that life insurance companies provided more than seven percent of all funds in U.S. capital markets in 1973 is ample testimony to their economic importance.[8]

Growth in the number of legal reserve life insurance companies in the United States has been rapid since the end of World War II. At the end of 1945 there were 473 life companies in operation. By mid-1973,

[8] Life Insurance Fact Book, 1974, p. 69. Life insurance companies provided $15.4 billion out of a total of $210.7 billion from all sources in the period.

the number had almost quadrupled to 1,821 (1,670 stock companies and 151 mutual companies).[9]

The latest available composite statistics demonstrate the recent magnitude of insurance operations as well as a brief indication of recent growth patterns:[10]

Totals (in millions of dollars)	1963	1972	1973	% Chg. 1972-73
Life Insurance in Force	$730,623	$1,627,985	$1,778,300	9.2
Assets	141,121	239,730	252,436	5.3
Net Rate of Investment Income (BFIT)	4.5%	5.56%	5.88%	-

Life Insurance in Force in 1973 was divided among the four principal forms according to the following percentages:[11]

Ordinary	52.2%
Group	39.8
Industrial	2.3
Credit	5.7
	100.0%

Distribution of Assets in 1973 was as follows:[12]

Government Securities	4.5%
Corporate Securities	
Bonds	36.4
Stocks	10.3
Mortgages	32.2
Real Estate	3.0
Policy Loans	8.0
Miscellaneous	5.6
	100.0%

Interestingly, mutual companies, although relatively few in number,

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[9] Life Insurance Fact Book, 1974, p. 87.

[10] Life Insurance Fact Book, 1974, p. 7.

[11] Life Insurance Fact Book, 1974, p. 21.

[12] Life Insurance Fact Book, 1974, p. 68.

accounted for slightly over half of the life insurance in force, and approximately two-thirds of the assets of all life companies in 1973.[13] This distribution results from the fact that mutual companies are generally much older than stock companies and have accumulated the growth benefit realized by the industry through time. Also of interest is the fact that insurance companies based in New York, New Jersey and Connecticut accounted for the greatest percentage of life insurance in force. Again, while relatively few in number (94) many of these are large mutual companies.[14]

Total income for life companies (gross premium receipts, net investment earnings and other income) amounted to $64.8 billion in 1973.[15] The relative shares of premium income and investment earnings, however, differs for mutual and stock companies as follows:[16]

	Stock Cos.	Mutual Cos.
Premiums & Annuity Considerations	83.1%	73.1%
Investment Earnings & Other	16.9	26.9
	100.0%	100.0%

While we have noted that large Northeastern mutual companies account for a significant proportion of the insurance in force and total

[13] Life Insurance Fact Book, 1974, p. 89.

[14] Life Insurance Fact Book, 1974, p. 88.

[15] Life Insurance Fact Book, 1974, p. 61. Because of the varying uses to which life insurance company funds may be put, and the varying tax structures of life companies, the use of "net income" measures become meaningless, particularly for mutual companies. "Total Income" is therefore referred to here.

[16] Life Insurance Fact Book, 1974, pp. 61-62.

admitted assets of life companies, the following data more clearly portrays the degree of concentration in the industry:[17]

Rank: Among Top Firms	%age of Industry Insurance in Force	%age of Industry Total Admitted Assets
1	11%	14%
2	22	27
5	36	42
10	49	56
25	65	73
50	79	85

Two firms clearly dominate on both measures--The Prudential and Metropolitan Life, each with over $200 billion in insurance in force and over $32 billion in assets. Interestingly, these companies are approximately twice as large as the number three company on both measures,--The Equitable--and nearly three times as large as the fourth and fifth ranked firms--John Hancock and Aetna Life (insurance in force); New York Life and John Hancock (assets).[18]

Tax and Other Legal Considerations

Because of the unique nature of the life insurance business (primarily resulting from long-term fiduciary responsibilities), it has proven difficult to apply the general corporate tax formula and philosophy directly to life insurance companies for purposes of computing their federal income tax liabilities. Since 1913, a variety of special

[17] "Leading Life Companies," Best's Review: Life/Health Edition, Vol. 75, No. 2 (June, 1974), pp. 48-49.

[18] "Leading Life Companies," p. 48.

formulae have been enacted in attempts to provide both a level of revenue satisfactory to the Federal Government and an equitable distribution of the tax burden among companies.[19] The present tax law, promulgated as the Life Insurance Company Income Tax Act of 1959, contains special provisions and modifications to accomodate the long-term fiduciary nature of life insurance business.[20]

Without going into the many complex details of life company taxation, we can summarize by saying that life insurance companies pay tax on their taxable income at the same rates as ordinary corporations (48 percent for 1973). For ordinary corporations, taxable income is generally equal to their total income less allowable deductions for the year. Life insurance company taxable income is, however, determined in a stepwise fashion, such that companies find themselves in one of three basic tax positions--a loss from operations or in one of two situations commonly referred to as "Phases":[21]

PHASE I (Generally the situation for mutual companies and new stock companies)

Exists when: Gain from operations (which includes taxable investment income and other sources of of income), less allowable special deductions, is equal to or less than taxable investment income.

Special Deductions: Dividends paid to policyholders, and certain percentages of premium payments and/or reserve increases. Limited to $250,000 plus the excess, if any, of gain from operations over taxable

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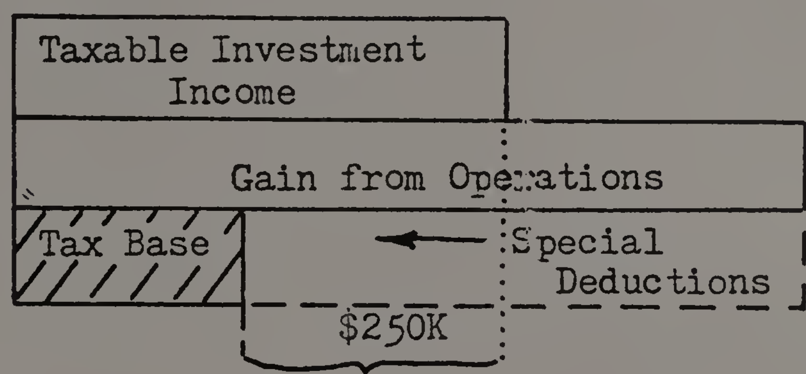
[19] An Executive Guide to Federal Income Taxation of Life Insurance Companies, Financial Planning and Control Report, No. 29 (New York: Life Office Management Association, July, 1974), p. 1.

[20] Public Law 86-69.

[21] An Executive Guide, pp. 4, 17-21.

investment income before the deductions.

Tax Base: Where the maximum allowable special deductions are generated, as is typically the case with mutual companies, the tax base would be taxable investment income less $250,000:

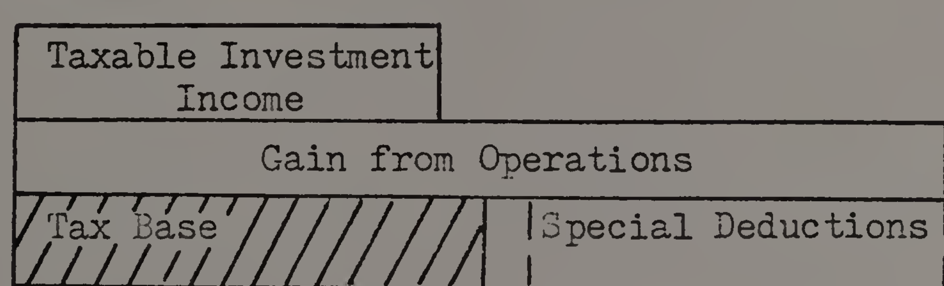


PHASE II (Generally stock companies)

Exists when: Gain from operations (which includes taxable investment income), less allowable special deductions, exceeds taxable investment income.

Special Deductions: Same as Phase I.

Tax Base: Taxable investment income plus 50 percent of the excess of gain from operations, less allowable special deductions, over taxable investment income.



The implications of this peculiar tax structure on the after-tax "cost" of charitable contributions by life insurance companies is both interesting and extremely important, particularly in light of specific tax provisions for the deductibility of such contributions. First, the Tax Code limits deductions for charitable contributions by life companies to 5 percent of gain from operations, computed without regard to certain special deductions.[22] Secondly, the Code and a recent Revenue Ruling hold that charitable contributions are deductible only in determining gain or loss from operations, but not in determining taxable investment income.[23]

For Phase I companies (typically mutual) receiving the maximum allowable special deductions, there is no tax benefit since any charitable contribution that would reduce gain from operations would result in a corresponding reduction in allowable special deductions. For Phase II companies (typically stock), a tax benefit results, but at a marginal rate of less than 48 percent (1973), since the tax base is decreased at most by 50 percent of the reduction in gain from operations. The marginal tax benefit realized from Phase II companies' contributions may differ from company to company and from year to year within one company since there is variation in the accounts that may be affected by contributions (which in turn influence the tax calculations).[24]

In addition to consideration for federal tax provisions, life insurance companies must consider state tax and legal constraints. As of July, 1974, 16 states had provisions to tax life insurance company income; 7 of the 16 taxed domestic companies only.[25] Further, most

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[22] Federal Tax Reporter, para. 4014F(c), pp. 46,115-116. Note that section 170 of the Code, as discussed in the last chapter, is also generally applicable to life insurance companies.

[23] Section 809(d)12 as modified by section 809(e)(3) of the Internal Revenue Code of 1954, and Jefferson Standard Life Insurance Co. vs. United States, 408 F 2d 842 (1969), certioraridenied.

[24] An Executive Guide, pp. 23-25.

[25] An Executive Guide, p. 29.

states have premium taxes, typically applicable to both foreign and domestic companies.[26] In regard to charitable contributions, at least one state has statutory limitations on the level of contributions that may be made by domestic insurance companies without gaining authorization from stockholders or policyholders.[27] Presently, however, this level is considerably above the industry average.

Social Commitment and Giving Patterns

While operating successfully within a variety of legal constraints, the closely regulated insurance industry has made significant commitments in attempting to define and meet its "social responsibilities." Through joint activities and collective reporting programs there has developed a degree of concensus that there are six major areas of "social responsibility" for the industry: "community projects, company contributions, employment practices and promotion of women and members of minority groups, environmental considerations and the conservation of energy, individual voluntarism, and the social aspects of investments."[28]

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[26] In 1973, individual states collected $750 million in premium taxes from life insurance companies. Life Insurance Fact Book, 1974, p. 64.

[27] Massachusetts limits domestic life companies' contributions to ½ of 1 percent of the previous year's surplus (mutual companies) or capital and surplus (stock companies) unless authorization from policyholders or stockholders is received at a regular or special meeting. Massachusetts General Laws Annotated (St. Paul, Minnesota: West Publishing Company, 1972), Chapter 175m, section 37A.

[28] Reporting Program of Life and Health Insurance Companies on Corporate Social Responsibility Activities, 1974 (New York: Clearinghouse on Corporate Social Responsibility, 1974), p. 1.

The industry's headline Billion Dollar Urban Investment Program first announced from the White House in 1967 provided an early focal point for collective behavior in the industry. In the first project of such magnitude to be carried out by a single sector of private business, the 161 participating companies (representing 90 percent of the assets of the life insurance business) diverted funds from more usual investments into special higher-risk investments designed to benefit residents of core urban areas.[29] Combined with a second $1 billion pledge in 1969, the project financed over 110,000 housing units and created or retained over 62,000 jobs by January, 1972.[30]

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[29] "Billion Dollar Programs Reviewed," Response, No. 8 (July, 1973), p. 2 and Life Insurance Fact Book, 1973 (New York, Institute of Life Insurance, 1973), pp. 10-11.

[30] Life Insurance Fact Book, 1972 (New York: Institute of the Life Insurance, 1972), p. 10. In October, 1971, it was decided that there would be no further attempts to extend this industry-wide pledge. One author stated, "the major reason for the death of the program seems to have been the sharply diminished returns of the publicity." See Eugene Epstein, "The Insurance Industry's Quiet Retreat," Business and Society Review/Innovation, No. 2 (Summer, 1972), pp. 40-41.

In July, 1973, a special industry subcommittee was created to "explore the possibilities for a new, more visible industry-wide program." To date, no new program has been undertaken. "Special Subcommittee to Consider New Industrywide Program," Response, No. 9 (September, 1973), p. 2.

The visibility dimension of the industry's programs was addressed in a 1974 research survey of 2,510 young people aged 14 through 25. A "disturbing" 35 percent of those surveyed "knew nothing of the efforts of the nation's life insurance companies in public interest programs." "New Surveys Show Public View of Involvement of Business in Solving Social Problems," Response, No. 15 (September, 1974), p. 15.

This project and earlier cooperative efforts, including the recently disbanded Life Insurance Medical Research Fund, led at least in part to the establishment of the industry's Clearinghouse on Corporate Social Responsibility in 1971. The Clearinghouse consists of approximately 440 corporate members from three major associations--the Life Insurance Association of America, the Institute of Life Insurance, and the Health Insurance Association of America.[31] Through bimonthly and annual publications the Clearinghouse reports a variety of information on member companies' social programs.

Company Contributions

In its recently instituted annual reporting program, the Clearinghouse collects survey data from a portion of its membership on company activities in the six major areas of "social responsibility." In its annual report for the year 1973, the Clearinghouse reported charitable contributions in excess of $24 million by the 162 member firms that provided data (the asset base of the firms was 74 percent of all Clearinghouse companies).[32] The distribution of their contributions among seven recipient categories is presented in Tables 5 and 6.

While the variation in individual responses is not reported, it

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[31] Life Insurance Fact Book, 1973, p. 11.

[32] Reporting Program of Life and Health Insurance Companies on Corporate Social Responsibility Activities, 1974, p. 11. Note that Clearinghouse member firms are from both the life insurance and accident and health insurance industries. While the data reported here is not "pure" to the life insurance industry, the vast majority of those firms reporting qualify as life insurance companies.

TABLE 5

DISTRIBUTION OF COMPANY CONTRIBUTIONS--TOTAL AND BY COMPANY TYPE, 1973
(Thousands of Dollars and Percentages)

No. of Companies Reporting	Total 162	(%)	Total Mutual Companies 57	(%)	Total Stock Companies 105	(%)
Urban Affairs	$ 2,743	11.4	$ 1,087	9.6	$ 1,656	13.0
Federated Drives	7,476	31.1	3,827	33.8	3,649	28.8
Health	4,123	17.2	1,984	17.6	2,139	16.9
Education	5,567	23.2	2,648	23.4	2,919	23.0
Culture	1,203	5.0	412	3.6	791	6.2
Bus/Econ Research	805	3.4	598	5.3	207	1.6
Other	2,090	8.7	753	6.7	1,336	10.5
	$24,007	100.0%	$11,308	100.0%	$12,698	100.0%

SOURCE: Reporting Program of Life and Health Insurance Companies on Corporate Social Responsibility Activities, 1974 (NY: Clearinghouse on Corporate Social Responsibility, 1974), p. 12.

TABLE 6

DISTRIBUTION OF COMPANY CONTRIBUTIONS--BY ASSET CATEGORY, 1973
(Percentages)

	ASSETS			
No. of Companies Reporting	More Than $1 Billion 38	$300 Million to $1 Billion 33	$60 Million to $300 Million 58	Less Than 60 Million 33
Urban Affairs	13.6%	5.5%	5.3%	7.1%
Federated Drives	31.8	26.2	33.9	42.1
Health	18.8	10.3	16.3	7.9
Education	21.5	31.7	21.5	24.1
Culture	4.1	4.3	14.4	1.7
Bus/Econ Research	3.8	1.8	2.7	3.8
Other	6.4	20.2	5.9	13.3
	100.0%	100.0%	100.0%	100.0%

SOURCE: Reporting Program of Life and Health Insurance Companies on Corporate Social Responsibility, 1974 (NY: Clearinghouse on Corporate Social Responsibility, 1974), p. 13.

appears that mutual companies tend to give a greater portion of their contributions budgets to federated drives and business/economic research, and less to the newer areas of urban affairs and culture, than do stock companies. Further, there appears to be notable variation in the distribution of gifts between firms of differing asset sizes.

Table 7 contains contributions rates on three bases for various categories of contributing firms. Supplementary to the tabled information, the Clearinghouse reports that the rates for individual companies varied widely. Using net income as a base, the rates were from \$0.12 to \$38.18; using assets, from \$.0005 to \$3.09; and using net operating income, from \$0.12 to \$150.74.[33]

The data here indicates that stock companies and companies in the South contribute proportionately more than mutual companies or companies from other regions, and the larger companies and Northeast companies appear to have the lowest contribution rates.

The data provided here will serve as a comparative base in analyzing the giving patterns of the firms under study in later chapters. As a comparative base, however, the Clearinghouse data will be used cautiously, since the variances in individual data points is wide and the applicability of the contribution rate bases is open to question.[34]

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[33] Addendum to Reporting Program, issues November 8, 1974.

[34] The varying financial structures of life insurance companies may significantly affect the ratios as reported, therefore these ratios may not serve as accurate or reliable indicators of differing propensities or capabilities of giving. Unfortunately, there is a distinct absence of more widely accepted, and possibly more appropriate, benchmarks.

TABLE 7

CONTRIBUTION RATES PER $1,000 OF BASES INDICATED, 1973

	Net Investment Income		Total Assets		Net Operating Income	
	Average	Median	Average	Median	Average	Median
A. All Companies	$1.87	$2.13	$0.10	$0.12	$0.80	$3.00
B. By Type of Company						
Mutual	1.35	1.90	0.07	0.10	0.43	0.47
Stock	3.04	2.40	0.15	0.13	5.47	5.35
C. By Region						
Northeast	1.70	1.75	0.09	0.09	0.67	0.75
North Central	2.23	2.79	0.11	0.13	0.89	1.84
South	3.34	2.61	0.18	0.15	3.62	4.51
West	1.86	1.74	0.09	0.08	1.69	3.15
Canada	1.54	1.67	0.09	0.10	2.98	20.21
D. By Asset Size						
$1 Billion+	1.68	1.65	0.09	0.09	0.72	1.97
$300 Million tc $1 Billion	3.09	2.02	0.17	0.17	1.32	3.03
$60 Million to $300 Million	4.02	2.40	0.19	0.13	1.78	3.40
$60 Million-	5.28	3.24	0.26	0.16	2.05	1.36

SOURCE: Addendum to Reporting Program of Life and Health Insurance Companies on Corporate Social Responsibility, 1974 (NY: Clearinghouse cn Corporate Social Respcnsibility, 1974), addendum issued November 8, 1974.

C H A P T E R IV

SOURCES AND METHODS

A review of the existing studies of contributions management (as outlined in Chapter II) reveals a noticeable lack of detailed descriptive literature, particularly thorough case studies of contributions management in any particular firms or industries. While Reuschling's interview-based study of 34 companies begins to approximate the much needed positive approach to studying the corporate donative function, his work hardly represents a thorough examination of contributions management in any of the firms he studied (primarily as a result of his limited contact with single representatives of each of his subject firms).[1] Further, Reuschling did not confine his investigation to any particular industry. The present study has been designed to differ significantly from previous research in terms of sample definition and in the depth of investigation.

In order to effectuate the purposes of the present exploratory field study (as outlined in Chapter I), an empirical investigation of the contributions programs of on-going corporate organizations has been undertaken. The core output of the empirical field study is in the form of case study reports of the donative activity and associated management processes of the subject firms.

[1]Thomas Reuschling, "A Critical Look at the Management of the Corporate Philanthropic Function" (unpublished manuscript, Kent State University, 1973).

Sources

The present study is confined to corporate organizations in the life insurance industry. The decision to study firms in a single industry was predicated on the need to minimize extraneous parameters associated with differing major product lines, technologies, and purposes that could detract from any immediate and practical use of the findings.

The choice of the life insurance industry for investigation was based on considerations that:

(1) it is a limited, relatively well-defined industry;

(2) there are relatively few major dimensions on which the member firms differ; and

(3) the home offices of the majority of the major firms in the industry are concentrated in the limited geographical area of Connecticut, Massachusetts, and New York, thus allowing access within the limited resources of the researcher.

In order to allow for a detailed investigation of present-day donative management, the sample for investigation was limited to five companies. Furthermore, in order to investigate the complexities of corporate giving, the sample base was limited to life insurance companies ranking within the industry's top one-hundred firms in terms of asset size. This limitation was predicated on preliminary investigations that revealed that the monetary and managerial dimensions of donative activity in the industry's smaller firms were relatively insignificant for analytical purposes.

As noted in the preceding chapter, member firms of the life insurance industry are differentiable on a few major dimensions that may be readily isolated. For purposes of the present study, the following differentiating variables were considered in choosing the sample for investigation:

(1) Chartered Organization (Mutual or Stock);

(2) Asset Size;

(3) Affiliation with Other Insurance Companies (Independent or Member of a larger insurance "group");

(4) Home Office(s) (Single or Multiple)

(5) Corporate Home Office Community (SMSA) Population; and

(6) Major Line of Insurance (Ordinary or Group).

In order to advance the potential generalizability of the study findings in the industry (albeit through a relatively small sample), gaining cross-sectional representation on the differentiating variables was one objective established in the sample choice process.

Due to the remnant reluctance of some business firms to make public their contributions policies, techniques, and the amount, nature and directions of their gifts, aid was sought from The Conference Board, Incorporated and the life and health insurance industries' Clearinghouse on Corporate Social Responsibility to identify a sample of life insurance companies that would be amenable to study and which would provide cross-sectional representation on the set of differentiating variables chosen. The following life insurance companies were ultimately chosen, with the cross-sectional representation on the differentiating variables noted in Table 8.

(1) Berkshire Life Insurance Company

(2) Massachusetts Mutual Life Insurance Company

(3) Aetna Life Insurance Company

(4) The Equitable Life Assurance Society of the

United States

(5) The Prudential Insurance Company of America

Methods

The field investigations were conducted primarily through interviews with corporate officers and staff of the subject firms. In all cases, the contributions "coordinators" of each of the companies were interviewed at length, with supporting information gained through interviews with others associated with the management of the contributions programs. The interviews were structured around the detailed interview guide presented in Appendix I. Preparation of the interview guide was aided by the earlier work of Reuschling and Shapiro.[2] While this guide provided a basis for maintaining continuity in the information gathered from each of the firms, the interviews were typically open-ended allowing inclusion of unforseen inputs.

In all cases, conduct of the interviews required multiple visits to the offices of the firms under study. All interviews were recorded on tape and were later transcribed in part. In total, nearly forty hours of taped interviews were conducted with twenty-one corporate representatives over a three month period. As an additional source of information, a variety of written material was gathered from each of the companies including financial reports, contributions budgets, policy statements and memoranda.

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[2] Reuschling, and Leo J. Shapiro, Company Giving (Chicago: Survey Press, 1960).

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5 (21)
22

TABLE 8

REPRESENTATION ON INDUSTRY DIFFERENTIATING VARIABLES

IN THE STUDY SAMPLE

	Chartered Organization	Asset Size	Affiliation	Home Office(s)	Corp. Home Office Community (SMSA) Population (millions)	Major Line of Insurance
BERKSHIRE LIFE	Mutual	$.3 bil	Independent	Single	.1 mil	Ordinary
MASSACHUSETTS MUTUAL	Mutual	$5 bil	Independent	Single	.5 mil	Ordinary
AETNA LIFE	Stock	$9 bil	Member Ins. Grp.	Single	.7 mil	Group
THE EQUITABLE	Mutual	$17 bil	Independent	Single	10 mil	Group
THE PRUDENTIAL	Mutual	$35 bil	Independent	Multiple	2 mil	Ordinary

Based on the field investigations, profiles of the contributions programs of each of the subject companies have been developed that synthesize the information gathered. The profiles are contained in the following five chapters. In order to maintain consistency in the format of the profiles, each is organized according to the following topical headings: "Introductory Data;" "Organization;" "Objectives, Policies and Associated Processes;" and "Budgeting and Recipient Choice--Parameters and Processes."

"Contributions"--Definitional Limitation

For purposes of the field investigation and the profiles contained herein, charitable contributions are considered to be only those monetary gifts, made to individuals or institutions, that qualify for tax deductibility status under Internal Revenue Code section 170. In-kind gifts and services have not been included, since the valuation and accounting for contributions of this nature has been demonstrated to be inconsistent across the subject firms, thus rendering comparisons relatively meaningless.

Other Definitions

Due to the variety and inconsistency in usage of common management terms in the literature and by practitioners, the following definitions are offered for use in the present study (except where otherwise noted):

*Objectives/Goals--The target objects of a course of action.

*Policies--Guides for decision-making that have the backing of management integrity and that limit the arbitrary exercise of individual prerogatives.

*Decisions--Conclusions or judgments reached in a cognitive choice from a set of alternative conclusions or judgments.

*Formal--(as in objectives, goals, policies)--explicitly stated in written form.

The Analysis

Analysis of the corporate profiles will be based on a process of mapping management techniques and processes selected from the profiles into a number of existing positive organization and management models, the purpose being to note within a theoretical framework, the "state of the art" of contributions management in the subject firms. Further, we are able to note and, in part account for, the discrepancies between the relevant normative literature and the contributions management practices in evidence.

Due to the relatively small sample size, non-random selection, and the limitation of the sample to relatively large firms in the life insurance industry, the validity of extra-sample generalizations is severely constrained. This sacrifice has been made, however, to allow for the detailed exploratory field study heretofore lacking in the literature. We proceed, therefore, with the accounts of the field investigations, followed by theoretically framed analyses and interpretations of the findings.

C H A P T E R V

BERKSHIRE LIFE INSURANCE COMPANY

Introductory Data

Organization: Mutual
Incorporated: 1851, Massachusetts
Independent
Home Office: Pittsfield, Massachusetts (SMSA Pop.: 97,000)
Licensed Territory: District of Columbia and All States except Hawaii, Mississippi and Nevada.
Full-Time Employees (excluding agents): 357

<u>Year ending Dec. 31, 1974</u>

Insurance in Force: $1,584 million (Rank: not in top 100)
Total Admitted Assets: $337,520 thousand (Rank: 97)
Net Investment Income: $16,899 thousand
Premium Income & Distribution: $42,588 thousand

Life & Annuities:		
Ordinary	89%	
Group	-	(less than ¼ of 1%)
Accident & Health (Group)	-	(less than ½ of 1%)
Other	11	
	100%	

Net Gain From Operations (For non-tax purposes)
before div's, FIT & excl. cap. gains and losses: $10,319 thousand
Unassigned Surplus: $19,186 thousand
Tax Situation: PHASE I

<u>Contributions</u> (1974): $56,000

Distribution:

Urban Affairs	9%
Federated Drives	24
Health	47
Education	12
Culture	3
Soc/Econ Research	2
Other	3
	100%

Contributions Ratios:
(contributions per $1000 of each base & per employee)
Net Investment Income: $3.32
Total Admitted Assets: $ .166
Net Gain From Operations: $5.43
Unassigned Surplus: $2.92
Per Full-Time Employee: $156.87

Internal Cost to Administer the Contributions Program: $2,000
Contributions/Administrative Cost Ratio: 28.0%

Budgeted Contributions (1975): $56,000

The Berkshire Life Insurance Company is by far the smallest company in the sample under study, scarcely ranking within the industry's top 100 in terms of assets. Headquartered in rural Western Massachusetts, Berkshire Life ranks as the 8th largest employer in the immediate area of its hometown, Pittsfield (population of approximately 60,000).

Nearly 90 percent of Berkshire Life's insurance premium income is generated from the issuance of ordinary (individual) life policies, over half the sales of which are drawn in New York City. While not licensed in all states, in recent years the company has undertaken a program to gain such status and presently lacks licensing in only three states. The firm operates primarily through a general agency system comprising 45 agencies, and has more than 1700 brokers. In addition to insurance business, Berkshire Life operates two wholly owned subsidiaries, both of which engage in the sale of mutual funds.

While not a part of a larger "program" as such, Berkshire Life formally makes charitable contributions, which in each of the years 1973 and 1974 totalled over $50,000. Supplementary social commitments have included employee release time for community activities and the provision of indirect supporting services including secretarial aid, printing and the use of home office facilities for meetings, the value of which has totalled over $45,000 annually in recent years.

Berkshire Life receives between 175 and 200 appeals for donations each year, 40 percent of which are from local organizations, and the residual from non-local groups and organizations with national orientations. Approximately 25 percent of all appeals are granted funding, however, of those, nearly all in excess of $200 constitute repeat commitments.[1] In 1974, Berkshire Life made contributions to 45 organizations. Of the total 1974 contributions funds, 89 percent went to local organizations and 11 percent to non-local groups.

Of significance among the grants made by Berkshire Life are its recent donations to a Pittsfield medical center. As a result of a $125,000 five year capital pledge made in 1973, the company is committed through 1977 to donate $25,000 annually to the center. In 1973 and 1974 this single annual donation constituted nearly one-half of total contribution expenditures.[2]

Organization

The contributions program of Berkshire Life is administratively handled almost in entirety by the company's Senior Vice President and Secretary, according to the reporting lines in Figure 2. While primary responsibility for administering the program has been formally attached to this position, the individual presently serving as Senior V.P. and Secretary has coordinated the program even while in other positions since he was employed by the firm in 1963.[3]

The Senior Vice President and Secretary reviews and screens all incoming appeals, prepares responses, and develops the annual contributions budget. Although the authority for dispersal of a relatively small dis-

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[1] Even of those less than $200, more than 70 percent are recurring gifts. A corporate official notes that Berkshire Life's gifts, "have been fairly standard for at least the past 12 years."

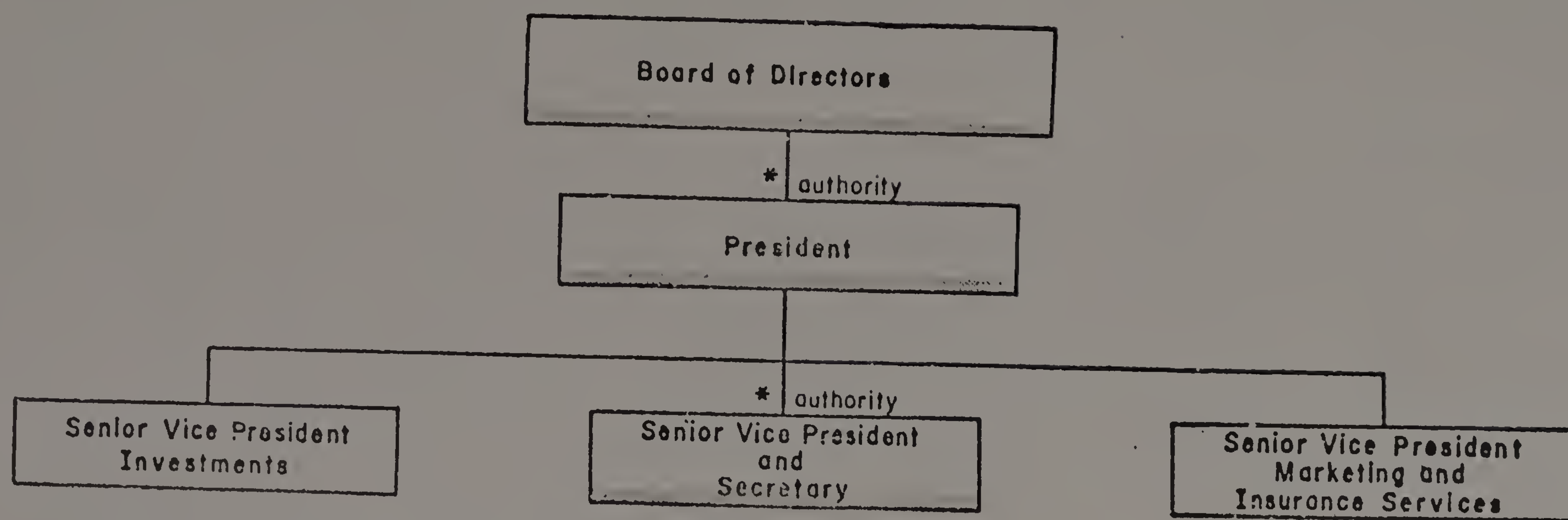
[2] When this pledge was made in 1973, its effect was to nearly double previous contributions levels as the commitment was to be in addition to the existing contributions program.

[3] The present Senior Vice President and Secretary coordinated the program while in administrative positions in personnel and public relations through a delegation of authority by the past Senior Vice President and Secretary.

FIGURE 2

BERKSHIRE LIFE

Corporate Contributions Program Organization



**Authority limited only for capital grants in excess of $5,000*

(Shading indicates approximate percentage of time spent directly on contributions program)

cretionary margin is formally vested with the company President, the Senior V.P. and Secretary typically chooses recipients for these funds without review or final approval by the President. The formal approval authority granted the President and operationally delegated to the Senior V.P. and Secretary, is limited only to the extent that capital grants in excess of $5,000 must receive final approval by the Board of Directors. The Board of Directors also reviews and passes on the annual contributions budget.[4]

The Senior V.P. and Sevretary spends approximately 30 hours per year or 1½ percent of his time directly on the contributions program. Relatively insignificant amounts of time are spent by the President and the two other Senior V.P.'s in the rare instances when they are consulted.

As a part of his public relations responsibilities, the Senior V.P. and Secretary is directly involved in external publicity releases that concern corporate contributions. Further, he coordinates internal publicity of contributions activities to employees, although these are operationally handled by the firm's sales and advertising offices.

Objectives, Policies and Associated Processes

The basic rationale for Berkshire Life's contribution program is in part founded in arguments presented by the Senior V.P. and Secretary.

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[4] The Board specifically passes on the recipients of more than 95 percent of contributions monies, therefore the discretionary funds available to the Senior V.P. and Secretary are limited (in 1974, $2,850 was available for discretionary purposes).

> I believe business has several obligations--
> 1) to provide a service or a product that is needed;
> 2) to make a profit; and
> 3) to be a responsible part of society over being an employer and a business.
>
> Further, government likes nothing better than a vacuum. Business can forestall government control by filling vacuums.

While no written rationale or objectives have been developed for the program, a formal policy statement has been formulated and approved by the Board of Directors (originally approved in 1964 and amended in 1966). This statement is presented in Appendix II.

Significantly, the policy statement provides for a formula-based limit on annual contributions--$\frac{1}{4}$ of 1 percent of the previous year's surplus (unallocated surplus plus special surplus funds). This represents one-half of Massachusetts statutory limitations.[5] Since 1973, however, this specific policy limitation has been exceeded to allow for the addition of the major medical center pledge without significantly altering other elements in the contributions program.[6] In 1974, the formula limitation was exceeded by approximately $6,500 with a slightly greater differential planned for 1975 (surplus totals declined during 1974.).

The policy statement also provides for a distribution of contribu-

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[5]As mentioned in Chapter 3, the charitable contributions in any calendar year of domestic mutual life insurance companies in Massachusetts are limited to no more than $\frac{1}{2}$ of 1 percent of surplus at the end of the preceding fiscal year.

[6]A corporate officer notes that the giving levels of other firm's in the industry did not play a significant role in the decision to maintain the previous program in addition to the medical center pledge. A study in 1972 demonstrated that Berkshire Life at that time (prior to the pledge) "held up pretty well" among medium size mutual life insurance companies.

tions funds between capital and non-capital grants (one-fourth of the total for capital purposes, three-fourths for operating contributions). Again, the medical center pledge resulted in a policy exception since that commitment to a capital drive represents nearly one-half of the total budget. Further, although the policy statement stipulates that discretionary funds are to be used at the discretion of the President, the Senior V.P. and Secretary independently administers most of the discretionary allocation. While the policy statement is not formally reviewed on a regular basis, the Senior V.P. and Secretary does reference it when preparing the annual budget.

In addition to the written policies, Berkshire Life in the late 1960's informally adopted the policy of making no contributions designed to result in program advertisements. This single exclusion has resulted in the immediate declination of approximately one-third of all appeals received annually.

Although no formally stated objectives have been developed for the contributions program, the Board, the President, and the Senior V.P. and Secretary have agreed that attempts will be made to reduce the total level of giving to comply with the policy limitation at the expiration of the medical center pledge. Further, the conduct of the program is to be geared to maintaining continuity from year to year by making most support decisions long-run. An unsettled operational "objective" presently involves the possible addition of an employee gift-matching program.

Budgeting and Recipient Choice--Parameters and Processes

Budgeting

The contributions budget is prepared by the Senior V.P. and Secretary without reference to standard decision rules other than those included in the policy statement. The budget is prepared in two parts. The first contains a listing of all "major" contributions (those in excess of $200) and an allocation for "smaller contributions and margin." The second part details those smaller contributions that are expected, but are not required, to be made from discretionary funds--in effect a "working budget." The budget is given "perfunctory review by the Board," as one company official notes, with Board members ruling primarily by exception through examination of deviations from past grants. The contributions budget is submitted to the Board jointly with the budget for business memberships.

In 1974, paid contributions were $250 less than the pre-planned total. In the previous year, the pre-planned annual budget was exceeded by nearly $25,000, the amount representing that year's portion of the medical center pledge.[7]

Recipient Choice

All appeals for funding directed to Berkshire Life are initially screened by the Senior V.P. and Secretary. Most non-local appeals and approximately one-half of all local appeals arrive by mail. The remaining local appeals are in the form of phone calls or personal visits to the Senior V.P. and Secretary who spends approximately 10 hours per year

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[7]The decision to make that pledge and the first year's grant was made and approved by the Board mid-year.

in personal contact with solicitors.

Decision and response to appeals is typically made within one day of receipt. A standard "Dear John letter" is employed in responding to some denied requests, particularly to non-local requests received by mail.

A number of the criteria applied in recipient choice are provided in part 3 of the written policy statement. The most often exercised of these is that stipulating a preference for gifts to organizations "whose service areas are within the immediate vicinity of Pittsfield."[8] Further, a preference for long-term commitments in order to maintain continuity in the contributions program results in a logical preference for past recipients. The personal influence of Board members and the President are recognized in recipient choice, as are the firm's investment interests, although consideration for these factors is atypical.[9] Berkshire Life people make no conscious attempt to seek out potential contribution recipients, but many of the organizations receiving support have company employees affiliated with them.

Follow-up

Berkshire Life does not require the submission of reports or budgets by recipients after receipt of funding, but these are voluntarily sub-

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[8] A corporate officer remarks that this local orientation "makes decision-making easier and justification clearer," that, "geography is important because Berkshire County (the home county) is a unit unto itself," and that the high proportion of recurring gifts may be resulting from, "a lackof choice among worthy causes in the local area--we are not turning down many major organization's requests."

[9] The capital fund drive of the medical center to which Berkshire Life made its major pledge was chaired by Berkshire Life's President.

The influence of Board members is partially the result of five Board members' affiliations with other companies in the immediate vicinity of Berkshire Life whose contributions patterns often parallel those of Berkshire Life.

mitted by some. The Senior Vice President and Secretary does not typically visit the offices of recipient groups other than those with whom he is personally involved. Instead, other company employees involved with local groups are contacted informally to report on the functioning of their group.

For the near future, no significant changes are anticipated in Berkshire Life's contribution program other than the possibility of instituting an employee matching gift-to-education program. Plans have not yet been made as to changes that may result when the medical center capital pledge expires in 1977, although at least one corporate officer is presently inclined to maintain the level of giving well above that existing prior to the major 1973 pledge. Present attitudes suggest that no major changes are likely to take place in the company's contributions policy statement or in the maintenance of stability and continuity in regard to the recipients of Berkshire Life gifts.

CHAPTER VI

MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY

Organization: Mutual
Incorporated: 1851, Massachusetts
Independent
Home Office: Springfield, Massachusetts (SMSA Pop.: 542,000)
Licensed Territory: All states+
Full Time Employees (excluding agents): 4,236
<u>Year ending Dec. 31, 1974</u>:

Insurance in Force: $27,009 million (Rank: 12)
Total Admitted Assets: $5,397 million (Rank: 10)
Net Investment Income: $309 million
Premium Income & Distribution: $701 million

Life & Annuities	
Ordinary	71%
Group	9
Accident & Health (Group)	19
Other	1
	100%

Net Gain from Operations (For non-tax purposes)
before div's, FIT & excluding cap. gains & losses: $214,010,906
Unassigned Surplus: $198,052,032
Tax Situation: PHASE I

Contributions (1974): $334,810
Distribution:

Urban Affairs	9%
Federated Drives	31
Health	29
Education	29
Culture	1
Bus/Econ Research	1
Other	-
	100%

Contributions Ratios:
(Contributions per $1000 of each base & per employee)
Net Investment Income: $1.08
Total Admitted Assets: $ .062
Net Gain From Operations: $1.56
Unassigned Surplus: $1.69
Per Full Time Employee (excl. agents): $79.04

Internal Cost to Administer the Contributions Program: $5,100
Contributions/Administrative Cost Ratio: 65.65

Budgeted Contributions (1975): $291,790
(Forecasted budget alterations indicate that this will likely be reduced to approximately $212,000 during the year)

Massachusetts Mutual Life Insurance Company currently ranks as the life insurance industry's tenth largest company in terms of total admitted assets, and twelfth largest in terms of insurance in force.[1] Massachusetts Mutual maintains its home office in the western Massachusetts city of Springfield, (population of approximately 165,000). With over 2,400 home office employees, the company is the city's largest single employer.

Massachusetts Mutual's life insurance sales operations are conducted through 127 general agencies located throughout the U.S. In addition to its insurance operations, the company has recently established four finance-related affiliates, including a real estate investment trust, two investment companies and a subsidiary financial research and consulting company.

As an exercise of Massachusetts Mutual's "corporate responsibility" the company conducts a formalized charitable contributions program. As previously noted, contributions in 1974 totaled nearly $335,000.[2] In addition to charitable contributions, the company took an active part in the industry's $2 million Urban Investment Program in which the company met its program goal of $47.5 million in special urban investments. Other social endeavors include co-sponsorship of a personnel development program with the U.S. Jaycees and the company's maintenance of a "Public

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[1] For a history of Massachusetts Mutual's growth patterns see Richard Hooker, A Century of Service: The Massachusetts Mutual Story (Springfield, Mass.: Massachusetts Mutual Life Insurance Company, 1951).

[2] This represented a decline from the previous year's total of just over $353,000.

Defenders Program" in which company attorneys aid indigent defendents in Springfield District Court criminal cases. In regard to industry charitable contributions, Massachusetts Mutual coordinated the establishment of the Insurance Medical Scientist Scholarship Fund in which a number of large life companies participate.[3] Since 1972, the company has been developing a "social inventory" scheme in which an attempt is made to identify, and assign company-incurred costs to, the many activities of the firm which result in notable "social impact."[4] While the technique is still in the infant stage, the program has been instituted across all home office divisions.

In the conduct of Massachusetts Mutual's charitable contributions program, grants are made to between 80 and 100 recipient organizations annually (in addition to the many colleges and universities supported through the company's employee gift-matching program). Of the company chosen recipients, approximately 80 percent are located in the immediate vicinity of the home office city. The residual 20 percent are either state or national-level organizations. In 1974, approximately 45 percent of the company's grants constituted repeat commitments.[5] The recipients of Massachusetts Mutual contributions are chosen from approximately 600 appeals that are directed to the company each year, roughly 60 percent of which are from state or national-level groups and the balance from

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[3]Massachusetts Mutual established this fund as a replacement for the Life Insurance Medical Research Fund (noted in Chapter 3) that was disbanded in 1971. The fund is designed to finance advanced education of students who intend to follow careers in medical research and academic medicine and who are working for both MD and PhD degrees.

[4]For a brief review of how this program is conducted see, "Massachusetts Mutual Begins Social Audit," Response, no. 8, (July, 1973), p. 12.

[5]This represented a decline from one year earlier in which approximately 65 percent of all gifts were recurring.

Springfield-area organizations. Of the appeals brought by organizations that have not received past funding from the company, approximately 10 percent are granted support.

As a means of accounting control, Massachusetts Mutual has financially segregated its contributions program into two independent cost centers. The first involves administration of an "Urban and Community Affairs" budget which is designed for gifts, typically no greater than $1,000 each, granted to local community organizations. Contributions from this budget totalled nearly $12,000 in 1974.[6] The focal point of the second cost center is a "Dues and Contributions" budget which is designed primarily for larger grants to both local and non-local groups. Charitable contributions from this budget amounted to nearly $323,000 in 1974. Presently the company has no firm criteria for determining from which budget any single contribution is to be made.[7]

Organization

The administration of Massachusetts Mutual's charitable contributions program is primarily conducted within the company's Corporate Communications Division, headed by a corporate Vice President. The organization of managerial personnel associated with the program and an approximation of the relative time each spends directly on the administration

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[6] As a cost center, Urban and Community Affairs activities include in-kind services provided by the company to local organizations. The full Urban and Community Affairs budget, therefore, includes an allocation of company-incurred costs associated with these services, including fees paid to an outside Urban Affairs consultant. In 1974, these costs totalled approximately $20,000.

[7] Both the Urban and Community Affairs budget and the Dues and Contributions budget contain gifts up to and in excess of $1000 for 1975.

of corporate gifts is presented in Figure 3. The present organization for contributions has been in existence since 1970, although until early 1974, a Dues and Contributions Committee served to review appeals and award all grants that were to be paid with funds from the Dues and Contributions budget.[8]

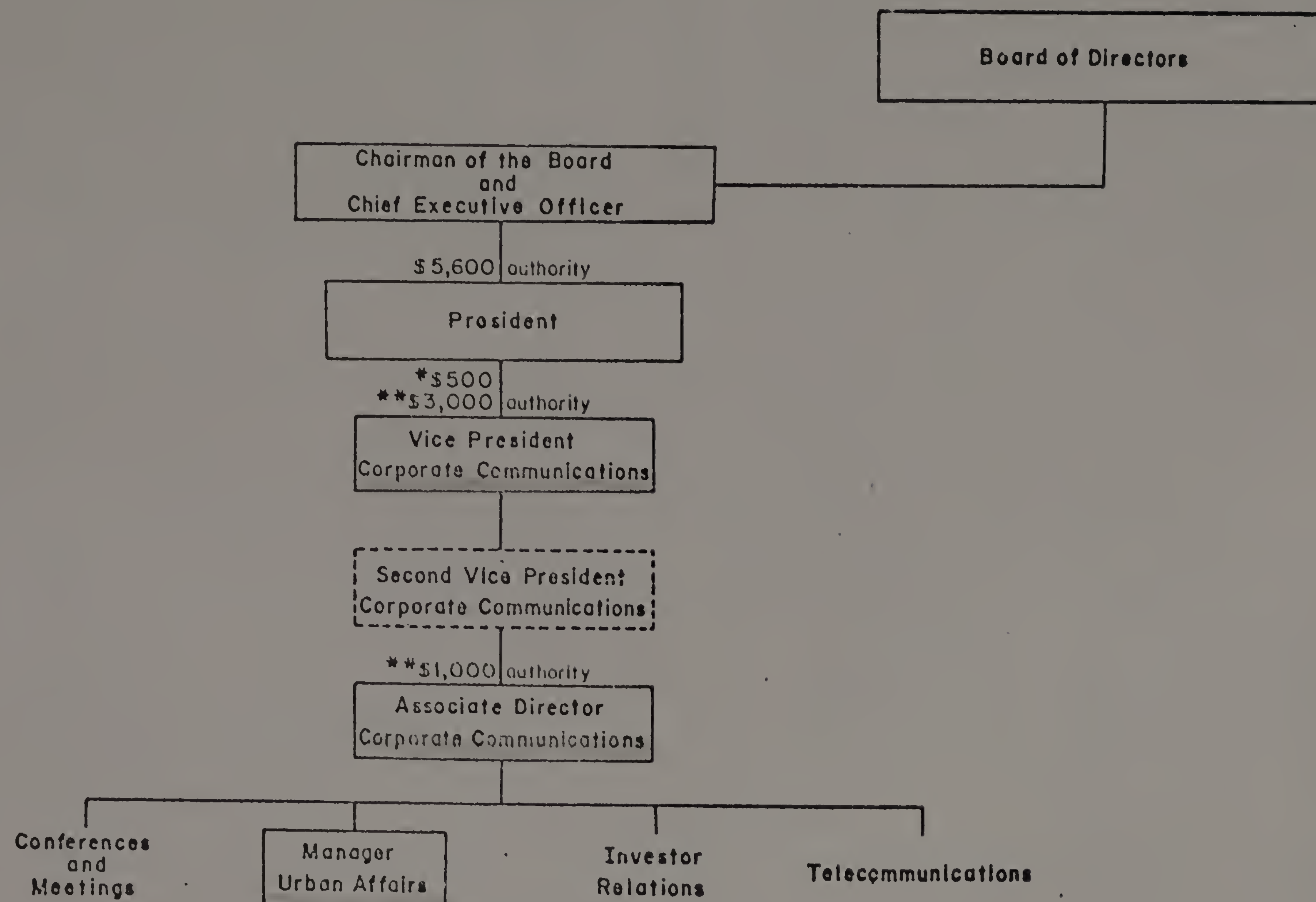
Under the present organization, the Vice President of Corporate Communications serves as the company's contributions officer. He is assisted by the Associate Director of Corporate Communications who in terms of day-to-day activities is the administrative focal point for the program. The Associate Director provides initial screening for all incoming appeals with the exception of those few that are personally referred to the Corporate Communications Division by senior officers and Board members (in which case the Vice President of Corporate Communications provides initial review). The Associate Director spends approximately 10 percent of his time directly on contributions matters.[9] Assisted by a secretary, he oversees administration of the Urban and Community Affairs budget. He holds independent approval authority of $1,000 for gifts utilizing dis-scretionary funds from the Urban and Community Affairs budget and holds

[8]Until the Dues and Contributions Committee was disbanded in early 1974 with the approval of the Chairman of the Board and Chief Executive Officer, it was composed of the Corporate Secretary, who served as Chairman of the committee, and two other Senior Officers, including the Vice President of Corporate Communications.

[9]Other duties of the Associate Director include supervising Corporate Communications Division staff members involved in urban affairs, investor relations, telecommunications, and conferences and meetings, overseeing the entire division budget and serving as the division's equal employment opportunity officer and Information Service Division coordinator.

FIGURE 3

MASSACHUSETTS MUTUAL
Corporate Contributions Program
Organization



*From Dues and Contributions Budget
**From Urban and Community Affairs Budget
(Shading indicates approximate percentage of time spent directly on contributions program)

independent denial authority for any appeals he reviews regardless of the budget against which the request is considered.[10] The Associate Director typically determines against which budget a contribution is to be made.

In evaluating appeals considered against the Urban and Community Affairs budget, the Associate Director is occasionally assisted by the Manager of Urban Affairs. Typically the Urban Affairs Manager reviews and makes recommendations (without approval or denial authority) on a small portion of the requests that have survived the Associate Director's initial screening. In this role, the Urban Affairs Manager devotes approximately one percent of his time to the contributions program.

In the administration of the contributions program, the Associate Director reports directly to the Vice President of Corporate Communications, by-passing the Second Vice President who serves as the Associate Director's immediate superior on other division matters. The Vice President of Corporate Communications reviews all requests recommended for approval by the Associate Director against the Dues and Contributions budget and all requests in excess of $1,000 against the Urban and Community Affairs budget. The Vice President holds approval authority of $3,000 for gifts utilizing Urban and Community Affairs funds and approval authority of $500 for those to be made with discretionary funds from the Dues and Contributions budget.[11] As Massachusetts Mutual's contributions

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[10] Nearly all the contributions made from the Urban and Community Affairs budget in 1974 represented expenditures of discretionary funds. For 1975, however, discretionary funds constitute less than 20 percent of the $12,375 Urban and Community Affairs budget.

[11] Discretionary funds represent a relatively small proportion of the Dues and Contributions budget. For 1975 such funds are budgeted just over $19,000.

officer, the Vice President of Corporate Communications devotes approximately 5 percent of his time to contributions matters.

For recommended gifts in excess of the Vice President's approval authority, the President of Massachusetts Mutual provides review while holding independent approval authority of $5,600. For gifts that exceed the President's approval authority, the Chairman of the Board and Chief Executive Officer provides review and disposition on behalf of the Board of Directors. This final approval stage is rarely exercised in regard to gifts utilizing discretionary funds, however, since the few gifts that exceed $5,600 are typically included as line items in the annual Dues and Contributions budget. In the budget review process the Chairman and Chief Executive Officer passes judgment on the major line items and gains Board of Directors' sanction through the Board's approval of the budget's "bottom line."

Objectives, Policies and Associated Processes

According to a well circulated company publication, "Massachusetts Mutual is a company which meets its public responsibility as a corporate citizen in the firm belief that a healthy society is a necessity for its continuing business success."[12] Accordingly, the company's social activities are guided by general "objectives" developed during preliminary research for the company's social accounting program and approved by top management in 1972:

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[12] A Profile: Massachusetts Mutual Life Insurance Company, (Springfield, Massachusetts: Massachusetts Mutual Life Insurance Company, no date), p. 3.

1. (improve) accountability and efficient deployment of company resources;
2. (improve) ability to identify new opportunities for social investments;
3. (provide) greater responsiveness to community needs and desires; and
4. (improve) ability to ultimately optimize future business opportunities.[13]

As a result of abandoning a one-page general policy statement early in 1974, Massachusetts Mutual's corporate contributions program is presently conducted without a formal policy statement.[14] Instead, operating principles for the program are based on uncodified policies, most of which have evolved informally over time. One significant policy, however, was formally approved by vote of the Board of Directors and confirmed at the annual meeting of 1966. This policy restricts the level of the company's contributions in any year to no more than $\frac{1}{4}$ of 1 percent of unassigned surplus as of the end of the previous year.[15]

The "Universal Guidelines" for Massachusetts Mutual's urban and community affairs programs (including gifts made with funds from the urban and community affairs contributions budget) are contained in Appendix IIIA. These "Universal Guidelines" were developed during an "Action Program" undertaken within the Corporate Communications Division in 1971 for the purpose of undertaking an analysis of the company's urban and community affairs programs. These guidelines, however, were never formally approved

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[13] Gary Garrison, "Corporate Social Responsibility and the Social Audit," unpublished paper, Massachusetts Mutual Life Insurance Company, 1975.

[14] The original general policy statement, as developed by the now defunct Dues and Contributions Committee, was determined to be "meaningless" and "ineffective" by the Associate Director and the Vice President of Corporate Communications. On the direction of the Vice President of Corporate Communications the policy statement was abandoned at approximately the same time the Dues and Contributions Committee was dissolved.

[15] This limitation on the level of giving in any year is in part based on Massachusetts statutory limitations of $\frac{1}{2}$ of 1 percent of surplus at the end of the previous year (as noted in Chapter 3).

as company policy at any level. Instead, they merely serve as informal reference points, particularly for the Associate Director of Corporate Communications who personally generated them during the "Action Program."

One unwritten, but well recognized. guide for Massachusetts Mutual's social activity is the firm's specific self-interest in decellerating the physical and economic decline of the Model Cities Neighborhood that abuts the company's home office building. Accordingly, much of the company's local financial support is planned to be directed to this area while maintaining general adherence to the company's corporate support priority areas. The present priority areas, established within the Corporate Communications Division, are:

1. health and health-related organizations;
2. disadvantaged youth;
3. education;
4. cultural and recreational programs and activities;
5. economic development; and
6. civic and government programs and activities.[16]

A number of unwritten policies have been informally adopted within the Corporate Communications Division for the conduct of contributions programs. Among the policies are the following, some which are occasionally relaxed in application:

*No contribution will be made unless the company can benefit either tangibly or intangibly.

*Primary benefit is to be realized through the corporate headquarters community, to protect the company's investments there, its home office property, and employees who live in the surrounding community.

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[16] These priorities are not specified in any directive document, but are reported by the Associate Director of Corporate Communications in Garrison, p. 42.

*No contributions will be made to religious organizations or in support of their activities.

*No sports activities will be sponsored unless such are to the advantage of disadvantaged youth.

*No tickets to fund raising events will be purchased, nor will program advertisements be taken.

*No contributions in lieu of program advertisements will be made.

*No contributions designed exclusively for funding an organization's staff time will be made.

*Contributions to relieve deficits will only be made under the condition that the recipient agency has a clear plan to eliminate deficit financing within three years.

*All recipient organizations must have completed the company's contribution application form.

The development of the contributions program and associated operating policies has involved utilization of input from an outside consultant, local government and recipient agencies, and professional public affairs meetings attended by the Associate Director. Further, policyholders have had minor input through a series of nationwide policyholder meetings and through data collected in a general survey of policyholder's appraisals of the company, conducted under contract by Opinion Research Corporation in 1972.[17]

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[17] At eleven policyholder meetings held across the U.S. in the early 1970's, the issue of charitable contributions was raised and discussed briefly at three. The discussions were primarily confined to the level and recipients of company gifts.

Opinion Research Corporation surveyed over 4,100 Massachusetts Mutual policyholders on a variety of company-related issues. While not addressing charitable contributions specifically, the survey did inquire into policyholder attitudes toward company participation in the solution of national social problems. Among the top ranked problems that policyholders thought the company should help solve were "drug addiction, health care, crime, air and/or water pollution, and quality of education."

Interpreting the results of these policyholder contacts, members of the Corporate Communications Division, generally consider policyholders to be non-commital and lacking in interest in company contributions.

Although no written policy statement is presently in existence, plans are underway to develop one in the near future. Background work and the composition of the initial draft will likely be done by the Associate Director. The Associate Director and the Vice President will then jointly prepare the statement in the form to be submitted to the President, the Chairman and Chief Executive Officer, and the Board of Directors, in turn. Development of a written statement will be part of a greater attempt to formalize the contributions "system," develop greater accountability for the program and recipients, provide a basis for making fewer, more significant grants, and to eventually expand the program to the maximum allowable by law.

Budgeting and Recipient Choice--Parameters and Processes

Budgeting

The Dues and Contributions budget and the Urban and Community Affairs budgets are prepared and approved separately. The Dues and Contributions budget is prepared by the Associate Director and the Vice President of Corporate Communications. The Urban and Community Affairs budget is prepared principally by the Associate Director with approval by the Vice President. Both budgets are submitted to the President through the Comptroller's Office. The President reviews the budgets in detail and confers with the Chairman and Chief Executive Officer on major expenditures (those in excess of $5,600). The Board of Directors provides final approval of the budget totals.

Presently, no formulae are directly applied in budget development other than consideration for the Board-directed maximal limit. Typically, totals for the budgets are guided by reference to, and alteration of, previous years' totals.

Massachusetts Mutual's annual operating budgets are "phased" by thirds such that planned expenditures are budgeted for four month intervals as well as being budgeted for the full year. Accordingly, the contributions budgets are phased in this manner so that planned payments are spread across the fiscal year. Associated with this process is the requirement that the Corporate Communications Division file budget performance reports at the end of each third for review by the President. Based on these reviews the President may alter budget totals during the year.[18] In the process of controlling the contributions budgets, electronic data processing equipment is employed in providing monthly budget printouts, including listings of expenditures and existing balances.

While the annual budget limit for contributions as determined by the policy formula has approached $500,000 in recent years, actual expenditures have been well below that level, although all budgeted funds have been expended. Actual expenditures in 1974 represented approximately .0017 of unallocated surplus at the end of 1973, versus the policy limit of .0025. The initial budgets for 1975 call for a further reduction to .0015. If

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[18] In 1974, the Dues and Contributions budget was increased mid-year from approximately $307,000 to nearly $324,000.

the budgets are altered mid-year to $212,000 as forecasted, actual expenditures for 1975 will represent less than .0011 of unallocated surplus at the end of 1974.[19]

Recipient Choice

Appeals for funding are directed to Massachusetts Mutual in the form of letters (75 percent), phone calls (20 percent) and personal visits (5 percent), and are channeled to the Associate Director of Corporate Communications for initial screening.[20] The Associate Director notes that most appeals are screened initially "almost on instinct," although he personally developed and recommended the use of a set of evaluative questions during the 1971 Urban and Community Affairs "Action Program." These questions, designed to serve as informal guides in screening requests, are contained in Appendix IIIB.

As a means of systematizing the evaluation of "promising appeals" (those that survive initial screening), the company requires that solicitors of company funds of $100 or more (including recurring requests) complete one of two company-supplied application forms.[21] A two-page form

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[19]Reductions in the level of Massachusetts Mutual's contributions are a part of a company-wide financial "belt-tightening" program, in part spurred by a disproportionate growth in operating expenses as compared to premium income in recent years.

[20]Typically, Massachusetts Mutual staff people do not actively seek out potential recipients "because of the time that would be involved and the problems that would result if we did not knock on every door."

[21]The use of application forms was formally instituted in early 1974. To date, less than 20 percent of the unsolicited appeals received by the company survive initial screening such that completion of an application form is required. Additionally, the Associate Director reports that a number of solicitors have not completed the forms once mailed to them.

is used for requests between $100 and $1,000 and a more detailed four-page form for requests in excess of $1,000. Copies of these application forms are contained in Appendices IIIC and IIID, respectively. Basically, the forms require that the requestor indicate: the amount requested; the type and purpose of the organization; its annual program and project budgets; how the organization and/or project will benefit the community; sources of funding; and general descriptive information about the organization.

Once an organization has submitted its completed application form, the Associate Director reviews the appeal in detail and requests further information if needed. Personal interviews of approximately one hour duration are conducted with representatives of approximately 25 percent of local soliciting organizations, but rarely with non-local groups. Also on occasion, site visits are made to local requesting organization's offices or project locations.

After review of the application form and other supporting information the Associate Director may dispense with an appeal in one of three ways: (1) he may deny the appeal, in which case a standard denial letter is typically prepared and sent to the soliciting organization; (2) he may grant the request if within his limits of authorization; or (3) he may prepare a one-to two-page written recommendation to the Vice President, in which case the approval process proceeds as previously noted.[22] With the exception of the very few cases where the company receives impersonal-

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[22] The standard denial letter is sent in response to all denied requests except those that involve the interest of personal acquaintances of Board members, top level management, or Corporate Communications Division people.

ized appeals, the company responds to all appeals received.

The total employee time required to fully process requests that have involved submission of an application form varies widely but averages approximately 4 hours. Requests denied at the initial stage, require on average approximately 45 minutes of the Associate Director's and his secretary's time. The total time lapse between receipt of an appeal ultimately granted and mailing of the grant check is approximately 45 days.

In addition to the recipient choice process within the Corporate Communications Division, Massachusetts Mutual conducts an employee matching-gift-to-education program. Under the program the company will match any employee's or director's contribution up to $500 to any educational institution listed in the H.E.W. Higher Education Directory. As an additional step toward gaining employee involvement and recognizing volunteer community activity, the company is presently developing a "Citizens Service Award" program. Under this program a contribution of $2,000 will be made in the name of the annual winner to the community organization with which the winner is affiliated.

Follow-up

As a means of maintaining control over the ultimate use of Massachusetts Mutual's contributions funds, the staff of the Corporate Communications Division has recently developed a formalized follow-up evaluation form. Completion of the form will be required of all contributions recipients once the evaluative procedure is finalized.[23] A copy of the most recent form is presented in Appendix IIIE. Until this evaluative mechanism is fully instituted, the company will continue to require that all recipients file annual financial reports.[24] Personal visitation by the Associate Director and Manager of Urban Affairs to the offices of approximately 10 percent of local recipients will continue, and will likely increase once the follow-up program is formally commenced.

With the sudden reversal of economic conditions for Massachusetts Mutual, gradual efforts that had been underway to increase the annual contributions budget to the maximum allowed by law have been postponed. Instead, contributions have declined "as part of a cooperative effort to keep expenses in line with premium income."[25] Regardless of changes in the level of giving, however, plans are continuing that will further "solidify" the contributions program and the processes and procedures involved in recipient choice and post-gift evaluation.

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[23] The development of a formalized follow-up scheme was undertaken within the Corporate Communications Division as an "Action Program" begun in 1974. Although technically "completed," the results of the program have been determined unsatisfactory by the Associate Director, thus development is continuing.

[24] For the few recipients funded two or three times annually, reports are required prior to each individual grant.

[25] Garrison, p. 52.

CHAPTER VII

AETNA LIFE INSURANCE COMPANY

Introductory Data

Organization: Stock
Incorporated: 1853, Connecticut
Member, Aetna Life & Casualty (Group), as a wholly-owned subsidiary of Aetna Life and Casualty Company
Home Office: Hartford, Connecticut (SMSA Pop.: 721,000)
Licensed Territory: All states+
Year ending Dec. 31, 1974:

Insurance in Force:	$74,551 million	(Rank: 5)
Total Admitted Assets:	$9,430 million	(Rank: 6)
Tax Situation:	PHASE I	

Contributions: Made on behalf of the entire Aetna Life & Casualty (Group); Not allocated to, nor made independently by, Aetna Life Insurance Company.

Aetna Life & Casualty (Group)[1]

Organization: Stock
Incorporated (Parent): 1967, Connecticut[2]
Home Office: Hartford, Connecticut
Full time Employees (excluding agents): 34,475
Year ending Dec. 31, 1974:
Life Insurance in Force: $84,243 million

Ordinary:	14%
Group:	86%
	100%

[1] Aetna Life & Casualty is an affiliation of companies under the same management that includes a parent company (Aetna Life and Casualty Company) and its subsidiaries. Among those subsidiaries are three wholly-owned U.S. legal reserve stock life insurance companies--Aetna Life Insurance Company, Aetna Variable Annuity Life Insurance Company and Aetna Life Insurance Company of Illinois. Other subsidiaries include casualty and property insurance companies, non-insurance companies, and a Canadian life insurance company.

Data presented for Aetna Life & Casualty is a consolidation of its member companies' data, excluding intercompany transfers.

[2] The parent Company was incorporated as a stock company in 1967, and is licensed as a property and casualty company. Many of its subsidiaries, including the life insurance companies, are much older.

Total Assets: $13,881 million
Net Investment Income (Insurance Companies): $737 million
Operating Earnings Before FIT: $198 million
Operating Earnings After FIT: $152 million
Percentage allocable to Aetna Life Insurance Company: 55%[3]
Tax Situation: With the exclusion of the member life insurance companies, the consolidated group is jointly taxed at regular corporate rates after deducting from earnings certain items, primarily tax exempt interest and excludable dividends, to arrive at taxable income. The life insurance companies are taxed separately as provided under conditions discussed in Chapter 4.[4]

Contributions (1974): $2,822,000[5]
Distribution:

Urban Affairs	30%
Federated Drives	12
Health	28
Education	24
Culture	2
Bus/Econ Research	-
Other	4
	100%

Contributions Ratios:
(contributions per $1000 of each base & per employee)

Net Investment Income:	$ 3.82
Total Assets:	.20
Operating Earnings Before FIT:	14.25
Per Full Time Employee:	81.86

Internal Cost to Administer the Contributions Program: $135,600
Contributions/Administrative Cost Ratio: 20.81
Budgeted Contributions (1975): $2,500,000

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[3] Based on data adjusted to conform to generally accepted accounting principles as provided in the Statistical Supplement to the 1974 Aetna Life & Casualty Annual Report.

[4] All charitable contributions are deducted in determining the taxable income of the consolidated group (less the life insurance companies). The income of the consolidated group is taxed at normal corporate rates. No allocation of charitable contributions is made against the income of the separately taxed life insurance companies.

[5] Contributions in 1974 as reported for accounting purposes totaled $2,968,000 ($146,000 more than reported here). This differential resulted from expenditures that were budgeted and paid in 1973 which did not clear the closing of the books at year-end 1973 and hence were charged for accounting purposes to 1974. In order to maintain consistency in the corporate profiles, amounts budgeted and paid during any year are reported herein regardless of the year in which reported for accounting purposes.

Aetna Life Insurance Company currently ranks as the nation's largest stock legal reserve life insurance company in terms of assets, premium income and insurance in force. Among all life insurance companies, Aetna Life ranks sixth in terms of assets and fifth in terms of insurance in force. Aetna Life writes a complete portfolio of ordinary, group and credit life insurance, ordinary and group annuities, commercial and group accident and health insurance, and group hospitalization insurance.

In a reorganization of corporate structure in 1967, all shares of Aetna Life were exchanged on a share for share basis for shares of Aetna Life and Casualty Company, a Connecticut stock company licensed (and taxed) as a casualty and property organization.[6] As of 1974, the parent company had acquired control of four life, health and pension companies, five other casualty and property companies, and four non-insurance affiliates. Collectively this group of interrelated companies under the same upper level management is known as Aetna Life & Casualty (hereafter referred to as "Aetna") with control of the group exercised by the parent company.[7]

As a group, Aetna is the nation's largest diversified financial service organization with interest in insurance, mutual funds, pensions,

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[6] For a history of the life company prior to the reorganization see Richard Hooker, Aetna Life Insurance Company: Its First Hundred Years (Hartford, Connecticut: Aetna Life Insurance Company, 1956).

[7] A clear distinction between the parent company and the group is necessary here since the consolidated operations of the parent and its subsidiaries and affiliates are of interest in decision making for charitable contributions purposes.

real estate and land development, commercial finance and hotel-motor inns. Between 1969 and 1973 the group experienced a steady increase in after-tax earnings, from \$50 million to \$195 million, with a decline to \$152 million reported for 1974.

As one part of the "corporate social responsibility" activities conducted and managed jointly for the group, Aetna maintains a formalized charitable contributions program. As previously noted, contribution expenditures totalled more than \$2.8 million in 1974. This represented a significant increase over previous years' contributions levels (1972-\$1.4 million; 1973-\$2.3 million).

In the conduct of the contributions program, Aetna receives and processes over 900 unsolicited appeals for funding each year. Of these, approximately 20 percent are granted funding with available <u>discretionary</u> funds. Additionally, Aetna specifically <u>budgets</u> donations to over 100 recipient organizations annually, approximately 75 percent of which constitute repeat commitments.

Aetna's contributions approached nearly equal distribution in 1974 between home office area recipients (57 percent) and non-local groups or organizations with national orientations (43 percent). This distribution represents a conscious departure from past years when higher proportions of support were confined to home office area organizations (1972-71 percent; 1973-62 percent). This redistribution was undertaken at least partially in recognition of Aetna's maintenance of field offices throughout the U.S. and in consideration for its major presence in its home office city of Hartford, where the group is the city's largest single employer.

Organization

The many social programs conducted by Aetna are controlled within a formalized structure established for the group in 1971. In that year, Aetna's Board of Directors created a Board Committee on Corporate Responsibility and established a permanent Corporate Social Responsibility Department (headed by a corporate vice president) within the Department of Corporate Planning (also headed by a corporate vice president).[8] Among the activities managed within this structure is Aetna's charitable contributions program. The organization for this program and an approximation of the relative time each affiliated member spends directly on it is presented in Figure 4.

At the lower end of the hierarchy, an Administrative Assistant is assigned full-time to contributions activities to maintain all contributions-related records, issue checks and to administer Aetna's matching gift programs. The Program Coordinator devotes approximately 70 percent of her time to contributions in reviewing and making recommendations on incoming requests, coordinating federated appeals and in conducting contributions-related research. Her other activities include involvement with the group's voluntarism and outreach programs.

On the same reporting level as the Administrative Assistant and the Program Coordinator is the Administrator of Public Service Programs, half of whose time is devoted to contributions. His primary duties in

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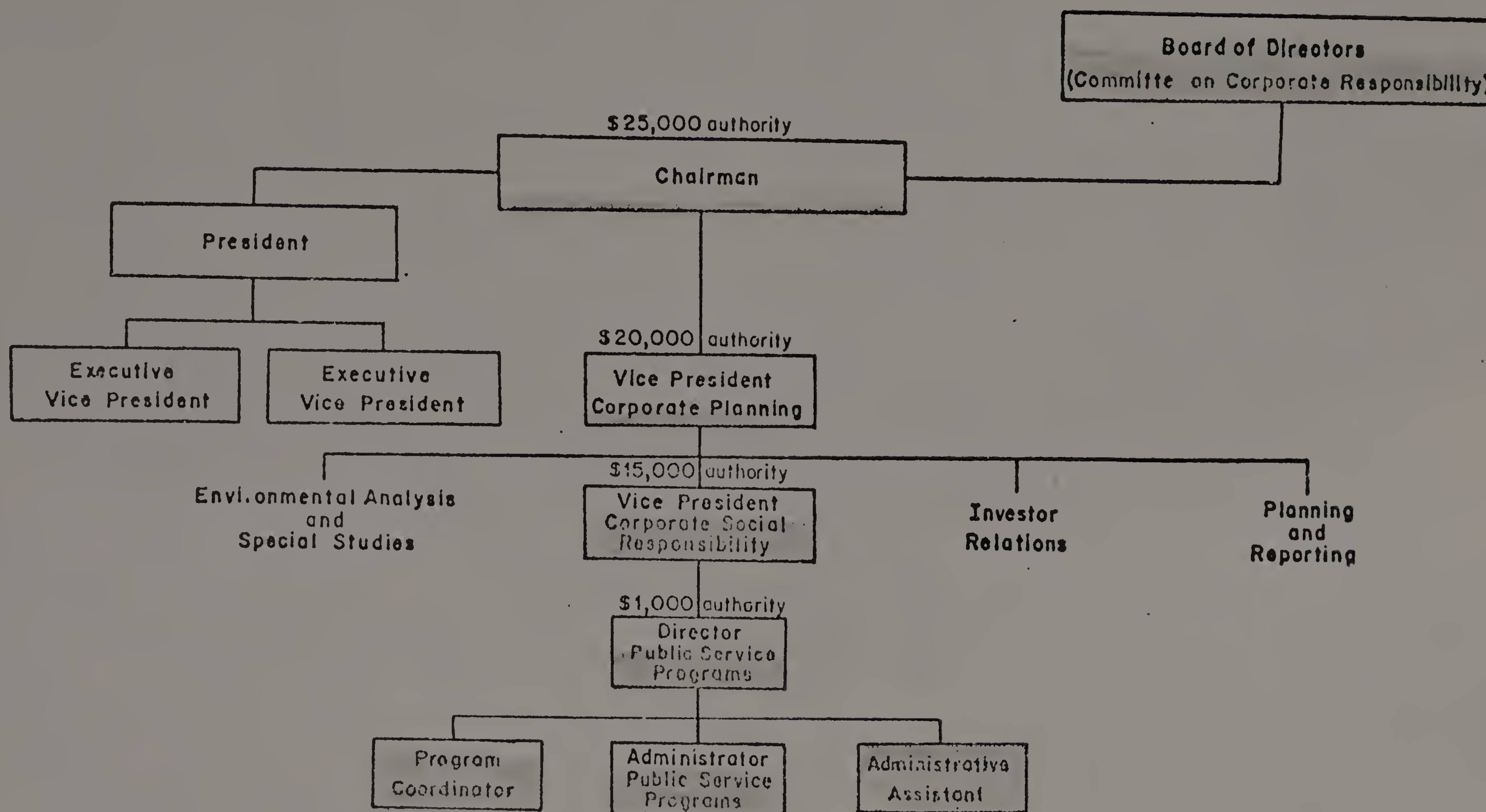
[8] At the time this structure was established, Aetna maintained a Contributions and Membership Committee which included corporate officers at the vice presidential level, and general counsel. The Committee was disbanded in 1972.

FIGURE 4

AETNA LIFE & CASUALTY

Corporate Contributions Program Organization



(Shading Indicates approximate percentage of time spent directly on contributions program)

the program involve initiating and reviewing requests and making recommendations on them to his supervisor. The Administrator holds denial authority, but the denials may be subject to higher review. The Administrator's other duties are primarily confined to administering Aetna's "proxy program" wherein shareholder resolutions of a social nature brought before companies in Aetna's stock portfolio are reviewed to determine Aetna's voting position.

The Administrative Assistant, Program Coordinator, and Administrator of Public Service Programs are supervised by the Director of Public Service Programs who holds primary responsibility for coordinating the contributions program. Devoting approximately half of her time to the program, the Director apportions incoming appeals to subordinates for review and provides initial or secondary review for 60 to 70 percent of all appeals. The Director holds independent and unlimited denial authority and independent approval authority of $1,000 for individual gifts utilizing discretionary funds other than those from a special urban affairs budget which she independently administers with slightly greater, yet variable, approval authority.[9] The Director is a corporate officer of all the subsidiary companies in the group.

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[9]The Urban Affairs budget is designed to provide discretionary funds that enable the group to respond to special ad hoc charitable needs of individuals and community organizations within the Hartford community. Approximately $150,000 in relatively small gifts (typically less than $1,000 each) was donated from this budget in 1974.

Other discretionary funds available for grants to be made during the budget year amounted to over $237,000 in 1974 and are budgeted in excess of $391,000 for 1975.

The Vice President of Corporate Social Responsibility, an officer of the parent company as well its subsidiaries, holds responsibility for all activities within the Corporate Social Responsibility Department. In addition to contributions and the proxy program, he is responsible for the department's urban affairs, consumerism, equal employment opportunity and social investment programs which are administered by specialized staff members within the department. Even with these responsibilities and recent temporary assignments in assisting the Commission on Private Philanthropy and Public Needs, the Vice President of Corporate Social Responsibility devotes approximately 50 percent of his time to direct involvement in the contributions program.[10] He personally handles most appeals in which there is top management or board interest and holds independent approval authority of $15,000 for gifts from discretionary funds. He reports to the Vice President of Corporate Planning who spends approximately 5 percent of his time on contributions matters and who holds approval authority for gifts up to $20,000.

The Chairman of Aetna is directly involved in the conduct of the contributions program and the associated approval process in two ways. First as an officer of the parent company and its subsidiaries, he holds independent approval authority for individual gifts up to $25,000, decisions on which frequently involve consultation with other members of

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[10] The Commission on Private Philanthropy and Public Needs, commonly referred to as the "Filer Commission" after its Chairman, John Filer (Chairman of Aetna Life & Casualty), is a privately funded (over $2 million) investigatory group commissioned to study the role of philanthropy in our society.

Aetna's "Corporate Office" (the President and two Executive Vice Presidents). Secondly, the Chairman serves as the only inside director on the Board of Director's Committee on Corporate Responsibility.

The Committee on Corporate Responsibility is entrusted with establishing or approving contributions policy, suggesting guidelines as to the level and nature of giving, monitoring department operations, passing on and submitting the annual contributions budget to the full board for final approval (typically a formality), and maintaining approval authority for gifts from discretionary funds over $25,000. The Committee normally convenes two or three times per year, devoting, on average, approximately 75 percent of its meeting time directly to contributions matters. The remainder of the Committee's time is devoted to other social programs and matters of social concern to Aetna.

Objectives, Policies & Associated Processes

Social programs undertaken by Aetna, including the contributions program, are in part rationalized in philosophies expressed by the group's Chairman:

> ...Even the most casual observer can sense that business--like other of our institutions--is in disrepute. I believe we will repair this damage to our image and the people's spirit only if we seek to do what is right rather than what is expedient...
>
> Serving the needs of society while meeting demands of the marketplace is a challenge to every organization seeking to remain a competitive and responsible corporate citizen. Because few businesses fill such basic needs, we believe as an insurance company, the concerns of soci ty demand our special attention...

> Aetna sees its role in society as that of a catalyst...(and) we believe that Aetna--as all other businesses--can have the greatest impact on the social environment of its own community...[11]
> We believe that if business tries to manage its affairs in the public interest, government will tend to resist the urge to intervene or interfere.[12]

The philosophy for the contributions program is more directly stated in Aetna's 1974 annual social activity report to stockholders:

> Helping people to help themselves is the philosophy which guides us in making charitable contributions. In determining how our contributions can best be used, we give primary consideration to activities which offer people assistance in self-help. The effectiveness of our approach is probably best evaluated by those who are most directly affected by our contributions..."[13]

In the developmental stages of the Corporate Social Responsibility Department and the Board Committee on Corporate Responsibility, a live-in meeting was held away from the home office city at which the Department Head, the Vice President of Corporate Planning and the first Board Committee met to formulate policy for the social affairs of Aetna. Assisted directly by a professional management consulting organization, the group's efforts led to development of a "Background and Policy Statement," extracts from which are presented in Appendix IVA. In regard to charitable contributions, this relatively broad statement formally stipulates the purpose of the Board Committee, a recommendation for the

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[11] John H. Filer, "Programs Aimed at the Causes of Problems," Response, no. 12, (March, 1974), pp. 8-9.

[12] Aetna Life & Casualty, 1974 Social Responsibility Report, p. 1.

[13] 1974 Social Responsibility Report, p. 14.

level of Aetna's cash contributions in order to take a "leadership role" in American industry, and suggests that Aetna develop and sponsor a "Special Project" in its giving program.

Shortly after the development of the "Background and Policy Statement" in 1972, a more specific "Objectives and Guideline" statement was written utilizing prescriptions engendered at the live-in meeting and input from staff members of the Corporate Social Responsibility Department. This statement, as formally approved by the Board Committee and included in the 1973 contributions budget, is presented in full in Appendix IVB.

Among the prescriptions in the "Objectives and Guidelines" statement are that Aetna:

*make fewer but larger grants than in the past (prior to approval of the statement),

*recognize that risk is acceptable;

*increase proportional allocations to education and cultural activities;

*in the local community, give preference to action programs over construction or planning projects;

*increase the percentage of contributions outside the home office city;

*follow specific percentage limitations on capital gifts; and

*determine how effectively each grant of $5,000 or more was utilized by establishing a follow-up and review procedure.

Presently, the "Background and Policy Statement" and the "Objectives and Guidelines" as promulgated in 1972 are in effect as written, with few alterations. While not subject to a formalized review and revision schedule, at least one revision was recently considered that would have entailed reducing the formula-based guideline for the total level of giving from $1\frac{1}{2}$ percent of average pre-tax earnings for the prior three years (as stipulated in the "Background and Policy Statement") to $1\frac{1}{4}$ percent. The revision of this policy, although included as a statement in the 1975 contributions budget, was disapproved by the Board Committee on Corporate Responsibility.[14]

No major changes are presently anticipated in Aetna's contributions policy, although one relatively new staff member of the Corporate Social Responsibility Department expresses a personal desire for additional written (albeit flexible) policies and procedures for the giving program.[15]

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[14] The proposed, yet defeated, revision was based on rationale provided in the 1975 contributions budget:

1. the contributions budget should be considered in light of the significant cost of other social responsibility activities;
2. the original assumption that the all-industry average contributions budget is 1% of pre-tax profits has not been sustained in recent years ...; and
3. uncertainties concerning Aetna profit levels over the next several years raise the question of how far above the industry average Aetna should be.

[15] The Administrator of Public Service Programs maintains that additional formalized policies would be useful:

1. in maintaining consistency in the program;
2. for reference to justify denial of appeals to those who are not granted funding;
3. in keeping upper level executives and board members informed of what the department's operating principles are; and
4. as a basis for evaluating the effectiveness of the contributions program and individual gifts.

Budgeting and Recipient Choice--Parameters and Processes

Budgeting

Aetna's annual contributions budget is prepared within the Corporate Social Responsibility Department under the constraint that the budget total equal a sum specified by the Corporate Office (the Chairman, President and two Executive Vice Presidents). In specifying the total, the Corporate Office is guided by the formula-based guideline previously mentioned, although in none of the years since institution of the formula has the budget sum exactly equaled that which would be specified by perfect adherence to the formula.[16]

In preparing the budget, the staff of the Corporate Social Responsibility Department lists and sums all those contributions planned for the following budget period, some of which are formula-determined.[17]

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[16]While the formula specified sum for 1973 was $2,910,000, budgeted expenditures totaled $3,000,000. For 1974, the formula specified amount was $3,550,000, but $2,850,000 was budgeted.

In the original budget approved for 1975, pre-tax earnings for 1974 were estimated at $257 million. Employing this figure in calculating average pre-tax earnings over 1972-1974, the formula stipulated level (utilizing the proposed formula revision) would have been $3,204,000; the original budgeted level was $3,000,000. Upon final report of year-end pre-tax earnings of $198 million ($59 million less than earlier estimated) the formula stipulated level was revised to $2,958,000. With the finalized earnings figures in hand, the total budgeted amount for 1975 was revised to $2,500,000, representing 1.06 percent of the average pre-tax earnings over the prior three years.

[17]The few planned gifts less than $50 are not listed separately, but are included in a "miscellaneous" category, which for 1975 is budgeted at $300.

Formulae are employed in determining the sums for six different grants or grant "areas" (e.g., Field Office United Way Matching Program). Also, as noted in the "Objectives and Guidelines" statement, capital commitments are limited to 20 percent of the total budget. Planned capital grants for 1975 constitute less than 9 percent of the funding.

The difference between the sum generated in this manner and that specified by the Corporate Office then becomes the planned contingency portion of the budget (over $237,000 for 1974 and nearly $392,000 for 1975).

Included in the contributions budget is a line sum for the Urban Affairs budget. That is, planned expenditures from the Urban Affairs budget are not specifically listed, thus allowing the allocation ($160,000 for 1974 and $175,000 for 1975) to be distributed primarily at the discretion of the Director of Public Service Programs.

The full contributions budget, after initial preparation in the Corporate Social Responsibility Department, is submitted, reviewed, revised and approved in successive stages upward in the management hierarchy. At the final stage the full Board of Directors passes only on the budget total, leaving the highest level review of line items to the Board Committee on Corporate Responsibility.

Typically, the budget sum approved by the Board exceeds the actual contribution expenditures made during the budget period. In 1972, contributions were approximately $540,000 less than budgeted; in 1973, over $700,000 less than budgeted; but in 1974 the differential declined significantly to $28,000. The reason for at least a portion of these differentials is explained in the 1975 contributions budget, "In practice we have been unable to find suitable programs to use all the funds we have been authorized."

Recipient Choice

All appeals for grants directed to Aetna are channeled through the Corporate Social Responsibility Department. The majority of appeals (80 percent) are in the form of letters typically addressed to Aetna's

President or Chairman, which are then sent, usually without evaluative review, to the Department. Other requests come by way of telephone calls or personal visits to staff members in the Department. In all cases, however, a written request is eventually required before an appeal can be fully processed.[18]

In evaluating appeals, one Corporate Social Responsibility Department staff member remarks, "many of the judgments are made seat of the pants." Guidelines do exist for evaluation, however, including those noted in the "Objectives and Guidelines" statement (Appendix IVA). In reviewing appeals,consideration is given first to the social need purported to exist by the solicitor, second to the organization's proposal to meet that need, and finally to the organization itself. Additionally, a number of unwritten criteria are informally and variably applied. Among them are the requirements that:

> *the service proposed by the organization is one that the organization is uniquely qualified to provide;
>
> *the organization, if long established, is financially stable and Aetna funding would not be used to make up deficits;
>
> *the organization plans to develop a broad base of support;
>
> *the organization does not serve sectarian purposes; and
>
> *the organization is private, or if public has exhausted public means of support.

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[18]Not all contributions, however, are generated by responding to appeals. In certain, but few, instances, commitments are made to organizations without responding to specific requests for funding.

The evaluation of appeals occasionally requires that a staff member of the Corporate Social Responsibility Department visit the offices of potential recipients, particularly for Hartford area organizations requesting funding for the first time. Additionally, in the home office city two informal groups of managers (higher and lower echelons) representing a number of local companies periodically meet to discuss Hartford area social needs and the organizations that have evolved to meet them. Through these meetings a familiarity with many of the local soliciting organizations is gained by Aetna staff people.

The employee time involved in fully processing an appeal ranges widely from 1 to 24 hours. Granted appeals require approximately 10 hours of employee time on average and denied appeals approximately 3 hours. For those organizations granted funding, the time lapse between receipt of appeal and disbursement of the grant check averages 30 days, although this also varies widely between 3 and 60 days (typically, however, the recipient is notified shortly after the decision that the grant is to be made). For those requests denied, the soliciting organization is notified in all but very few cases. Typically a standardized, but individually prepared letter is sent, although certain appeals are acknowledged on a more personal basis by Aetna staff.

In addition to grants made in response to unsolicited appeals, Aetna conducts a number of self-initiated grant programs. Among them are two major gift matching programs in which employee gifts to educational institutions, and in field office communities gifts to United Way campaigns, are matched.[19] Additionally, Aetna conducts a "Dollars for Doers" program in which Aetna provides funding to various organizations with which employees are involved.[20] Further, as stipulated in the "Background and Policy Statement," Aetna sponsors a "Special Project," the first of which has involved sponsorship of a special series of health-related educational television programs. Expenditures on this project have exceeded $1 million over a three year period.

Follow-up

As a means of assessing the ultimate use of Aetna grant monies, the Corporate Social Responsibility Department requires that all recipients file a financial statement reflecting their use of funds over the period in which Aetna monies were applied.[21] Further, the Department requests that recipients file an annual statement of activities, although this report is not typically required (particularly for recipients of Urban Affairs budget funds).

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[19] Employees' and their spouses' gifts to eligible institutions of higher education are matched to a recently expanded limit of $2,500. Gifts to private schools are matched $1\frac{1}{2}$ for 1, while gifts to public schools are matched 1 for 1. Expenditures for this program for 1974 totaled nearly $192,000 and are budgeted for $390,000 in 1975.

In field office communities, employee gifts to United Way agencies are matched .40 for 1. Total Aetna gifts to field office United Way campaigns exceeded $111,000 in 1974 and are budgeted for $115,000 in 1975.

[20] Presently there is no limit on the size of the grants that may be made under this program other than overall budget limitations. While budgeted for $50,000, only $15,000 was expended under this program in 1974. For 1975, expenditures of $110,000 are planned.

[21] For the financially significant "Special Project," the recipient is required to report quarterly.

Presently there is no formal plan for visiting recipient organizations, although follow-up information is gained through a variety of indirect channels including the previously mentioned informal meetings of representatives of Hartford area companies.

Among the tasks assigned to the Corporate Social Responsibility Department for 1975 is the development of a formalized system for evaluating the effectiveness of Aetna grants. The emphasis in this evaluation system is likely to be oriented toward measuring the catalytic effects of Aetna's contributions. Aetna officials note, however, that a simplistic measuring device is not likely to suffice in this effort and that this obviously difficult task must be undertaken in an "intellectually honest fashion."

While anticipating that solicitors' appeals for funding will significantly increase as a result of national economic conditions, Aetna officials do not anticipate that the group's financial position will be such that charitable contributions will be able to increase at a similar rate.[22] Instead, contributions are planned to fluctuate with earnings with no anticipated change in the overall formula guideline. Program changes are planned, however, including increasing contributions in cultural areas, reducing the percentage of relatively small grants, and taking a more active role in seeking out potential recipients.

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[22] The dollar volume of requests for funding is expected to increase significantly as a result of cutbacks in federal funding of projects, the reduction in grant monies from foundations, and spiraling operating costs for soliciting organizations.

C H A P T E R VIII

THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES

Introductory Data

Organization: Mutual
Incorporated: 1859
Independent
Home Office: New York, N.Y. (SMSA Pop.: 10 million)
Licensed Territory: All states
Full Time Employees (excluding agents): 14,087
Year ending Dec. 31, 1974:
Insurance In Force: $108,995 million (Rank: 3)
Total Admitted Assets: $17,558 million (Rank: 3)
Net Investment Income: $928 million
Premium Income, Distribution: $2,339 million

Life & Annuities	
Ordinary	36%
Group	31
Accident & Health (Group)	32
Other	1
	100%

Net Gain From Operations: (For non-tax purposes)
before div's, FIT & excluding cap. gains & losses: $433,303,808
Unassigned Surplus: $433,730,945
Tax Situation: PHASE I

Contributions (1974): $1,513,818
(excludes loaned personnel program @ $13,000)

Distribution:

Urban Affairs	12%
Federated Drives	29
Health	16
Education	30
Culture	1
Bus/Econ Research	6
Other	6
	100%

Contributions Ratios:
(Contributions per $1,000 of each base & per employee)

Net Investment Income:	$ 1.65
Total Admitted Assets:	.087
Net Gain From Operations:	3.49
Unassigned Surplus:	3.49
Per Full Time Employee (excl. agents):	108.74

Internal Cost to Administer the Contributions Program: $85,000
Contributions/Administrative Cost Ratio: 17.91

Budgeted Contributions (1975): $1,681,868
(excludes $100,000 budgeted for loaned personnel)

The Equitable Life Assurance Society of the United States currently ranks as the third largest U.S. legal reserve life insurance company by both assets and insurance in force. It was a pioneer company in group insurance and remains a leading company from the standpoint of group insurance in force.[1] The firm has become increasingly active in entering fields of business that complement and support its insurance operations, including the acquisition of an environmental and occupational health service organization and the joint development of a computer software firm. As part of its corporate affairs and investment programs it has established a wholly-owned subsidiary, The Equitable Life Insurance Community Enterprises Corporation, a minority enterprise small business investment company (MESBIC).

As a part of its "corporate support" activities, The Equitable conducts a formalized charitable contributions program. As noted above, 1974 contribution expenditures amounted to more than $1.5 million. In addition to charitable contributions, the firm's corporate support program includes maintenance of a loaned personnel program and coordination of business membership expenditures.

In recent years, The Equitable has made charitable contributions to over 1000 organizations annually (90 percent of these are of the recurring variety). Additionally, the firm receives and processes over 1200 new requests annually, approximately 10 percent of which are granted funding either out of available contingency funds of through direct inclusion in

[1]For a comprehensive history of the company see, R. Carlyle Buley, The Equitable, 1859-1959 (N.Y.: Appleton-Century-Crofts, Inc., 1959).

the following year's budget.

As one of the few life insurance companies to be licensed in all fifty states, Canada, the Virgin Islands, Canal Zone and Puerto Rico, the firm's charitable contributions program has taken a primarily national orientation. In 1974, 21 percent of The Equitable's contributions were made to organizations whose activities are primarily confined to New York. The residual 79 percent was distributed to organizations with a national scope and to various localized organizations outside the home office city.

Organization

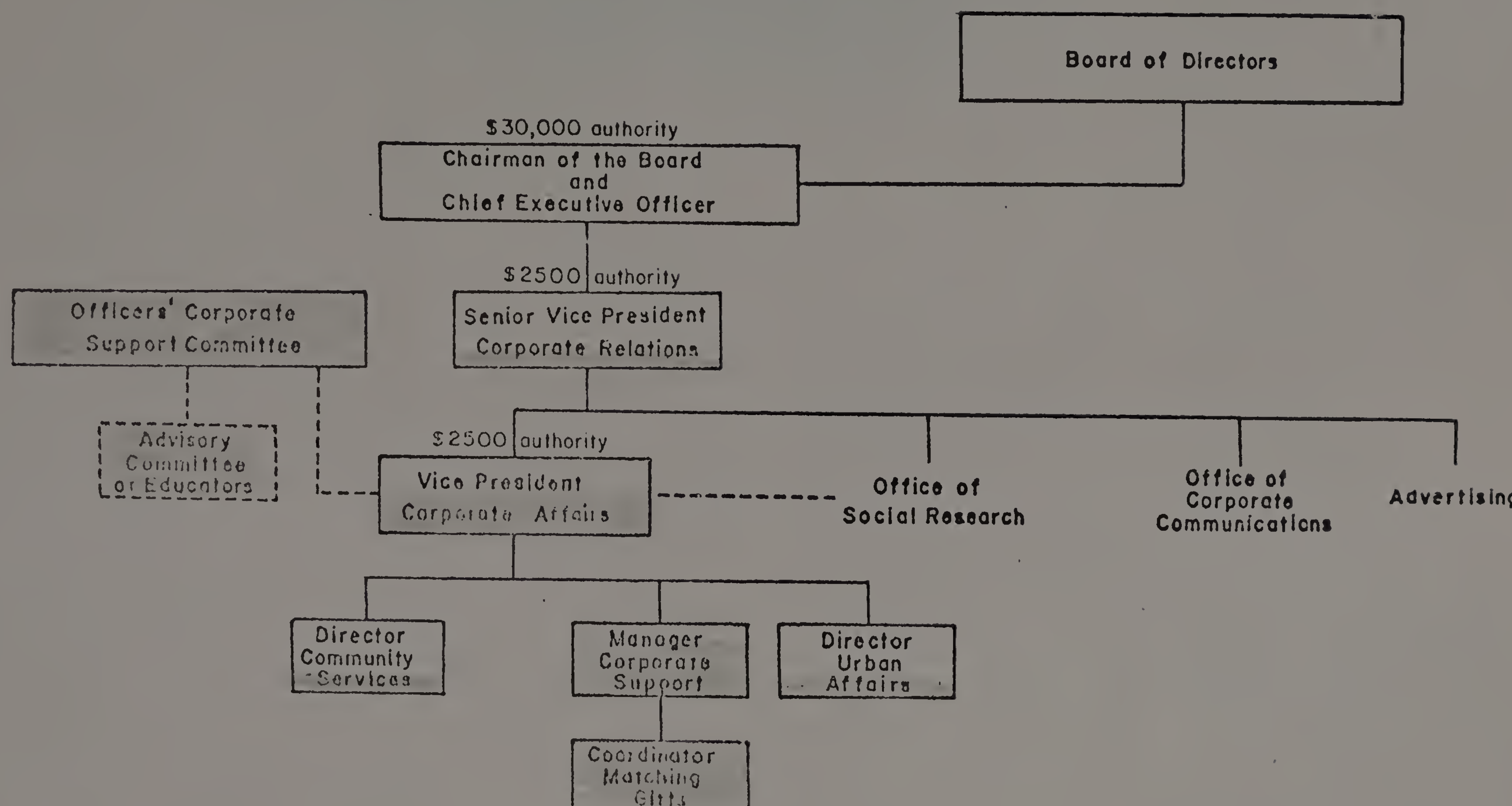
Charitable contributions are administratively handled within the firm's Corporate Affairs Office, headed by a corporate Vice President. Figure 5 depicts the managerial hierarchy and an approximation of the relative time each affiliated member spends directly on the program. The present organization was generally established in 1971, with the late 1974 addition of the Directors of Urban Affairs and Community Services, and responsibility for the company's voluntarism activities.

Beginning with the lower end of the hierarchy as presented, the Coordinator of Matching Gifts is assigned full-time to the program to handle the matching grants to education program, special fund raising events (including dinners and luncheons which require a "significant" portion of this person's time), and United Fund allocations to over 400 different locations across the country.

The Coordinator is supervised by the Manager of Corporate Support whose primary duties (90 percent) involve administration of the corporate

FIGURE 5

THE EQUITABLE
Corporate Support Program
Organization



(Shading indicates approximate percentage of time spent directly on contributions program) support budget and expenditures. The remaining 10 percent of his time is devoted to public relations activities and related research within the Office of Corporate Affairs. The Manager provides <u>initial</u> review for approximately 60 percent of the incoming appeals and holds particular responsibility in the areas of support to local, urban and educational organizations. The Manager is assisted by a secretary whose efforts are entirely devoted to corporate support. The Manager of Corporate Support coordinates relevant research activities and is occasionally assisted by the Office of Social Research.[2] With four years' experience in his present position, the Manager is assuming increased independent responsibility for the program since his supervisor's responsibilities have been broadened by the recent addition of activities to the Corporate Affairs Office. Nonetheless, the Vice President maintains approval or second recommendation authority for grants recommended by the Manager.

The <u>Vice President</u>, through various past positions has been involved with the firm's contribution program for approximately ten years. While he presently spends approximately half of his administrative time on corporate support (a recent decline from approximately 90 percent), he actively reviews all incoming appeals referred from higher echelons in the company. Further, he holds approval authority for grants up to $2,500 and holds operational responsibility for much of the "groundwork" involved in preparation of the annual corporate support budget.[3]

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[2]The Director of Social Research spends approximately 15 percent of his time, in a consulting capacity, with the Corporate Affairs Office.

[3]The Vice President is assisted by a secretary, approximately half of whose time is devoted to corporate support activities.

For recommended grants in excess of $2,500 or for commitments extending beyond a single budget period which are to be made from discretionary funds, review is required by the Officers' Corporate Support Committee, the Senior Vice President of Corporate Relations, and the Chief Executive Officer.[4] The Support Committee has eleven officer members from a variety of departments throughout the company, and is chaired by the Vice President of Corporate Affairs. The Committee and its subcommittees meet on an *ad hoc* basis to review the recommendations and either disapprove them or pass them on through the hierarchy to the Chief Executive Officer. For expenditures of discretionary funds in excess of $30,000 Board of Directors approval is required.[5]

The input and review process for the entire corporate support budget is similar to that above except that final approval for the budget is held by the Board. The budget, submitted to the Board during its budgetary sessions in January of each year, is typically under review concurrently with the annual advertising budget.

In addition to management of the corporate support program within the Corporate Affairs Office, (subject to higher echelon review), The Equitable is undertaking an experimental decentralized contributions

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[4] Discretionary funds are allocated in the annual budget as either "contingency funds" or "project funds." In 1974, these jointly amounted to less than 5 percent of the total budget.

[5] This is true of any single expenditure in excess of $30,000 in the firm. In case of corporate support, this system would rarely be exercised since the *total* discretionary allotment is relatively small.

program. Basically, it involves the annual allocation of $5,000 to "personnel centers" in Los Angeles and Chicago. Contributions committees made up of Equitable personnel have been established in each location and these groups make recommendations for the use of money allotted. To date corporate officials report that "the results of the program in the two years it has been in existence have been mixed." Indeed the programs in Los Angeles and Chicago have not been budgeted for expansion in 1975 and the Home Office is maintaining approval authority for grants made with personnel center funds.

As a supplement to decision-making within the corporate structure, The Equitable receives the voluntary services of a group of educators, including a number of college presidents, that convenes annually as The Advisory Committee of Educators. The purpose of this group is to recommend their choice of recipients for the many (185 in 1974) $1,000 and $2,000 direct, unrestricted grants made by the company to private colleges and universities. Presently, this program is budgeted for expansion.

Objectives, Policies & Associated Processes

The Equitable's corporate support program as an attempt at responding to the firm's environment is at least in part founded in a rationale provided by the company's President in 1973,

> ...either social or ecological degradation of the environment in which business operates would not only impair but eventually bring down the profit-making corporation....the corporation (must) be concerned with whatever makes for a better environment in which to survive and prosper. Call it enlightened self interest. Don't call it generosity or altruism.[6]

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[6] Coy Eklund, "Corporate Social Responsibility" an address to the Business and Labor Luncheon, 1973 National Urban League Conference, Washington Hilton Hotel, Washington, D.C., July 24, 1973.

The rationale for particular program areas are more concisely stated in the prefatory section of the written policy statement for the program:

> ...<u>Community services</u>, because we do business in communities throughout the nation; <u>education</u> because a soundly educated citizenry is vital to both our country and our company; <u>health</u>, because as a life and health insurance company we are involved in protecting and enhancing the nation's health; and <u>urban affairs</u>, because the quality of life in our cities directly affects the operation of our business and the future of our country.

Based on these rationale, the corporate support program operates under three written objectives, also included in the formal policy statement:

> (1) To support programs and organizations from which The Equitable's policyowners, Agents, and Employees will derive benefit directly or indirectly;
> (2) To support and strengthen private and independent efforts and initiative in the public interest; and
> (3) To aid, encourage, and provide opportunities for the underprivileged.

The single page policy statement, of which the above are a portion, is presented in Appendix VA.[7] This formal statement is the outgrowth of

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[7]Significantly, the policy statement explicitly prescribes a national orientation for the program. Company officials noted that this is in part a function of the firm's national market and the fact that since the firm is located in a major metropolitan area its limited visibility in the Home Office community allows "greater flexibility in not having the program heavily oriented to our Home Office city."

The existence of the policy is consistent with wide corporate use of written policy statements and guidelines. Presently, however, there is disagreement among individuals in the Corporate Affairs Office as to the desirability of adding greater specificity to the policy statement. Basically these divergent viewpoints are based on a "control, clarity and consistency" argument versus a desire to maintain flexibility in decision-making.

revisions to the first written policy developed by a committee of the Board of Directors in 1958. The original policy was revised in 1962, 1965, and 1970 and is now under a five year revision cycle, with the next revision due in 1975. The policy is revised under a review system similar to that for the annual budget and is reviewed and approved by the Board when submitted with the budget at the planned intervals.

During the past policy revisions, the Corporate Support Committee has solicited aid from management consultants, the Board of Directors, and the company's Law and other departments. Further, the Committee considered the contributions activities of other large life insurance companies, through actively and passively gaining information relating to competitors' programs.

In addition to the general policy statement, the Committee in 1973 developed an explicit set of operational guidelines for the conduct of the experimental field contributions program. These guidelines are presented in Appendix VB.

Other operational (albeit, informal) policies under which the corporate support program is conducted, while not codified in any one document, include the following:

*Contributions are to be enhanced with other forms of corporate support (e.g. loaned personnel, volunteer aid) where possible.

*No gifts will be made to political or sectarian organizations (except church-related educational institutions).

*Externally determined "fair share" formulas are not to be relied upon.

*Normally, grants to capital drives, hospitals, major educational campaigns and recipients of United Way funds are prohibited.

*No program advertisements will be taken with corporate support funds.

*The present hierarchy of area priorities is: (1) Education, (2) United Ways, (3) Health, (4) Urban Affairs and Equal Opportunity.

In addition to the written policy statement and the policies just mentioned, management operates under a number of operational "objectives" although these also are either unwritten or uncodified and the sources unspecified. Included are:

*Increase level of contributions.

*Increase initiative in actively seeking our potential recipients.

*Increase reinforcement of major monetary commitments with a range of supplementary services and commitments.

*Generally improve responsiveness to change.

*Continue and improve the use of research and empirical techniques in the support program.

*Provide greater information to soliciting organizations.

*Expand the matching grants program to new areas, including the arts and public TV/radio.

*Give increased emphasis to project grants.

Budgeting and Recipient Choice--Parameters and Processes

Budgeting

Preparation of the annual budget, under the review and approval process previously noted, is undertaken with a number of quantitative guidelines and formulae. The earliest overall formula, developed in 1962, was based partially on premium income and partially on assets, the coefficients for which were historically determined. The formula was applied by a corporate planning group and provided a maximal level for contributions during the one-year budget period. In 1966 the formula basis was changed to an asset base only. Then in 1968, during the upheaval in the cities, the formula constraint was loosened such that support of urban causes was provided over and above the formula-determined limit.

Following a study in 1970, the Board approved a formula that would again serve as a maximal limit on all corporate support expenditures (including business memberships)--.0018 of the previous year's net investment income from general accounts.[8] During the past few years, however, the relative ceiling on total budgeted expenditures has expanded without changing the coefficient through the inclusion of net investment income earned on separate account business, and by exempting "contingency" allocations from the formula limit (in recent years contingency funds have been budgeted at $25,000 annually).[9] In addition, for the 1974 budget a separate limit of .0001 of net investment income was established for business memberships.

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[8]The coefficient was chosen based on a comparison with other companies' contributions levels, both within and without the life insurance industry, through an aggregation of elemental goals, and was designed to result in a slight increase over historical giving trends for the company.

The firm also employs formulae in the determination of allocations to specific recipients, including Urban Coalitions where funding reflects the number of Equitable employees in the given community among other factors. Some of these calculations are done on electronic data processing equipment.

[9]Separate accounts constitute a separate operation under which associated assets fund the liabilities to variable annuity contractholders, pension funds, and others, as opposed to general accounts associated with insurance contracts.

Through such measures the budget has grown from $1.07 million in 1971 to $1.68 million in 1975. At the same time the differential between the limit and the annual sum spent for corporate support has been varied--from a differential of $98,000 in 1971, $6,000 in 1972, $8,000 in 1973, $28,000 for 1974, and $43,000 (projected) for 1975.[10]

Recipient Choice

The many appeals for grants arrive at the Corporate Affairs Office through a variety of channels. The majority (60 percent) are in the form of letters addressed to a top officer of the company which are then referred to the Corporate Affairs group. Other solicitations are made by phone or personal visit, most of which are followed by the submission of a formal letter, or by reference through letter, memorandum or phone call from top corporate officials or Board members.[11] Still others are generated through Corporate Affairs Office searches or through references

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[10] Even with the large limit versus budget total differential for 1975, the corporate support budget increased more than 14 percent over the previous year. This is considerably higher than the approximately 8½ percent increase approved for The Equitable's total institutional budget.

Procedures require that the budget total not be exceeded, although reallocations within the budget total are permitted.

[11] Corporate Affairs Office officials state that they feel relatively free of "pressure" from top level executives and Board members in their recipient choice decisions. They do acknowledge that suggestions from higher echelons and requests from group policyholders "affect the evaluation and reply procedures" employed, but "not the application of policies and criteria." Further acknowledged is the fact that proposals brought in by Board members may have a higher acceptance rate, but that this may be based on the "quality of the proposals submitted resulting from the expertise and contacts of Board members."

from foundations, other non-profit groups, company employees, or other corporations.

While not all appeals having gained recurring funding from The Equitable are stringently re-evaluated every year, all new appeals are reviewed and evaluated. If a New York area organization submits an appeal, typically a representative of that organization requests and is granted an interview visit. The duration of interviews varies from approximately ½ to 1½ hours. In some instances, a representative of the Corporate Affairs Office, usually the Manager of Corporate Support, visits the office of the soliciting organization.

In reviewing appeals for consideration, answers are sought to a number of criteria-like questions:

*Do the organization and its functions fit the policies, guidelines, and priorities set forth for the program?

*Is the organization viable? (flexibly applied)

*Who constitutes the organization's leadership?

*What are the organization's alternate sources of funding?

*Is the organization's budget adequate to carry out the proposed program?

*Is the organization duplicating the efforts of other existing organizations?

Supplemental information is gained from a variety of sources, including employees and other individuals or groups affiliated with the potential recipient organization, foundations, local governmental units, and other corporations providing support. Regularly inquiries are made to non-profit organization appraisal institutions, including the National Information Bureau and the Council of Better Business Bureaus.[12]

Since grants to educational institutions constitute a significant portion of total corporate support, The Equitable has provided general stipulations as to the character of the institutions considered for direct, unrestricted support by the advisory committee. Generally, recipient institutions must be private, accredited four-year colleges or universities with strong liberal arts programs and with a "reasonable" level of student enrollment. Further, modest annual support is given to all private medical and dental schools. As a general matter, direct assistance at the graduate level is concentrated in the health, investment and insurance-related areas. In addition, The Equitable is commencing in 1975 to support the arts as well as public TV/radio, through a matching gifts plan, which amounts to approximately 11 percent of the total budget.[13]

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[12] The Equitable maintains a copy of National Information Bureau standards, but does not rigorously apply them.

[13] Under the gift--matching plan, the choice of eligible institutions of higher education is relatively unconstrained although certain stipulations are exercised. Gifts made by qualified Equitable people and their spouses are matched by the company to accredited junior and four-year colleges and universities, professionals schools, and (as of 1975) non-profit organizations in the fields of the arts and public radio and television. Full-time Agents, Employees, and Directors are eligible for the program. Recently the minimum gift eligible for matching was raised to $25 and the maximum to $1,500 for educational institutions. The maximum for gifts to public radio-TV has been set at $500.

As an aid to evaluating soliciting organizations, the Corporate Affairs Office has been developing and experimenting with an evaluation summary sheet which is designed to serve as a guide to accumulating relevant information. The latest form of the sheet is presented in Appendix VC. This is designed to be used not only by the Corporate Affairs Office, but also by anyone (typically a company employee) evaluating an organization on behalf of The Equitable.

The total time involved in reviewing, evaluating and dispensing with appeals varies widely. Those appeals that clearly do not fit company policies, guidelines and priorities require approximately $\frac{1}{2}$ hour of employee time to process in full. New solicitations granted funding and those marginally denied require approximately 10 to 20 hours of employee time, although occasionally this ranges far higher. The time lapse for disbursement of the grant check averages approximately 2 months for grants made with discretionary funds. (other commitments are included in the following year's budget and disbursement made during the following year). For appeals denied funding, letters of declination are sent shortly after decision, often including examples of the kinds of organizations that <u>are</u> supported, and are typically tailored to the requestor, although "certain things in the letter tend to be similar."

Follow-up

Attempts are typically made by the Corporate Affairs Office to gain follow-up information and to re-evaluate (to varying degrees) recipient organizations at some point after receipt of granted funds.[14] The Office requests that all recipients submit annual reports of their activities, although there are no formalized report requirements.[15] New York City area recipients are visited at a maximum of two-year intervals by someone in the Office or by an affiliated employee of The Equitable.[16] Field evaluations outside the home office city are rare.

As a part of the follow-up process and in preparation for future grants, the Corporate Affairs Office, with the assistance of the Office of Social Research, occasionally employs formal empirical research techniques to gather information. The research usually involves the use of surveys to gather information on the success of present programs, or the need for changes in programs by either The Equitable or the recipient organizations.[17]

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[14] One of the first bits of information the Corporate Affairs Office looks for is a letter acknowledging receipt of the gift and an appropriate note of appreciation. Absences of this gesture occasionally have led to denials for further funding.

[15] A philosophy expressed by one Corporate Affairs official was that The Equitable should take the initiative and, where necessary, carry the burden to gain the evaluative information desired, instead of leaving provision of the information solely the responsibility of the recipient.

[16] The visitation rate is "close to 100%" for NY area recipients although local area colleges and universities are not visited because similar recipients in other parts of the country are not visited. The Manager of Corporate Support typically makes the on-site visits, spending one or two days each week through spring, summer and early fall at this task.

[17] A sample research project undertaken by the Corporate Affairs Office involved a blind survey (through the Council for Financial Aid to Education) of 200 private school recipients and potential recipients. The survey inquired as to the form of grant preferred by the schools (restricted or unrestricted), the timing of grants (rotational or continuing), the use of gift matching routines and similar questions relating to the contributions program conducted by The Equitable. The basic conclusion in this study was that the grant program should remain the same.

The information gained from recipients and through formal research techniques aids in choosing future donees (although the degree of re-evaluation for recurring grants varies widely). Evaluation of the composite profile of donees occurs during the budget review and approval process. There has been, however, no formalized composite review and evaluation of the entire gift-giving function and associated staff since the present internal organization for corporate support was instituted in 1971.[18]

Plans for the corporate support program over the next five years include continued growth in the level of giving, "no drastic change" in the nature and direction of commitments (although the health area is to continue to grow percentage-wise), more joint activity with non-profit groups, and the addition of staff to the Corporate Affairs group. These plans exist amidst confidence that The Equitable and its corporate support program will not be unduly affected by national economic conditions.

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[18]Corporate Affairs officials do, however, perceive general strengths and weaknesses in the program. Strengths include "the research portion of the process," "initiative in seeking out recipients," the existence of "multiple support" and the "systematic fashion" in which the review and choice of recipients is undertaken. Weaknesses include the "necessary dependence on historical trends," and the "possible need for more field evaluations outside New York City" (if the cost/benefit ratio is acceptable).

CHAPTER IX

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

Introductory Data

Organization: Mutual
Incorporated: 1873, New Jersey
Independent
Home Offices: Corporate: Newark, N.J. (SMSA Pop.: 2.1 million)
Regional (9): Newark, Boston, Minneapolis, Chicago, Toronto, Los Angeles, Houston, Jacksonville, and Dreshner, Pa.

Licensed Territory: All states+

Full-Time Employees (excluding agents) & Distribution: 35,940
Corp. Home Office: 23%
Regional Home Office: 77%

Year Ending Dec. 31, 1974:
Insurance in Force: $218,270 million (Rank: 1)
Total Admitted Assets: $35,819 million (Rank: 1)
Net Investment Income: $ 2,095 million
Premium Income & Distribution: $4,752 million

Life & Annuities:	
Ordinary	50%
Group	18
Accident & Health (Group)	23
Other	9
	100%

Net Gain From Operations (for non-tax purposes)
before div's, FIT, & excl. cap. gains losses: $1,312 million
Unassigned Surplus: $922,516,423
Tax Situation: PHASE I

Contributions (Fiscal Year Ending August 31, 1974): $2,541,109
(excludes memberships to Chambers of Commerce and equivalent organizations)

DISTRIBUTION:

	CORPORATE HOME OFFICE	REGIONAL HOME OFFICES	TOTAL COMPANY
TOTAL:	70%	30%	100%
Urban Affairs	6%	3%	5%
Federated Drives	17	55	28
Health	25	8	20
Education	33	5	25
Culture	5	7	5
Bus/Econ Research	4	3	4
Other*	10	19	13
	100%	100%	100%

*includes "minor" contributions & ticket purchases

CONTRIBUTIONS RATIOS:
(contributions per $1000 of each base & per employee)

Net Investment Income: 1.21
Total Admitted Assets: .071
Net Gain From Operations: 1.94
Unassigned Surplus: 2.56
Per Full Time Employee (excl. agents): $70.70

Cost to Administer the Contributions Program:

Corporate Home Office:	$ 95,000
Regional Home Offices:	25,000
Total	$120,000

Contributions/Administrative Cost Ratio: 21.18

Budgeted Contributions (Fiscal, 1975): $3,037,387

The Prudential Insurance Company of America is currently the largest insurance institution in the world as measured by total admitted assets and insurance in force. With nearly 1,600 insurance and investment offices throughout the United States, Canada, Guam, Puerto Rico and the Virgin Islands, the company employs over 24,000 agents and nearly 36,000 non-agent staff people. Due to a program of management decentralization embarked upon in 1948, the firm presently has in addition to its Corporate Home Office (COHO), nine Regional Home Offices (RHO's) that serve the many sales, investment and other local offices of the firm.[1]

The Prudential's charitable contributions program is formally conducted as one of its "community affairs" activities. As noted above, the company's contributions were in excess of $2.5 million for its fiscal year ending August 31, 1974.[2] Organizations in the COHO community received approximately one-third of these funds, organizations in RHO communities approximately one-third, and the residual one-third was donated to non-local recipients or organizations with national orientations.

As part of its contributions program, The Prudential takes part in joint contributions projects with other firms both within and out of the industry.[3] In its community affairs program, the firm's cash contributions

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[1] Of the company's nearly 36,000 non-agent staff members, over 23,000 are employed at the home offices--approximately 6,700 at COHO and 16,300 at the nine RHO's.

For a history of the background of The Prudential's decentralization process, see Earl Chapin May and Will Oursler, The Prudential (Garden City, New York: Doubleday & Company, 1950), pp. 316-331.

[2] This level is more than triple that existing ten years earlier.

[3] Including projects with The Equitable, Aetna and Massachusetts Mutual.

are supplemented with the commitment of loaned employees and a variety of office services, the estimated cost of which is approximately five dollars per million dollars of assets for the company--for fiscal 1974, nearly $360,000.

In the process of conducting the main portion of the contribution program at the COHO, over 1,400 new requests for funding are received and processed annually. Approximately 40 percent of these are from national or non-local organizations, and 60 percent from Newark area groups. Of those requests over $1,000, approximately 10 percent receive funding, 10 percent are held for consideration for the following budget period and 80 percent are denied support. Of those requests for less than $1,000, approximately 50 percent are granted. Of budget contributions in excess of $500, approximately 85 percent constitute repeat commitments. Of grants less than $500, approximately 25 percent are recurring.

Consistent with The Prudential's management decentralization scheme, each RHO administers its own contribution program under budgetary constraints provided by the COHO. A sample program is administered by the Northeastern Regional Home Office (NEHO) located in Boston.[4] In 1974, NEHO dispersed $142,500 in contribution funds.[5] During fiscal 1974,

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[4] NEHO will be used as a sample RHO throughout this corporate profile. While significant differences do exist between the programs conducted by the RHOs, for descriptive and analytical purposes the sample organization provides sufficient insight into the organization, policies and processes existing under the decentralization scheme.

[5] This total represented the largest contribution budget for the RHO's--others ranged down to the $38,200 budget for the Eastern Home Office located in Newark (both physically and organizationally separate from COHO) since the COHO handles nearly all of the company's Newark area contributions.

this office received and processed approximately 200 new appeals, approximately 20 percent of which were granted, and 80 percent denied. NEHO's gifts ranged from $50 to $6,000, and approximately half constituted repeat grants.

Organization

Primary managerial responsibility for The Prudential's contributions is vested with the firm's Senior Vice President for Public Affairs and is administratively conducted at the COHO within the Community Affairs Department headed by a Vice President, and at each RHO under the respective directing Senior Vice President. Figure 6 depicts the managerial hierarchy and an approximation of the relative time each affiliated member spends directly on the program. At the COHO, the direct involvement and delegation of formal responsibility for the program to the Senior Vice President for Public Affairs is the result of a reorganization instituted in 1974.[6]

Within the COHO, the majority of day-to-day activities are coordinated by the Director of Community Affairs and his staff. The Staff Member for Tickets and Accounting devotes nearly full-time to coordinating the purchase of tickets and the provision of company attendees for fund-raising dinners and similar events (primarily within the Newark-New York area),

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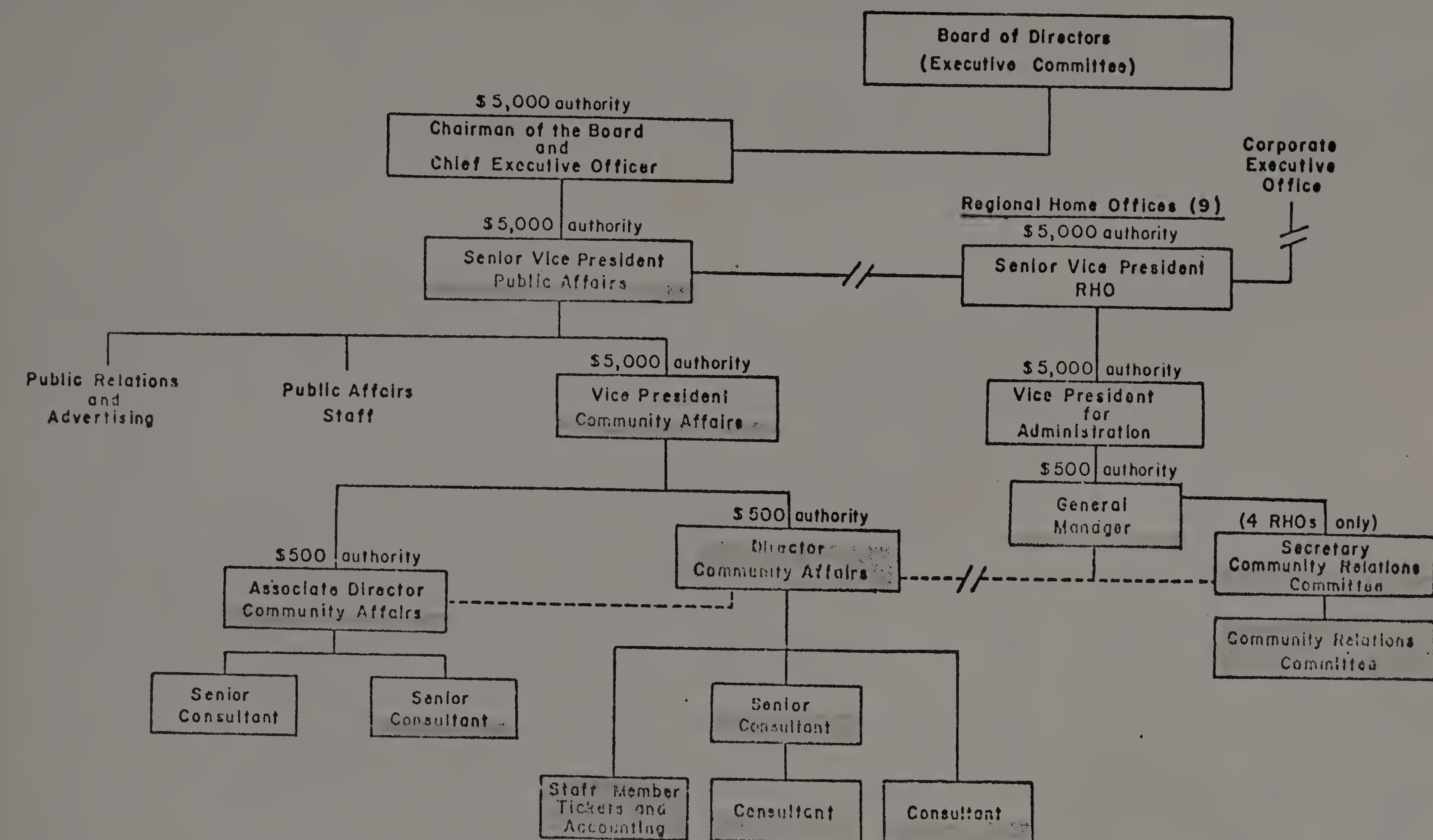
[6] Previously, members of the Community Affairs Department reported directly to the Chief Executive Officer in regard to contribution matters. As the recent delegation of authority is not yet fully consummated, occasionally the old reporting line is exercised.

FIGURE 6

THE PRUDENTIAL

Corporate Contributions Program Organization



(Shading indicates approximate percentage of time spent directly on contributions program.)

and develops and maintains accounting records for the entire contributions program. One Consultant devotes approximately half-time to review and recommendation of appeals, with the remaining time spent in volunteer-type work with community organizations. The second Consultant devotes approximately one-third time to the contributions program, coordinating a special award program for employees and handling internal luncheons and executive support to the community.[7] The Senior Consultant reporting directly to the Director works primarily with local programs and reviews approximately one-half of all incoming requests, and is responsible for making recommendations on approximately $2,500 of a "minor" budget for small, local appeals. One-half of his time is devoted to other staff work within the Department.

The Director of Community Affairs is operationally responsibile for the COHO contributions program and coordinates RHO programs with that of the COHO. The present Director has been involved with the contributions program in various positions and through various reporting lines since 1966. Through a variety of channels most appeals arrive at his desk for screening, final disposition and/or delegation for review and recommendation. The Director holds final approval authority for grants up to $500 for the COHO.[8] Approximately 80 percent of the Director's time is devoted

[7] The firm conducts a "Community Services Award Program" wherein gifts are made on behalf of employees chosen for merit in volunteer community services, to the organization with which each employee winner is affiliated. For 1975, this will involve one hundred $500 grants.

[8] The Director maintains authority to deny appeals in excess of $500. Denials may also be made by the consultants, but are subject to higher review.

to the contributions program with the remainder devoted to directly assisting his immediate superior in other activities.

The Associate Director of Community Affairs and one of his Senior Consultants handle approximately $10,000 of the "minor" discretionary funds available for small, local appeals. Both the Director and the Associate Director report to the Vice President of Community Affairs.[9]

For gifts involving the expenditure of discretionary funds in excess of $500, review and approval is required by the Vice President for Community Affairs, the Senior Vice President of Public Affairs and/or the Chief Executive Officer.[10] The Vice President is primarily responsible for gifts to organizations in the COHO community, thus reviews recommendations and dispenses with most of these personally.[11] For all gifts in excess of $5,000, Executive Committee of the Board of Directors approval is required.[12] Additionally, all gifts in excess of $500 must

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[9]Presently plans are underway for the Associate Director to assume the bulk of the Director's responsibility for the contributions program. When consummated, the Director will assume greater responsibility in directly assisting the Vice President in a variety of non-cash support of community activities.

[10]Discretionary funds represent those portions of the annual budget not allocated to specific recipients.

[11]Because of the company's sensitivity to Newark appeals, the Vice President maintains relatively close personal control over review of them. Further, the Vice President's presence is well recognized in the Newark community, at least in part resulting from his Newark heritage and his prominence as a national sports and television figure.

[12]The Executive Committee consists of approximately one-half of the Board's membership and convenes two times per month.

be reported quarterly to the Committee.

While the organization for contributions within the Regional Home Offices differs somewhat among the nine offices, a representative composite based on the Northeastern Home Office is included in Figure 6. There, as in three other RHO's, a Community Relations Committee has been established which reviews and makes recommendations on local area appeals.[13] The Committee consists of nine employees, all below the rank of Manager, that are appointed by the Committee to three-year staggered terms. The Committee is guided through the non-voting status of four advisors of Manager rank or higher, one of whom, the General Manager, chairs the Committee. The Committee meets once per month for approximately four hours to jointly review reports by Committee members on requests assigned by the Secretary of the Committee, a Manager from the Personnel Department.[14] Recommendations are made through the General Manager, who in the RHO's typically holds $500 approval authority, and where necessary up the hierarchy to the Senior Vice President where $5,000 approval authority is held. For any gifts in excess of $5,000, the Executive Committee of the Board must provide final approval.

The review process for the entire annual corporate contributions budget is similar to the process involved in the expenditure of discretionary funds, except that the RHO's budgets are submitted to the Senior

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[13] The Committee handles all contributions for the RHO that are not considered as "Executive Commitments" (gifts designated as "necessary" by upper level executives, including United Way contributions).

[14] Each Committee member devotes approximately three hours per week investigating appeals and preparing reports. The Committee Secretary devotes approximately six hours per week as the operational manager of the committee.

Vice President for Public Affairs at the COHO who, along with the Community Affairs Staff, reviews each line item and the total request for contingency funds. Final approval authority for the COHO budget and the budgets for each of the RHO's is then held by the Executive Committee of the Board.

In addition to the organization presented in Figure , a staff member has been assigned part-time in the Personnel Department of the COHO and each of the RHO's to administer the company's employee matching-gift-to-education program. Further, to supplement the firm's internal organization for appeal review, The Prudential participates in a Newark area Capital Fund Review Committee. This group consists of upper level executive representatives from the largest business concerns in Newark who provide a system of review, recommendation, and scheduling for local capital drives. Recommendations by this committee are then considered in The Prudential's capital fund commitments.

Objectives, Policies and Associated Processes

The Prudential's contribution program, as a portion of its community affairs activities, is at least in part founded in rationale expressed by corporate officials in the Community Affairs Department. The rationale are reflected in comments that the program is guided by, "the motivation of giving something back," and that "we are doing it because it is right, number one" and also, "in part to accomplish those things at which government is inept or incapable." Further, one officer of the company remarked, "it is rare that I do anything in community affairs when I am thinking first of all of Prudential...sincerely I am saying this."

The Prudential commitment to making contributions in the Newark community, "is somewhat defensive," and because of relative size and visibility, the firm, "must be a leader in the community."[15] Further, the company has, "an investment stake in Newark," and the work there, "can serve as a model for other RHO cities."[16]

With these rationale in mind, a number of "objectives" have been expressed by company officials for the contributions program:

> *Increase the dollar amount of contributions to meet the average of large mutual companies by the end of fiscal 1975.
>
> *Revitalize Newark.
>
> *Increase commitment to the health area and health related research.
>
> *Increase non-monetary support to organizations receiving Prudential monetary support.[17]
>
> *Re-evaluate the total contributions program.
>
> *Consummate a change of responsibility between the Director and the Associate Director, Community Affairs.
>
> *More clearly define the objectives of the program.

The first objective was developed in response to studies conducted by the company in 1961, 1969, and 1972 which involved extensive comparisons of The Prudential's level of giving with that of industrial com-

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[15] The Prudential is by far the largest firm in the Newark community both financially and in terms of employment.

[16] The firm maintains significant investments in downtown Newark, including its two Home Office buildings, two major hotels and others. Newark has been declining economically for some time, a fact which in part provided impetus to the city's riots in the 1960's. Newark experienced a net <u>decline</u> in population of nearly 6 percent between the 1960 and 1970.

[17] A corporate official remarks that, "contributions are the easy part of our overall (community affairs) function...we feel more strongly about our manpower contributions than our money contributions."

panies, commercial banks, and other life companies. The 1972 study revealed that The Prudential and one other large life company significantly lagged behind the average for a selected group of large life companies, and further that the industry as a whole was "probably undercontributed." Based on this study, the Executive Committee of the Board established an operational goal of $75 in contributions for every $1 million of company assets by 1975. This led to a projected and budgeted increase of $1.2 million in the program between 1973 and 1975.[18] In preparation for future years' budgeting, a study group consisting of nine upper level executives has been commissioned to evaluate the existing program and to set objectives and directions for the future, with findings and recommendations due in the Spring of 1975.

In regard to policy formulation, there has been an intentional avoidance of the development of written policy statements for the contributions program at the COHO.[19] Currently only the one page "Review of Prudential's Contributions Procedures" presented in Appendix VIA exists as a semblance of a policy statement.[20] One corporate officer argues that, "many of the good things that we have done may have gone by

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[18] As well as a total increase in the budget, the study group recommended and received specified increases in budgeted amounts for "RHO Citizenship, Newark Commitment, Aid to Education, and Health Facilities and Planning."

[19] The avoidance of written statements is typical for many other activities of the firm.

Presently, there is disagreement among people associated with the program as to the desirability of developing and using formalized policies. Lower level Corporate Affairs staff members tend to favor their use more than upper level executives.

[20] This statement is submitted annually to the Executive Committee of the Board as a part of the annual budget.

the board if we had strict policies." In lieu of codified written policies, the contributions program is conducted under what company managers have referred to as "casebook" or "common law" policies. A sampling of these policies or guidelines includes:

> *The program must reflect the fact that Prudential is a highly decentralized company. It must be a good corporate citizen in the nine cities in which it has major offices, all highly visible.[21]
>
> *Dollar contributions are to be supplemented where appropriate with gifts-in-kind, loaned employees, and volunteer employee involvement.
>
> *No gifts will be made to sectarian organizations.
>
> *Program advertisements will not typically be taken.
>
> *Selection of individual educational institutions for receipt of direct grants will be avoided, with the exception of one special "recognition grant" annually.
>
> *Direct gifts to United Way recipients will typically be avoided.
>
> *Formulae are provided for the determination of grants to certain recipients.

Unlike the COHO, at least one RHO (the Northeastern Office) has developed a written set of guidelines for the conduct of the independent portion of its program. These are contained in the "NEHO Community Relations Committee Contribution Bylaws and General Procedures" as presented in Appendix VIB. This statement was generated by a preliminary committee established at the NEHO in 1972. It includes a statement of the

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[21] This policy was a part of the recommendations generated during the 1972 study of the program. While written in a memorandum to the Board, it is not a part of a greater body of general written prescription for the program.

purpose of the Community Relations Committee, objectives for its operations (including guidelines for budgetary allocations), operational procedures, membership policy and suggestions for evaluating requests.

Budgeting and Recipient Choice--Parameters and Processes

Budgeting

The Prudential's annual contributions budget, as reviewed and approved under the organizational process previously noted, is developed in a fashion that provides a distinction between formula-determined items (which constituted approximately 16 percent of the total for 1975) and an "appropriation."[22] Since the formulae have typically been pre-approved by the Executive Committee of the Board, the Executive Committee's approval is directed primarily at the "appropriation" portion of the budget which provides the Committee with a direct determination of the budget total.[23] Other than the formula-based goal established in 1972 for increasing the company's contribution total to the average for large life companies by 1975, no formula is directly employed in determining the "bottom line."

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[22] Among these are United Way campaigns, certain scholarship programs and a "rule of thumb" formula for contributions to Newark Capital Drives (10 percent of goal).

Also included in the contributions budget as reviewed by the Executive Committee are expenditures for Chambers of Commerce and similar organizations. As earlier noted, however, these are excluded from the present analysis.

[23] The occasional alteration, addition or deletion of formulae requires that the Committee pass on the change. Once the change is approved, the Committee does not pass directly on formulae-determined budget items.

The budget as submitted to the Executive Committee is prepared such that the programs of the COHO and each of the RHOs are reviewed and approved both separately and in composite. Each of the RHO budgets, like that of the COHO, includes a listing of all planned expenditures in excess of $500 and a request for discretionary funds. For the four RHO's with Community Relations Committees, a portion of the planned expenditures are considered "Executive Commitment" (officer-determined grants) and the balance represent recommendations provided by the Community Relations Committees.

Two categories of discretionary funds are budgeted for each of the home offices--"Ticket Purchases and Minor Contributions" and a "Contingency Margin." In addition to these two categories, the COHO maintains a "Special Fund for Newark Contributions," primarily for local gifts less than $1000 each. In 1974, budgeted discretionary funds amounted to $214,000 or approximately 12 percent of the total COHO budget (and is budgeted to increase to 18 percent for 1975). In the RHO's, discretionary funds budgeted for 1974 amounted to $200,000, or approximately 26 percent of RHO budgeted contributions.

While the COHO systematically determines some of the formula-determined items in the RHO budgets, there are no specific guidelines employed by COHO executives or the Executive Committee in determining the "appropriation" for each of the RHO's.[24] The 1975 COHO study group is, however,

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[24] While the employee gift-matching program is administered at each RHO, formula-based estimates for matching gifts are not among those incorporated in each RHO's budget. Instead, a lump-sum estimate is included in the COHO budget. In 1974, gift-matching constituted 11 percent of total Prudential contributions, but is budgeted to decline to 6 percent in 1975.

giving consideration to developing specific guidelines for the future.[25]

Although the three year goal for increasing The Prudential's contributions to the industry average was set at $1.2 million, the sum of the actual increases for 1973 and 1974 and the planned increase for 1975 exceeds the goal by $50,000. In the process of approaching the goal, actual expenditures for 1973 were below that year's budget plan by $51,000 (RHO's, $48,000 and the COHO, $3,000) and for 1974, $110,000 below that year's budget (RHO's, $60,000 and the COHO, $50,000).

Recipient Choice

The many appeals directed to The Prudential arrive through a variety of channels, and all but a few are "unsolicited" in the sense that active solicitation of requests is rarely undertaken by Prudential people. In aggregate, the majority of appeals arrive by mail, although local requests are often directed to Prudential employees by phone or in person, or are generated by employees actively involved with community organizations. The Community Affairs Office typically requires that all requests eventually be submitted in writing, although exceptions are noted.

In reviewing appeals, informal consideration is given to two classes of contributions that are made by the firm. One class includes those that are "almost non-discretionary;" as one corporate officer notes there

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[25] Notable differentials exist between the proportions of total 1974 RHO contributions made by each RHO and their relative business activity levels. For example, while the Northeast Home Office (Boston) made 19 percent of total RHO contributions, it has approximately 9 percent of total RHO staff and manages approximately 9 percent of the company's life insurance in force. The Central Atlantic Home Office (a relatively new office located in Dreshner, Pennsylvania), however, contributed approximately 8.5 percent of the RHO total, yet has approximately 11 percent of RHO staff and over 13 percent of life insurance in force.

are those "that we have to make if we are going to make any pretense of being responsible citizens." The second class includes those "that we think are important, but where we are under no duress to make them." No formal criteria exist, however, for determining into which class any particular appeal is likely to be categorized. Instead, new appeals received at the COHO are reviewed individually with consideration for the exclusions previously noted among the unwritten policies. Further, no written evaluative criteria exist although evaluation of requests typically includes consideration of:

*the purpose of the requesting organization;

*the organization's financial stability;

*the number and background of people affiliated with the organization;

*past progress; and

*other sources of support.[26]

The review and evaluation of appeals at the Northeastern Home Office differs somewhat from the COHO approach in that the Community Relations Committee at NEHO has formally generated a number of questions that are to be asked in considering appeals. These are included in the "Contributions Bylaws and General Procedures" in Appendix VIA as previously referenced. The questions are designed to serve as guidelines for the Committee, particularly for Committee members individually assigned to generate reports on specific appeals.

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[26] Occasionally, National Information Bureau standards are referenced, although these are not formally employed as evaluative criteria.

In reviewing appeals at the COHO, efforts are made to gather information about a potential recipient from Prudential employees associated with the organization, and from other donors. Approximately 90 percent of the soliciting organizations in the immediate COHO community send representatives for personal interviews with Community Affairs staff members. Typically the Vice President and/or the Director of Community Affairs conduct the interviews, which average approximately one-half hour in duration.

The time involved in the entire review and dispensing process for appeals granted funding averages approximately 16 employee hours, although wide variation is in evidence. For example, requests for which grants are to be made from the "Special Fund for Newark Contributions" can require less than one employee hour for complete processing (according to design, these discretionary funds are to be used primarily for rapid response to small local appeals). Large requests requiring Board approval (those in excess of $5,000) can take weeks of employee time to process. Denials of requests are often made instantaneously. Letters of declination are sent to the vast majority (but not all) of solicitors whose appeals have been denied. While no standard letter is used, the letters tend to have "a number of similarities."

For requests that have been granted in past years, the review process is typically not as comprehensive or as time consuming as that for first-time appeals. Appeals involving the interest of top level executives, Board members or group insurance holders are given "special consideration" within the Community Affairs office, but to be granted "must meet the intent or sphere of the program." Further, employee choices in the matching-grant-to-education program and grants made as part of The Prudential's "Community Services Award Program" are not subject to the evaluative review process employed for appeals.[27]

Follow-up

In attempts to maintain control over the use to which Prudential grant monies are put, and as an input to the evaluation of recipient organizations for the purposes of future funding, the Corporate Affairs Office requires that all recipients file an annual financial report. Further, approximately one-half of Prudential donees file detailed reports of their activities and progress in addition to the financial reporting.

Although there is no formal system established for on-site visits of recipients, people in the Community Affairs Office do make such visits to Newark-area recipients on an ad hoc basis. For organizations requiring intensive investigation of possible abuses of Prudential funding, the firm's special investigation group (unattached to the Corporate Affairs Office) may be employed.

With the future for the major orientation of The Prudential's contribution program entrusted to the 1975 program study group, consideration is being given to the proper role of the company in terms of contribution leadership for the industry, and the form that this leadership should take (if it is determined desirable at all). The issue of The

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[27] In the gift-matching program, employee choices of recipients are limited to institutions of higher education included in the Treasury list of organizations, gifts to whom are eligible for tax-deductibility status.

Prudential's visibility as the largest firm in the industry (in terms of assets) is of particular concern in the planning process.[28]

Organizational changes already planned, include the transfer of coordination responsibility of the contributions program from the Director to the Associate Director of Community Affairs. A corporate official suggests that this change may lead to a greater "organizational approach and institutionalization" for the program in an effort to deal with the ever increasing volume of work (particularly review of appeals) that has been experienced.[29] This, the official notes, may involve a greater stress on formal policies in the future.

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[28]The possibility of greater concern for publicity-based public relations benefit from contributions, is recognized by a Community Affairs manager.

[29]This person notes that the volume of work and the shortage of employee time to handle it is one of the weakest points in the present program. He further comments, however, that one of the most favorable dimensions of the program is that it is not rigidly structured.

CHAPTER X

ANALYSIS AND INTERPRETATIONS

While perusing the preceding profiles of selected corporate contributions programs, one may be naturally tempted to evaluate the propriety of the variety of administrative processes and techniques in evidence. Indeed, much of the limited literature dealing with the management of corporate largess centers on the evaluation and prescription of planning, objective setting, organizing, policy formulation and administrative control processes. Clearly, each evaluative and normative approach of this sort must be based (either consciously or unconsciously) on presupposed notions or tenets that provide reference points for the evaluation or prescription. As will be demonstrated, prescription in the existing literature is typically founded in classical organization models that emphasize (or totally adhere to) principles of "rationality."

We repeat the premise established at the outset of the present study,--that, "prescribing what we should do is meaningful only when it is grounded in valid description." The following analysis will therefore map description of selected facets of the sample contributions programs into existing theoretical, positive organization and policy models so that a more meaningful perspective of contributions management will result.[1]

[1]While the few alternative models to be mentioned herein are certainly not exhaustive, they will serve as a representative sample of lines of logic that serve as alternatives to the rational approach.

This non-evaluative process is designed to shed light on "the state of the art," without passing judgment on propriety, in order to provide at least a partial explanation for the conclusions drawn in the evaluative literature and the apparent discrepancy between prescription and present conduct.

Framework of Analysis

For the present analysis, a primarily dichotomous classification of positive organization and policy formulation models will be employed. The management processes and techniques under study may be viewed as consistent with either (1) the "rational model" of organizations or (2) a group of other models developed as alternatives to the rational approach, or (3) some combination of both.

Rational Model

Much of the literature about organizations employs the rational model. That is, organizations are viewed as searching for improved efficiency or performance.[2] In Thompson's terms the rational model "involves a closed system strategy." Organizations attempt to remove as much uncertainty as possible by closing the system (organization) to the environment when conditions are such that the outside forces acting on the system are unpredictable.[3] Since organizations cannot be totally

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[2] James D. Thompson, Organizations in Action (N.Y.: McGraw-Hill, Inc., 1967), p. 4.

[3] Thompson, p. 4.

free of environmental influences, however, under norms of rationality organizations attempt to seal off at least their "core technologies" (for life insurance companies these would include the many mechanisms and processes involved in maintaining fiduciary viability).[4] In sum, under the rational model a natural search for certainty is continuous.

With a slightly different analytical orientation, March and Simon, Lindblom, McCaskey, and others take note of the logic of rationality as it applies to planning, policy formulation and decision-making.[5] In choice processes the rational man makes "optimal" decisions in a highly specified and clearly defined environment.[6] In Lindblom's terms, the hallmarks of the rational approach are "clarity of objective, explicitness of evaluation, high degree of comprehensiveness of overview, and wherever possible, quantification of values for mathematical analysis".[7] In a rational system, then, ends and means and means-ends relationships <u>must</u> be clearly identified. The methodology in the rational approach is based on the explicit goal-policy-decision-evaluation paradigm in which goal achievement is paramount.

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[4]Organizations attempt to seal off core technologies by "buffering" the core from variations in the environment, by "leveling" variations that the core would otherwise face, or by "adapting" the core to the variations. Thompson, pp. 19-22.

[5]James G. March and Herbert A. Simon, <u>Organizations</u> (N.Y.: John Wiley & Sons, Inc., 1958); Charles E. Lindblom, <u>The Policy-Making Process</u> (Englewood Cliffs, N.J.: Prentice-Hall Inc., 1968) and "The Science of Muddling Through," <u>Public Administration Review</u>, Vol. 19, No. 2,(Spring, 1959,)pp. 72-88; and Michael B. McCaskey, "A Contingency Approach to Planning: Planning With Goals and Planning Without Goals," <u>Academy of Management Journal</u>, Vol. 17, No. 2,(June, 1974), pp. 281-91.

[6]March and Simon, p. 137.

[7]Lindblom, "Muddling Through," p. 82, (emphasis added).

Alternative Models

Recognizing that organizations are indeterminate and faced with uncertainty, Thompson proposes that organizations should be conceived as "open systems" that are merely subject to the criteria of rationality (that is, need determinateness and certainty).[8] The open system (or "natural system") model accounts for the existence of environmental variables that cannot be controlled or predicted and considers the lack of cause and effect understanding that results from limitations on human cognitive abilities. The organization in this model is not a closed system (although it logically tends to that state). Instead the organization is necessarily open and interactive with the environment.

Due to the recognized inability of planners and decision-makers to clearly identify all ends and means and means-ends relationships, positive models have been developed as alternatives to the rational model that may provide a more realistic explanation of management decision and policy processes. Lindblom, for example, argues that policy making (which he treats as synonymous with decision-making) is best conceived as a process of "successive limited comparisons" ("incrementalism").[9] In this process, the policy-maker makes relatively small, incremental changes to past policies to arrive at new policies. This process is employed in lieu of undertaking the cognitively difficult (if not impossible) task of identifying objectives, enumerating all possible courses

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[8] Thompson, p. 10.

[9] Lindblom, "Muddling Through," p. 82.

of action to reach those objectives, and choosing the "best" course of action.

March and Simon take issue with the rational model, arguing that a prerequisite to rational, analytical processes is the establishment of shared operational goals among decision-makers.[10] When this condition is not present, the authors argue, decision-makers may resort to a bargaining process or may establish subgoals that are merely assumed to be positively related to undefined higher order goals.

McCaskey suggests that instead of rational planning, organizations and decision-makers resort to "directional planning" when the environment is unstable or uncertain, it is too early to set goals, or when there is lack of agreement on goals.[11] Under directional planning, goals are unspecified, but action within identified "domains" (general areas of activity) serves to aid the discovery and formulation of goals.

As a further alternative to the rational model, Dye and Zeigler maintain that policy-making may be viewed as a process in which the preferences and values of a "governing elite" are exercised.[12] Simply, the model states that elites formulate policy and make decisions that do not reflect the demands of the governed (owners, lower-level management and employees) as much they do the personal interests and values of the elites (top-level managers and directors).

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[10] March and Simon, p. 156.

[11] McCaskey, p. 287.

[12] Thomas R. Dye and Harmon Zeigler, The Irony of Democracy (Belmont: Wadsworth Publishing Company, 1970), cited in Thomas R. Dye, Understanding Public Policy (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1972), pp. 20-22.

While the elite model was developed for the analysis of public policy-making, it is extended here to include policy and decision choices made in the private sector. The "governing elite" then become top-level managers and directors.

Given the general theoretical reference points provided by the rational model and its alternatives, we can proceed to analyze and interpret some of the techniques and management processes employed in the contributions programs of the companies under study. In the analytical process, each of the models will be more fully developed to demonstrate their relevance.

Organization

According to design, a corporation's charitable contributions activities (as well as other forms of social activity) necessarily involve the organization's interaction with the social environment. Since the social environment is typically dynamic, unpredictable and uncontrollable (e.g., new potential areas of corporate support, new and varying appeals), and since interaction is presupposed by design, suborganizations established to conduct contributions activities have evolved under "open system" strategies. In Thompson's natural system model, the suborganization is conceived as a boundary-spanning unit that functions to adjust the organization to uncontrollable constraints and contingencies.[13] The adjustment process is undertaken to provide closure (rationality) for the "technical core" (to "buffer" social demands that might ultimately effect fiduciary viability).

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[13] Thompson, p. 11.

Specialization

Given the open system logic, we can conceive of the life insurance companies' organizational structures for charitable contributions as designed to perform open system functions, but (as earlier noted) subject to criteria of rationality or closure. We note in the relevant normative literature, however, a nearly exclusive (and innate) orientation to the closed system logic. For example, Held, Pollard, and Reuschling suggest that a full-time position be allocated for a contributions specialist and that this specialist be organizationally linked to the upper-most levels of management.[14] Thomas further suggests that this specialist be given final decision-making authority.[15] By undertaking these steps the program is to be "tightened" and activities are to be made more stable and predictable.

We note in the contributions programs under study, that in all cases managers who might be identified as "contributions specialists" are <u>not</u> assigned full-time to contributions matters. Instead contributions management is dispersed among a number of individuals typically assigned part-time responsibilities. Only in the programs of The Prudential, The Equitable and Aetna (the larger firms) do we find any individuals assigned full-time to contributions matters; in these cases, however, the full-time people are at the <u>lowest</u> ends of the respective organization hierarchies, thus are organizationally distant from upper-management echelons. Further, final decision-making authority for the contributions "special-

[14] Walter J. Held, <u>The Technique for Proper Giving</u> (N.Y.: McGraw-Hill Book Company, Inc., 1959), p. 135; John A. Pollard, "Emerging Pattern in Corporate Giving," <u>Harvard Business Review</u>, Vol. 38 (May, 1960), p. 107; and Thomas Reuschling, "Corporate Philanthropy: An Unwanted Stepchild, <u>Industry Week</u>, Vol. 171, No. 8 (November 22, 1971), p. 42.

[15] Ralph Lingo Thomas, <u>Policies Underlying Corporate Giving</u> (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1966), p. 100.

ists" is limited in all cases (unlimited authority is typically only granted for the denial of appeals).

While this structuring may be inconsistent with the rational prescriptions, the structuring is consistent with the March and Simon alternative that suggests that under rapidly changing environmental circumstances, "specialization will be sacrificed to secure greater self-containment of special programs."[16] That is, when conditions are not conducive to a rational organization structure (specialization) the organization will generate alternative structures.

Organizational Location

In all the subject cases, the contributions function is conducted organizationally "close" to upper management echelons. This structuring can be explained in part by March and Simon's concept of "uncertainty absorption." Uncertainty absorption occurs in an open (not fully rational) system "when inferences are drawn from a body of evidence and the inferences, instead of the evidence itself, are then communicated."[17] As a result of defining reality through inferences and as a result of the nature and limits of a communications system,

> a great deal of influence is exercised by those persons who are in direct contact with some part of the "reality" that is of concern to the organization. Both the amount, and the locus of uncertainty absorption affect the influence structure of the organization.[18]

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[16] March and Simon, p. 159.

[17] March and Simon, p. 165. Bauer and Gergen refer to the loci of influence in organizations as "points of leverage." See Raymond A. Bauer and Kenneth J. Gergen (eds.), The Study of Policy Formation (N.Y.: The Free Press, 1968), pp. 181-200.

[18] March and Simon, p. 165.

Since community fund raising often entails the personal involvement of top level executives and directors (as is true in all the cases under study) and since these corporate officials are constantly exposed to appeals for contributions, they are in contact with (and often define) the contributions-related social environment in which the company operates. Therefore, uncertainty absorption (an open system phenomenon) often occurs at the highest organizational levels, thus the influence structure is introduced at those levels. Tying lower-level decision-making to this locus of influence follows rationally.

As an alternative explanation for the proximity of the contributions function to the highest organization levels we can refer to elite preference theory. Here we might propose that the close ties result from desires on the part of top-level executives and directors to maintain close organizational contact with a function in which they hold strong personal interest.

Decentralization/Centralization

According to Thompson, the organization seeking rationality in a dynamic environment will segment its boundary-spanning component.[19] Accordingly, Carr and Morgan suggest that decision-making authority for contributions should be granted to local managers in handling local causes.[20] Further, Jones long ago suggested that even where geographical dispersion of management is not undertaken, the management of community

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[19] Thompson, p. 73.

[20] Elliott G. Carr and James F. Morgan, et.al., Better Management of Business Giving (N.Y.: Hobbs, Dorman, and Co., 1966), pp. 88 and 96.

programs should be separated from the management of non-local causes.[21]

In the case of The Prudential we note the application of the logic of rationality in the degree of decentralization of its contributions program to Regional Home Offices, partially to parallel the decentralization of its "core technologies." The Equitable, on the other hand, has limited its "decentralization" scheme as a result of a lack of success with the program.[22] In all cases but Berkshire Life, decentralization of decision-making occurs in a sense through the establishment of employee gift matching and award programs. We note, however, that in none of the subject companies are non-local contributions managed totally separate from local contributions, although varying degrees of management segregation on these lines are noted.

In the case of Aetna Life Insurance Company we note that contributions have been centralized to the Aetna Life & Casualty group. This centralization process is consistent with the norms of rationality imposed on an open system. For as Thompson postulates,

> When technical-core and boundary-spanning activities can be isolated from one another...organizations under norms of rationality will be centralized with an overarching layer composed of functional divisions.[23]

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[21] Mark M. Jones, "Corporate Contributions to Community Welfare Agencies," Financial Executives Series, No. 30. (N.Y.: American Management Association, 1929), p. 19.

[22] According to Thompson's premise, in attempts to attain "bounded rationality" in an unstable environment, decentralized units will be less concerned with the application of rules than with the planning of responses to environmental changes. Given that the personnel centers (decentralized units) operated under home office guidelines and approval control, we note a situation somewhat contrary to the theory. This, as well as more pragmatic rationale, may explain the programmatic difficulties.

[23] Thompson, p. 75.

Objectives, Policies and Associated Processes

Objectives

Consistent with the rational policy model, Neal, Reuschling, and Carr and Morgan suggest that corporate contributors develop an explicit statement of objectives for their contributions programs.[24] As a prerequisite to rational policy-making, this would require that general philosophies or rationale for the contributions concept be operationalized in the form of objectives.

We note in the programs under study, a variety of rationale expressed for corporate contributions. These range from the rationale of "giving something back" (The Prudential) to the "corporate good citizen" argument (all) to more defensive (and possibly more pragmatic) philosophies based on "forestalling government intervention" (The Prudential, Aetna, and Berkshire Life) or "allaying threats to the free enterprise system" (The Equitable and Aetna). We might further suspect that the programs of some of the companies are in part rationalized on the basis of protecting against visible threats to the companies in their home office communities (as was partially expressed by The Prudential).[25]

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[24] Alfred C. Neal, "A More Rational Basis for Non-Profit Activities," The Conference Board Record, Vol. 5, No. 1 (January, 1968), p. 5; Reuschling, p. 41; and Carr and Morgan, p. viii.

[25] Given an open system strategy, defense-oriented rationale naturally evolve, for in a natural system Thompson argues that "Survival of the system is taken to be the goal..." Thompson, p. 6.

Although we note expression of rationale for contributions in each of the subject companies, we do not note the following step dictated by the rational model--the statement of operational objectives that logically follow from the rationale. Instead we see lower-level objectives expressed that are typically addressed to administration of the programs (e.g., reach a stated level of giving, or redistribute gifts according to a priority plan). Herein lies one of the difficulties in applying rational prescriptions to an open system. While rationale for the contributions concept can be expressed, operationalizing those rationale is ever more difficult.

For example, if a contributions program is developed under the guise of "forestalling government intervention" then the rational model would call for operationalizing "forestalling" and "government intervention." Unable to do this effectively, administrators resort to developing policies or lower-order objectives that are merely postulated to be connected with what might otherwise be higher order goals deduced from the rationale.[26] While this process is conducive to closing the system, the possibility for error in the postulation exists. Presumably, the lack of more complete sets of operational objectives and policies evidenced in the firms under study results in part from administrators' conscious or unconscious recognition of this potential error.

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[26]By replacing broader goals with subgoals, March and Simon argue that organizations are rationally replacing complex reality with a simplified model of rationality. March and Simon, p. 156.

Policies

Thompson argues through his natural system model that "when the task environment becomes dynamic rather than stable..., standardized response rules are inadequate..."[27] The normative literature, however, is primarily geared toward prescription of the development of formalized operating policies for the administration of contributions programs.[28] Held, for example, argues for strict adherence to formalized policies, although Turner suggests flexible application (somewhat less closure).[29] The arguments for well-defined policies generally center on the need for standardization and predictability, and the desirability of having solid reference points so that declination of solicitations can be undertaken with "grace and conviction" (arguments based on the rational model).[30]

In the companies under study we note wide variation in their approaches to formalized policies. The Prudential (the largest firm in the study) has no policy statement for contributions made at the Corporate Home Office. Similarly, Massachusetts Mutual has no policy statement, although plans exist to develop one. More closely paralleling the normative literature (and the rational model), Berkshire Life, The

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[27] Thompson, p. 73.

[28] Council for Financial Aid to Education, Aid to Education Programs of Some Leading Business Concerns (8th ed.; N.Y.: Council for Financial Aid to Education, 1972), p. x; Jones, p. 19; Albert Lasher, "A Blueprint for Corporate Giving," Management Review, Vol. 48 (September, 1959), p. 38; Thomas, p. 100; Held, p. 95.

[29] Held, p. 121; and W. Homer Turner, "The Rationale for Corporate Philanthropy, "(unpublished background paper for the Management Seminar on Company Contributions sponsored by the National Industrial Conference Board, Princeton, N.J., October 27, 1965), p. 12.

[30] Lasher, p. 89.

Equitable, Aetna and Prudential's Northeast Regional Home Office (through the decentralization plan) have developed formal statements outlining operating policies. Again, the development of formalized policies results from a innate desire and tendency to close the system. However, in a dynamic environment requiring an open system, the achievement of some degree of closure (bounded rationality) may come at the expense of limiting institutional goal achievement (regardless of whether or not institutional goals are explicitly stated).

In lieu of developing extensive policy statements, all the companies under study have generated informal, uncodified policies that guide their contributions programs. Typically these policies can be and are flexibly applied since formal sanctioning has not been established. In composite, there appears to be a much greater reliance on informal policies than on explicit policy statements.

Typically the informal policies take an exclusionary tone which serves to limit the "domain" of the contributions program (e.g., no gifts to sectarian organizations or political campaigns and no individual funding of recipients of United Way monies). This establishment of "domain concensus" through informal policies, although a rational process, represents an evolutionary process (and not necessarily the goal-policy paradigm) and is consistent with that predicted in Thompson's natural system model.[31] The evolutionary process, where small changes in past

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[31] Thompson, pp. 6 and 29.

policies are undertaken, is also consistent with Lindblom's "incrementalism" model.

In developing policies and choosing courses of action in their contributions programs, corporate officials in all the subject firms have taken note, to some degree, of the programs of other companies in the life insurance industry and their home office communities. In certain instances, close watch has been kept on the level of contributions of competing or neighboring companies and contributions levels have been determined accordingly. Through a variety of means, each of the companies has gained (although not always solicited) information on competitor's policies and practices.

According to the natural system model, under norms of rationality this behavior results naturally, as Thompson proposes that "organizations facing a dynamic task environment seek to score favorably in relation to comparable organizations."[32] March and Simon further add that "once an acceptable solution to (a) problem has been invented and introduced in one organization, it will spread rapidly to others in the industry."[33] Indeed, Thomas suggests that contributors <u>should</u> develop policies through a review of those of other companies.[34] On this matter, however, Eells

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[32]Thompson, p. 89.
[33]March and Simon, p. 189.
[34]Thomas, p. 100.

has written:

> The formula for this practice has been simple; merely find out what everyone else is doing, and then do the same thing. This practice has not been without its advantages. The mistakes that have been made have been small--but so has progress.[35]

<u>Budgeting and Recipient Choice--Parameters and Processes</u>

Budgeting

In regard to budgeting, the rational model would dictate that the budget total and each of the sums specified within the budget should be justified in terms of the achievement of goals (subgoals and/or institutional goals). Apparently following this logic, Reuschling and Lasher suggest that successive budgets should be prepared independently, utilizing the "bottom line" of the budget as a target sum and making allocations from that sum (if appropriate for goal achievement) or by independently budgeting each contribution (for subgoal achievement) and summing them to arrive at a total budgetary allocation.[36]

In the companies under study we note evidence of both of these processes. The Prudential and Aetna have both established target sums (goals) for their programs which dictate (albeit flexibly) the budget "bottom line." The Equitable, Massachusetts Mutual and Berkshire Life, however, maximally <u>constrain</u> budget totals through policy-determined formulae. Although the end results may be similar regardless of appro-

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[35]Richard Eells, <u>Corporation Giving in a Free Society</u> (N.Y.: Harper and Brothers, 1956), pp. xi-xii.

[36]Reuschling, pp. 41-42; and Lasher, p. 39.

ach, the basic budgeting philosophies do differ.

Contrary to the normative literature, we note that in all the subject companies budgeting for future periods is undertaken with reference to past years' budgets. In all cases, the past year(s) budget or report of expenditures is submitted with the future period's budget during the final approval process. This evidence (albeit circumstantial) of reliance on past budgetary decisions demonstrates a process consistent with Lindblom's "incrementalism."

In apparent recognition of the open system in which contribution decision-making and planning takes place, Held suggests that the use of formulae is inappropriate.[37] We note, however, in all cases that formulae are employed that influence (either through constraint or goal) the budgeting process. In the cases where formulae are used to determine maximal limits, we can posit that these were developed to provide closure not only for contributions activities, but also for other corporate activities (including core technologies) that represent alternative uses of corporate funds. In those cases where goals are determined by formulae, we can conclude that closure for alternative uses of funds may be sacrificed to some degree.

Recipient Choice

Utilizing the logic of rationality and the theory of rational choice, Koch and Levin suggest that the choice of contributions recipi-

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[37] Held, p. 69.

ents should be based on a set of well-defined criteria, possibly in "checklist" form.[38] Carr and Morgan, Thomas, Neal, and the Council for Financial Aid to Education, further suggest specific criteria that should be utilized.[39]

In the companies under study, we note the application of "criteria," although these are typically expressed in question form without specific definition of the response required for positive corporate action, and are often unwritten (although The Equitable and Massachusetts Mutual have formalized some of their criteria-like questions in application and evaluation forms). Further the degree of specificity of the "criteria" themselves varies widely from "what are the objectives of the soliciting organization" (all companies) to "what is the ratio of administrative expenses to funds raised and disbursed?" (Massachusetts Mutual), or "Does the organization have a letter from the Internal Revenue Service stating that it is tax exempt?" (The Equitable)

If the logic of rationality were carried to its fullest in regard to recipient choice, we might imagine that nearly anyone in the organization could "properly" choose recipients and make "proper" awards (through rational and analytic processes) from the variety of solicitations received by the organization. Under this condition, decision rules

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[38] Frank Koch, "Philanthropy: Still the Corporate Stepchild," Business and Society Review/Innovation, No. 5 (Spring, 1973), pp. 88-89; and Jules Levin, "Planning Company Contributions," Office, Vol. 65, No. 4 (April, 1967), p. 56.

[39] Carr and Morgan, p. 63; Thomas, p. 100; Neal, p. 6; and Council for Financial Aid to Education, pp. 11-14.

and individual decision-making would take precedence over decision-making that requires inputs from a number of organization members.

Clearly, the firms under study have structured decision-making so that it necessarily involves inputs from a number of hierarchical levels. This has been accomplished by limiting the size and type of grants authorized decision-makers at different levels. When a limit is exceeded, an additional member or group is brought into the decision process and "bargaining" may ensue. As March and Simon propose, this is an expected alternative to rational processes for "when goals are not shared or shared goals are not operational...decision(s) will be reached by predominantly bargaining processes."[40]

Another constraint imposed on independent choice of recipients by single organization members results from the limitations on discretionary funds noted in all the subject companies. Since all grants made from non-discretionary funds are subject to approval by the upper-most levels of the management hierarchy (through the budget review process), decisions not requiring higher order concurrence are maximally limited to the level of discretionary funds. In the subject companies, discretionary funds range from a low of 3 percent of total contributions funds (Berkshire Life) to 14 percent of total (Aetna). This structuring of higher order review, requiring vertical communication on the vast majority of corporate gifts, is predicted in March and Simon's positive alternative to the purely rational model:

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[40] March and Simon, p. 156.

> The heaviest burdens are placed on the communications system by the less structured aspects of the organization's tasks, particularly by activity directed toward the explanation of problems that are not yet well defined.[41]

One means of accomplishing closure for the contributions subsystem (the rational tendency) would be for contributors to make gifts only to those organizations that have received past funding. This strategy might explain the relatively high percentage of recurring gifts included in the subject firms' contributions portfolios, (a low of 45 percent for Massachusetts Mutual to "nearly all" for Berkshire Life). An alternative although somewhat complementary explanation can be generated, however, by reference to Lindblom's "incrementalism."[42] Here we might posit that contributors feel committed to maintaining contributions to a "core" of recipients, and only alter this core slightly each year. Indeed, ample evidence exists that this logic is employed, for representatives of all the companies either expressed or implied that certain contributions "have to be made."

Follow-up

As noted earlier, one hallmark of the rational approach to decision-making is "explicitness of evaluation." Accordingly, Carr and Morgan, Neal, Reuschling, Ruml, Thomas, and Turner all stress the need for proper evaluation of the use to which corporate contributions monies have been

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[41] March and Simon, p. 164.

[42] Lindblom, "Muddling Through," p. 82.

put.[43] Prescriptions generally revolve around the requirement for annual reports, audits and on-site visits and occasionally have stressed the need for developing "productivity" measures such that cost-benefit analysis might be undertaken.[44]

In the companies under study, we find varying degrees of follow-up evaluation according to that prescribed in the literature. Generally, the evaluation processes employed are relatively loosely structured and non-standardized (although a typical requirement established by the subject firms is to have recipients file at least annual financial reports).

In none of the firms have processes been developed to measure the "productivity" of the contributions dollar or the "productivity" of the contributions unit. Clearly, measuring "productivity" would require knowledge of means-ends relationships (a prerequisite in the rational model). Instead, we find that post-gift evaluation involves gathering information on such matters as the financial status of the recipient, the number of beneficiaries of the recipient group's activities, the amount of personnel time involved in the conduct of the recipient's activities, and so forth. Similarly, the activities of the contributions group <u>within</u> the corporations are reported through, and apparently evaluated on, analogous extrinsic measures. Resort to such measures,

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[43] Carr and Morgan, p. 85; Neal, p. 6; Reuschling, p. 42; Thomas Reuschling, "A Critical look at the Management of the Corporate Philanthropic Function" (unpublished manuscript, Kent State University, 1973). p. 15; Beardsley Ruml, "Policy and Administration of a Five Percent Program," <u>The Manual of Corporate Giving</u> (Washington, D.C.: National Planning Association, 1952), p. 24; Thomas, p. 101; and Turner, p. 12.

[44] Neal, p. 6; and Reuschling, "A Critical Look," p. 15.

which clearly could be inappropriate proxies for "productivity," results naturally in an open system according to Thompson's natural system model: "when cause/effect knowledge is believed incomplete, organizations seek extrinsic measures of fitness for future action."[45]

A Note on Program Inputs and Outputs

Since no theories or normative benchmarks have been developed that would enable proper evaluation of the effectiveness of corporate contributions or contributions programs, resort to comparisons on extrinsic measures is often undertaken in order to note relative program "outputs" (as has been done herein). Typically, these extrinsic measures include the level of annual contributions, the ratio of contributions to indices of financial performance or posture (e.g., earnings, sales, and assets) and the distribution of contributions among various recipient categories. The obvious temptation is to use these measures as indices of program effectiveness or corporate commitment to social problem-solving. However, unless we can establish that a functional relationship exists between contributions (or contributions ratios) and organizational or extra-organizational goals (whether defined or undefined), then use of these extrinsic measures for evaluative purposes may lead to totally inaccurate perceptions and improper decisions.[46]

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[45] Thompson, p. 92.

[46] Failure to consider tax parameters in assessing corporate "propensities" to give is one of the more obvious conditions where innacurate conclusions may be drawn. As earlier noted, stock life insurance companies typically receive deductions for contributions in computing taxable income, where mutual companies typically do not. Straight line comparisons of corporate contributions totals would therefore be an inappropriate method of comparing corporate "sacrifice," "propensity" or "commitment" between stock and mutual companies.

We might investigate, for example, the "Contributions/Administrative Cost" ratios presented in each of the corporate profiles. If we were to assume that the contributions dollar of each of the companies under study contributed similar proportions to attainment of the respective companies' goals, then the Contributions/Administrative Cost ratio might serve as an appropriate and rational comparative measure of corporate efficiency. If, as in Thompson's natural system model, we recognize the difficulty in identifying the means (contributions)--ends (goal attainment) relationship, then the validity of efficiency-related conclusions drawn from examination of the ratios is doubtful. We therefore approach interpretation of the quantitative input-output data presented here and elsewhere as indices only of the variables quantified and labeled.

Avoiding potential evaluative pitfalls, we may examine, for example, the distribution of the subject companies gifts between local and non-local recipients. Investigation reveals that in the small sample there is an apparent negative correlation between the size of the home office community, and the percentage distribution of gifts to local organizations:

	SMSA Population	Percentage of Contributions to Local Organizations	Asset Size
EQUITABLE	10 million	21	$17 billion
PRUDENTIAL	2 "	33*	35 "
AETNA	.7 "	57	9 "
MASS. MUTUAL	.5 "	80	5 "
BERKSHIRE LIFE	.1 "	89	.3 "

*This figure is based on Prudential's gifts to Greater Newark area recipients. If the "local" gifts made by Prudential's Regional Home Offices are included, this percentage rises to 66.

Confounding the analytical process in the sample, however, is that there also appears to be similar (albeit less consistent) correlation between asset size and the percentage of gifts allocated to local recipients. Further investigation with a much larger sample might allow us to more clearly identify (through statistical analysis) the relationships of these variables.

Knowledge of these relationships may shed light on decision parameters employed, although possibly not enunciated, by contributions planners and decision-makers. We might hypothesize, for example, that the less "visible" a company is in its home office community (which we might define as a function of the size of both the company and its home office community) the more prone a company is to make localized contributions.

In the life insurance industry, this condition might reflect a contributions-oriented social concern for market areas only when local community needs (and "demands") are somewhat satisfied. That is, institutional (home office) needs may take precedence over technical (market) needs to the extent that institutional needs are vulnerable to non-satisfaction. Further analysis might include note of the number, sources and dollar volume of requests received by corporate contributors, shedding further light on the contributions climate faced by firms of varying size in varying communities.

Again, however, we point out the difficulty that both analysts and contributions decision-makers face in the decidedly open system of contributions management. Cause and effect relationships are extremely difficult, if not impossible, to identify (given the present state of the art). We therefore proceed somewhat blindly in attempts to identify "root" causes and effects. The end result is that analysis and interpretation of existing data is undertaken cautiously and is confined to a positive framework.

C H A P T E R XI

SUMMARY AND CONCLUSIONS

Summary

The purpose of this exploratory field study was to investigate and report in detail techniques and processes employed in the management of corporate charitable contributions in a sample of corporations from one specified industry, and to cast in an analytical framework the techniques and processes in evidence. The major dimensions of interest in the study were the substance of, and processes associated with, organizational structure, and program objectives, policies, decision criteria, and control mechanisms.

As a means of establishing a proper perspective of the realm of corporate donative activity, a review of historical trends was presented, including an examination of the basic rationale and philosophies underlying such activity. Noting longitudinal rises in the absolute magnitude of corporate giving, we examined changes in public policies that have been designed to both encourage and constrain corporate charitable activity. Further, we reviewed a number of relatively recent studies aimed at examination of the "state of the art" of corporate donative management, noting the conclusions of a number of analysts that present practices, while reflecting improvement over time, are nonetheless worthy of greater sophistication.

To limit the background of the study environment, we briefly examined peculiarities in the life insurance industry, including differentiating characteristics of member firms. We reviewed legal and tax constraints on corporate giving in the industry, particularly noting that many member firms (primarily mutual companies) receive little or no tax benefit from charitable contributions. Further, we reviewed a recent industry study that indicates wide variation in life insurance companies' commitment to contributions activities.

Having set the stage for the field study, we presented the profiles of the five subject companies' charitable contributions programs. We then proceeded to map the findings into an analytical framework consisting of a number of positive organization, policy and decision-making models, while making a primary distinction between those founded in the logic of rationality and those founded in alternative modes of reasoning. Through the analysis, we demonstrated that the rational model holds limited explanatory power in regard to the organizational processes evident in the contributions programs of the companies under study. We further demonstrated that in many instances propositions included in the alternative models more closely approximate the organizational processes in evidence. We noted, however, that the relatively limited body of prescriptive literature is founded primarily in the logic of rationality.

Conclusions

To begin the close of the present study we repeat a comment by the author of one of the more recent comprehensive treatises on corporate gift-giving: "corporate philanthropy...is a subject surrounded by rhetoric, almost entirely devoid of hard facts."[1] What we have attempted to

[1] Marion R. Fremont-Smith, Philanthropy and the Business Corporation (N.Y.: Russell Sage Foundation, 1972), p. 1.

do in the present study is to provide a small contribution to filling the void of "hard facts" by taking a primarily descriptive or positive approach to corporate donative management, minimizing the dearth of emotion-laden evaluation. Thus far, we have taken no stand on the propriety of corporate largess nor on the techniques or processes employed in managing it.

The present study is unique in that it has involved a relatively detailed investigation of contributions management in firms that are openly identified. By limiting the sample size we have been able to treat the techniques and processes in evidence as they exist in combination in each of the subject companies, rather than aggregating them in a conclusive fashion as has been done in previous studies. By examining each contribution program singly we have found evidence that both supports and contradicts earlier findings (as outlined in Chapter II). Through a narrower focus we have, then, provided greater insight into the complexities of corporate donative management.

"Professional" Donative Management?

Given the findings in field investigations, we might be led to conclude (as earlier researchers have) that there appears to be a critical lack of "professional" management associated with corporate charitable activity. Clearly, if we rely on the normative literature as a benchmark for "professionalism," the companies studied do not fare very well. We believe it more appropriate, however, to take issue with existing prescription and the underlying logic on which it is based.

We noted in the previous chapter that much of the normative literature is founded in the logic of rationality, primarily centering on the goal-policy-decision-evaluation paradigm. The sine qua non of the purely rational approach is the explicit identification of goals from which the other elements of the model are logically derived. If we focus our attention at the institutional level, it is obvious under the rational approach that institutional objectives must be identified prior to the establishment of lower order goals and derivative policies, decisions, and evaluative mechanisms. As mentioned in the previous chapter, herein lies the difficulty of applying rational norms to corporate donative activity. Thus far, academicians and practitioners have been unable (or possibly unwilling in some cases) to translate the general rationale for corporate giving into operational objectives. That is, we have been unable to explicitly identify the ends to be achieved by corporate charitable activity. Instead we have developed vague notions about the purpose of charitable contributions (e.g., to forestall government intervention, to reflect responsible corporate citizenship, or to aid in maintaining the free enterprise system).

Surely this is not a singular problem for corporate social involvement. Since we have not yet developed a comprehensive social theory, nearly all social welfare activity in the public sector has been wrought with similar difficulties. As March and Simon note, the difficulty in developing operational goals serves to explain why a theory of public expenditures has "never developed a richness comparable to that of the theory of public revenues."[2] In effect we have been unable to postulate

[2] James G. March and Herbert A. Simon, Organizations (N.Y.: John Wiley & Sons, Inc., 1958), p. 157.

an operational utility or welfare function to which marginal utility theory could be applied in the social arena. Public welfare activity as well as corporate charitable activity has therefore taken on a primarily _expenditure_ orientation.

Clearly, corporations could adhere solely to the expenditure orientation and through the logic of rationality become very efficient machines for _dispensing_ corporate funds. At face value, at least a portion of existing prescriptions tend to lean in that direction (e.g., standardizing decision criteria so that decisions might be made more rapidly). We note, however, that corporate donors are typically concerned with the _corporate benefit_ to be derived, either directly or indirectly, from charitable activity. We therefore become concerned with the impact/feedback of the corporate philanthropic dollar.

A portion of the relevant normative literature has been somewhat consistent in this regard in that it is typically oriented toward the ultimate evaluation of the effectiveness of corporate contributions. This, however, requires that evaluative criteria be established, which, under the rational model, would be logically derived from institutional objectives.

Under the rational model, if specific operating policies are to be appropriately developed for contributions programs (as is prescribed in the normative literature) they should be sequentially derived from institutional level policies. Accordingly, institutional level policies should be logically derived from institutional-level objectives. Once again, we are back to institutional objective setting which so far has eluded practitioners and students of corporate largess.

The point of this argument is that prescriptions in the literature typically ignore the importance of operational objective setting at the organization level. Either assuming that these objectives can be set or simply ignoring their essentiality, the prescriptions focus on lower order objectives, policies, and evaluative mechanisms. The potential result is, therefore, a premature application of rational principles to the "open system" of corporate charitable activity. In fact, we might argue, like "Gresham's Law" of planning, that systematizing such activity through rational means is dysfunctional in that it might constrain the development of institutional-level goals and associated planning processes.[3]

For the sake of cost and decision-making control, we recognize that some degree of closure gained through adherence to rational principles is necessary in the administration of corporate contributions. We also recognize, however, that the basic reasoning behind corporate charitable activity necessitates an open, interactive system not overly constrained by principles generated from improper notions or assumptions about means-ends relationships. In effect then, we perceive the present "state of the art" of contributions management in the firms under study as appropriately consistent with man's severely limited knowledge of cause and effect relationships in the social environment. Accordingly, we are cautious and somewhat skeptical about the propriety of applying rational

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[3]"Gresham's Law" states that daily routine drives out planning. March and Simon interpret this to mean "that when an individual is faced both with highly programmed and highly unprogrammed tasks, the former tend to take precedence over the latter even in the absence of strong overall time pressure." March and Simon, p. 185.

principles to the open system of contributions management, since we are concerned about the premature sacrifice of organizational effectiveness for suborganization efficiency that might ensue. As Thompson so bluntly stated,

> It seems clear that the rational model uses a closed system strategy. It also seems clear that the developers of the several schools using the rational model have been primarily students of performance or efficiency, and only incidentally students of organizations.[4]

Further Research

We might argue, as some have, that the intellectual and monetary dimensions of corporate giving are minuscule and thus are underserving of much interest in corporate echelons or research circles. Instead, however, we argue that the intellectual and monetary dimensions of giving are relatively small as a result of a lack of interest, a trend which appears to be changing.

As argued in the previous section, corporate practitioners are apparently "muddling through" in their management of corporate largess at least in part as a result of an inability to clearly identify the underlying purpose (and derivative objectives) behind their activities. We maintain then, that the truly significant research to be undertaken in this area will be devoted to unveiling the genuine rationale underlying corporate contributions, something which clearly may differ from organization to organization and which may differ significantly from that heretofore openly expressed by corporate practitioners. If we can "capture" the rationale in pure form, we may be much closer to the point of

[4] James D. Thompson, Organizations in Action (N.Y.: McGraw-Hill Book Company, 1967), p. 6.

being able to aid in the development of operational objectives at the organization level.

As a means of approaching rationale "capturing," we suggest that longitudinal and cross-sectional statistical studies be undertaken at the "micro" level, employing techniques similar to those used by Johnson, Schwartz and Nelson in their earlier "macro" studies (as discussed in Chapter II). Of particular interest in the "micro" studies might be changes introduced in the amount, nature, and direction of corporations' contributions as they correlate with potentially causal variables.[5] We might wish to consider such variables as tax position, earnings, general economic climate, forms of largess that may substitute for monetary gifts (e.g., services, below market investments, contributions of employee time, non-assessed gifts-in-kind), changes in competing or neighboring firms' programs, changes in the nature of appeals, the many alternative uses of corporate funds (e.g., advertising, capital investment, employee benefit packages) and changes in personnel filling top-level corporate decision-making positions. Surely, expanding this preliminary list would be a major task in future studies. Presently, the primary barrier to proceeding with studies of this nature appears to be a difficulty in obtaining the needed data. As earlier noted, however, there appears to be a more liberal trend developing in the disclosure of corporate contributions activity, a trend upon which the study reported herein was dependent.

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[5] We may also wish to include firms that make no charitable contributions in cross-sectional studies since their internal adjustment, if any, to the independent variables chosen for analysis may yield extremely interesting and valuable information.

As a supplement to studies aimed at rationale "capturing," we further suggest that work along the lines of the present study be continued. Follow-up studies could be framed in a hypothesis-testing format utilizing the many propositions set forth by organization theorists, particularly Thompson, and March and Simon, and by utilizing the many policy and decision making models existing in the literature. As demonstrated in this exploratory field study, applications of existing theory may allow us to gain a more consistent and appropriate perspective on the nature of present-day contributions management.

A P P E N D I C E S

APPENDIX I

INTERVIEW GUIDE

Company ______________________________ Date ________________________

Interviewee ____

*mutual vs. stock

*member larger insurance group vs. independent

*size (assets, premiums, operating earnings):

*home office community (SMSA) population:

*one home office vs. regional home offices

*major line of life insurance: group vs. ordinary

<u>General Information</u>

1. History of giving: ("contributions" I.A.W. Internal Revenue code)

   A. Annual totals? ($, % pre-tax earnings, per employee) (trends)

   B. How distributed? (Urban Affairs, Federated Drives, Health, Education, Business/Econ Rsch. Other--Local, Non-local

   C. Nature of gifts? ($, employee time, gifts-in-kind, other?

2. Does the firm totally sponsor, (or serve as a major sponsor to) any recipient organizations or specific programs?

3. Are there any special statutes or regulations governing gift-giving activities of the firm?

4. Does the firm have any major "social action" projects underway other than those included among its charitable contributions?

5. Number of requests annually:

   Granted:
   Denied:

6. Percentage of gifts recurring:

Appendix I (con't)

4. Is your public relations (publicity) group involved in gift-giving activities? How?

5. What is the reward structure for the staff associated with the gift-giving function? (incl. salary structures relative to other functions in the firm?)

Policies

1. Does the firm have any written policies aimed at gift-giving activities? (obtain copy of list)

2. Any unwritten policies? (as understood by interviewee)

3. Which policies are most important? Why? (as understood by interviewee)

Areas of concern:

4. Are there policies and procedures for evaluating the "effectiveness" of gifts? (including any formal return criteria, inclusions, exclusions)

5. Are there policies and procedures for evaluating staff members associated with the function?

6. Is there a policy dealing with voluntary publicity of your gift-giving activities?

    A. Does the company publicize its contributions activities? Which ones? Why?

    B. Does the company intentionally withhold any information about its programs and policies? Which ones? Why?

Policy Processes

1. What individuals or groups generated the policies? (did interviewee have an input? why/why not?)

2. Was any consultation outside the organization sought from:

    A. soliciting organizations?

    B. professional groups?

    C. government--federal/state?

    D. management consultants?

Appendix I (con't)

E. competitors?

F. legal advisors?

(Why or why not? Was any useful information gained?)

Shareholders/Policyholders:

3. Have shareholders/policyholders been consulted? Why/why not?

4. Have shareholders/policyholders ever challenged the company's contributions? If so,

   A. Background?

   B. Did this challenge have any effect on policies or subsequent decisions? How?

Objectives/Rationale:

5. Have long-run objectives been established for the giving program?

6. Have short run objectives been established for the giving program?

7. How do these relate to overall company objectives?

8. Are contributions policies consistent with these objectives?

9. Which were formally cast first--policies or objectives for the contribution program?

10. How does the firm justify giving as much as it does? (rationale) Why not:

   A. more?

   B. less?

   C. none?

Competitors:

11. What do you know about what your competitors are doing in this area? How do you know? (Why don't you know?)

12. How does the firm compare with its competitors? Does this make any difference in the manner in which the program is handled?

Appendix I (con't)

Organization

1. Interviewee's role in the administration of gifts?

2. Total formal organization? (obtain chart if possible) -include relationship with larger group, if applicable.

3. Where is donative function handled in the organization? (formally and informally)

   A. Is there a specific organization or group internal to management? If so,

      1. any members assigned full time?

      2. Other duties of part-time members?

      3. percentage of time spent on contributions by part-time members?

   B. Who handles: (where authority and responsibility for)

      1. day-to-day operations? (correspondence, meeting with solicitors, etc.)

      2. review of solitications? (initial screening)

      3. recommendations for approval?

      4. final approval?

      if committee:

         a. composed of whom?

         b. include "floor" employees?

         c. are meetings regularly held? attended?

   C. Is operational responsibility tied to an individual or position?

      1. how long has the "coordinator" held responsibility?

      2. what was the "coordinator's" previous position?

      3. who previously handled the task? (background)

      4. is any special training, experience, and/or talent required or sought?

Appendix I (con't)

Budget:

13. Where are relevant budgets prepared? Is this typical for other corporate activities?

14. How is the budget prepared? What alternative uses of funds are typically considered?

15. Are there standard decision rules applied in budgeting for contributions? Who promulgated the rules? Are they strictly followed?

Change:

16. Have policies changed much over time? How? When?

17. Have practices changed much over time? How? When?

18. Are policies continually or periodically evaluated? How? By whom?

19. Are EDP devices employed in handling contributions? How? (accounting, evaluation, general information, storage, etc.)

<u>Recipient Choice Process and Disbursement</u>

1. How are the "deserving" from the "not so deserving" sorted in the multiplicity of requests you receive? (step-by-step process? Outline normal procedure)

2. At the initial screening stage:

    A. Who does it?

    B. Can grants or denials be made here? On what kinds of requests?

3. Are potential recipients actively sought out? How?

4. How are most contacts made with potential recipients--through the mail, or phone, or in person?

Time:

5. What kinds of requests seem to take the most time for decision making?

6. How much time on the average is spent in personal contact with solicitors?

7. How much employee time on the average is required to fully process:

Appendix I (con't)

A. A granted request?

B. A denied request?

Disbursement:

8. How much time lapses on average between the initial request, notification of grant, and disbursement?

9. How are contribution monies disbursed? Ever any exceptions? When? Why?

10. Does the firm have a standard denial letter?

<u>Decision Parameters</u>

1. A. Does the company have written criteria for evaluating solicitors? (obtain copy or list)

   B. Are these criteria strictly applied?

   C. If not what criteria do you feel are most often used?

2. A. On what grounds are most gifts granted?

   B. On what grounds are most gifts denied? (include most important attributes/detriments of solicitating organizations)

3. Are past recipients given preferential treatment in decisions for future grants? (maintenance of status quo important?)

4. Does the firm have any "pet" charities? Which ones? Why?

5. Does the firm have any preferences or policies for grants to capital projects versus operating funds?

6. Does the company engage in what you might consider to be "creative" giving? What do you consider "creative" or "innovative" in donative activity?

Relationships With Solicitors:

7. Does the company have an employee or shareholder/policyholder gift matching plan? What proportion of total giving is accounted for by this?

8. Does employee involvement in outside organizations affect decisions involving gifts to those organizations? How?

Appendix I (con't)

9. A. What might cause the company to sever a long-standing giving relationship?

   B. Has the company had such a severance that can be recalled?

10. Has the interviewee ever suspected that some gifts have been granted as a result of a close relationship between a director or upper echelon executive and the recipient? Details?

11. Are any special considerations given for contributions to organizations whose employees hold group insurance with the company? How often?

12. A. Have company staff ever felt pressure from competitors to give to certain solicitors?

    B. Have company staff ever felt pressure from firms included in the investment portfolio to give to certain solicitors?

    C. Have company staff ever felt pressure from major stockholders to give to certain solicitors?

    D. Have company staff ever felt pressure from federal, state, or local governments to give to certain solicitors?

    E. Reactions?

    F. Has the company ever applied such pressure?

<u>Follow-up</u>

1. Does the firm require reports from recipients? How often?

2. Does anyone from the firm visit recipient organizations to see what they are accomplishing? How often?

3. Does anyone from the firm contact the beneficiaries of the recipient organizations' activities in order to evaluate how donations are ultimately used? How often?

<u>Self Evaluation</u>

1. A. What does the interviewee believe is the strongest factor in the company's program?

   B. What does the interviewee believe is the weakest factor in the company's program?

2. What is the interviewee's overall opinion of how gift-giving activities are being handled?

Appendix I (con't)

3. Does the interviewee have any suggestions for change?

4. Does the interviewee feel that the organization needs more formal policies or procedures for its gift-giving affairs?

5. Does the interviewee believe that the firm is likely near the top of many fund raisers lists? Why?

6. What does the interviewee think is the perceived status of people associated with the gift-giving function?

The Future

1. What does the interviewee see in the future for the gift-giving program?

2. What does the interviewee see in the future for his job?

3. What effect will the down-turned economy have on the firm and its donative activities?

4. Does the interviewee feel that the public opinion and/or public policy will lean toward or away from promotion of greater corporate giving? What does he see for the insurance industry in this respect?

5. Does the interviewee forsee any changes in the nature, amount, or direction of the company's gifts in the future? For the industry?

APPENDIX II

BERKSHIRE LIFE

POLICY STATEMENT ON COMPANY CONTRIBUTIONS

1. Statutory Limitations

   In accordance with Massachusetts Law, our By-laws specifically provide for Company contributions, in such amounts as the Directors may determine to be reasonable, to corporations, trusts, funds or foundations, organized and operated exclusively for charitable, scientific or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual, with such contributions in any calendar year not to exceed in the aggregate the amount permitted by law (presently limited to 1/2 of 1% of surplus at end of preceding fiscal year).

2. Policies and Procedures for Controlling Company Contributions

   a. Contributions during any calendar year not to exceed 1/4 of 1% of surplus at end of previous calendar year.

   b. Three-fourths of such amount to be available for annual or operating contributions (for purposes of over-all budgetary limits and control certain other specific and miscellaneous items may be included within this allocation).

   c. The remaining one-fourth of such amount to be available for capital contributions (pledges of capital gifts may be spread over a period of not more than 5 years with the annual amounts charged to this section in the year when payments are to be made).

   d. Management will present annually to the Board or to its Finance Committee if the Board so specifies, its recommended budget of proposed annual gifts with detailed schedules of major items, with the provision that reasonable and moderate additional amounts to the same or other qualified organizations may be made in the discretion of the President within the total amount available for such purposes during each calendar year.

   e. Recommendations for all capital contributions must be referred to the Board or its Finance Committee for individual consideration and decision. A capital contribution or pledge of more than $5,000 requires the specific approval of the Board.
   (As approved by the Board of Directors - July 25, 1966)

Appendix II (con't)

3. <u>Points to be Considered in the Determination of Individual Contributions</u>

   a. Does it qualify under Massachusetts Law

   b. Will it be of direct or indirect benefit to the best interests of this Company, its policyowners or employees and/or the life insurance industry

   c. First consideration to be given to organizations whose service areas are within the immediate vicinity of Pittsfield

   d. Contributions will be given only where obviously of benefit to the total community, or to a large and generally non-sectarian segment

   e. Contributions to organizations whose service areas are on a state or regional level to be considered only when the Company has a substantial stake in such areas

   f. Extent to which other businesses having comparable responsibilities in the area are supporting the activity or project

   g. Evaluation of the organization's reputation and accomplishments and whether its work duplicates that of other organizations receiving Company support.

December 1, 1964

APPENDIX III A

MASSACHUSETTS MUTUAL

UNIVERSAL GUIDELINES

Even though urban and community affairs programs must necessarily be tailored to the capabilities and concerns of each individual company, there are some general considerations which provide a framework within which an individual company can develop its actions.

In general, corporate activities in these areas should:

--aim at causes, not symptoms

--involve initiation and intervention, rather than reaction

--deal with fundamental issues, not peripheral or token issues

--be part of a comprehensive program and strategy, as opposed to a project or piecemeal orientation

--concern themselves with long-term implications, not just short-term concerns

--focus primarily upon people rather than things

--recognize that a non-policy or failure to act can have as great an impact as an affirmative action

--establish priorities for affirmative action in the urban and community affairs fields

--function for the purpose of improving the total community as well as the corporation

--establish rapport with the total community as to its true mission and its real concerns

APPENDIX III B

MASSACHUSETTS MUTUAL

POINTS TO BE CONSIDERED IN EVALUATING ALL CONTRIBUTIONS REQUESTS

a. Will the donation benefit the company directly or indirectly?
b. Will the request lead to similar requests in the future?
c. What is the chief objective(s) of the soliciting organization?
d. Is the soliciting organization efficiently and honestly managed? What is the ratio of administrative expenses to funds raised and disbursed?
e. Does it aid all people, or is it restricted to certain races or groups in its operations?
f. Is the request consistent with the company's place in the community?
g. Who are the people heading the organization that asks support? Are they recognized community leaders? What is their main business or professional connection?
h. Does the soliciting organization tend to duplicate, overlap, or neutralize the efforts of other organizations to which the company has already donated?
i. Have donations been declared exempt for income-tax purposes by the Treasury Department?
j. Is the organization attempting to influence legislation?
k. Will the program of the organization solve or help to solve the problem it is organized to deal with?
l. Is the purpose best served by private giving or should it be financed by public funds?
m. Should support stem from individuals rather than from companies?
n. Does the soliciting organization have an unpaid administrative board?
o. Does it pay commissions for fund raising, engage in general telephone solicitations, and the sale of tickets or merchandise by the "remit or return" method?
q. Who are on the paid staff? What is the last prior connection of each paid staff member?
r. Does the organization have branches? If so, what type of control is exercised over them?

It is further recommended that the following points be considered in determining the amount of each contribution:

a. What is the total amount being asked for in the campaign? What seems to be a reasonable share for us to assume?
b. How much are other companies in the community giving?
c. What benefits can the company expect to receive? What will be the public reaction if the company doesn't give?
d. What is the attitude of other firms toward this activity? What are they giving?
e. What is the relative importance of this appeal contrasted with the appeal of other soliciting organizations?
f. Does the company's present business position justify the donation?
g. What is the size of the soliciting organizations budget?

Appendix III B (con't)

h. Is the cause a new one and deserving of heavy initial support?

APPENDIX III C

MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY

APPLICATION REQUEST FOR CONTRIBUTIONS

DATE:

ORGANIZATION:

ADDRESS: PHONE:

PRESIDENT:

EXECUTIVE DIRECTOR:

PURPOSE OF ORGANIZATION:

LISTING OF BOARD MEMBERS, TRUSTEES, MEMBERS, CORPORATORS:
(attach)

BALANCE SHEET – CURRENT:
(attach)

SOURCE OF SUPPORT AND AMOUNTS:

NUMBER OF YEARS IN OPERATION:

Appendix III C (con't)

DESCRIBE PROJECT OR PURPOSE FOR WHICH THESE FUNDS ARE BEING REQUESTED:

AMOUNT REQUESTED:

____

ITEMIZE YOUR BUDGET FOR THIS PROJECT:

PERSON TO CONTACT FOR FURTHER INFORMATION:

____
COMMITTEE CHAIRMAN OR CONTACT

____
ADDRESS

____
CITY

____
TELEPHONE

APPENDIX III D

MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY

APPLICATION — REQUEST FOR CONTRIBUTIONS

****

ORGANIZATION:

ADDRESS:

PHONE:

PRESIDENT:

EXECUTIVE DIRECTOR:

AMOUNT REQUESTED:

____

DESCRIBE PROJECT, CONTINUING PROGRAM, OR PURPOSE FOR WHICH THESE FUNDS ARE BEING REQUESTED:

HOW WILL THIS PROJECT, CONTINUING PROGRAM, OR PURPOSE SERVE TO MEET THE COMMUNITY'S CONTINUING SOCIAL NEEDS?

Appendix III D (con't)

ITEMIZE YOUR BUDGET FOR THIS PROJECT:

NUMBER AND COST OF INDIVIDUAL UNITS (IF APPLICABLE)	UNIT COST	SUB-TOTAL

IS THIS PROJECT PART OF YOUR CURRENT PROGRAM RESPONSIBILITIES? DESCRIBE:

HAS THIS PROJECT BEEN AUTHORIZED BY YOUR BOARD OF DIRECTORS?

HOW WILL THIS PROJECT BE FINANCED IN THE FUTURE?

WILL THIS PROJECT BE NECESSARY IN THE FUTURE?

LIST OTHER SOURCES OF FUNDS TO WHICH YOU HAVE APPLIED TO FINANCE THIS PROJECT INCLUDING THE AMOUNTS REQUESTED:

Appendix III D (con't)

GENERAL ORGANIZATIONAL INFORMATION

PURPOSE OF ORGANIZATION:

SPECIFIC PROGRAMS, ACTIVITIES, OR FUNCTIONS:

SPECIFIC GROUPS AFFECTED - age, sex, social status, and number:

LISTING OF BOARD MEMBERS, TRUSTEES, MEMBERS, CORPORATORS: (attach)

BALANCE SHEET – CURRENT: (attach)

CURRENT YEAR COST OF:
Staff (itemize):
Supplies and maintenance:
Programs:
Other (describe): Health
Retirement,
Accounting, etc.

Appendix III D (con't)

SOURCE OF SUPPORT AND AMOUNTS:

ACTIVITY REPORT (number of people treated or served in various categories for each of five past years):

VOLUNTEERS – NUMBER AND TYPE OF WORK:

NUMBER OF YEARS IN OPERATION:

GEOGRAPHIC BOUNDARIES OF SERVICE:

PERSON TO CONTACT FOR FURTHER INFORMATION:

____
COMMITTEE CHAIRMAN

____
ADDRESS

____
CITY

____
DATE

____
TELEPHONE

APPENDIX III E

MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY

PROGRESS REPORT CONTRIBUTION

****

NAME OF ORGANIZATION ______________________________

ADDRESS ______________________________ PHONE ______________

____

TOTAL CONTRIBUTION APPROVED $ ______________________

AMOUNT RECEIVED TO DATE $ ______________________

AMOUNT EXPENDED TO DATE $ ______________________

LIST EACH EXPENDITURE BY ITEM

ITEM	AMOUNT EXPENDED

DESCRIBE ORIGINAL PURPOSE OF CONTRIBUTION

____

____

____

____

HAS ORIGINAL PURPOSE BEEN ACHIEVED? (If not, describe why.)

____

____

____

LIST NUMBER OF PEOPLE BENEFITING TO DATE

____

____

DESCRIBE THE BENEFITS WHICH HAVE BEEN DERIVED

____

____

ADDITIONAL INFORMATION (Include any additional information using a second sheet, if necessary, which you feel is important for our files.)

____

____

SIGNED ______________________________ DATE ______________

OFFICE HELD ______________________________

APPENDIX IV A

THE SOCIAL RESPONSIBILITY OF AETNA LIFE & CASUALTY

BACKGROUND AND POLICY STATEMENT

1972

(extracts)

Originally, the role of the corporation was conceived as creating an enterprise that would produce goods and services which would be sold to customers at a profit to the owners of the business. There were no universal quality standards for the products that corporations sold and caveat emptor was the philosophy of the day. The concept was eminently suited to the needs of the country and as a result, corporations grew in influence and size to the point where there was such an inequitable distribution of economic power and knowledge between the corporation and the public that various regulatory and other actions were initiated to insure that corporations discharged their obligations fairly to employees and customers as well as to their owners. Corporations continued to flourish and prosper and become such an overriding influence that their presence, depending on how it was exercised, become a major determinant of the quality of life in the areas where they operated. As a result, public opinion has evolved to believe that the obligations of corporations also should extend to society at large in addition to shareholders, employees and customers. These recent changes in attitude place greater emphasis on corporations' ethical standards in dealing with its customers (consumerism) and stress the need for and responsibility of corporations to utilize their business talents and expertise as a positive and constructive force for improving the quality of life in the communities where they function.

These emerging attitudes have created important new standards by which the activities of corporations will be judged and have made it essential that corporations recognize their new responsibilities which hereafter will be referred to as social responsibilities...

A fundamental principle for creating a constructive environment for the conduct of corporations' activities is to recognize that corporations' long-range survival and their own quality of life will be influenced considerably by the extent to which their activities are compatible with the value standards of the social systems which have given them their charters. In this context, it becomes in the corporations' enlightened self-interest to conduct their affairs in a manner which engenders public acceptance and good will. Thus, it is appropriate to regard most of the cost of Corporate Social Responsibility activities in the same light as any other expense that is essential to maintaining the soundness of the enterprise. In addition to this normal type of social expense associated with the regular conduct of business operations, corporations also will

Appendix IV A (con't)

be asked and quite properly may wish and feel obligated to make social commitments of a more discretionary nature. Many of the expenditures of the contributions budget would be in this category as well as other activities such as working with monority groups in the high schools, giving paid leaves of absence to employees to engage in projects which are believed to have social value, etc.

The principal management question then becomes one of defining the magnitude and nature of the modern corporations' responsibility to society, and within that framework, the proper posture for Aetna Life & Casualty.

It is assumed that (1) the Aetna's objective is to take a constructive approach consistent with its inherent capabilities within the framework of a profit-oriented free enterprise democracy and, (2) business and government often must work in partnership in developing solutions to important social issues...

As a major U.S. corporation, it is appropriate and expected that the Company's objectives should be to assume a leadership role in recognizing the social responsibilities of the business community and in developing appropriate actions for Aetna to take in carrying out its proportionate share. The issues are complex, significant solutions will be difficult to achieve and a long-range view is essential.

There are three broad categories of actions by which the Aetna can discharge its social responsibilities:

(1) Develop and practice socially responsible policies and procedures in the conduct of its basic business operations, including employment and promotion practices and the sale and servicing of insurance, investments and diversified operations...

(2) Make outright contributions of money to sponsor deserving programs.

The Contributions Committee of the Board of Directors has been established to review and approve corporate giving policies, including the Contributions budget, with the expectation that the broad background and perspective of the Committee's members should stimulate the development of an outstanding Contributions program. At the present time, the level of outright cash contributions by American industry is approximately 1% of pretax profits. Wishing to take a leadership role, the Contributions Committee of Aetna Life & Casualty recently recommended, and the Board adopted, a policy establishing cash contributions at a level

Appendix IV A (con't)

of $1\frac{1}{2}\%$ of average pretax profits for the last three years. At the present time, the major questions relating to the cash contributions budget relate to making the most effective allocaticn of the budget and, in particular, developing a significant "Special Project" for the Company to sponsor.

(3) Contribute Company expertise and/or utilize the corporation's influence to encourage the undertaking of socially responsibile activities which may or may not be related to the Company's basic business...

APPENDIX IV B

AETNA LIFE & CASUALTY

Objectives and Guidelines
1972

The following objectives and guidelines provide the basic orientation for the contributions program. Where specific quantitative guides are cited they are to be considered only as guides and not as hard and fast criteria of acceptance. Nevertheless, such guides have the advantage of placing the burden of proof on exceptions that will be considered and should furnish a more objective basis for evaluating requests or opportunities.

A. General

1. Emphasize the extent to which a proposed contribution meets the criteria of impact, image, involvement, imagination, independence and investment return.

2. Evaluate the ability of the agency or organization and its staff to adequately carry out its stated objectives.

3. Place increasing emphasis on funding opportunities in which the gift will provide an incentive to the organization to evaluate the effectiveness of what it is doing and then use the results of this evaluation to actually improve its performance.

4. Make fewer but larger grants than in the past.

5. Recognize that risk is an acceptable element in corporate giving programs.

6. Establish a follow-up and review procedure to determine how effectively each grant of $5,000 or more was utilized.

7. Provide opportunities and encouragement for the voiceless, the poor, and the unsophisticated to have their petitions heard and acted upon.

8. Increase the proportion of funds allocated to Education and to Cultural activities, particularly where it will improve the quality of life for minorities and other disadvantaged persons.

Appendix IV B (con't)

9. Give adequate consideration to organizations or activities which will strengthen the base of power of those who do not have adequate access to the sources of power: minority group people, women, children, ex-convicts and the elderly.

B. Local Giving

1. Make maximum impact on the Greater Hartford community by providing meaningful grants to appropriate agencies and activities.

2. Give preference to action programs as opposed to construction or planning projects.

3. Avoid grants that tend to proliferate and diffuse the social welfare response to community problems.

C. National

In recent years approximately 70% of the Company's charitable giving has been to organizations in the greater Hartford area. The long range objective is to distribute an increasing percentage of the Contributions Budget to activities in communities and regions outside of Hartford that are not now served adequately by this program.

D. Capital Gifts

1. In general, Aetna will not participate in capital giving outside of the Hartford region.

2. The total amount sought from Hartford corporations should not exceed 40% of the total campaign goal. In cases where this guideline is exceeded, Aetna will use the 40% community corporate criterion in determining its appropriate share.

3. In the Hartford area, the share to be borne by the insurance industry shall not exceed 50% of the corporate goal.

4. Aetna's share should not exceed 25% of the insurance goal or 5% of the total amount to be raised.

5. Capital commitments shall not exceed 20% of the total contributions budget in any single year.

6. Exceptions to these guidelines will be made in the following instances:

   a. Projects whose services or facilities serve relatively large concentrations of Aetna employees.

Appendix IV B (con't)

b. Projects whose activities are closely related to our business interests.

c. Projects with which Aetna is identified as the sole or as a principal sponsor.

E. Operational Budgets for Social Welfare Agencies

1. In general, Aetna will not support such agencies in Field Office communities, except those supported by gifts to the United Fund in such communities.

2. Aetna support, other than in Hartford, will generally be restricted to activities which are national or regional in scope.

3. Where given, Aetna's grant, unless it provides the sole or major private funding for the agency, should not be less than $500 annually, nor should it exceed $25,000 or 1% of the organization's annual operating budget, whichever is less.

APPENDIX V A

CORPORATE SUPPORT POLICY OF THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES

The Equitable believes it to be its responsibility as a corporate citizen to assist, within the provisions of the law, selected programs and organizations which function within The Equitable's primary fields of interest. Presently these fields are as follows: community services, because we do business in communities throughout the nation; education, because a soundly educated citizenry is vital to both our country and our company; health, because as a life and health insurance company we are involved in protecting and enhancing the nation's health; and urban affairs, because the quality of life in our cities directly affects the operation of our business and the future of our country. Support of a limited nature will also be provided for civic, cultural, and public affairs and through memberships in selected business organizations.

The overall objectives of the corporate support program are:

(1) To support programs and organizations from which The Equitable's policyowners, agents, and employees will derive benefit directly or indirectly;

(2) To support and strengthen private and independent efforts and initiatives in the public interest; and

(3) To aid, encourage, and provide opportunities for the underprivileged.

In reviewing requests for assistance and administering this program, The Equitable will endeavor to provide support that is meaningful in terms of an organization's programs and needs and likely to stimulate financial assistance by others. To the extent possible, The Equitable will try to meet a number of needs and interests with one grant and to assist innovative approaches even though they may involve experimentation. All organizations considered for support are evaluated to determine whether they are operating within our fields of interest, meet our overall objectives and are or can effectively accomplish their stated goals.

Since The Equitable's business operations are nationwide, assistance will be directed primarily to organizations operating on the national level and concerned principally with domestic matters. Locally, support will be provided mainly through united appeals and local urban coalitions in those cities where substantial business interests exist. Organizations that receive their primary support from united appeals will not be considered for additional assistance, nor will support ordinarily be given for capital purposes.

Appendix V A (con't)

The total allocation available for corporate support is determined each year by taking into consideration significant factors affecting The Equitable's business. An Officers' Committee on Corporate Support is responsible for preparing, within this annual allocation, a corporate support budget which is then reviewed by the Chief Executive Officer and the Executive Committee before it is presented to the Board of Directors for approval. This program is administered under the supervision of the Senior Vice President, Corporate Relations.

APPENDIX V B

THE EQUITABLE

GUIDELINES FOR EXPERIMENTAL FIELD CONTRIBUTIONS PROGRAM

A. Purpose

To provide additional financial support by The Equitable in cities in which we have significant operations.

B. Locations

Chicago and the Los Angeles area, the locations with the highest numbers of Equitable employees and agents outside New York.

C. Amount and Scope of Program

$5,000 has been set aside for use in each location, with contributions to be made to groups centered and having active programs within each metropolitan area.

D. Local Committee

A local non-officer Committee is to be formed to review appeals for support and make recommendations to the Officers' Committee on Corporate Support in the Home Office.

E. Size and Selection of Committee

There should be at least five and no more than nine members. Service on the Committee is not intended to consume a great amount of time.

Members should be selected by local Department Heads and should include each of the following: (1) a representative from each of the three largest local departments other than agency; (2) a representative from among agents in the area; (3) a representative from agency management including Divisional Agency Vice President's staff. There should be no more than one representative of a department on the Committee. Accordingly, if there is more than one office of a department in the metropolitan area, the heads of the local offices should select one person to serve on the Committee. In forming the Committee the most important aspect is to choose the best possible people for this kind of assignment and to give special emphasis to those with a high interest and involvement in community endeavors.

Appendix V B (con't)

Consideration also should be given to including, but not limiting representation on the Committee, to local personnel with higher management grades and longer Equitable experience. If possible one member of the Committee should be a woman, and one a minority person.

F. <u>Chairman of the Committee</u>

The Chairman of the Committee and its size is to be determined by the Officers in each location. The Chairman will call meetings of the Committee, maintain the local files for this program, conduct the meetings, correspond with the Office of Corporate Affairs in the Home Office, and be responsible for the overall coordination of Committee activities.

G. <u>Meetings of Local Committee</u>

To be held as required after organization of the Committee.

H. <u>Proposals</u>

(1) All requests to local Equitable offices in each metropolitan area should be sent to Committee Chairman. Appeals may be submitted to the local Committee Chairman by any of its members, or by other Equitable people in the area, or by referral from the Home Office. The Committee may generate requests on its own or take the initiative in recommending grants. Consultation with regional Public Relations Counsel is encouraged.

(2) Requests should be in written form on the letterhead of the organization and for a specific amount. Materials should include information in some detail on the program of the organization and whether it currently needs unrestricted operating funds or support for a specific need. A photostat of the Internal Revenue Service ruling granting the organization 501-(C)-(3) status and its annual budget, including audited financial statement, as well as a list of its officers and Board of Directors should also be included.

I. <u>Consideration of Appeals</u>

Appeals should be accumulated for a reasonable period and a meeting held when several requests can be submitted. Prior to the meeting, any additional information on the organizations making requests should be secured. Sources of such information may include, but are not limited to, reports from groups such as the National Information Bureau, the Solicitations Division of the national or the local Better Business Bureau, the Social Service Department of the City of Los Angeles, the local United Way Office, the Corporate Affairs Staff in the Home Office, and other sources.

Appendix V B (con't)

J. Examples of Possible Contributions

(1) Local civic improvement groups.

(2) School outreach programs.

(3) Youth and recreational groups.

(4) Environmental and ecological organizations.

(5) Local drug abuse programs.

(6) Community planning groups.

(7) Educational reform groups.

(8) Offender education and aid agencies.

K. Excluded from Consideration

(1) All organizations not consistent with our corporate support policy statement.

(2) Organizations receiving financial assistance from the local United Fund.

(3) Local affiliates of organizations we assist at the national level.

(4) Junior colleges, colleges, universities, graduate or professional schools.

(5) Local urban coalitions.

(6) Hospitals.

(7) Arts groups.

(8) Religious or political groups.

L. Committee Recommendations

The Committee's recommendations are to be determined by a majority vote of its members. The minimum amount to be recommended is $100. The Chairman should submit the recommendations and appropriate background information to K.L. Albrecht, Assistant Vice President for Corporate Affairs, in the Home Office, with a copy to each local Officer. The local Officers should communicate within 10 working days any comments they may have about the recommendations to Mr. Albrecht.

Appendix V B (con't)

M. Committee on Corporate Support

The recommendations of the local Committees will be submitted to the Officers' Committee on Corporate Support in the Home Office for review and approval.

N. Check Delivery

For those recommendations approved by the Committee on Corporate Support a letter and check will be sent from the Home Office for local delivery.

O. Turn-downs

Turn-downs will be in writing by the Corporate Affairs Staff, with a copy going to the Chairman of the Committee and the local Officers. Verbal communication of any turn-downs may be made by the local Chairman in advance of the letter if the request has been declined by the local Committee and a prompt response is desirable.

P. Questions about Program

Any questions about this program should be directed to Mr. K.L. Albrecht (X2027) or Mr. J.C. Pulsipher (X4432) in the Home Office.

APPENDIX V C

THE EQUITABLE

EVALUATION SUMMARY SHEET

1. Name of Organization ______________________________

   Contact at Organization ______________________________

   Street Address ______________________________

   City, State ______________________ Phone ______________
   area code

2. Organization's Purpose or Primary Objective

   ____

   ____

   ____

   ____

3. Does this group (circle one)

   a. Provide unique service b. Have some areas of overlap with others in field c. Have considerable overlap or duplication with others

4. What is the geographic area served by the organization? ______________

5. How many persons were served during the past year by this program? ________

6. Does this organization have a letter from the Internal Revenue Service stating that it is tax exempt? Yes _____; No _____.

   If "Yes" and ELAS has not funded previously, please obtain copy of IRS letter.

	YES	UNSURE	NO
7. Does this group have an annual financial audit by an independent public accountant?	/__/	/__/	/__/
8. Are objectives or program of this group well defined?	/__/	/__/	/__/
9. Is the organization supported by the actual constituencies it is serving through:			
a) grants, dues, or contributions	/__/	/__/	/__/
b) volunteer assistance	/__/	/__/	/__/
c) free facilities	/__/	/__/	/__/

Appendix V C (con't)

	YES	UNSURE	NO
10. Is the program serving those people whom the program was established to serve?	/_/	/_/	/_/
11. Does the organization have an active Board of Directors?	/_/	/_/	/_/
12. Does the Board of Directors have a representative, diverse membership?	/_/	/_/	/_/
13. Does the executive director or top person have an appropriate level of experience to meet the demands the group faces?	/_/	/_/	/_/
14. Do you have faith in the capability, judgment, integrity, and overall bearing of the top person in the group?	/_/	/_/	/_/
15. Does the top person show competence in fiscal planning and management of organization?	/_/	/_/	/_/
16. Is the top person cooperative in informing you about the organization's activities and operations?	/_/	/_/	/_/
17. Does the organization carefully evaluate its work on an annual basis?	/_/	/_/	/_/
18. Are fund raising efforts of the group openly reported and well planned?	/_/	/_/	/_/
19. Is there evidence of reasonable prospects for continued funding from other sources?	/_/	/_/	/_/
20. If this were my money I was investing, would I still think that this is a good relationship for the company to have?	/_/	/_/	/_/

Date: ____________ Evaluation Conducted By: ______________________

Status: Recommended /_/ Not Recommended /_/

APPENDIX VI A

REVIEW OF PRUDENTIAL'S CONTRIBUTIONS PROCEDURES

Prudential's contributions are budgeted on a fiscal year basis, starting September 1. The budget also includes memberships of a civic or charitable nature as well as ticket purchases to dinners and other special events sponsored by such agencies.

Each year a booklet such as this one is submitted to the Executive Committee as the basis for request of an annual appropriation. All contributions and memberships exceeding $500 are listed individually. In order to provide a more complete picture of the overall level of Prudential support, estimates are shown for certain items not included in the appropriation because they are controlled by Committee-approved formulae. These are: United Way in U.S. Field Office communities, the Matching Gifts Program, the National Merit and National Achievement Scholarships programs, and a similar scholarship program for Canada.

The Committee controls total expenditures by means of the appropriation. Committee involvement in the more significant items is maintained by the requirement that individual item approval is needed for all payments exceeding $5,000. Approval for most of these items is requested along with the annual appropriation.

The appropriation includes a contingency margin, and Company executives are authorized to approve new items of $5,000 or less or to increase planned items within the same limits. A report of all actual payments exceeding $500 is submitted to the Committee each quarter.

Unplanned items exceeding $500 and changes exceeding $500 in planned items must be approved by an officer of the rank of Vice President or higher. All other payments may be approved by persons designated by the Chairman of the Board for the Corporate Office or the Senior Vice President for a Regional Home Office.

APPENDIX VI B

THE PRUDENTIAL

NEHO COMMUNITY RELATIONS COMMITTEE

Contribution Bylaws and General Procedures

PREAMBLE

The Community Relations Committee, Northeastern Home Office, operating within the confines of its annually allocated budget, shall review, and make binding recommendations on, requests for contributions received through various channels and related to the general objectives stated below. The Committee shall also reserve the privilege to exclude from its consideration any request for aid which is interpreted by the Committee as a business-related function, a public relations function, or which does not conform to the areas of concern expressed in the general objectives. The nature of contributions recommended by the Committee will be multi-faceted; depending on the particular case they may take the form of monetary contributions, manpower assistance, technical or advisory support, or, within the additional confines of NEHO's operating expense rules, the donation of actual Company equipment and/or material goods.

GENERAL OBJECTIVES

I. BENEFICIARIES:

The beneficiaries of services rendered by any agency or program considered should fall into the general conceptual framework of the "disadvantaged." This term is used in a global sense, and is meant to imply those of lower income levels or socio-economically deprived status.

II. GEOGRAPHICAL:

The Committee should primarily concern itself with agencies and/or programs within the Metropolitan Boston Area.

III. FUNCTION:

An agency or program considered by the Committee should be operating in the functional areas of Health, Education, or Welfare, and each of these functional areas will be considered on an equal plane, although shifts in emphasis can be dictated by the Committee. Specific objectives are developed below to deal with priorities within these three general headings.

Appendix VI B (con't)

IV. BUDGET ALLOCATION:

The total annual budget will be divided on a percentage basis as follows, with an option residing with the Committee to change allocations as current experience dictates:

HEALTH	:	30%
EDUCATION	:	30%
WELFARE	:	30%
TICKETS - CONTINGENCY	:	5%
EXTRA GEOGRAPHICAL CONTINGENCY	:	5%
TOTAL		100%

SPECIFIC OBJECTIVES

Within each of the three primary functional areas of concern a priority-ordered listing of program categories is stipulated for the Committee's guidance in review and specific consideration of requests received.

I. HEALTH:

A. Programs for delivery of "conventional" health care, drug, and mental health treatment services, which are operated by non-profit organizations.

B. Health programs which are not designed for delivery of services, but specialize in planning and analysis.

II. EDUCATION:

A. Job-related educational programs (adult) operated by non-profit organizations.

B. Health education programs:

1. Adult-oriented
2. Youth-oriented

C. Informal, extracurricular programs, including civic, tutorial, counseling, and other types of educational/recreational efforts aimed at generalized socio-economic or community needs:

1. Adult-oriented
2. Youth-oriented

Appendix VI B (con't)

III. WELFARE:

A. Economic: agencies or programs designed to promote economic advancement and/or jobs in the community.

B. Day-care: agencies providing reasonably priced day-care, expecially directed to aid of working mothers.

C. Environmental: ecologically concerned agencies/programs, primarily directed at urban problem areas.

D. Legal: services for free or low-cost delivery to the community.

E. Housing.

It is recognized by the Committee that a total approach to all of the above functional areas will require constant flexibility in utilizing these guidelines. In the final analysis, the true merits of an individual requests will produce a Committee decision; the above priorities are offered only as guidelines to establish a rational ordering and presentation of the areas of principal concern, and may not prove all-inclusive.

OPERATIONAL GUIDELINES FOR GIVING

The operational guidelines for the Committee should broadly apply to any request considered, in any of the above-mentioned categories. The following questions are not necessarily listed in any priority order of consideration, but all should be adequately answered to reveal a complete profile of a pending request:

I. What form of contribution is being requested? Is it money, technical advice, etc.?

II. For an "established" agency, what is their reputation in the community, and their demonstrable track record? For a new agency, what are their functional plans, and what other sources of financial aid have been listed?

III. What is the demonstrated capacity for future financial stability and self-sufficiency? Is this a long-term project versus a "one-shot" effort?

IV. To the extent possible, what is the evaluation of staff capabilities within this agency/program?

Appendix VI B (con't)

V. Does this agency/program duplicate function(s) of others? Are those others supported by Prudential?

VI. With regard to cost-effectiveness, what is the "cost-per-client" for service rendered? How is money spent or other resources allocated?

VII. Has an analysis of the Annual Budget been made? Is this particular agency/program sponsored by the United Fund?

VIII. Is there demonstrated support from other members of the Boston business community? Why? If not, why?

OPERATIONAL PROCEDURE

It is the intention of the Committee, operating within the objectives and guidelines stated herein, to maintain a flexible approach to the nature of its function. The Committee recognizes that its ultimate goal is to maximize the value and positive effect of contributions to the community; its consideration of any contribution will be conducted with this in mind.

I. Each contribution request received by the company will be immediately directed to the Committee Secretary's attention, and will be subsequently assigned to an individual member of the Committee.

II. Upon such an assignment, the Committee member will review the material accompanying the request and prepare an immediate report for the Recording Secretary. This report should include a recommendation for disposition of the request, falling into one of the following alternatives:

A. Non-Committee business:

1. Executive Commitment: should be handled as a contribution request, but does not conform to the Committee's objectives and guidelines. Therefore, this type of request should be of the NEHO Contributions budget.

2. Business request: is considered purely a business-related function, and should be forwarded to the Committee Chairman.

If such a request is judged not to be Committee business, it should be returned to the Secretary for routing to the Committee Chairman and corresponding secretary, with a notation concerning the recommendation. The Committee Chairman will reserve the right to question this decision if he feels the matter so justifies; otherwise he and the Secretary will decide on final disposition, and will acknowledge receipt and disposition to the requesting agency.

Appendix VI B (con't)

B. Committee Business: The request does conform to the objectives and areas of concern expressed above, and thus is judged suitable for committee investigation.

If the Committee does not feel capable of reaching an informal decision on any such project, the matter may be referred for advice or consultation to a relevant operational area within the Home Office.

III. If alternative II. B. (above) is recommended and approved, that committee member (or members) will undertake a thorough investigation of the agency/program submitting the request after notifying the Secretary of their intent. In all cases where feasible, it is recommended that such an investigation include a personal visit to the agency/program site. The results of this research will be reported back at the next possible Committee meeting, where approval or rejection of the request will occur. If a committee member does undertake such an investigation, he or she should acknowledge receipt of the request to the requesting agency.

IV. Any recommendation concerning revision of the guidelines, by-laws or constitution of the Community Relations Committee will require two-thirds approval of the Committee membership present before ratification.

MEMBERSHIP

The composition of the Community Relations Committee shall involve staff from all levels of responsibility in the Home Office, to promote awareness of Prudential's participation in the community. To accomplish this goal, the following rules governing the constitution of this body have been adopted.

I. The Committee will consist of nine (9) members, selected from the entire Northeastern Home Office staff, below manager level.

A. The Committee will be guided in their business transactions by four (4) advisors of Manager rank and above. They are:

1. Vice President - Chairman.
2. Personnel Director
3. Recording Secretary
4. Corresponding Secretary

II. The Community Relations Committee members will initially be appointed, in three classes of three members each, to staggered terms of membership, of one, two or three years. As the original group phases out, new members will be appointed for three-year terms to achieve a rotational exposure within the Home Office while maintaining an experienced

Appendix VI B (con't)

nucleus at all times. All terms of membership will correspond with the Committee's fiscal year, and thus will begin on September 1 and end on August 31, effective September 1, 1972.

III. Ultimate selection of members for the Community Relations Committee will be the responsibility of the Committee, with assistance from the advisors. The Personnel Director will serve as a nominating committee-of-one, and will provide a list of candidates, suggestions for which may be solicited from the present Committee, at a suitable time prior to the expiration of terms. Through confidential discussion the Committee will recommend and approve incoming members. Those selected will be notified by the Personnel Director; all other nominations are strictly internal business of the Committee and will not be publicized in any way.

<u>Guidelines for evaluating contributions requests</u>

Before NEHO agrees to support an organization, a careful review is made by the NEHO Community Relations Committee. Depending on the scope of the requested support, some or all of the following questions are posed:

a) What is the organization's area of activity--health, welfare, civic, professional, educational or cultural?

b) Is the scope of its activity international, national, regional, statewide or local?

c) What is the organization's specific purpose? Are its goals realistic?

d) Is it a permanent or temporary organization? When was it formed?

e) With what other organizations is it affiliated?

f) Who are the members of its permanent staff, if any? Who are on its board of trustees or directors? What is its caliber of management?

g) How is its money spent, specifically?

h) What are its reputation and accomplishments? How does it rate in its particular field?

i) Do any Prudential people have a special interest or involvement in it?

j) To what extent does it duplicate the work of other organizations, particularly those that Prudential supports?

k) How big is its annual budget? Is it supported by the United Fund? Does it receive government support? If so, how much and of what kind? What are its other sources of income?

Appendix VI B (con't)

l) What contributions are made to it by other companies?

m) Does the organization issue an annual report and a financial statement?

n) What specific benefits does it provide the communities it serves?

o) What specific benefits does it provide our company, our employees and their families, and our policyholders?

p) Is the potential value of the program short-term or long-term? Will it create values to the community that go beyond the immediate objectives of the program?

q) What has been Prudential's experience with its counterparts or similar organizations in other territories?

r) Will a contribution help Prudential in terms of public relations? In what way, if any, will Prudential's participation be publicized?

s) Will a contribution one year constitute a precedent for subsequent contributions?

t) What forms of contributions can be made to the organization--company or individual membership, straight contribution, community relations advertising, special sponsorship, tickets to luncheons or dinners, task force or volunteer assistance, printing of publications, use of Prudential Center facilities?

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