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CORPORATE-NONPROFIT PARTNERSHIPS: VARIETIES AND COVARIATES

MICHELLE SINCLAIR* & JOSEPH GALASKIEWICZ**

I. INTRODUCTION

On May 16, 1996, President Bill Clinton sponsored a roundtable discussion on corporate social responsibility. The roundtable included over one hundred of the most influential business leaders in the United States meeting to promote good business practices. The president's message to these corporate executives was that "you can do the right thing and make money."[1]

Clinton's statement that you can do "the right thing" and make a profit has been widely debated among academics.[2] Studies focusing on corporate philanthropy, a form of corporate social responsibility, attempted to measure whether companies that "do good" by giving to charity are either better or worse off in terms of profitability and growth.[3] Yet despite these

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1. Alison Mitchell, *Clinton Prods Executives to 'Do the Right Thing'*, N.Y. TIMES, May 17, 1996, at D1.

2. *See generally* Peter Arlow & Martin J. Gannon, *Social Responsiveness, Corporate Structure, and Economic Performance*, 7 ACAD. MGMT. REV. 235 (1982) (arguing that economic performance is not related to social responsibility in a positive, negative, or neutral manner); Philip L. Cochran & Robert A. Wood, *Corporate Social Responsibility and Financial Performance*, 27 ACAD. MGMT. J. 42 (1984) (using improved financial performance variables to find a correlation between corporate social responsibility and financial performance); Louis W. Fry et al., *Corporate Contributions: Altruistic or For-Profit?*, 25 ACAD. MGMT. J. 94 (1982) (examining the profit motivation argument to find a relationship between profit considerations and corporate giving); Katherine Maddox McElroy & John J. Siegfried, *The Community Influence on Corporate Contributions*, 14 PUB. FIN. Q. 394 (1986) (developing a model of corporate behavior where highly profitable companies contribute to mostly local philanthropic organizations); Frederick D. Sturdivant & James L. Ginter, *Corporate Social Responsiveness: Management Attitudes and Economic Performance*, 19 CAL. MGMT. REV. 30 (1977) (finding a positive correlation between perceived corporate social responsiveness and long-run profitability); Charles P. Cochran, Corporate Philanthropy: Attitudes of Institutional Shareholders and Corporate Philanthropy Executives (1987) (unpublished Ph.D. dissertation, University of Minnesota) (on file with author).

3. *See, e.g.*, Arlow & Gannon, *supra* note 2, at 235; Cochran & Wood, *supra* note 2, at 42; Fry et al., *supra* note 2, at 94; McElroy & Siegfried *supra* note 2, at 394; Sturdivant & Ginter *supra* note 2, at 30; Cochran *supra* note 2.

studies, evidence remains inconclusive.[4] Most conclude that "[b]eing socially involved does not appear to increase investors' total rate of return. Nor does it appear that being socially involved is dysfunctional for the investor."[5]

Clearly the profit motive is not the only factor driving corporate contributions, and one could conjecture that firms give either to advance public welfare or managerial utility. In the first case they behave like not-for-profits or governments. They identify needs in the larger society and undertake initiatives to solve community problems. From an institutional perspective it is not difficult to understand why firms make contributions "to do good." From Sharfman's institutional history of corporate philanthropy and Kahn's description of current corporate and tax laws, it is clear that companies face conflicting demands.[6] On one hand, they are told that, as agents of capital, they have a fiduciary responsibility to optimize return on shareholder equity; on the other, they are told that, as social institutions, they have a responsibility to look after the well being of the larger community and that gifts, which are charitable, should not benefit the firm directly.[7]

In the second case contributions are a form of executive perquisite. Adopting Williamson's model of discretionary behavior we might imagine that some managers prefer corporate contributions as well as after-tax profits.[8] The former might provide such private benefits as support for their favorite charities or access to elite social circles.[9] Atkinson, Galaskiewicz, Wang, and Coffey have extended this argument suggesting that managerial utility is more likely under conditions of weak owner/principal monitoring.[10] Given that contributions are so weakly

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4. *See* Arlow & Gannon, *supra* note 2, at 235.

5. Walter F. Abbott & R. Joseph Monsen, *On the Measurement of Corporate Social Responsibility: Self-Reported Disclosures as a method of Measuring Corporate Social Involvement*, 22 ACAD. MGMT. J. 501, 514 (1979).

6. *See* Mark Sharfman, *Changing Institutional Rules: The Evolution of Corporate Philanthropy, 1883-1953*, 33 BUS. & SOC'Y 236, 256-64 (1994); *see also*, Faith Stevelman Kahn, *Pandora's Box: Managerial Discretion and the Problem of Corporate Philanthropy*, 44 UCLA L. REV. 579 (1997).

7. *See* Peter Navarro, *Why do Corporations Give to Charity?* 61 J. BUS. 65, 66 (1988).

8. *See* OLIVER WILLIAMSON, THE ECONOMICS OF DISCRETIONARY BEHAVIOR: MANAGERIAL OBJECTIVES IN A THEORY OF THE FIRM (1964).

9. *See* Sturdivant & Ginter, *supra* note 2, at 30 (assuming that corporate giving reflects the attitudes of managers).

10. *See* Lisa Atkinson & Joseph Galaskiewicz, *Stock Ownership and Company Contributions to Charity*, 33 ADMIN. SCI. Q. 82, 86 (1988) (suggesting that the more diffuse the stock ownership, the greater the corporate contributions); Jia Wang & Betty

coupled to performance, it is unlikely that owner-managers will contribute much to charity. With the separation of ownership and control, managers are free to use company profits to further their own private interests.[11]

The literature on corporate philanthropy shows that companies transfer money to the charitable sector in a variety of ways. After a brief review of the philosophical debate, we offer a typology of corporate giving varieties. Company giving can be typed along two dimensions: exclusivity and meterability of benefits.[12] To the extent that company giving results in exclusive, measurable benefits for the firm, it is faithful to its agency responsibilities. If company giving benefits many different actors in the environment—including competitors, in many and diffuse ways—it could be faithful to its social responsibility mandate, but it could also be serving managerial utility.[13] However, the choice of variety depends not upon philosophical preference but upon context. This paper focuses on profits, market position, ownership, and social context. While the description of the different varieties of corporate philanthropy draws heavily on case studies, the discussion of contextual effects draws on large sample surveys of company giving behavior.

II. THE CORPORATE PHILANTHROPY DEBATE

While most agree that the New Jersey court ruling in *A.P. Smith Manufacturing Co. v. Barlow*,[14] in 1953, merely legitimated what many in the United States had come to expect of business corporations, it still was a landmark decision.[15] In *A.P. Smith*, the court ruled that corporate managers now had the broad discretion and judgment to decide what would best promote a corporation's interest.[16] Previously, the law required that

S. Coffey, *Board Composition and Corporate Philanthropy*, 11 J. BUS. ETHICS 771, 774 (1992) (suggesting that the ratio of insiders to outsiders on boards will be positively related to contributions).

11. *See* Atkinson & Galaskiewicz, *supra* note 10, at 83.

12. *See infra* text at pp. 1066-67.

13. *See infra* text at pp. 1066-67.

14. 98 A.2d 581 (N.J. 1953).

15. *See id.*; Sharfman, *supra* note 6 (noting that this decision, and the U.S. Supreme Court's refusal to review it, affirmed the corporation's right to make donations by setting aside the bar imposed by the *ultra vires* doctrine).

16. *See* 98 A.2d at 590 (stating that "in our view the corporate power to make reasonable charitable contributions exists under modern conditions, even apart from express statutory provision, its enactments simply constitute helpful and confirmatory declarations of such power, accompanied by limiting safeguards").

corporate contributions have a direct relation to the company's business.[17] Now corporations had a responsibility not only to their shareholders but to the larger community.[18] This larger community included employees, the communities in which they do business, and the natural environment.[19] Although this helped to end doubts and uncertainties among company donors and opened the door for a marked expansion of contributions, it also raised many new questions about what "responsibility to the larger community" actually meant.

Although the legality of charitable contributions is not an issue, the philosophical debate continues. Some argue that it is unethical for businesses to give, while others say that it is unethical for businesses not to give. Representing the former side, Milton Friedman argues that the business of business is business:

> The view has been gaining widespread acceptance that corporate officials . . . have a "social responsibility" that goes beyond serving the interest of their stockholders . . . . Few trends could so thoroughly undermine the very foundations of our free society as the acceptance of a social responsibility other than to make as much money for their stockholders as possible . . . . Can [corporate executives] decide how great a burden they are justified in placing on themselves or their stockholders to serve that social interest?[20]

Friedman believes that a company has primary responsibility to its shareholders, and thus managers and employees must do whatever is legally permissible to increase revenues and reduce costs. If charitable contributions do neither, then they are inappropriate. If executives or shareholders want to help social causes they can give their money individually.[21]

A recent reincarnation of the Friedman position is in the redefinition of corporate donations as social investments. Craig Smith believes that partnerships which directly further corporate initiatives are both necessary and important.[22] Aligning the interest of the company with the "larger

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17. *See* Sharfman, *supra* note 6, at 236.

18. *See A.P. Smith Mfg. Co.*, 98 A.2d at 581.

19. *See* Edward J. Stendardi, Jr., *Corporate Philanthropy: The Redefinition of Enlightened Self-Interest*, 29 SOC. SCI. J. 21, 22 (1992).

20. MILTON FRIEDMAN, CAPITALISM AND FREEDOM 133-34 (1962).

21. *See id.*

22. *See* Craig Smith, *The New Corporate Philanthropy*, HARV. BUS. REV., May-June 1994, at 105 (explaining how companies are now forming strategic partnerships with nonprofit organizations to advance their business goals while affecting social

good" is the way to achieve the long term goals of a company, but companies need to keep in mind what they get out of the transaction as well. Giving as an investment is closely connected to the idea that companies can measure the return to their philanthropic activity.[23] Dienhart states that equating donations with investments is not only compatible but complimentary to everyday business activities.[24] It is also an effective way to convince those making the decisions that giving is not a high risk activity, because there will be some measurable return.[25]

Defenders of charitable contributions counter that firms have a responsibility to all their stakeholders, not just investors. Stakeholders include investors, but also include employees, customers, the community, and the natural environment in which firms operate.[26]

> A corporation is an integral part of our society and as such it should be a responsible and responsive member of society. By virtue of its role as a producer of products, employer of people, and generator of funds, it has a unique capacity to provide benefits for the public good on a large and pervasive scale. Accordingly, the corporation should utilize its resources to respond to the challenge to improve our society.[27]

In the extreme, firms, just as other citizens, have a moral obligation to advance public welfare.[28] But on top of that, firms need to ensure the well

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change).

23. *See* Stendardi, *supra* note 19, at 25.

24. *See* John W. Dienhart, *Charitable Investments: A Strategy for Improving the Business Environment*, 7 J. BUS. ETHICS 63, 64-65 (1988) (conceptualizing a view of corporate giving where self-interested investment is indeed altruistic because it improves the economic climate in which businesses operate).

25. *See id.*

26. *See* R. EDWARD FREEMAN, STRATEGIC MANAGEMENT: A STAKEHOLDER APPROACH 24-25 (Edwin M. Epstein ed., 1984) (framing a broad model of the firm which defines stakeholders as all groups that can affect, or be affected by, the firm's business); William E. Evan & R. Edward Freeman, A *Stakeholder Theory of the Modern Corporation: Kantian Capitalism*, *in* ETHICAL THEORY AND BUSINESS 97-106 (Tom L. Beauchamp & Norman E. Bowie eds., 3rd ed. 1988) (defining stakeholders as groups who have a stake in the firm, to whom managers owe a fiduciary duty).

27. *See* JAMES F. HARRIS & ANNE KLEPPER, CORPORATE PHILANTHROPIC PUBLIC SERVICE ACTIVITIES 17-18 (The Conference Board 1976).

28. *See* Bill Shaw & Frederick R. Post, *A Moral Basis for Corporate Philanthropy*, 12 J. BUS. ETHICS 745, 746 (1993) (The authors espouse the view of J.S. Mill that it is "better to be a Socrates dissatisfied, than a pig satisfied." The authors argue that ethical traditions, in the Aristotelean sense, supply a compelling foundation for corporate

being of those upon whom they are dependent for their survival.[29] Firms need capital, but they are also dependent upon employees, consumers, the natural environment, and communities. While charitable contributions may not result in any direct, measurable benefits to the firm, such gifts serve firms' long term or enlightened self interest. Giving, as serving the firm's enlightened self interest, was very popular among corporate executives in the late 1970s and 1980s.[30]

There are three variants on the enlightened self interest theme. The first focuses on infrastructure.[31] Recognizing that a "healthy corporation cannot exist in a sick community,"[32] corporations focus on both the things and people that will ensure its success. By giving to education, a company stresses the importance of training the work force for the future. By supporting environmental efforts, the firm helps to ensure that there will be natural resources in the future. The second variant is that doing good results in reputational gains. A company that engages in philanthropic activities, and does not do any harm to either society or the environment, will be well thought of by stakeholders, and this will benefit it in the long run. "The goal is to become known as a good corporate citizen . . . then, somewhere, somehow, your good image pays off."[33] Being regarded as a good corporate citizen can lead to sales or favorable legislation, but it can also give a firm the "benefit of the doubt" in difficult situations.[34] It

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giving.).

29. *See* Stendardi, *supra* note 19, at 22.

30. *See* ARTHUR H. WHITE & JOHN BARTOLOMEO, CORPORATE GIVING: THE VIEWS OF CHIEF EXECUTIVE OFFICERS OF MAJOR AMERICAN CORPORATIONS (Council on Foundations 1982); DANIEL YANKELOVICH GROUP, INC., CORPORATE GIVING: THE VIEWS OF CHIEF EXECUTIVE OFFICERS OF MAJOR AMERICAN CORPORATIONS (Council on Foundations 1988); Arlow & Gannon, *supra* note 2, at 239; James S. Bowman, *Business and the Environment: Corporate Attitudes, Actions in Energy-Rich States*, 25 MSU BUS. TOPICS 37, 38-40 (1977) (summarizing the empirical results of seven different studies conducted in the mid to late 1970s to conclude that, during this period, businesses were recognizing the importance of corporate giving and were acting upon these concerns); Lyman E. Ostlund, *Attitudes of Managers Toward Corporate Social Responsibility*, 19 CAL. MGMT. REV. 35, 38 (1977) (finding in their 1974 survey of Fortune 500 executives that the arguments against corporate responsibility were considered less important than the arguments for such involvement).

31. *See* Stendardi, *supra* note 19, at 25-27.

32. *See id.*

33. *See* Mark Henricks, *Doing Well While Doing Good*, 11 SMALL BUS. REP. 28 (1991).

34. *See* Charles Fombrun & Mark Shanley, *What's in a Name? Reputation Building and Corporate Strategy*, 33 ACAD. MGMT. J. 233, 255 (1990).

is difficult to "bank" one's image and to know when one's image "pays off," but it is potentially a valuable corporate asset.[35]

The third variant on this theme is outlined by Haley.[36] He argues that contributions to charity are more than assuring audiences that companies are, after all, soulful.[37] As "corporate masques," corporate contributions can be much more proactive, strategic, and instrumental.[38] Managers can use contributions to acquire audiences by capturing the attention of key stakeholders, to mime messages by symbolically transmitting corporate interests to other stakeholders, and to vend values by institutionalizing them in society.[39] In other words, contributions can be vehicles to communicate illusions and negotiate favorable corporate images in the eyes of those upon whom they are dependent. In the course of this exchange, contributions also communicate the company's message, mission, intentions, and values. This not only can help assure audiences, but it can also alert them to corporate power.[40] In the most extreme case, contributions can help to extend corporate influence, ideologies, and values outside the business realm. In this respect contributions are strategic resources which managers can use to mold society in a way which benefits companies.

III. VARIETIES OF CORPORATE-NONPROFIT PARTNERSHIPS

We first describe the varieties of partnerships between firms and the charity sector. We avoid the term corporate philanthropy, because this is only one variety of corporate-nonprofit partnership. Looking only at charitable contributions deducted under § 170 of the IRS tax code is too restricting and does not give us a complete picture of the linkages and

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35. *See id.* at 234 (explaining that firms compete for reputational status, which itself depends upon internal variables such as informational "signals" and external variables such as public selectivity).

36. *See* Usha C. V. Haley, *Corporate Contributions As Managerial Masques Reframing Corporate Contributions As Strategies to Influence Society*, 28 J. MGMT. STUD. 485 (1991).

37. *See id.* at 486.

38. *See id.* at 486-87 (comparing how aristocrats in seventeenth-century English courts used dramatic entertainment to impart lessons of moral values, called masques, to how managers use contributions to influence stakeholders metaphorically).

39. *See id.* at 487.

40. *See id.*

dependencies between the corporation and the charity sector today.[41] In our framework the unit of analysis is the transaction between the business corporation and the charity. Some of these have a clear quid pro quo and benefits to the firm are clear. For example, a contract with a major university for the rights to bring a new technology to market. However, others are, for all practical purposes, unilateral transfer payments and it is difficult to measure how they benefit the firm. For example, a grant to a senior citizen's home or battered woman's shelter. These two distinctions, the degree to which benefits accrue exclusively to the firm and are measurable, will help structure our discussion of corporate/nonprofit partnerships.

The distinction between benefits that are *exclusive* or *inclusive* borrows directly from the distinction between private and public goods. Consumption and ownership are non-problematic for the former, while they are for the latter. The private good or service is divisible, and there is no problem in delimiting ownership rights. This is problematic for public or inclusive goods, because consumption or ownership by one actor does not preclude the consumption or ownership by another. Goods or outputs that provide exclusive benefits are not necessarily more valuable than goods or services that are more inclusive. Although, it is easier to price them and allocate costs, and they are the cornerstone of competitive advantage. Rather, actors in economic, political, or social arenas, need and value both.

Meterability refers to the ability to measure the benefits which result from some transaction. Such measures can be quantitative or qualitative; but there has to be some credible standard against which to evaluate the benefits that one has come to realize. High meterability implies confidence in the ability to distinguish or cognitively differentiate among outcomes. Low meterability implies that evaluators have difficulty ranking, ordering, and judging the benefits of one outcome as opposed to another. Meterability is important for any rationalizing process. Being able to evaluate benefits is tantamount to holding the transaction accountable. Some transactions produce benefits that are "greater" than others and thus they have more value. Meterability thus is critical in making and evaluating strategic decisions and decision-makers.

We can cross-classify the exclusivity/inclusivity and high/low meterability of benefits that accrue to a firm to develop a typology of

41. We focus only on ties to public charities, i.e., not-for-profit organizations exempt under § 501(c)(3) of the Internal Revenue Code. Donations, memberships, or partnerships with social welfare organizations, i.e., § 501(c)(4), will be left for others to explore; *see, e.g.*, BARRY D. KARL, THE CORPORATE CONTRIBUTIONS HANDBOOK 20-33 (James P. Shannon ed., 1991).

firm/nonprofit partnerships.[42] In cell A, labeled Commercial Partnerships, are transactions that produce benefits for the firm which are both meterable (or measurable) and exclusive. Examples include cause-related marketing and research and development contracts between industry and universities.[43] In cell B, labeled Strategic Partnerships, are transactions which produce benefits which are exclusive to the firm, but which are more difficult to measure. Examples include sponsorships, policy marketing, and donations of equipment to educational institutions. Cell C, labeled Civic Partnerships, includes transactions which result in clearly measurable outcomes, but the benefits are shared by a wide range of other actors. The firm has no expectation that it alone will benefit from this activity. Examples include contributions to civic projects, art exhibitions, capital projects, and disaster relief.[44] Finally, in cell D, labeled Philanthropic Partnerships, are transactions which produce outputs which are neither meterable nor benefit exclusively the corporate partner. Examples include unrestricted gifts and grants to general operating budgets of charitable organizations, or contributions to the United Way.[45] Benefits typically accrue to third parties who are unrelated to corporate personnel, such as patients in a children's hospital or students in an inner city school, and are very difficult to evaluate either in the short or long term.

A. *Commercial Partnerships*

Commercial Partnerships are in cell A. Here firms enter into contracts to purchase some good, service, or technology from nonprofit organizations or, in the case of cause-related marketing, to use the nonprofit's "good name" to sell their merchandise. These transactions directly benefit, or add value to, the business partner, and the results are relatively easy to measure. Expenses related to these transactions are seldom tax deductible as charitable contributions.[46]

Two types of commercial partnerships have received considerable attention: cause-related marketing and research collaborations between hi-tech firms and universities and nonprofit research institutes. In cause-related marketing, a company chooses a cause, charity, or nonprofit

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42. *See* Figure 1, *infra* p. 1088.

43. *See* Figure 1, *infra* p. 1088.

44. *See* Figure 1, *infra* p. 1089.

45. *See* Figure 1, *infra* p. 1090.

46. *See* Thomas A. Hemphill, *Cause-Related Marketing, Fundraising, and Environmental Nonprofit Organizations*, 6 NONPROFIT MGMT. & LEADERSHIP 403, 415 (1996).

organization to adjoin itself and advertises this newly formed joint venture.[47] The arrangement is a "win-win" situation, because typically the firm promises to give a percentage of the income from the sale of some good or service to the nonprofit, and the company gets publicity through its association with a credible nonprofit.[48] Since the product does not cost any more to the customer, the added benefit that some charity is "profiting" induces the customer to patronize the vendor. In this respect it is a "coupon."[49] Cause-related marketing involves a clear *quid pro quo*; the company expects a return. For this reason it is usually supported from advertising or sales promotion budgets, not the foundation or community relations.[50]

There are several case studies and a few surveys that have demonstrated that it works quite well. The most obvious case was American Express Corporation's partnership with the Statue of Liberty. Card usage increased 28% over the previous year, the number of new cards issued rose 45%, and the Statue of Liberty restoration fund received $1.7 million from American Express.[51] Other research has shown that cause related marketing increases public awareness of the cause, expands the nonprofit's base of support, and generates a more positive image of the nonprofit among the public.[52]

There is, however, a downside. Since cause related marketing creates a virtual tie between the firm and the nonprofit, it makes them both liable for one another's actions.[53] Cause related marketing can threaten to commercialize nonprofits[54] in what has been referred to as part of the process of the "logoization of America," or it may redirect giving efforts to only visible and appealing causes rather than those that might

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47. *See* P. Rajan Varadarajan & Anil Menon, *Cause-Related Marketing: A Coalignment of Marketing Strategy and Corporate Philanthropy*, 52 J. MARKETING 58, 59-60 (1988).

48. *See* John R. Garrison, *A New Twist To Cause Marketing*, FUND RAISING MGMT., Feb. 1990 at 40.

49. *See id.*

50. *See* Varadarajan & Menon, *supra* note 47, at 59.

51. *See* Wendy L. Wall, *Helping Hands: Companies Change the Ways They Make Charitable Donations*, WALL ST. J., June 21, 1984, at A1.

52. *See* Hemphill, *supra* note 46, at 410 (citing examples of how environmental groups have generated significant percentages of their annual budgets from cause-related marketing agreements).

53. *See* Varadarajan & Menon, *supra* note 47, at 63 (explaining how some cause-related marketing programs blossom into joint ventures undertaken by the contributor and the charity).

54. *See* Garrison, *supra* note 48, at 40.

necessarily need the most.[55] If a charity does not have mass appeal, it will be overlooked by corporations seeking to make a profitable partnership.

Scientific collaboration is another form of commercial partnership. Examples include research parks (or science parks or technology parks) and technology incubators.[56] The generic model is that companies become tenants of the park with the expectation that close proximity to the university, its people, its resources, and other hi-tech firms, will facilitate technology transfer.[57] Research or technology parks can be nonprofit or for-profit, owned by a university or a university-related entity, or owned by a non-university entity with contractual relationships to a university.[58] In technology incubators the emphasis is on small, entrepreneurial businesses who share support services, such as, financing, marketing, and management.[59] The success of these parks and incubators ultimately depends upon the faculty adopting them as their own and working with tenants on research of common interest, and the ability of businesses to turn scientific knowledge into marketable products.

The joint venture or limited partnership is another form of scientific collaboration. Universities are now able to capture exclusive commercial right to their discoveries, and then to both patent and license those discoveries to U.S. companies for further development.[60] The company may purchase the rights to the license or it may simply make a "contribution" to gain access to the new knowledge.[61] In exchange the

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55. *See* Nora Ganim Barnes, *Joint Venture Marketing: A Strategy for the 1990s*, 9 HEALTH MARKETING Q. 23, 25 (1991); Patricia Caesar, *Cause-Related Marketing: The New Face of Corporate Philanthropy*, 59 BUS. SOC'Y REV. 15, 17-18 (1986); Timothy S. Mescon & Donn J. Tilson, *Corporate Philanthropy: A Strategic Approach to the Bottom-Line*, 29 CAL. MGMT. REV. 49 (1987).

56. *See* Eva Klein, *Technology Parks and Incubators: A Nexus Between University Science and Industrial Research and Development*, *in* INNOVATIVE MODELS FOR UNIVERSITY RESEARCH 11-48 (C. R. Haden & J.R. Brink eds., 1992).

57. *See id.*

58. *See* ASSOCIATION OF UNIVERSITY RELATED RESEARCH PARKS, MEMBERSHIP DIRECTORY, (AURRP 1991).

59. *See* Klein, *supra* note 56.

60. *See* Bruce D. Merrifield, *Research Consortia: The Concurrent Management of Innovation*, *in* INNOVATIVE MODELS FOR UNIVERSITY RESEARCH 49-62 (C.R. Haden & J.R. Brink eds., 1992) (citing the $100 million relationship between Washington University and Monsanto, which resulted in 16 patents on proteins and peptides).

61. *See* Eric G. Campbell, Philanthropy and Self-Interest: Academic-Industry Research Relationships (1996) (unpublished PhD. thesis, University of Minnesota) (on file with the author) The author demonstrated that firms which had license agreements with universities were more likely to make charitable contributions to universities as well. The interpretation was that charitable contributions are the "grease" which help to smooth

university (and/or faculty) obtains royalties and at times an equity position in the firm.[62] Although this sounds relatively straightforward, it is not. Many contingencies may arise, such as, product liability, sub-licensing, and further product development by the licensee, that can undermine the collaboration.[63]

Just as in the case of cause-related marketing, there is very little altruism in the scientific collaboration. The firm fully expects to realize some tangible benefit and will negotiate as hard with the university as with any other business partner for its position. Fees to acquire licenses or dividends paid to equity partners are rarely treated as charitable contributions. On the university's side, these collaborations are, for the most part, simply another revenue stream for administrators to tap. Clearly, the purpose is to transfer technology exclusively to a proprietary firm who can then exploit the privileged information for personal gain and to benefit the university.[64]

B. *Strategic Partnerships*

Firms will use strategic partnerships to realize direct, exclusive benefits for the firm, however, it is often difficult to measure these "benefits." In this respect strategic partnerships are akin to advertising expenditures, public or government relations initiatives, and PAC

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over the rough edges of licensing contracts; also the contributions are a way in which firms ensure that they have an inside track on what is happening at the university. In a later analysis he showed that a significant percentage of faculty who received gifts from industry thought that the company (or companies) expected either pre-publication review of articles or reports (32%), ownership of all patentable results from the gift (19%), a future consulting relationship (29%), evaluation/testing of company products (30%), or training of company employees (9%) in return for the gift. *See id.*

62. *See* Merrifield, *supra* note 60 (illustrating how the Massachusetts Institute of Technology and Stanford both receive one third of the profits realized from patents licensed to manufacturing, marketing and distribution companies).

63. Some of the more spectacular examples of industry-university collaboration have been in the area of biotechnology. For a description and analysis of partnerships in this industry see Stephen R. Barley et al., *Strategic Alliances in Commercial Biotechnology*, *in* NETWORKS AND ORGANIZATIONS: STRUCTURE, FORM, AND ACTION 311-347 (Nitin Nohria & Robert G. Eccles eds., 1992); Walter W. Powell & Peter Brantley, *Competitive Cooperation in Biotechnology: Learning Through Networks?*, *in* NETWORKS AND ORGANIZATIONS: STRUCTURE, FORM, AND ACTION 366-394 (Nitin Nohria & Robert G. Eccles eds., 1992); Anthony Montgomery, *Technology Transfer from Universities: Elements of Success*, *in* INNOVATIVE MODELS FOR UNIVERSITY RESEARCH 68-69 (C.R. Haden & J.R. Brink eds., 1992).

64. *See* NORMAN E. BOWIE, UNIVERSITY-BUSINESS PARTNERSHIPS, AN ASSESSMENT (Steven M. Cahn ed. 1994).

contributions. Strategic partnerships are often initiated by marketing departments, and expenditures are seldom deducted as charitable contributions.[65] However, there are some instances when they are. We focus on three types of strategic partnerships: sponsorships, policy marketing, and donations of products.

Sponsorships are a familiar method of funding not-for-profit organizations. Typically the company pays an amount of money to the not-for-profit in exchange for the right to display its name or logo at some event, on the premises, or in conjunction with some program of the not-for-profit. Sponsorships can range from buying "tents" at golf tournaments, to paying for a theater season, to funding mega-events such as Live Aid, Farm Aid, and Hands Across America.[66]

In her study of media sponsorship of nonprofit events in the Twin Cities, Bryan found that seldom did company spokespersons claim that they derived any direct or measurable benefits from their sponsorships.[67] Over and over they said "hopefully" sponsorships increased listenership.[68] The goal was to gain credibility by borrowing legitimacy from the event or cause. Thus, companies would not sponsor just any event or nonprofit. There had to be a good fit with the firm, the cause could not be too controversial, and there had to be a way to display the sponsorship to audiences.[69] The focus is usually on the event—which is supposed to be fun—rather than on the problem which, in most cases, is serious.[70] In the case of media sponsorships, the event also should be "newsworthy." That way it can be shown on the evening news as a news story and used to showcase the station's sponsorship.

Post and Waddock researched sponsorship of so-called mega-events.[71] In their case study of Hands Across America, which took place May 25, 1986, they described the organizational challenge of getting 6 million people across the United States to do something together at the same time.[72] Coca Cola was the original corporate sponsor, and USA for

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65. *See* Hemphill, *supra* note 46, at 415.

66. *See* Caesar, *supra* note 55, at 16-17 (citing examples).

67. *See* Kate Bryan, Corporate and Media Sponsorship of Nonprofit Events in a Marketing Oriented Society (1991) (unpublished Master's Project, University of Minnesota, School of Journalism and Mass Communication) (on file with author).

68. *See id.*

69. *See id.*

70. *See id.*

71. *See* James E. Post & Sandra A. Waddock, *Social Cause Partnership and the "Mega-Event": Hunger, Homelessness and Hands Across America, in* 11 RESEARCH IN CORPORATE SOCIAL PERFORMANCE AND POLICY 181 (James E. Post ed. 1989).

72. *See id.*

Africa, a collection of Hollywood types and recording artists, was the parent organization.[73] Coca Cola not only provided money, but also its mass marketing expertise, access to 84% of the consumer market, and local partnerships through the Coca-Cola bottler network.[74] Coke was joined by Citibank as a key corporate sponsor, and together they promoted the event on national television, radio, and through point-of-purchase promotions.[75] Other companies subsequently: purchased "miles" along the way, American Express; bought billboard advertising, 3M; printed advertising on grocery bags, Safeway stores; and printed advertising on trayliners, McDonalds.[76]

This case showed that sponsorships are not without their problems. Although Hands Across America raised more than $25 million and netted $16 million, there was considerable criticism in the media in the weeks following.[77] Most centered on how slow the money had been distributed, how regions and locales were getting less back than they donated, and how none of this really reduced hunger or homelessness.[78] This may have been due partly to the huge business marketing presence which gave the event more of a commercial flavor than a social cause and raised suspicions among many.[79] Post and Waddock stated, "Advocates of social causes may be willing to make Faustian bargains with commercial sponsors in order to serve *their* causes because they are worthy, but the public may be much less tolerant."[80] Once an event gets caught up in public discourse and media hype, both organizers and sponsors lose control over how people interpret their actions.

A second type of strategic partnership is what Smith calls policy marketing.[81] Here, lobbying funds are mixed with donations to generate grassroots support for various social and political causes. He cites Binney & Smith, the maker of Crayola crayons, advocating for state funding of arts in education, bike manufacturers donating to nonprofits pushing for more bike trails, and insurers who contribute to public interest coalitions pushing for the "liberalization" of industry controls.[82] We would also include contributions to many "educational" nonprofits that have blatant

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73. *See id.* at 190.

74. *See id.*

75. *See id.*

76. *See id.*

77. *See id.* at 187.

78. *See id.* at 194.

79. *See id.* at 195-96.

80. *See id.* at 196.

81. *See* Smith, *supra* note 22, at 111.

82. *See id.*

political agendas. Many 501(c)(3) organizations which have "education" as their purpose, often engage in activities that are more like propagandizing, advocating, lobbying, and even campaigning.[83] We have even seen a rise in "politicized philanthropies" recently, for example, Newt Gingrich's Progress and Freedom Foundation.[84] However, many important public policy institutes have status under § 501(c)(3) as well. Corporate support for The American Enterprise Institute, The Brookings Institute, The Heritage Foundation, The Urban Institute, and The Progressive Policy Institute, is long-standing.[85]

The third type of strategic partnership is the donation of equipment to nonprofits. Under the Economic Recovery Tax Act of 1981, manufacturers can deduct, as charitable contributions, the cost of the equipment donated plus half of the difference between the cost and selling price of the equipment, if they give the equipment to educational institutions and the latter uses it as scientific equipment or apparatus.[86] This opened the door for computer companies like IBM, AT&T, Apple, and Hewlett Packard, to donate considerable inventory to colleges and universities.[87] While companies may have rationalized these gifts as part of their philanthropic commitment to higher education, in reality there were many direct benefits which they hoped to realize, e.g., access to leading edge researchers and prospective employees, opportunities to experiment with new operating systems and software, opportunities to cultivate relations with prospective institutional customers, and occasions

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83. *See, e.g.*, Kahn, *supra* note 6, at 654 (Professor Kahn notes that some nonprofits have created what she calls the "c3/c4 split." Legally two organizations exist, one exempt under 501(c)(3) and one exempt under 501(c)(4), however, there is only one entity with the same offices, staff, and infrastructure. The only difference is that contributions to the former are tax deductible as charitable contributions, while donations to the latter are not).

84. *See* Kahn, *supra* note 6, at 645 (stating that Newt Gingrich's Progress and Freedom Foundation is an extreme example).

85. *See id.* at 651-52.

86. A similar deduction is available for those wishing to make contributions to nonprofits that benefit infants, the needy, and the ill, which, of course, greatly affects pharmaceutical company donations. *See, e.g.*, Michael Useem & Stephen I. Kunter, *Corporate Contributions to Culture and the Arts: The Organization of Giving and the Influence of the Chief Executive Officer and of Other Firms on Company Contributions in Massachusetts*, *in* NONPROFIT ENTERPRISE IN THE ARTS: STUDIES IN MISSION AND CONSTRAINT 93 (Paul DiMaggio ed. 1986).

87. *See* Ed Joyce, *Corporate Dollars on Campus: Who Profits?*, DATAMATION, Apr. 15, 1987, at 64.

to introduce future individual customers to their products.[88] However, these types of donations could seldom be justified in terms of return on investment.[89]

C. *Civic Partnerships*

Civic partnerships are distinct from the previous two varieties, because while the benefits are easy to meter, the beneficiary is not the individual donor but rather the larger community. Civic partnerships also have a long history. Projects can be initiated either by some actor in the nonprofit or government sectors, and firms can be solicited for contributions that will be pooled with others to complete the project. For example, firms in Minneapolis-St. Paul contributed $4 million in charitable dollars and $10.7 million in private investments to acquire land upon which the Hubert H. Metrodome was constructed.[90] It is reported that the business community in Milwaukee will contribute $14 million for the construction of the new Brewers baseball stadium, Miller Park (although we do not know how much of this is in the form of charitable contributions).[91] In Minneapolis-St. Paul alone, local and out-of-town businesses have also made charitable contributions to help defray costs for hosting the U.S. Olympic Festival ($8 million in contributions and sponsorships in 1990),[92] the International Special Olympics ($22 million in contributions, sponsorships, equipment, and services in 1991),[93] the Super Bowl ($2 million in charitable cash contributions and $2 million in

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88. *See id.* (citing AT&T's $4.5 million gift of computer equipment to the University of Virginia which qualified as a tax deduction under the Economic Recovery Tax Act of 1981, and which fostered a reliance by students on AT&T operating systems).

89. *See id.* at 68 (explaining that such intangible benefits as educating bright students and contributing to the design process of new technology cannot be measured on a balance sheet).

90. *See* AMY KLOBUCHAR, UNCOVERING THE DOME 101 (1982).

91. Note that these contributions are distinct from companies leasing the right to lend their name to a publicly owned stadium for a fixed number of years. Examples of this include Coors Brewing Company and Coors Field in Denver and Miller Brewing Company and Miller Park in Milwaukee. Because these lease arrangements yield a direct benefit to the firm in terms of advertising, we would consider them examples not civic partnerships. *See* Charles Whiting, *Other Cities' Stadium Lessons*, MINNEAPOLIS STAR-TRIB., Aug. 25, 1996, at A21.

92. *See* Richard Mayhew, *Many in the Business Helping Out: Special Olympics Inspires Much Corporate Generosity*, MINNEAPOLIS STAR-TRIB., July 23, 1991, at 13A.

93. *See id.*

in-kind services in 1992),[94] and building a new structure to house the Carlson School of Management at the University of Minnesota ($20 million in total raised among firms and individuals in 1995).[95]

These transactions are more "charitable" than the previous two because of the benefits which accrue to the larger community. Keim has commented on the "public goods" nature of many charitable gifts which creates disincentives for any one donor to contribute.[96] Galaskiewicz notes that in a situation where the other players are one's competitors, the disincentives are even greater, because the chiseler now has unspent resources that it can use to gain an advantage over donors.[97] Yet contributing to these projects is attractive, because the benefits are so visible. Although the firm itself cannot hope to gain any strategic advantage, executives can at least point to results and take pride in their efforts to get something accomplished.

D. *Philanthropic Partnerships*

Philanthropic Partnerships are, of course, what most people regard as corporate philanthropy: unrestricted gifts to the operating budgets of theaters, schools, orphanages, and social service agencies to name just a few charities that benefit. These gifts often receive no fanfare, are sometimes listed in annual reports or programs of donees, and firms seldom take credit for them.[98] What makes these gifts distinctive is that

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94. *See* Annette Berger et al., Presentation of *Public-Private Partnerships in the Urban Community: An Example of an Interorganizational Action System*, Paper Presented at the Annual Meetings of the American Sociological Association (August 20-24, 1992).

95. *See* Dan Wascoe, Jr., *The Art of Charity: U's Biomedical Institute Exhibits Fund-Raising Skill at Museum Show*, MINNEAPOLIS STAR-TRIB., Nov. 22, 1995, at 1D.

96. *See* Gerald D. Keim, *Corporate Social Responsibility: As Assessment of the Enlightened Self-Interest Model*, 3 ACAD. MGMT. REV. 32, 35 (1978) (stating that firms have an incentive to "ride free" because once a public gift is created; everyone benefits, whether or not they contributed).

97. *See* JOSEPH GALASKIEWICZ, SOCIAL ORGANIZATION OF AN URBAN GRANTS ECONOMY: A STUDY OF BUSINESS PHILANTHROPY AND NONPROFIT ORGANIZATIONS 19-81 (1985) (The author describes how corporations who give voluntary gifts and are in competition with those who do not give gifts, "find themselves at a disadvantage." Everyone benefits, but the chiseler now has unspent resources that it can use to gain a market advantage over its competitors who make a contribution).

98. However, this is not always true. Professor Kahn gives several examples of how firms will go out of their way to advertise all the "good" things they are doing for nonprofits. She also cites work showing that consumers tend to be responsive to this sort of advertising. *See* Kahn, *supra* note 6, at 670-71.

they benefit third parties and it is virtually impossible to know what difference one's singular contribution makes.

E. *Discussion*

Clearly there are many varieties of corporate-nonprofit linkage. Some directly benefit the firm and are relatively easy to measure; others only benefit actors outside the firm and often it is very difficult to measure the outcomes. It is probably safe to say that Milton Friedman and his followers would be comfortable with the former but not the latter and that stakeholder theory would be comfortable with both but would emphasize the value of the latter.[99]

Is embracing one or the other position simply a matter of company philosophy or are there systematic differences across firms and/or industries which can explain why some embrace the stakeholder position while others are more pragmatic? These are the questions which we now attempt to answer.

IV. COVARIATES OF CORPORATE-NONPROFIT PARTNERSHIPS

The empirical work on corporate giving shows that all firms do not give the same amounts to charity. In this section we describe the covariates of corporate contributions focusing on profits, market position, ownership, and social context. We caution that while studies of charitable contributions are plentiful, research on cause related marketing, industry-university relations, and sponsorships are quite limited. Therefore the bulk of our discussion is limited to transactions that are concentrated in cells C and D of Figure 1.[100]

A. *Profits*

An important correlate of corporate contributions is profits. Whether researchers use pretax net income,[101] the log of pretax net income,[102] or

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99. *See* MILTON FRIEDMAN, CAPITALISM AND FREEDOM (1962).

100. *See supra* notes 42-45 and accompanying text.

101. *See* Peter Navarro, *The Income Elasticity of Corporate Contributions*, 28 Q. REV. ECON. BUS. 66, 66-75 (1988); McElroy & Siegfried, *supra* note 2; Joseph Galaskiewicz & Stanley Wasserman, *Mimetic Processes Within an Interorganizational Field: An Empirical Test*, 34 ADMIN. SCI. Q. 454 (1989).

102. *See* CHARLES T. CLOTFELTER, FEDERAL TAX POLICY AND CHARITABLE GIVING 171 (1985); *see also* McElroy & Siegfried, *supra* note 2, at 395; Galaskiewicz, *supra* note 97, at 59.

ratios of pretax and after-tax net income to revenues, assets, and equity;[103] the results are basically the same.

In addition to the obvious capacity story, there are two additional reasons why contributions are so tightly coupled to profits. First, there is the "rule of thumb" argument. Companies often have a policy of giving a certain percentage of pretax net income to charity.[104] Dayton-Hudson, for example, contributes 5% of its pretax earnings to charity.[105] Also, tithing clubs have stipulated 2% or 5% of pretax profits as a standard for their members.[106] These set percentages are normative, and there typically is no economic or business rationale for these levels. Yet these norms appear to be quite powerful.

Another reason that profits are an important correlate of contributions is the tax law. Because charitable contributions are deductible against pretax earnings, they are viewed as a way to reduce the company's taxes. Currently, firms can deduct charitable gifts up to 10% of pretax net income (5% up to 1981), and this sets a ceiling on giving. However, firms seldom come close to giving this much.[107] Most research has focused on the complement of the marginal tax rate or the "price" of a contribution. Several researchers have found that company contributions are sensitive to changes in the marginal tax rate, although the price effect for corporate giving appears to be considerably smaller than that for individual contributions.[108] Schwartz, looking at data extending from 1936 through 1961, analyzed industrial groups together, and then nine separate industry categories.[109] Controlling for the average after-tax income and then for cash flows, the complement of the average tax rate consistently had a negative effect on contributions.[110] Nelson looked at industry-level

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103. *See* Peter Navarro, *supra* note 101, at 67; Joseph Galaskiewicz, An Urban Grants Economy Revisited: Corporate Community Service In the Twin Cities, 1979-81, 1987-89 (1996) (working paper on file with author).

104. *See id.* McElroy & Siegfried, *supra* note 2, at 403 (analyzing the elasticity of corporate contributions with respect to profits).

105. *See id.*

106. *See* Navarro, *supra* note 7, at 82.

107. *See* GIVING USA 1996: THE ANNUAL REPORT ON PHILANTHROPY FOR THE YEAR 1995, at 90 (1996) [hereinafter GIVING USA] (showing that this ceiling has a minimal impact on giving, given that contributions as a percent of pretax net income has hovered around 1% for decades; this ceiling seems to affect only firms which have had poor earnings but are saddled with commitments to nonprofits which they want to honor).

108. *See* CLOTFELTER, *supra* note 102, at 170-71; Charles T. Clotfelter, *Charitable Giving and Tax Legislation in the Reagan Era*, 48 LAW & CONTEMP. PROBS. 197 (1985).

109. *See* R. A. Schwartz, *Corporate Philanthropic Contributions*, 23 J. FIN. 479, 484, 486-87 (1968).

110. *See id.* at 495.

data between 1936 and 1963, and analyzed aggregate after-tax corporation income, the complement of the marginal tax rate, and aggregate contributions of corporations.[111] He, too, found a price effect, but his analysis produced a lower price elasticity coefficient.[112] Similar findings on the relationship between marginal tax rate and giving were found by Levy, Shatto, and Clotfelter.[113] In her analysis Webb found that when the tax rate was high or was likely to fall in the near future, firms were more likely to increase giving to their corporate foundation.[114] This ensured that total disbursements (direct giving + foundation grants) remained "smooth" over time and the firm was still able to minimize its taxes.[115]

While rules of thumb and tax rates are important factors in explaining the correlation between contributions and profits, there are still many unanswered questions. For instance, why does a firm embrace a 2% rule instead of a 5% rule? While changes in tax rates can explain aggregate changes in giving, tax rates do not explain variations across firms within years.[116] Also, in surveys, executives do not consistently emphasize the importance of tax factors in accounting for their contributions.[117]

Finally, pretax net income might be tightly coupled to tax deductible contributions, but it may be more loosely coupled to total disbursements. Firms can make charitable gifts to the nonprofit community directly and through their foundations. Since corporate foundations are themselves 501(c)(3) organizations, contributions to the foundation are tax deductible.[118] There are several reasons for a foundation, but the most frequently cited are that firms can "smooth out" their disbursements and take advantage of changes in the marginal tax rates.[119] Firms will increase

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111. *See* RALPH L. NELSON, ECONOMIC FACTORS IN THE GROWTH OF CORPORATION GIVING 7 (1970).

112. *See id.*

113. *See* Ferdinand K. Levy & Gloria M. Shatto, *The Evaluation of Corporate Contributions*, 33 PUB. CHOICE 19-28 (1978); CLOTFELTER, *supra* note 102.

114. *See* Natalie J. Webb, *Tax and Government Policy Implications for Corporate Foundation Giving*, 23 NONPROFIT & VOLUNTARY SECTOR Q. 41-67 (1994) (explaining that corporations adjust their contributions to "take advantage of changes in tax rates").

115. *See id.*

116. *See* Ronald S. Burt, *Corporate Philanthropy as a Cooptive Relation*, 62 SOC. FORCES 419, 426 (1983); McElroy & Siegfried, *supra* note 2, at 396; Navarro, *supra* note 101; GALASKIEWICZ, *supra* note 97, at 59.

117. *See* WHITE & BARTOLOMEO, *supra* note 30, at 54-55; McElroy & Siegfried, *supra* note 2, at 409; *see also* Harris & Klepper, *supra* note 27, at 41 (discussing differing results regarding executives' beliefs in the importance of tax incentives in motivating contributions).

118. *See* HARRIS & KLEPPER, *supra* note 27, at 41.

119. *See* Webb, *supra* note 114, at 48.

giving to their foundation in higher-profit years or in anticipation of an increase in the price of giving, then in years when corporate profits are lower or giving to charity is more costly the foundation draws on its reserves and supports nonprofits with its funds.[120] The problem is that many studies use total disbursements and not tax deductible contributions as their dependent variable. In years when the amounts going into the foundation are comparable to the amounts being disbursed, there is no issue. However, when companies are either in a high-profit or low-profit situation, the two numbers can be radically different. Thus, it is not unusual to find firms with negative earnings with substantial disbursements or super-performers giving at very low levels.

B. *Market Position*

Another important set of correlates include: percent of sales to consumers, labor intensities, and institutional vulnerability. Burt found that the amount of industry-wide contributions measured in absolute dollars, per capita dollars, or as a proportion of profits was directly associated with the percentage of sales to households.[121] There was also an association between expenditures on advertising, contributions, and market position. Fry, Keim, and Meiners found that: (1) marginal changes in advertising expenditures and marginal changes in contribution expenditures were significantly related; (2) firms with more public contact spent more at all income levels on advertising and contributions than did firms with little public contact; and (3) changes in contributions and changes in other business expenses usually considered to be profit motivated—such as officer compensation, dividends, and employee benefits—were highly correlated.[122] Levy and Shatto found that expenditures for advertising were highly correlated with the level of giving when controlling for both net income and net investment.[123] Levy and Shatto looked at investor-owned electric utilities and found a correlation between philanthropic giving as a percentage of gross income and expenditures on advertising and customer services.[124] Navarro also found

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120. *See id.* at 54-60.

121. *See also* Galaskiewicz, *supra* note 103 (using firm level data, found no effect between percent sales to consumers and giving).

122. *See* Fry et al., *supra* note 2, at 105.

123. *See* Levy & Shatto, *supra* note 113, at 22.

124. *See id.*

correlations between marginal changes in contributions and advertising budgets.[125]

Nelson found that an industry with 10% more employees gave 2.7% more in contributions, when controlling for sales, profits, and officers' compensation.[126] More recently, Fry, Keim, Meiners, and Navarro found positive correlations between marginal changes in contributions and labor intensities.[127] The Council on Foundations reported that 60% of the CEOs they surveyed said that contributions to charity help to attract good people to the community and company.[128] Approximately 80% of the larger firms cited this as one of their rationales for giving.[129]

Ermann argued that firms which are particularly vulnerable to public opinion are likely to be bigger contributors.[130] Examining contributions to the Public Broadcasting System, he found that many oil companies and firms that had recently increased their profits were among the biggest contributors.[131] Miles showed how the tobacco industry, when challenged by the Sloan-Kettering Commission and the Surgeon General's Report on smoking's health hazards, immediately responded by funneling millions of dollars to universities and research institutes that did work on cancer-related topics.[132] This put the tobacco companies in touch with research that was of immediate interest to them, but the contributions also gave a signal to the public that the industry wanted to support "objective" research on the effects of cigarette smoking.

Most researchers regard these effects as evidence that firms give so as to enhance their reputations among critical stakeholders and effectively coopt them. For example, the correlations between contributions, percent

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125. *See* Navarro, *supra* note 7, at 78 (describing how the same attributes of a firms product, such as heterogeneity and durability, that cause a firm to advertise also cause a firm to contribute more).

126. *See id.*

127. *See* Fry et al., *supra* note 2, at 98; Navarro, *supra* note 101; *see also* GALASKIEWICZ, *supra* note 97 (finding no effect of labor intensities); Galaskiewicz & Wasserman, *supra* note 101 (finding a negative effect).

128. *See* DANIEL YANKELOVICH GROUP, INC., *supra* note 30, at 41.

129. *See* McElroy & Siegfried, *supra* note 2; DANIEL YANKELOVICH GROUP, INC., *supra* note 30.

130. *See* David M. Ermann, *The Operative Goals of Corporate Philanthropy: Contributions to the Public Broadcasting Service, 1972-1976*, 25 SOC. PROBS. 504, 510 (1978).

131. *See id.*

132. *See* ROBERT H. MILES, COFFIN NAILS AND CORPORATE STRATEGIES 61 (1982) (stating that "grants in excess of seven million" were given to over two hundred scientists in over one hundred hospitals, universities, and research institutions which otherwise would seek funding from the government or non-profit anti-smoking groups).

sales to consumers, and labor intensities suggest that contributions are interpreted as strategies to enhance corporate reputations as trustworthy and responsible corporate citizens. These good will efforts hopefully result in customers buying their products, improvements in employee morale, and sympathy and respect among the general public.

Indeed, Galaskiewicz, Fombrun and Shanley found that companies which gave more to charities were regarded by constituencies outside the firm as being especially generous and more socially responsible.[133] Galaskiewicz also found that companies which gave more to charity were regarded by business leaders as more successful business enterprises.[134] Fully 40% of the CEOs in the Council on Foundations study said that corporate giving "enhances the company's image with customers, stockholders and the like," and 52% said that giving is "good for public relations."[135] That community service pays off was illustrated when Dayton-Hudson was threatened by a hostile takeover in 1987, and the state of Minnesota came quickly to its defense. There was no doubt that because Dayton-Hudson was so heavily involved in giving to the community, the community felt an obligation to fight on its behalf.[136]

C. *Ownership*

Research has been mixed on the relationship between ownership patterns and company giving. Atkinson and Galaskiewicz found that as the ownership of the firm became more concentrated, contributions to charity declined.[137] More specifically, they found that in companies where the

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133. *See* GALASKIEWICZ, *supra* note 97, at 67 (finding that companies which gave more to charity were viewed by more local elites as generous to nonprofits); Charles Fombrun & Mark Shanley, *What's in a Name? Reputation Building and Corporate Strategy*, 33 ACAD. MGMT. J. 233, 251 (1990) (finding that the public assigned higher reputations to firms that gave proportionately more to charity than other firms); *see also* Haley, *supra* note 36, at 495; Arthur H. White, *Corporate Philanthropy: Impact on Public Attitudes, in* CORPORATE PHILANTHROPY IN THE EIGHTIES (1980).

134. *See* GALASKIEWICZ, *supra* note 97, at 67.

135. *See* DANIEL YANKELOVICH GROUP, INC., *supra* note 30, at 45.

136. *See* Council on Foundation, Dayton Hudson Corporation: Conscience and Control (A, B, C,). Washington D.C.: Council on Foundations (1990); *see also* Gregory E. David, *Of Grants and Grief: Trying to do Good Can Sometimes Keep a Company from Doing Well*, FIN. WORLD, August 3 1993, at 64-65 (arguing that there are costs to community outreach; one should be reminded of the turmoil caused by opponents of Planned Parenthood who publicly chastised and threatened boycotts of corporate funders, including Dayton-Hudson, who supported Planned Parenthood. For some firms, capitulating to the protestors' demands created more problems than any boycott would as pro-choice customers became outraged at such "corporate cowardice").

137. *See* Atkinson & Galaskiewicz, *supra* note 10, at 98.

CEO owned a greater percentage of stock or where there was another individual, other than the CEO, who owned more than 5% of the company's stock, the company gave less to charity.[138] Also, in firms where the CEO owned at least 20% of the stock and there was another individual who owned at least 5% of the stock, or a single corporate interest owned 5% of the company's stock, contributions were significantly less.[139] In their study of corporate boards and contributions, Wang and Coffey found a strong positive relationship between the proportion of insiders to outsiders and firms' charitable contributions. However, Wang and Coffey also found that the percentage of stock owned by inside directors was *positively* related to firms' charitable contributions, and there was no linear relationship between ownership concentration and firms' charitable giving. Furthermore Navarro found no relationship between managerial control and contributions.[140]

Firms disciplined by tight principal control should give less to charity, while firms with more diffuse ownership—and thus greater managerial autonomy—should give more. Giving away shareholder money to charity, perhaps to benefit managerial utility, is just one more example of managerial opportunism and shirking behavior in the absence of monitoring.[141] This proposition comes directly from agency theory. Because of the weak coupling of charitable giving to company performance, principals (i.e., owners) or agents who are accountable to powerful owning interests (families, individuals, or corporate investors), are less likely to make contributions. It is simply not in an owner's business interest to give his/her/its money to charity. Only when managers are free of ownership responsibility/supervision are they likely to indulge themselves in such fanciful activities.[142]

D. *Social Context*

Research has also found significant social context effects at both the micro and macro levels. At the micro level Galaskiewicz found that companies in Minneapolis-St. Paul gave more, if their Chief Executive Officer, top executives, or board members moved in the social circles of a cadre of local businesspersons promoting corporate giving and corporate

138. *See* Galaskiewicz, *supra* note 103.

139. *See* Galaskiewicz, *supra* note 103.

140. *See* Navarro, *supra* note 7; Wang & Coffey, *supra* note 10.

141. *See* Kahn, *supra* note 6; CLOTFELTER, *supra* note 102.

142. *See* Shaw & Post, *supra* note 28; Kahn, *supra* note 6, at 609-19 (discussing these issues).

social responsibility.[143] Also, companies gave money to specific charities if this cadre thought the nonprofits were providing essential services or were outstanding or they used the organizations themselves.[144] Executives and elites reported that peer pressure was an important factor.[145] More importantly, informal social structures were also a means by which CEOs and their lieutenants were socialized into the Twin Cities business subculture.[146]

These findings mirrored the research of Useem who showed that an "inner circle" of business elites and peer pressure were important factors in motivating corporate community service on a national scale.[147] Useem found that companies with more "inner circle" directors on their boards were more likely to be recognized as generous contributors to the arts, as members of arts or educational organizations, or as larger contributors in general.[148] Ratcliff, Gallagher, and Ratcliff found that firms which were better represented on local corporate boards also tended to be better represented on nonprofit boards.[149]

At the macro level, Useem found that company giving to the arts was influenced by broader local business support of the arts, and giving to the arts increased even more if companies reported that their giving program was highly responsive to outside business pressures.[150] Navarro found that firms in cities with tithing clubs were giving at much higher rates than firms in cities without these clubs. McElroy and Siegfried found that a firm increased its contributions if other firms in their city had higher

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143. *See* GALASKIEWICZ, *supra* note 97, at 68 (finding that firms whose executives had extensive network ties to philanthropic leaders gave more to charity controlling for pretax net income, labor intensities, birthplace of the CEO, and the percent of employees in the local area).

144. *See* Galaskiewicz & Wasserman, *supra* note 101.

145. *See* GALASKIEWICZ, *supra* note 97, at 72-75 (describing how peer pressure arises in friendship circles and if you do not support your friends' projects they will not support yours).

146. *See* GALASKIEWICZ, *supra* note 97, at 72-75.

147. *See* MICHAEL USEEM, THE INNER CIRCLE 126-27 (1984).

148. *See id.* at 127.

149. *See* Richard E. Ratcliff et. al., *The Civic Involvement of Bankers: An Analysis of the Influence of Economic Power and Social Prominence in the Command of Civic Policy Positions*, 26 SOC. PROBS. 298, 302 (1979).

150. *See* Michael Useem & Stephen I. Kutner, *Corporate Contributions to Culture and the Arts: The Organization of Giving and the Influence of the Chief Executive Officer and of Other Firms on Company Contributions in Massachusetts*, *in* NONPROFIT ENTERPRISE IN THE ARTS: STUDIES IN MISSION AND CONSTRAINT 93 (Paul DiMaggio ed., 1986).

contributions.[151] Again, the authors attributed this to "expectations," and suggested that a great deal of corporate giving was motivated by the desire to be responsive to respected peers in the business community.[152]

Kirchberg and Wolpert studied social context using a different strategy.[153] Kirchberg studied eleven metropolitan areas between 1977 and 1991 and found that changes in corporate arts support were correlated with change in social and economic conditions, i.e., increases in service sector income, decreases in manufacturing sector income, and increases in population's educational attainment.[154] In a secondary analysis of local generosity that included corporate giving as a dependent variable, Wolpert found that giving was greater where larger corporations were prominent, income was greater, unemployment was lower, and the welfare ideology was more liberal.[155] The authors also interpreted these findings in terms of "local attitudes and regional climates of corporate giving."[156]

While peer pressure, other companies, and social context clearly influence company giving, commentators' reactions to these effects differ radically. On one hand, social effects are seen as examples of "managerial utility" or how managers will choose to sacrifice profits in order to make contributions, because of the prestige, good fellowship, and approval they come to realize personally.[157] On the other hand, these social effects are viewed as humanizing, catholic influences which allow the community to "speak" to the firm even though this "community" is made up primarily of powerful business people who are members of the local establishment. Regardless, these effects tend to be the most controversial and stir the ire of critics on both the political left and right.

V. SYNTHESIS AND DISCUSSION

Our final task is to integrate the two literature reviews. In the first section we identified four general varieties of corporate-nonprofit partnerships: Commercial, Strategic, Civic, and Charitable Partnerships.

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151. *See* McElroy & Siegfried, *supra* note 2, at 407; Navarro, *supra* note 7, at 82.

152. *See* McElroy & Siegfried, *supra* note 2, at 407.

153. *See* Volker Kirchberg, *Arts Sponsorship and the State of the City*, 19 J. CULTURAL ECON. 305 (1995); JULIAN WOLPERT, PATTERNS OF GENEROSITY IN AMERICA: WHO'S HOLDING THE SAFETY NET? (1993).

154. *See* Kirchberg, *supra* note 153, at 311 (stating a more fully developed economic sector may have more profitable companies with the ability to provide bigger arts contributions).

155. *See* WOLPERT, *supra* note 153, at 25.

156. *See* WOLPERT, *supra* note 153 (discussing how generosity depends on the state or locality and the economic status of the residents).

157. *See* WILLIAMSON, *supra* note 8; Kahn, *supra* note 6, at 609-15.

We distinguished between transactions that resulted in exclusive, measurable benefits, and those that resulted in difficult-to-measure benefits that serve community more than firm interests. Then we identified four sets of variables that researchers have found to be covariates of company contributions: profits, market position, ownership, and social context.

In Figure 2 we present four hypothetical graphs.[158] Each graph has two axes. The horizontal (or X-axis) is profits normalized for industry and firm size. Since profits tend to be highly skewed we try to reflect this in our scaling. The vertical axis (or Y-axis) is expenditures on nonprofits. Each graph represents a different type of expenditure. Graphs A, B, C, and D represent expenditures on Commercial, Strategic, Civic, and Philanthropic Partnerships respectively among firms in a given industry of a given size. Since these expenditures also tend to be highly skewed, we take this into account in our scaling of the Y-axis. The solid line in each graph is a hypothetical description of the relationship between net income and expenditures for the various partnerships, and the dotted lines represent the variance in levels of giving at each level of net income. Thus instead of a single line depicting the "average" firm's expenditure at each income level, we present a "ban" around each line representing one standard deviation above or below the mean.

We hypothesize that profits have the greatest effect on charitable gifts and the weakest effect on commercial transactions with civic and strategic partnerships falling in between. Our expectations are based on the assumption that commercial, and to a lesser extent, strategic partnerships are part of the overall business strategy of firms and are aimed at enhancing revenues in the short term. Thus expenditures for these partnerships will remain relatively constant across net income levels for a given industry and firms of a given size.

In contrast, charity, and to a lesser extent civic expenditures, benefit the firm more indirectly or not at all and thus are more discretionary. If the firm is performing far above industry averages, management has the capacity and legitimacy to expend more on charity, both in absolute dollars and as a percentage of pretax net income. If the firm is performing far below industry averages, management will reduce their giving, both in absolute dollars as well as a percentage of pretax net income. In the realm of losers, giving will be minimal because management will not have the legitimacy to spend money on things which do not benefit the firm directly.

In Figure 2 we also argue that there is variation in levels of expenditures at different income levels. What accounts for this variation? First we need to differentiate among giving varieties. With respect to civic and charitable contributions, we would hypothesize that this variation

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158. *See infra* pp. 1088-90.

would be explained by whether firms are managerial-controlled or owner-controlled, or whether executives are embedded in social contexts which are supportive of charitable and/or civic partnerships or indifferent. Because these expenditures are not expected to reap the firm exclusive, measurable benefits, agency conditions or community context are free to influence firm behavior.

We further hypothesize that the effect of these factors on civic and charitable giving will be contingent upon profit level. In other words, at different points along the X-axis, these regressors will be better or worse predictors of giving. For example, in the domain of high performers, we expect that whether giving to civic or charitable organizations is above the curve will be a function of being managerially-controlled or having executives embedded in social contexts where giving to charity is normatively prescribed. In the domain of poor performance, we do not expect that either of these variables will be predictive of civic or charity giving, given that, for no other reason, the variance in the amounts given as charity or civic dollars will be low.

We next hypothesize that expenditures on strategic partnerships would be a function of whether firms were highly dependent upon "natural persons" (consumers, employees, public opinion) for their survival. Here, firms are looking for direct benefits, although it often is difficult to measure these benefits. Given firms' strategic dependency upon stakeholders, they will seek to impress others in any number of ways, including the charitable donation. In contrast to the argument above, however, we do not expect much variation across income levels. Since the benefits from these expenditures are expected to be direct and to contribute to the performance of the firm (even in the long run), expenditures will be constant across profit levels.

Finally, we turn to commercial partnerships. Among high and low performers, the variance in giving to strategic and commercial means should be minimal, and we do not expect that any of the covariates we have discussed will be of much use in explaining the variance we find. Expenditures of this type will depend more on industry (e.g., biomedical products, computer mainframes, etc.), historical circumstance, and strategic opportunity.

VI. CONCLUSION

This paper showed that companies relate to the charitable sector in a number of different ways. Some partnerships result in direct measurable benefits to the firm, while others benefit third parties and are difficult to evaluate. We argued that the former are acceptable to those who believe that firms should derive direct benefit from their charity, while those who believe in stakeholder theory will be more comfortable with the latter. After reviewing the literature on the covariates of giving, we suggested

that a firm's choice of "variety" will depend less on company philosophy and more on firms' profits, market position, ownership, and social context.

Clearly our efforts are exploratory, and empirical work needs to be done to collect data on firms and test our hypotheses. We expect that future research will refine our primitive efforts and proffer more sophisticated models. Also, research is needed that would translate our descriptive model into a set of workable guidelines which corporate managers could use when setting their contributions budgets and planning their community relations initiatives.

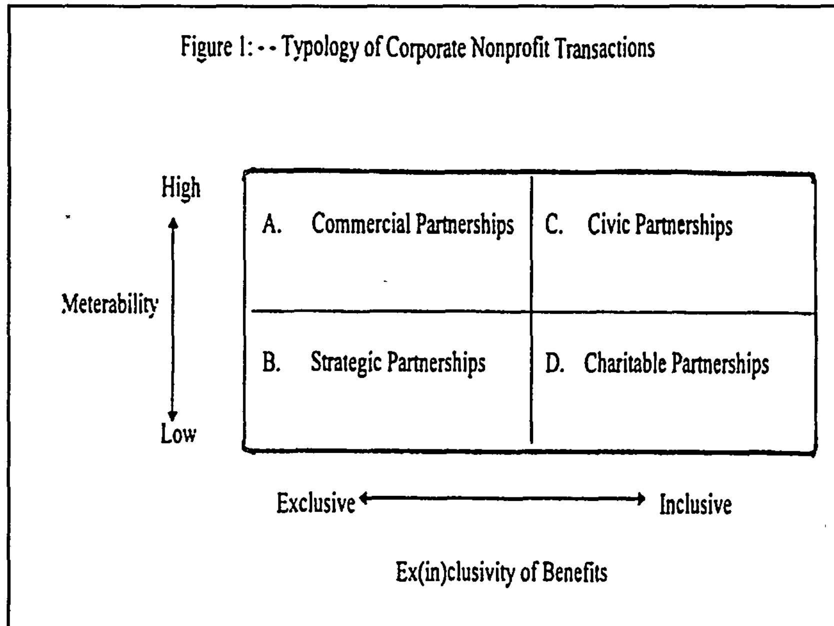
Figure 1: - - Typology of Corporate Nonprofit Transactions
High
Meterability
Low
A. Commercial Partnerships
C. Civic Partnerships
B. Strategic Partnerships
D. Charitable Partnerships
Exclusive
Inclusive
Ex(in)clusivity of Benefits

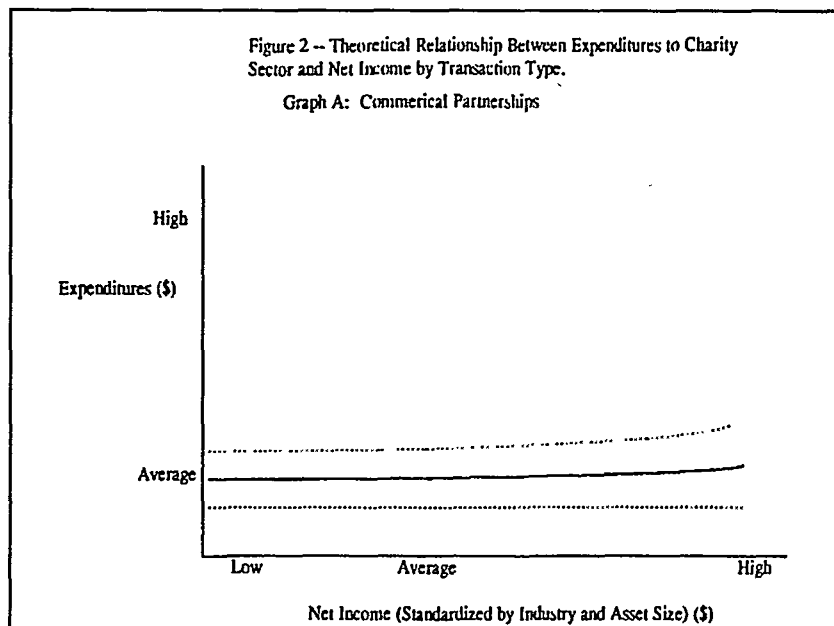
Figure 2 -- Theoretical Relationship Between Expenditures to Charity Sector and Net Income by Transaction Type.
Graph A: Commerical Partnerships
High
Expenditures ($)
Average
Low
Average
High
Net Income (Standardized by Industry and Asset Size) ($)

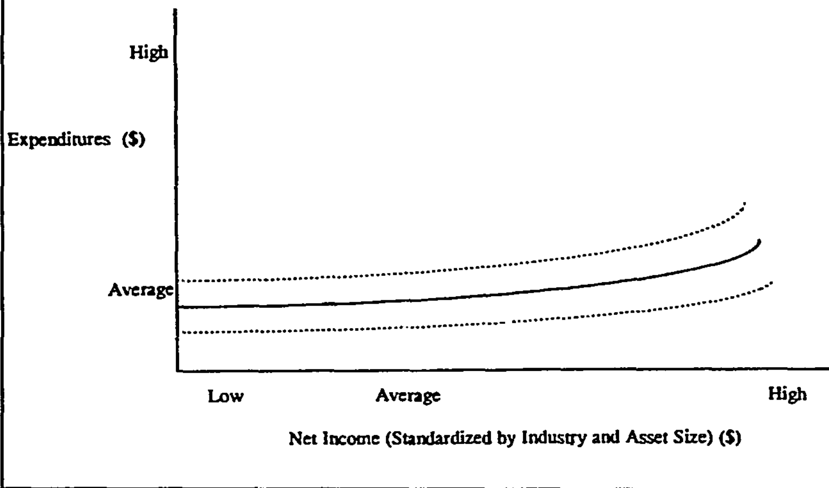
Figure 2 -- Theoretical Relationship Between Expensitures to the Charity Sector and Net Income by Transaction Type
Graph B: Strategic Partnerships
High
Expenditures ($)
Average
Low
Average
High
Net Income (Standardized by Industry and Asset Size) ($)

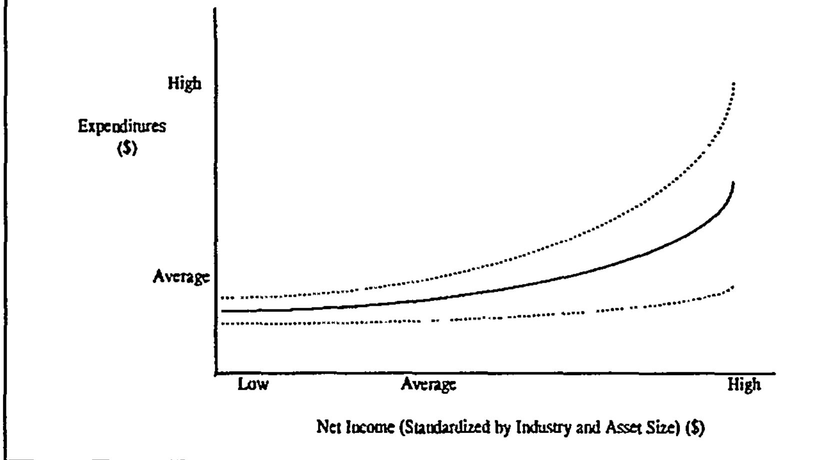
Figure 2 -- Theoretical Relationship Between Transaction Type, Perfomance, Market Position, Ownership, and Community Context.
Graph C: Civic Partnerships
High
Expenditures ($)
Average
Low
Average
High
Net Income (Standardized by Industry and Asset Size) ($)

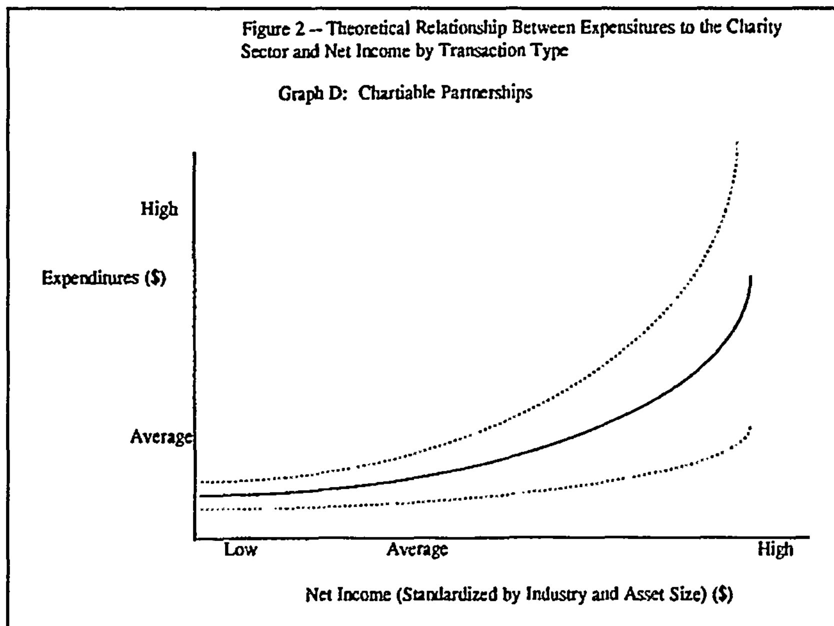

Figure 2 -- Theoretical Relationship Between Expensitures to the Charity Sector and Net Income by Transaction Type