CORPORATE PHILANTHROPY IN THE UK AND US: THE IMPACT OF CYCLES, STRATEGY AND CEO SUCCESSION

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Declaration

I certify that the thesis I have presented for examination for the MPhil/PhD degree of the London School of Economics and Political Science is solely my own work other than where I have clearly indicated that it is the work of others (in which case the extent of any work carried out jointly by me and any other person is clearly identified in it).

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ABSTRACT

Theoretical and empirical debates surrounding corporate philanthropy (CP) date back to the 1930s, but have recently grown in line with the importance of corporate social responsibility in the public realm. Through three papers, this thesis adds to these debates by filling gaps in our understanding of CP, relating to the cyclical nature of cash and in-kind giving, how different ways of giving can influence profitability, and the relative importance of the CEO. We do this using a panel of 620 large firms in the UK over 14 years, and 500 US firms over 12 years, enabling us to capture the heterogeneity between firms. Our key theoretical contribution is to state that an integrated theory ought to be developed, which considers the influence of firm costs, strategy and the CEO as factors determining CP. Given the exposed limitations of stakeholder, agency and leadership theories, we propose that a new theory be developed, one which stresses the importance of managerial discretion and values, whilst also considering how firm-level attributes can determine giving.

"Our prayers for others flow more easily than those for ourselves.

This shows we are made to live by charity."

- C.S. Lewis

"The deed is everything, the glory naught."

- Johann Wolfgang von Goethe

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CONTENTS

CHAPTER 1

GENERAL INTRODUCTION

Overview of Chapters

In this thesis I present three papers, which comprise a selection of discourses, theoretical and empirical insights in corporate philanthropy (CP) research. The question of the impact of the financial crisis of 2008 on corporate giving sparked my interest in CP, and paved the way for the papers on the cyclical determinants of giving, strategic giving and the effect of CEO succession. A great deal of research has already been conducted into the determinants of CP, partly because it is often used as a measurable proxy for corporate social responsibility (CSR). Several alternative theories and models have been applied to corporate giving in the past. Of these, stakeholder theory is the most popular, and we apply the paradigm of the intrinsic versus strategic stakeholder management model developed by Berman et al. (1999) in Chapters 3 and 4 of this study. In the final paper, we apply theories surrounding CEO succession (Murphy and Zimmerman, 1993), as well as leadership (stewardship and transformational) and agency theory, to the issue of CP.

Chapter 2 reviews preceding literature and provides a comprehensive basis from which to discuss alternative theories and place our contribution. We begin by discussing the history of CP research, dating back to the 1930s, and recent trends in giving patterns. This is followed by a review of theoretical perspectives applied to CP, from utility maximisation, to stakeholder, agency and, more recently, leadership theories. Next, we discuss preceding research on the determinants of CP and identify the context in which our contribution is made.

In Chapter 3, in our first paper, we examine how firms reacted to the income shock of the 2008 financial crisis. We do this because the event reveals their attitudes towards corporate giving, allowing us to test the opposing theories predicting their behaviour. For example, if following the negative income shock of the crisis, firms increase giving, we could find support for the "good citizen" hypothesis (Levy and Shatto, 1978) and the intrinsic stakeholder commitment model (Berman et al., 1999). However, we also take into account the effect of the trend in ethical consumerism, in case changes in giving can be better explained by increased stakeholder pressure, thus supporting the strategic stakeholder management model. On the other hand, if giving decreases, then the traditional theories of profit maximisation and the pro-cyclical relationship between profit and giving are confirmed (Navarro, 1988a). There is a gap in the literature here since, besides Navarro's (1988b) study, few studies question the impact of economic cycles on giving and types of giving. We also examine how firms' costs can affect giving, and the types of giving done by firms, whether in-kind or in cash. Finally, this paper tests whether or not having a foundation can help insulate giving decisions from cyclical changes in the economy. Our contribution here is finding that firms differ in their reaction to economic shocks because of differences in their motivations and costs.

In Chapter 4, the second paper asks whether giving strategically can cause revenue to grow more effectively than doing so nonstrategically. Though CP is by definition a "nonreciprocal transfer" (FASB, 1993), there have been over 127 studies on whether or not CSR builds or destroys shareholder wealth (Margolis and Walsh, 2003). However, none of these studies ask the question of whether *how* one gives has an empirically significant impact on financial performance. We attempt to answer this important question by dividing our sample of around 230 corporate giving programmes into two types, strategic and nonstrategic, based on definitions of strategic CP drawn from previous studies (Saiia et al., 2003). We also ask whether or not the impact of strategic giving on financial performance varies depending on the performance measure (profitability and market performance) and/or industry type. If strategic giving is found to improve financial performance, then greater credence is given to the strategic as opposed to the intrinsic stakeholder

commitment model of giving. This research topic is of importance to academics and practitioners alike, and we go on to suggest avenues for further research.

In Chapter 5, the third paper, examines the importance of the CEO in determining CP, relative to other firm characteristics. We do this by enquiring into the extent to which a change in the CEO results in a change in CP. Even though it has been reported in surveys that the CEO is the most important determinant of corporate giving (Siegfried et al., 1983), the impact of the CEO has not been tested alongside the traditional determinants of giving, through empirical analysis. This is made possible through the use of panel data on 500 large US companies over 12 years, as we can compare changes in CEOs with changes in corporate giving, whilst also considering the moderating role of firm and CEO characteristics, including age, compensation and governance measures. At the same time, we apply the predictions of theories surrounding CEO succession, and leadership and agency theory, to the topic of CP. We expect to find that a change in the CEO will result in changes in giving, not only because giving is considered as a form of managerial perk, or substitute income, but also because giving decisions are closely tied to the personal preferences and values of the CEO.

Overall this thesis suggests a need for an integrated theoretical framework that incorporates the heterogeneity of motivations, as well as the role, strategy and the CEO in determining a firm's generosity, and the relationship between corporate social and financial performance. Such a theory needs to be independent of the existing paradigms of stakeholder, agency and leadership theories, which have previously been forced to fit the case of CP. We reach this conclusion by revealing the limitations of these theories. Addressing stakeholder theory, our first paper finds that firms can differ in their motivations. We also find that their costs are a significantly overlooked determinant of giving, especially across economic cycles, and so, by looking at the difference between in-kind and cash giving, this paper adds an extra dimension to our understanding of the cyclical determinants of CP in addition to the view taken by stakeholder theory. The second paper tests the predictions of the strategic stakeholder management model and shows that how firms give makes a difference to the causal link between philanthropy and financial performance. The final paper shows that the

CEO is the most important determinant of giving and that CEOs behave differently to what is predicted by agency and leadership theories. We conclude by mapping out this new integrated theoretical framework, which includes all the elements described above and identifies where our contribution precisely fits.

CHAPTER 2

THE DETERMINANTS OF CORPORATE PHILANTHROPY: A REVIEW OF PAST RESEARCH AND AN AGENDA FOR THE FUTURE

2.1. RESEARCH IN CORPORATE PHILANTHROPY

In 2009, total UK corporate giving was estimated at £762 million, or 9% of total giving, £512 million of which was in cash (DSC, 2011). In the US, corporate giving was $15.7 billion, which comes to 5% of total giving (Foundation Centre, 2009). The study of corporate giving dates back to the 1930s (Berle, 1931) and, since the 1960s, detailed research has been conducted into the determinants of corporate philanthropy (CP) (Johnson, 1966; Schwartz, 1968; Levy and Shatto, 1978). With the exception of Levy and Shatto (1978) and Keim (1978), there was a quiet gap in the literature between Johnson's (1966) paper and the late 1990s, when Adams and Hardwick (1998) started looking more closely at firm-level—as opposed to aggregate—figures. This paved the way for Brammer and Millington (2004ab, 2006, 2008) to make significant progress in the field, allowing recent papers by Wang et al. (2008) and Lev et al. (2010) to go as far as perhaps establishing causality in a highly debated realm. The increase in research can be explained by the increase in the importance of corporate social responsibility (CSR) and in the reporting of it. Gray et al. (1995) reveal a striking rise in both the proportion and range of companies disclosing CSR information in the UK between 1979 and 1991, over which period total UK CSR increased fourfold (based on employee, community, and environmental reporting categories).

2.1.1 The Economic Crisis and Corporate Philanthropy

According to a study by Siegfried et al. (1983), in 1980-81, 27% of the managers of 229 major US companies reported "the state of the economy" as a "very important" factor influencing corporate contributions, ranking it in seventh place out of a list of twelve factors. Closer study of the effects of the financial crisis of 2008 on CP brings into question several theories relating to the determinants of CP and the motivation behind it. All previous studies have found financial performance, measured by profits, profitability or dividends, to be closely correlated to CP (Levy and Shatto, 1978; Lev et al., 2010). It is thought that this might be because firms give a fixed percentage of their profits to charitable causes. Consequently, a negative revenue (and profit) shock brought about by a crisis would, based on this logic, reduce the level of giving to charitable causes, assuming that firms are profit maximisers. However, the income shock in 2008 came at the same time as an increase in general public awareness of the causes of the crisis, which were, some would say, related to greed and excessive consumption, and so in turn caused greater public scrutiny of the social role of corporations and their CSR programmes. Therefore, firms might have reacted to the increase in consumer stakeholder pressure by increasing their generosity and their funding of CP programmes. The motivation behind this could either be a strategic concern for their reputation, or an intrinsic sense of moral duty resulting from a heightened sense of awareness. The latter stipulates that giving relates more to one's value system, and less to one's income, which is reflected in Schervish's (2005) statement that "generosity of time and money derives not from one's level of income or wealth but from the physical and moral density of one's life and horizons of identification". Along the same lines, Keynes' words reflect the general social sentiment and process of self-realisation post-crisis: "when the accumulation of wealth is no longer of high social importance, there will be great changes in the code of morals" (Keynes, 1933). Therefore, one can argue that the crisis caused a paradigm shift whereby CP, which used to be a PR stunt for many firms, became a foundation and social justification for the very existence of many corporations—making it increase, rather than decrease, as profit maximising and other theories had predicted up to that point.

However, recently, there has been some research running contrary to the conventional wisdom that firms give a fixed percentage of their earnings ever year (for example, they sometimes give a higher percentage of earnings to foundations in years of high profits and a

lower percentage in years of low profit). Roychowdhury (2006) finds that certain "real activities manipulation" methods, such as reducing discretionary expenditures, are possibly optimal actions in certain economic circumstances. He finds that managers who beat the benchmark of the prior period's earnings record lower discretionary contribution expenses (greater income-increasing behaviour), than firms that miss this benchmark. In other words, they reduce discretionary expenses in order to meet earnings targets. CP is often characterised as a discretionary expense (Sierfert et al., 2004), so this framework predicts that, post-crisis, firms would decrease CP in order to meet their targets. Therefore, even though the percentage of profits or "generosity ratio" is not fixed, this theory still predicts that downward pressure would cause CP to decrease.

Research from the UK and US largely identifies a pro-cyclical relationship between giving and gross domestic product (GDP), and the negative impact of the crisis on giving. In the UK, a survey from January 2009 by the Charities Aid Foundation (CAF) found that 41% of charities reported that they had received less funding than budgeted for in the previous three months, with income falling 22%, while 49% reported no change in income (CAF, 2010). The pro-cyclical nature of CP is also evidenced by the fact that, following the recession of 1991-1993, according to a CAF (1993) report, 35% of UK charities reported receiving less fundraising support, 45% reported no change and 8% reported an increase. Research on the effects of economic crisis on CP from the US also points to a pro-cyclical relationship; according to Mohan and Wilding's (2009) historical account, data from the US points to a very close relationship between CP and stock market performance. A survey of 500 US donors by LBG (2009) finds that 47% of corporate foundations say that their budgets have decreased, and of those, 32% said that budgets had decreased by 26-50%. Only 6% said that they had increased. In terms of corporate giving, 52% reported a decrease, of whom 45% indicated a decrease of more than 15%. Only 12% had been able to increase their giving. Also, the recipients have changed, with grants to arts and culture decreasing by 50% and donations aimed at providing basic needs (food, clothing, shelter) increasing by 47%. Finally, LBG (2009) find that the nature of gifts has changed: 46% of the corporate foundations are now emphasising partnerships with their non-profits over straight cash donations.

Even though no significant academic research has yet been published on the topic of the effect of the 2008 economic crisis on CP, experts in the field have published widely on the

topic (Breeze and Morgan, 2009; Foundation Centre, 2008, 2009). Most of the published evidence is extrapolated from charities' income reports. In 2008, 41% of the top 300 UK charitable trusts saw a fall in the value of the grants they made and saw their net asset value fall by 10%, "providing clear evidence of the toll the recession is taking" (Pharaoh, 2009). 37% of the 300 largest UK charity fundraisers saw their income drop in 2008, which added to fears that a new wave of donors, who became rich during the 1980s and 1990s, would not be able to sustain their giving, post-recession (Pharaoh, 2009). In the media, it has also been estimated that corporate contributions have fallen by as much as 20% since the beginning of the recession (The Independent, 2008).

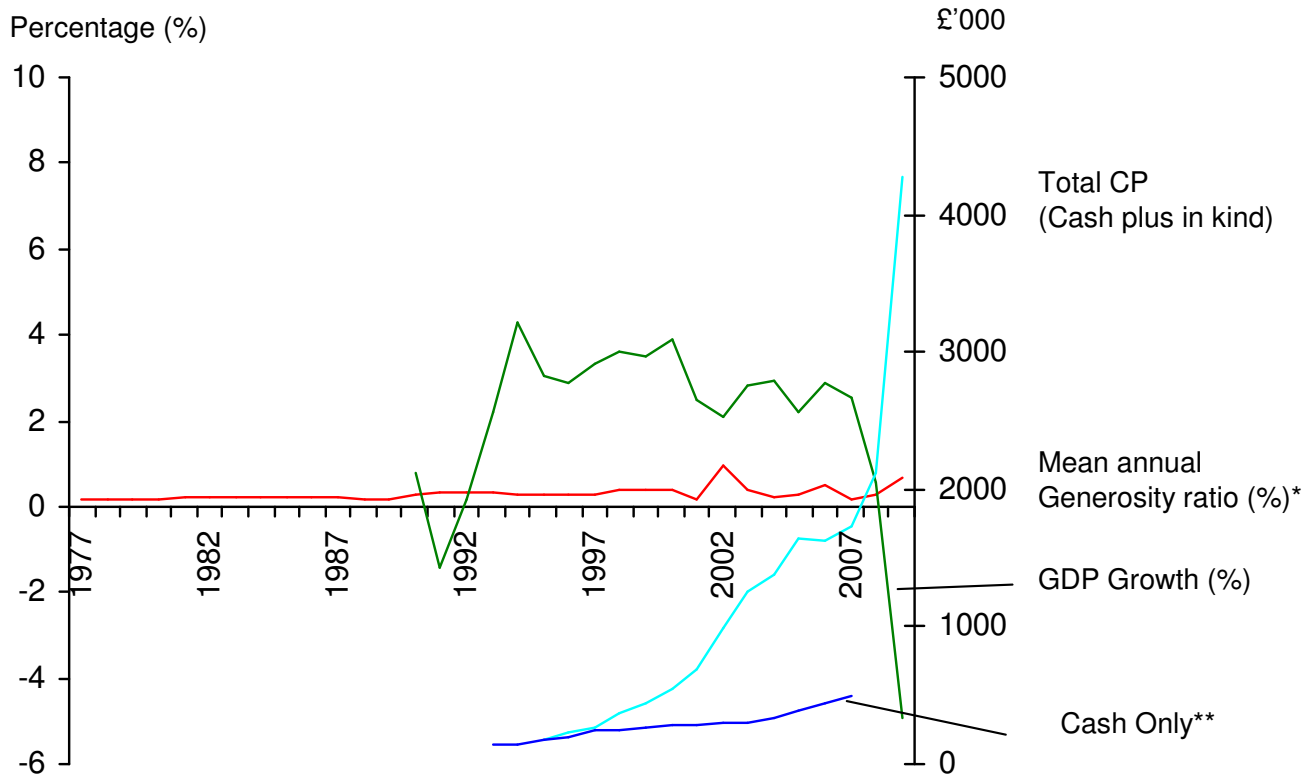
2.1.2 Historical Evidence and Corporate Philanthropy in the US and UK

Historical evidence from the Great Depression in the US supports the view that CP levels are influenced by changes in stock prices and GDP growth (Jones, 1943). Mohan and Wilding (2009) find that there were very significant falls in US CP after the Great Depression and that "figures suggest a strong association with the performance of the economy as a whole and the stock market in particular". Jones (1940) reports a substantial drop in gifts in the depression years; charitable giving declined from $832 million in 1928 to $479 million in 1933, which, adjusted for inflation, was proportionate to the substantial drop in the stock market. Moreover, for 100 large foundations and community trusts, grant expenditure fell from $83 million in 1928 to $34 million in 1934. Finally, in Johnson's (1966) study of US corporate giving (1936-61), the amount of contributions increased annually except in five years, all of which were recession years. Data from *Giving USA* (2009) shows a historically large drop of 5.7% in total donations in 2009, the first decline since the survey began in 1955. In an attempt to learn from the past, Mohan and Wilding's (2009) historical research findings, based on donations to UK hospitals in the inter-war period, found no clear universal generalisations could be made about the impact on hospital finances of the adverse inter-war economic circumstances.

Even though there are several previous studies examining just UK corporate charitable giving (Arulampalam and Stoneham, 1995; Brammer and Millington, 2008; Adams and Hardwick, 1998, Campbell et al., 2002), compared to the US, there is very little historical data on CP in the UK from before the 1970s. Figure 1 plots GDP growth against CP giving, in terms of

generosity (CP over net profits) and levels, as well as in terms of cash and non-cash, for UK firms, between 1977 and 2009. Firstly it shows that corporate giving in the UK has been rising very steeply since 1992. It shows that, after the crisis in 2008, GDP growth fell but both total CP giving and generosity increased. It also shows that, in 2002, there was a fall in GDP growth with a simultaneous rise in generosity, which might be because firms' profits fell, causing GDP to fall and the generosity ratio (GR) to rise. Finally, it shows that generosity remained stable, between 0 and 1% of profits, throughout.

FIGURE 1. Generosity Ratio and CP in the UK (1977-2009)



Note: * Campbell et al. (2002) used up to 2000, then Caritas data
** Based on Campbell et al. (2002)

2.1.3 Recent Trends in Corporate Philanthropy (1990-2010)

In addition to the recent shock in the economy, caused by the recession, two general trends can be identified as influencing corporate giving today. The first is the movement of ethical consumerism, which has placed greater pressure on firms to be seen as proactive in their giving. The second is the rise of "shareholder capitalism", which describes the increasing

influence of shareholders in the running of companies, in response to market pressures. This has driven firms to justify their giving as a form of social investment, causing an increase in strategic giving.

The increasing trend in ethical consumerism over the last two decades is putting pressure on firms to boost the visibility of their CSR and CP spending. Ethical consumption is the idea of "personal consumption, where the choice of a product or service exists, which supports a particular ethical issue – be it human rights, the environment or animal welfare" (Cooperative Bank, 2003). It is a politically-charged movement, which has succeeded in educating consumers about the inequitable nature of modern trade relations (Low and Davenport, 2007). In 2007, every household in the UK spent £707 in line with their ethical values, up from £630 in 2006, making overall ethical consumer spending £35.5 billion[1].

On the other hand, the rise of "shareholder capitalism" could explain why, in some cases, giving might have decreased over time and become more strategic. The term describes the increasing requirement for transparency in all of the expenditures in accounts and the greater pressure on companies to justify their spending[2]. As Ricks (2002) puts it, "Wall Street's short term focus has caused an evolutionary shift from enlightened self interest to strategic philanthropy designed to provide a measurable benefit over time". Evidence of the effects of shareholder capitalism on corporate giving can be found by looking at changes in the recipients of donations. In some cases, universities, such as MIT, are receiving less funding from corporate donors who need to justify their giving to shareholders. Companies are becoming more selective and strategic about how they are giving money. Another indicator of this is the emergence of institutions designed to educate corporate givers on how to do their giving, such as the *Institute for Philanthropy* in the UK and the US, *Philanthropy UK*, and the appointment of the UK government's *Ambassador for Philanthropy* in 2009, to mention a few.

[1] Spending on ethical food and drink, which includes organic products, fair trade goods and free range eggs, was up 14% to £5.8 billion in 2006. The largest increases between 2006 and 2007 were seen in fair trade goods (61%), rechargeable batteries (79%), green cars (132%), and ethical clothing (71%) (Cooperative Bank, 2008). What was a niche trend is becoming a mainstream phenomenon.

[2] One way of testing such a hypothesis is by looking at the percentage of share ownership of UK companies by US firms and determining whether those UK companies with higher US ownership are less philanthropic.

2.2. THEORETICAL PERSPECTIVES

2.2.1 Definitions

2.2.1.1 Corporate Social Responsibility. CSR refers to "company activities - voluntary by definition - demonstrating the inclusion of social and environmental concerns in business operations and in interactions with stakeholders" (Van Marrewijk, 2003). Of the numerous typologies describing CSR, Carroll's (1979) CSR pyramid of "economic", "legal" and "ethical" responsibilities is perhaps the most useful. Maignan and Ralston's (2002) description of the motivations for CSR as value, performance (profit and competitive position), or stakeholder-driven (in response to pressure) is also useful. Several studies have used CP (or "charity contributions") as a composite measure for CSR, or corporate social performance (CSP) (Griffin and Mahon, 1997) when exploring the CSP to corporate financial performance (CSP-CFP) relationship. According to Orlitzky et al. (2003), 52 quantitative studies have been published on the CSP-CFP topic, but only a few studies have used CP as a single proxy for CSR or CSP, whilst testing the relationship between CSR and financial performance (Wokutch and Spencer, 1987; Levy and Shatto, 1980; Fombrun and Shanley, 1990; Brammer and Millington, 2008). Brammer and Millington (2008) use CP as a "proxy" when examining the CSP-CFP relationship, since it avoids the lack of conceptual clarity and measurement difficulties found in other definitions of CSP (Orlitzky at al., 2003; Margolis and Walsh, 2003). CP is also an indicator of social responsiveness since it is set by the board of directors in most companies and is visible to external stakeholders (Porter and Kramer, 2002), whilst not subject to legal compliance. Moreover, compared to other single measures of CSP, it is able to address a wider range of social issues (Brammer and Millington, 2008).

2.2.1.2 Corporate Philanthropy. CP is defined by Wartick and Wood (1998) as "a discretionary responsibility of a firm involving choosing how it will voluntarily allocate its slack resources to charitable or social service activities that are not business related and for which there are no clear social expectations as to how the firm should perform". For our purposes, the definition of CP is based upon observations of reported figures in company accounts. In the UK, publicly-listed companies are legally obliged to report all charitable spending, and the absence of a reported figure can be assumed to equate to zero charitable spending. Our figure in the UK includes cash and non-cash giving and measures the total

value of a company's donations to charities, including gifts-in-kind, employee time, product donations, and others. It does not include government grants. In the US, CP is defined as cash contributions to not-for-profit organisations. US figures are taken from the *Taft Directory of Corporate Giving* and include cash and non-cash contributions made through corporate giving programmes or corporate foundations.

2.2.1.3 Strategic Corporate Philanthropy. Marx (1999) defined Strategic CP (SCP) as the practice of the "principle that contributions should meet recipient needs and corporate strategy objectives". Based on this definition, 86% (n=194) of companies in Marx's (1999) study attempt to strategically manage their contribution programmes. The practice of firms using philanthropy to meet business-related objectives has evolved over the last century. Prior to a Supreme Court ruling in 1954, companies could only make contributions directly related to their shareholders' interest (Ricks, 2002), and so, in a sense, all philanthropy was strategic. After the ruling, discretion was given to the managers to judge whether contributions were in the best interests of the company. As Waldman (2006a) writes, "the strategic use of CSR begs the question about the potential role of the CEO in determining the propensity of firms to engage in these activities". We define SCP based on an extension of Marx's (1999) definition. The checklist used to define the existence of a strategic CP programme in this research includes: *governance and planning* (e.g. accountability, evaluation, and reporting), *congruence* (similarity between corporate mission and social initiative), and *geographical location* (fit with business practices/stakeholders).

2.2.2 Traditional Motivational Theories Explaining Corporate Philanthropy

The two main traditional competing theoretical frameworks used to assess the motivations behind CP are the managerial utility maximisation model (Clotfelter, 1985; Navarro, 1988a; Boatsman and Gupta, 1996) and the profit maximisation model. However, since the development of these two theories, stakeholder theory has become the dominant paradigm in the field.

2.2.2.1 Utility maximisation. The utility maximisation framework pre-dates the stakeholder literature, and was first introduced through Williamson's (1963) model of managerial discretionary behaviour. Under this model, utility maximising managers shirk

their responsibility for maximising firm value by diverting discretionary profits (profits beyond the minimum demanded by shareholders) to utility-generating activities. From this point of view, philanthropy generally does not benefit a firm or its shareholders; instead it can only enhance top managers' personal reputations in their social circles or enable them to further their political and career agendas (Campbell et al., 2002; Haley, 1991). According to Porter and Kramer (2002), "the majority of corporate contribution programs are diffused and unfocused… rather than being tied to well thought out social or business initiatives, the contributions often reflect the personal beliefs and values of executives or employees". The utility maximisation model explains why some firms do not give strategically.

2.2.2.2 Profit maximisation. The profit maximisation model predicts that firms only make contributions in order to increase profits, either by increasing sales or decreasing costs (Boatsman and Gupta, 1996). There is some debate within the context of the profit maximisation model about whether or not CP adds financial value. Current mainstream thinking is that there are many ways in which it can add to the bottom line (Godfrey, 2005). However, it has been argued that firms which perform responsibly incur a competitive disadvantage, since they are incurring costs otherwise born by others (Aupperle et al., 1985). Alternatively, Ullmann (1985) proposed the possibility of no impact or "neutral association", due to the high number of intervening variables and measurement issues. There is little empirical support for the profit maximisation theory's description of firm behaviour; Boatsman and Gupta (1996) and Navarro (1988a) conclude that charitable contributions exceed the profit maximizing level.

2.2.3 Stakeholder and Agency Theory

2.2.3.1 Stakeholder theory. Freeman (1984) defines a stakeholder as "any group or individual who can affect or is affected by the achievement of the firm's objectives". Therefore, a firm's stakeholders include customers, employees, suppliers, government bodies, creditors, and public interest groups. Ansoff (1965) was the first to use the term "stakeholder theory", which stipulates that the main objective of the firm is to satisfy the conflicting demands of its stakeholders. Ullmann (1985) applies stakeholder theory to a firm's CSR activities, and concludes that stakeholder theory is an appropriate base from which to

incorporate strategic decision-making into studies of CSR. Along the same lines, Roberts (1992) finds:

> "strong evidence that the applications of stakeholder theory to empirical CSR research can move future research in this area beyond *ad hoc* analyses relating CSR actions to selected corporate characteristics. Stakeholder theory forms a theoretical foundation in which to analyse the impact of prior economic performance, strategic posture toward social responsibility activities, and the intensity of stakeholder power on levels of corporate social disclosure."

2.2.3.2 Strategic stakeholder management and intrinsic stakeholder commitment models. In the *strategic stakeholder management* model, the nature and the extent of a firm's concern for a stakeholder group is determined by the perceived financial gains from showing such concern (Berman et al., 1999). On the other hand, according to the *intrinsic stakeholder commitment* model, firms have a normative (moral) commitment to treating stakeholders well and this commitment also shapes their strategy and impacts their financial performance (Berman et al., 1999). The strategic stakeholder management model is so named because the concerns of stakeholders enter a firm's decision-making process only if the stakeholders have strategic value to the firm. Because stakeholders can influence the firm, it may adopt an instrumental approach, managing them in such a way as to maximise profits. The fundamental assumption behind the strategic stakeholder management model is that the ultimate objective of corporate decisions is marketplace success; firms view their stakeholders as part of an environment that must be managed in order to assure returns to shareholders (Berman et al., 1999).

The alternative model is called the intrinsic stakeholder commitment model because the "interests of the stakeholders have an intrinsic value, they enter a firm's decision making prior to corporate strategy and form a moral foundation for corporate strategy itself.... representing 'what we are' and 'what we stand for' as a company" (Berman et al., 1999). Since a firm's decisions can affect the wellbeing of its stakeholders, managers may feel a fundamental moral obligation to them (Berman et al., 1999). Decisions that are made without any consideration of their impact on others are unethical, and stakeholders have intrinsic worth (Donaldson and Preston, 1995). Moreover, certain claims of

stakeholders are based on fundamental moral principles unrelated to the stakeholders' instrumental value to a firm. A firm cannot brush aside these claims simply because honouring them does not serve its strategic interests (Berman et al., 1999).

Therefore, in the strategic stakeholder management model, firms donate to charity with a view to obtaining some return, whilst in the intrinsic stakeholder commitment model, firms donate money out of a moral concern or sense of duty, and this moral concern determines their financial success. Galakiewicz (1985) reported that 67% of firms surveyed identified moral obligations as a major reason for making charitable contributions.

Berman et al. (1999) find support for a strategic stakeholder management model but no support for an intrinsic stakeholder commitment model. They also find that community, diversity and natural environment variables do not have a significant impact on financial performance. In their direct model, only managerial commitment to two important stakeholder variables, employees and product safety/quality, are found to improve financial performance. However, their moderated model shows that interaction effects between variables are significant. In other words, associations between stakeholders and financial performance are complex and it is important that managers do not ignore the interdependence between strategy and stakeholder relationships. Therefore, a more complex model, incorporating a range of managerial motivations/values, may be required in order to better capture the intrinsic stakeholder commitment orientation (Berman et al., 1999).

Finally, it is worth noting that, if a firm's commitment to trust and cooperation is strategic rather than intrinsic, it will be difficult for the firm to maintain a sincere reputation (Frank, 1988). Trustworthiness, honesty and integrity are difficult to fake. In order to reap the benefits of stakeholder management, a firm must be committed to ethical relationships, regardless of expected benefits (Berman et al., 1999).

2.2.3.3 Agency theory. Even though most of the literature discusses CP using stakeholder theory paradigms (Ullmann, 1985; Roberts, 1992; Brammer and Millington, 2004b), several authors have started to associate CP spending with agency problems (Bartkus et al., 2002; Fich et al., 2010). There are several reasons for this. Firstly, the obscurity of the financial returns from CP spending means it can be seen to be related to inefficiency.

Secondly, since most firms do not disclose their giving in great detail, there is a transparency issue. Finally, scholars have frequently linked CP expenditure with the CEO's self-interest at the expense of shareholders (Bartkus et al., 2002; Atkinson and Galaskiewicz[, 1988; Haley, 1991). Haley (1991) describes CP as social currency for the CEO since gifts are attributed to the CEO's benevolence and are a function of discretionary income. Agency theory asserts that some of the interests of principals (such as shareholders) and agents (such as executives or managers) are incompatible (Bartkus et al., 2002). In the absence of proper monitoring and control, agents (managers) may expropriate organisational resources in a manner unacceptable to principals (shareholders) (Fama, 1980; Jensen and Meckling, 1976). Agency problems arise from conflicting goals and information asymmetry, which results in opportunistic behaviour and stems from the fact that it might be too difficult or costly for shareholders to verify specific managerial actions (Eisenhardt, 1989). Boatsman and Gupta (1996) state that the cost of monitoring managerially-motivated CP is prohibitively high for stockholders, and so they allow over-investment in CP.

However, the agency model has its critics. Jensen and Meckling (1994) accused the model of man as being a simplification and unrealistic description of human behaviour. Along the same lines, Doucouliagos (1994) states that the complexity of human action and motivation does not lend itself to being labeled as always self-serving. Frank (1994) adds that this model of man does not suit the demands of a social existence. Hirsch, Michaels, and Friedman (1989) summarise these points as follows: "in exchange for simplicity and elegance in their models, economists engage in a somewhat broad-brush approach that may reduce empirical verisimilitude and engender less than robust policies. In short, agency theory assumptions limit its generalizability."

2.2.4 CEO Leadership Theories and Philanthropy

The focus on understanding the importance of CEOs in determining CP is a consequence of their visibility, power and influence (Bowman, 1986). For a start, CEOs and managers spend substantial amounts of uncompensated time on the governance of non-profit organisations; a 1978 survey of presidents and chairmen of 500 US companies found that 80% served on the board of at least one non-profit organisation (Useem, 1987). Therefore, an understanding of the nature of leadership and the values underlying the decision to give is important for any

detailed study of CP. Wood's (1991a) *principle of managerial discretion* states "that managers are moral actors, who are obliged to exercise discretion available to them toward socially responsible outcomes". He emphasises the role of being a moral actor, employing discretion towards CSR in order to find ways to respond to stakeholder demands.

We turn to leadership models in assessing CSR because the importance of values is stressed in these models. This is the same conclusion reached by House and Aditya (1997) who state that "models of effective leadership have increasingly emphasized values and related characteristics of leaders that could affect strategic decision-making and implementation, including decisions and actions relating to the implementation of CSR". Despite compelling arguments in favour of the instrumental use of CSR, corporate executives may also be inclined to adopt CSR practices for moral or ethical reasons, qualities that characterise effective leaders (Daft, 2002). The "upper echelons" perspective (Hambrick and Mason, 1984) stresses the importance of CEO characteristics in determining strategy, and, building on this, Geletkanycz and Hambrick (1997) predict that the external ties of top executives influence their decisions and become reflected in organisational outcomes. These theories also highlight the importance of contacts or "social capital", which transcend organisational boundaries.

2.2.4.1 Stewardship theory. In stewardship theory, the model of man is based on a steward, whose behaviour is ordered such that pro-organisational, collectivistic behaviours have higher utility than individualistic, self-serving ones (Davis et al., 1997). It opposes agency theories by arguing that CEOs behave in the best interests of their principals, in order to guarantee the survival of the firm. Stewardship theory has its roots in psychology and sociology. It was designed for researchers to examine situations in which executives, as stewards, are motivated to act in the best interests of their principals (Donaldson and Davis, 1989, 1991). Given a choice between self-serving behaviour and pro-organisational behaviour, a steward's behaviour will not depart from the interests of his or her organisation (Davis et al., 1997). Thus, according to Davis et al., even where the interests of the steward and the principal are not aligned, the steward places higher value on cooperation than defection and, because the steward perceives greater utility in cooperative behaviour, and behaves accordingly, his or her behaviour can be considered rational.

Harrison (1975) supports the view that organisational values will take precedence over managerial ones, since evidence suggests that the values of managers have a strong organisational orientation. This can be explained by the fact that individuals change their values in order to reduce organisational conflict.

2.2.4.2 Transformational leadership. Bass (1985) initially used the transformational leadership model to understand extraordinary performance in organisations and how some leaders engage in self-sacrifice for the long-term good of a larger group or collective. Later, he suggested that the model could be applied to the larger community and not just to organisations (Bass and Steidlmeier, 1999), and so it becomes relevant to assessing CP expenditure. Transformational leadership has two separate aspects, emotional and intellectual, with the emotional aspect being composed of charisma and inspirational leadership (Bass, 1985). Charismatic leaders possess higher levels of moral development (Bass and Steidlmeier, 1999) and are likely to be guided by principles of altruism, justice and notions of the greater good, that are relevant to determining CSR goals and an identification with greater social causes (Mendoca, 2001; Waldman et al., 2006a). Hence some have stated that there is a moral and spiritual aspect to the influencing process of transformational leaders (Bass and Steidlmeier, 1999). Secondly, the intellectual aspect of transformational leadership predicts that such leaders realise that success requires strong relationships with a range of stakeholders, and thereby take these into consideration for their CSR goals. Waldman et al. (2006a) use transformational leadership theory to explore the role of CEOs in determining CSR efforts in 56 Canadian firms and find CEO intellectual stimulation, but not charismatic leadership, to be significantly related to a propensity to engage in "strategic" CSR. However, they go on to explain that not all charismatic leaders necessarily possess the moral and ethical attributes consistent with altruistic behaviour (socialised charisma), and that in some cases their charisma may be a result of moral values stemming from self-aggrandisement (personalised charisma).

A leader demonstrating personalised charisma might be interested in CP for the sake of the firm (Atkinson and Galaskiewicz, 1988) or for him or herself, so as to gain greater prestige or image, a higher salary, support for personal causes, increased social power and respect or the access to and approval of local elites (Haley, 1991; Galaskiewicz, 1985; Useem, 1987; Navarro, 1988a; Werbel and Carter, 2002). It is for this reason that researchers argue that

idiosyncratic and self-serving philanthropic expenditures function as part of the manager's discretionary income—a form of perk or salary component. The transformational leadership theory is in line with Schervish's (2005) vision of wealth holders as "hyperagents", since they are capable of establishing the institutional framework in which they and others live.

2.2.4.3 Upper echelons theory. The "upper echelons" perspective states that organisational outcomes, such as strategic choices and performance levels, are partially predicted by managerial background characteristics (Hambrick and Mason, 1984). Carpenter et al. (2004) conclude that the validity of the upper echelons model is supported by many different strategic questions and performance metrics, and that these significant findings have freed researchers from continuing to validate the theoretical basis of the model, and call for its use in examining CSR and ethics. Finally, Wood (1991b) adds that "personal and organisational characteristics" might be related to CSR stance.

2.2.4.4 Other theories. Other models have appeared in the literature. For example, in Ricks' (2002) reactive recovery model, philanthropy is part of a recovery strategy following a negative event, which highlights the self-serving motivations behind giving. Ricks (2002) also describes other theories that have sprung up more recently stressing the link between the nature of the philanthropy and consumers' perceptions and how this determines its impact on profitability. These theories draw on information processing theory and have three components: memory, motivation, and information evaluation. "Schemer schema" is another related theory and refers to the process by which consumers develop theories about a marketer's tactics.

2.2.5 The Corporate Philanthropy and Financial Performance Debate

In a meta-analysis of over 50 studies on the topic, Orlitzky et al. (2003) find a positive link between CSP and CFP. According to Margolis and Walsh (2003), 127 studies have been published on the topic of whether CSR builds or destroys shareholder wealth. Ullmann (1985) describes this type of research as "data in search of theory" and states that returns from CSR are contingent, not universal. Empirical tests of the financial correlates of CSR have found factors such as corporate age and industry to be intervening variables (Roberts, 1992; Ullmann, 1985; Cochran and Wood, 1984). However, most literature on the CSR-CFP

debate does not control for investment in R&D, which is an important determinant of firm performance (McWilliams and Siegel, 2000). Upon controlling for it, McWilliams and Siegel find that the effect of CSR on CFP is neutral.

Nevertheless, numerous reasons have been cited for a positive relationship, and they fall into two main categories: revenue enhancement (Lev et al., 2010) and cost reduction (Brammer and Millington, 2005; Waddock and Graves, 1997). Firstly, CP can act like advertising, by increasing demand and reducing price sensitivity (Levy and Shatto, 1978; Navarro, 1988a; Bhattacharya and Sen, 2003) through the mechanism of improving customer satisfaction (Lev et al., 2010). Also, a firm's prior spending on philanthropy can generate goodwill, which helps offset or ameliorate negative publicity (Barnett and Salomon, 2006). Secondly, CP can reduce the cost of wages by improving the non-pecuniary benefits of working (Brammer and Millington, 2005) and it can also increase workers' commitment to the firm, improve the quality of the work environment, and boost employee morale (Boatsman and Gupta, 1996). Furthermore, philanthropic expenditure can improve societal relations, thereby reducing costs relating to tax liability or regulatory pressures resulting from harmful environmental externalities (Brammer and Millington, 2005). Finally, CP can reduce the costs of obtaining finance, since investors are more willing to invest in firms known for pursuing CP (Waddock and Graves, 1997).

Most studies on the correlation between CP and financial performance use either cross-sectional data (Seifert et al., 2004) or aggregate time series data (Levy and Shatto, 1978). Early studies established strong links between corporate income (Schwartz, 1968; Brammer and Millington, 2008), taxation (Arulampalam and Stoneham, 1995; Schwartz, 1968) and cash flow (Schwartz, 1968; Seirfert et al., 2003). There have been several studies examining the link between CP and financial performance in the UK (Adams and Hardwick, 1998, Balabanis et al., 1998, Moore and Robson; 2002) and the US (Levy and Shatto, 1978; Navarro, 1988a; Seifert et al., 2003; Roberts, 1992; Brammer and Millington, 2004a; Brown et al., 2008). The samples used in cross-sectional studies of CP in the UK vary in size. Adams and Hardwick's (1998) seminal study examined determinants of CP such as size, profitability, leverage, ownership structure, and industry, using 100 publicly-listed UK companies. Other cross-sectional UK studies include Balabanis et al.'s (1998) study of 56 UK firms, and Moore and Robson's (2002) of eight UK supermarkets.

2.2.6 Strategic Corporate Philanthropy

The practice of strategic CP is consistent with both profit maximisation and stakeholder theories of firm motivation, since the key objective is to create financial value, and to do this the firm must appreciate the importance of its stakeholders. In 1979, a Conference Board survey found that only 30% of the sample used professional staff to analyse philanthropy, 34% used written guidelines, 8% the analysis of audit reports, and 5% performed cost-benefit analysis (Levy and Shatto, 1978). In their paper from around the same time, Bird and Morgan-Jones (1981) state that firms do little monitoring of the use to which their donations have been put, whilst Saxon-Harrold (1986) finds that, even among large givers, only half had asked for a progress report. However, today an increasing number of UK firms are choosing to separate the management aspect of CSR from other business functions (Smyth, 2000). CP initiatives have started to emerge from the bargaining between the in-house foundation executives and the managers who control marketing and other functions. CP can act as a form of marketing or PR, as Smith (1996) describes: "By carefully looking at ways market research has been used to legitimise sponsorships, corporate giving officers can boost marketing strategies directly, even while their aim is to achieve societal ends. In fact, they may be even able to convince budget setters that CP is a better investment than marketing." CP can also be used as a tool to help legitimise firms and therefore imporve their chances of survival (Chen et al., 2008).

Strategic decision makers consider the effects of philanthropy on the firm's competitive position (Smith, 1994) and so these decisions are no different to other strategic decisions, which often reflect a variety of economic and competitive concerns. Seen from this perspective, "the ideal philanthropy initiative is one that delivers the company as a whole an instrument for the solution to a social problem. While serving society, such an initiative should also serve the donating company itself, helping it become more competitive" (Smith, 1996). Thus, "like citizens in the classical sense, corporate citizens cultivate a broad view of their own self-interest while instinctively searching for ways to align self-interest with the larger good" (Smith, 1994).

2.2.3. RESEARCH ON THE CORRELATES OF CORPORATE PHILANTHROPY

A complete study of CP would have to take into consideration a long list of factors. As Johnson (1966) states, in a full analysis, one would have to recognise many independent variables, such as time, place, industry structure, firm size, cost and revenue functions, the nature of the contribution, state and federal legal codes, common law interpretations, the nature of stockholders and many others.

Table 1, presented by Siegfried et al. (1983), provides the best overview of the importance placed by managers on various factors influencing CP. “Discretion of CEO” and “the previous year’s earnings” are the two most crucial of these, since 67% and 65% of the managers respectively report them as “very important”. Current year’s earnings were found to be less important than the level of the previous year’s earnings. Over a third of the managers reported that the size of the firm relative to the community was very important. Interestingly, four times as many managers said that the “state of economy” was “very important” than said that the “volume of requests” was “very important”. Tax rates and stockholder relations are at the bottom of the twelve-item list. The most striking finding here is that CEO discretion is at the top of the list, but is a factor that receives little empirical attention due to data constraints. Also, the state of the economy is given a large weighting, whereas, in fact, with the exception of Navarro (1988a, 1988b), this factor is never mentioned in the literature. Therefore, there is an important gap in the literature here, which our study will fill by adding to our understanding of the degree to which the state of the economy affects CP. This thesis also seeks to provide a theoretical and empirical contribution, by testing the relative influence of the CEO through our study of CEO succession.

Table 1. Factors identified by company managers as influencing the level of corporate contributions, 229 major companies, 1980-81

Factor	Percentage of managers reporting factors to be "very important"*
Discretion of CEO	67.7
Size of previous years earning	64.6
Earnings in current year	48
Size of firm relative to community	36.7
"Fair Share" obligation	33.8
Earnings in Previous year	30.1
State of economy	27.1
Number of employees	8.7
Volume of requests	8.3
Number of customers	5.7
Marginal tax rates	1.7
Stockholder relations	1.3

* Managers rated as very important, slighly important or irrelevant (Siegfried et al., 1985).

2.3.1 The Generosity Ratio

The “generosity”, or “contribution”, ratio makes rare appearances in the literature, which is surprising given its intuitive importance for understanding the scale and nature of the motives behind corporate donations. In its simplest form, it is the ratio of giving to profits. Johnson (1966) and Campbell et al. (2002) are the only works that analyse donations based on this measure. The reason behind the lack of literature using the “generosity ratio” as a dependent variable is that its interpretation is not so intuitive when profits are negative. However, it is an important measure because it can reveal more about general attitudes towards giving than other measures. For example, in 1940, the mean generosity ratio was 0.3, ranging between 0.2 for firms with assets over $250 million, and as high as 0.8 for smaller firms ($100-250,000) (Keim, 1978). These figures disprove the economies of scale theory of CP, instead supporting a reverse economies of scale theory. Therefore, when studying the factors behind CP, determining the generosity ratio can give separate and theoretically insightful outcomes, on top of those which predict giving levels. To avoid problems relating to the interpretation when profits are negative, we use the ratio of giving over sales as an alternative proxy dependent variable.

2.3.2 Profitability and Firm Characteristics

2.3.2.1 Profitability. Several authors argue that corporate financial performance could influence corporate social behaviour (Ullmann, 1985; Roberts, 1992; Adams and Hardwick, 1998) and there are several reasons cited for the positive relationship between profitability and CP. First of all, economic performance directly affects the ability to give to charity (Roberts, 1992). In other words, "it seems reasonable to conclude that profitable companies are likely to have the discretionary funds to commit charitable and other programs" (Adams and Hardwick, 1998). Secondly, investment in a local community can lead to superior financial performance (Barnett and Salomon, 2006). Thirdly, the best performing managers are likely to be socially responsible since, as Alexander and Buchholz (1978) put it, "socially aware and concerned management will always possess the requisite skills to run a superior company in the traditional sense of financial performance".

2.3.2.2 Lagged profitability. Moreover, Levy and Shatto (1978) propose the "budget hypothesis", which states that the previous year's contributions could be the best indicator of the current year's contributions. To back this up, Table 1 shows that more managers felt that the previous year's earnings were important than felt that the current year's were important. Ullmann (1985) explains that social responsibility could be related to a firm's past performance because firms with high past performance may be more willing to undertake the cost of socially responsible activities. Other studies provide evidence supporting this: Moore and Robson (2002) find a positive link between both past and present profitability and the generosity ratio (as a percentage of pre-tax profits), while, according to Arulampalam and Stoneham (1995), the previous year's pre-tax profits seem to have a larger effect on contributions than the existing year's. Roberts (1992) provides further evidence. Based on these findings, we expect that the crisis of 2008 will affect contributions in 2009[3].

[3] However, note that there is mixed support for this view, since a recent study find little influence of lagged profits on giving. In the Centre for Encouraging Corporate Philanthropy's (CECP, 2009) study, regressions between profitability and CP were tested under three budget scenarios, one of which had a time delay (2006 to 2007 percentage changes were used for the financial variables; 2007 to 2008 percentage changes were used for the giving variables). All three of the significant relationships found between CP and profitability were within the same year. Thus, for example, changes in total giving from 2007 to 2008 and changes in corporate revenue from 2007 to 2008, rejecting the hypothesis of a lagged effect of profits on contributions for the period under study.

2.3.2.3 Economics of scale and visibility. Previous research finds a positive association between firm size and CP (Brown et al., 2006; Brammer and Millington, 2008; Navarro, 1988a; Adams and Hardwick, 1998; Arulampalam and Stoneman, 1995; McElroy and Siegfried, 1985; Siegfried at al., 1983)[4]. According to Roberts (1992), larger firms make higher levels of corporate donations since they are required to provide more information about their activities, and may spend more on charitable contributions as a means to legitimise their business. Roberts goes on to say that such firms have higher information disclosure because they are likely to have more stakeholders interested in their corporate social activities, and are under larger stakeholder pressure since they are more visible and commercially vulnerable to stakeholder reactions. Adams and Hardwick (1998) explain that larger firms are more likely to make political contributions for the same reason—to obtain positive governmental treatment. According to the economies of scale hypothesis, larger firms give a higher proportion of their profits to charity (Levy and Shatto, 1978). Note that this view is in contention with the reverse economies of scale view found by Keim (1978). Firm size can be measured as the natural logarithm of firm total assets (Brammer and Millington, 2008).

2.3.3 Discretionary Spending

*2.**3.3.1 Dividends.*** Navarro (1988a) found that increased dividends were associated with increased giving. Levy and Shatto (1978) assert that "obviously management make all conscious decisions about dividends and gifts, which in turn, should be related to profitability. Thus the inclusion of net income and dividends as explanatory variables is necessary to make a complete model of the variations in aggregate corporate giving on a time series basis." They find that, as income rises, so does corporate giving, and that dividends and corporate giving are highly correlated: "dividends are the best predictor of aggregate corporate giving on a year to year basis" (Ibid, 23). Navarro's (1988a) study, based on 249 firms from the *American Council of Art's* (ACA) *Guide to Corporate Giving* (1978, 1981 and 1983), finds

[4] Studies also find that larger firms have higher levels of corporate social performance (Stanwick and Stanwick, 1998), possibly due to higher visibility (Adams and Hardwick, 1998; Stanwick and Stanwick, 1998) and information disclosure (Stanwick and Stanwick, 1998). Adams and Hardwick (1998) found that any given percentage increase in asset size on average lead to an equal percentage increase in discretionary contributions, for all sizes of companies.

corporate contributions to be positively related to increases in dividends. Therefore, we expect to find that, the higher the dividend payout, the higher CP, ceteris paribus.

2.3.3.2 Research and Development. Previous research finds a positive association between R&D spending and CP (Brammer and Millington, 2008; Navarro, 1988a; Adams and Hardwick, 1998). Thus, we expect to find that the ratio of R&D to sales is positively related to CP.

2.3.3.3 Cash flow. Highly profitable firms with significant cash holdings are more capable of making charitable contributions and possibly more willing to do so (Brammer and Millington, 2008). McGuire et al. (1988) propose that contributions to charities may be especially sensitive to slack resources. Whilst controlling for firm size and industry, Seifert et al. (2003) observed 31 pairs of US companies considered to be big givers and found a positive relationship between cash resources and CP. Confirming this finding in their 2004 paper, the same authors find that cash flow, a measure of slack resources, has a significant impact on charitable giving. In common with Seifert et al. (2004) and Brammer and Millington (2008), we will use cash flow over sales as a relative measure, while controlling for firm size. We propose that firms with a higher cash to sales ratio are likely to give a higher proportion of their profits to charity.

2.3.4 Other Correlates

*2.**3.4.1 Leverage**.* Studies including measures of debt or leverage generally find it to have a negative effect on CP (Navarro, 1988a; Brammer and Millington, 2004a, 2008; Wang et al., 2008; Adams and Hardwick, 1998; Brown et al., 2006; Seifert et al., 2004). According to agency literature, high leverage is associated with high agency costs. In turn, these costs imply that it is more difficult for firms to "satisfy implicit claims" and provide additional funds for charitable contributions (Adams and Hardwick, 1998)[5]. McGuire et al. (1988) state that "to the degree that a firm has high social responsibility, it may also have a low percentage of total debt to total assets". A low total debt ensures that a firm can easily

[5] From a stakeholder theory perspective, implicit claimants, such as consumers or other beneficiaries of CP, are interested in minimising the financial risk of the company so as to avoid the social costs of bankruptcy through job losses (Cornell and Shapiro, 1987).

continue to satisfy implicit claims. Indeed, indebted firms are more likely to need to spend their free cash on meeting interest payments on loans and so will have less for donations (Brammer and Millington, 2008). Our measure of leverage is, by definition, the debt-to-equity ratio.

2.3.4.2 Risk. A significant, negative relationship has been found in previous research between the level of corporate social disclosure and systematic risk (beta), providing evidence that companies with less stable patterns of stock market returns are less likely to commit resources to social activities (Roberts, 1992). Alternatively, this could be because CSR activity may improve access to capital, morale and productivity, and such firms are therefore perceived as better managed and less risky (Roberts, 1992). Generally, we propose that the higher the beta, the lower the level of CP, relative to profits[6].

2.3.4.3 Corporation tax rate. CP has been found to be influenced by the income tax treatment of charitable contributions. Generally, as donations are exempt from tax, as corporation tax increases, so does CP (Johnson, 1966; Levy and Shatto, 1978; Keim, 1978; Arulampalam and Stoneham, 1995). In other words, corporate contributions are deductible from (federal) corporate taxes (up to a maximum of 5% of the firm's net income in the US) and so a higher rate of tax on profits is thought to encourage giving. However, corporate giving is at approximately 1% of net income—far below the 5% deductible limit—implying that the tax incentive does not fully explain firms' motivation to give. The historical movement of the generosity ratio in the 1900s reveals the sensitivity of CP to changes in tax rates. In the 1930s, the average generosity ratio was around 0.4%; then, during World War II, the ratio went up significantly, reaching a peak of 1.5% for companies with assets between $500,000 and $1 million in 1945 (Keim, 1978). The increase has largely been explained by the excess profits tax, under which 95% of marginal earnings went to the government (Levy and Shatto, 1978). After falling in the intervening years, in 1968 and 1969 the ratio rose again to 1.12% (Keim, 1978), partially as a result of the 10% income tax imposed on companies at that time (Levy and Shatto, 1978). Other authors have also explored this link (Boatsman and Gupta, 1996).

[6] Wang et al. (2008) take risk factors into consideration when they examine their measure of "industry dynamism". However, we consider firm-level risk.

2.3.4.4 Governance and ownership. To measure corporate governance, previous studies have used the degree to which share capital is controlled by a few shareholders (Adams and Hardwick, 1998) or the extent to which firms are owner-controlled (Navarro, 1988a). Others have differentiated between "insider" and "outsider" share ownership (Bartkus et al., 2002) or board diversity (Coffrey and Wang, 1998). Adams and Hardwick (1998) report no correlation between CP and shareholder concentration. Navarro (1988a) finds lower rates of giving for owner-managed firms, and Bartkus et al. (2002) find some evidence that firms with large single blockholders are likely to give less.

2.3.4.5 Ownership concentration. Agency-related variables such as managers' shareholdings, ownership structure, board composition and managerial discretion, have continually been cited as the most robust factors predicting CP (e.g., Atkinson and Galaskiewicz, 1988; Wang and Coffey, 1992; Boatsman and Gupta, 1996; Johnson and Greening, 1999; Bartkus et al., 2002; Helland and Smith, 2003). This is because high ownership concentration leads to high monitoring and high monitoring can act to restrict CP. Where ownership is highly dispersed, managers tend to pursue their own interests, which may lead to distortions such as excessive CEO pay and a lack of pay-performance sensitivity (Murphy, 1999). Meanwhile, more concentrated (less dispersed) ownership is more likely to result in more effective monitoring (Brammer and Millington, 2004a). Ownership concentration results in more extensive monitoring because large shareholders are more active investors and also because collaboration is easier among fewer owners, especially since the SEC eased restrictions on shareholder communication (Bartkus, et al., 2002; Shleifer and Vishny, 1997). Previous studies have found that companies with concentrated ownership are subject to closer monitoring by shareholders, and so less likely to make higher levels of contributions (Atkinson and Galaskiewicz, 1988; Bartkus et al., 2002)[7].

[7] An alternative argument has been raised by Ullmann (1985), saying that diffused ownership encourages CP since there are more likely to be shareholders with an interest in promoting a socially responsible image.

2.4. COSTS, FOUNDATIONS AND CYCLICALITY

2.4.1 Marginal Costs and Responses to Changes in Profits

2.4.1.1 Marginal cost definition. Marginal costs measures the change in total cost that arises when the quantity produced changes by one unit (Varian, 2003). Since there are no reported figures for firm marginal cost, average variable cost is often used as an alternative (Olive, 2002). Olive (2002) finds that industry average variable cost multiplied by a constant can be used as a proxy for industry marginal cost for a large number of industries over a short period. Average variable cost is calculated by taking the total wage bill plus the cost of materials and dividing it by an output measure. However, for many industries, output measures are unavailable. Other studies on the topic also rely on output measures (Marsden Jacob Associates, 2004). In the absence of output measures, we have used firm cost characteristics as a proxy. The calculation of our ratio for the marginal cost proxy is material costs (costs directly related to the purchase of raw materials and supplies used in manufacture) divided by the sum of research and development (R&D) expenses and the cost of goods sold (COGS, direct manufacturing cost of material and labour involved in the production of finished goods). The resulting figure reflects the ratio of variable costs to fixed and sunk costs. For example, a software manufacturer would have very low marginal costs, since material costs are low, R&D high and COGS average. Therefore, the ratio is relatively low. In contrast, a steel manufacturer has a high marginal cost ratio (material cost is high, R&D is low, and COGS is average). However, this ratio is not entirely robust since, in some cases, such as the software industry, a first-mover would have high R&D costs, but a follower would have lower R&D, yielding different outcomes. Despite some weaknesses, the ratio ought to maintain predictable differences between the marginal costs of industry groups.

4.1.2 Marginal cost and giving. One argument is that the average industry marginal cost will determine the quantity of in-kind giving. This is because, in industries with very low marginal costs, such as pharmaceuticals, giving in-kind donations from surplus inventory comes at minimal extra cost, since all the sunk costs are in the past. So, in times of downturn, such companies may be inclined to give through a release of excess stock. Therefore, giving by companies with low marginal costs would be related acyclically to GDP. We therefore

predict that firms in industries with a low average marginal cost, relative to average costs, will give greater in-kind contributions than other firms.

There is evidence that managers use their discretion to manipulate earnings. According to Healy and Wahlen (1999) "earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to mislead some stakeholders". Several other authors have reported that managers manipulate real activities to meet earnings targets (Burgstahler and Dichev, 1997; Dechow and Sloan, 1991; Roychowdhury, 2006). For example, Dechow and Sloan (1991) find that CEOs reduce spending on R&D towards the end of their tenure to increase short-term earnings. Most of the evidence relating to real activities management shows the opportunistic reduction of R&D expenditure to increase reported earnings and meet earnings benchmarks (Baber et al., 1991; Bushee, 1998). Bens et al. (2002) show that managers finance the repurchase of stocks by reducing R&D, in order to avoid the dilution of earnings per share (EPS). Roychowdhury (2006) also finds evidence suggesting that companies reduce discretionary expenditures to improve reported margins. However, this activity is less prevalent in the presence of sophisticated investors and institutional investors. Industry membership and the stock of inventories and receivables also influence real activity manipulation. It is most likely to occur when such expenditures do not generate immediate revenues and income (Roychowdhury, 2006). However, in the case of CP, it is possible that expenditures increase revenue, but only with a delayed effect.

2.4.2 Foundations and Cyclicality

In the US, giving through a corporate foundation represents nearly half of corporate contributions (Seifert et al., 2004). During the recessions of the 1980s and 2001, US foundation giving did not decrease, but it did fall after the recession in 2001, which was minor compared to the most recent crisis (Foundation Centre, 2008). The reason behind this resilience was that donors continued to establish new foundations, and that they determined their grant budgets based on a rolling average of their asset values over the prior two to five (typically three) years. Foundation assets grew faster than inflation from 2003-07, allowing foundations to mediate the impact of asset losses in 2008, on their giving in 2009 and 2010. However, 60 of the top US foundations reported that their assets declined by around 28%

over 2009 (CCS, 2009). As Useem (1987) states, foundations can insulate corporate giving from fluctuations in income, especially since, if they have an endowment, they do not need to depend on donations from the firm every year: "foundations permit a company to shield a portion of its gifts from internal management pressures, and more important, the vagaries of fluctuation income. Regular contributions are closely tied to annual company income, but foundation contributions derive in part from separate reserves. Though the reserves also derive from income, foundations draw from them in lean company years and contribute to them in better years". For example, profits were near to a post-war low in 1981 but 64% of the corporate foundations gave out more than they received from their firms; two years before this, prior to the worst of that recession, more than half (53%) reported a positive income flow (they received more cash than they gave) (Useem, 1987).

According to Petrovits (2006), there are several advantages to having a corporate foundation. Firstly, foundations can separate corporate managers from giving decisions, which reduces managers' ability to use the corporate contributions budget for their own private benefit. Secondly, they allow firms to maintain stable levels of giving, which are not affected by the business cycle, by permanently moving assets off the books. Thirdly, there are tax benefits. Individual investors can use the corporation as an intermediary because of the potential tax advantages of giving via the firm; corporate contributions are tax-deductible, while dividends are not, so individual investors can increase their amount of giving at no cost, by giving through the corporation. Foundations also allow firms to optimally time tax deductions for charitable giving (Smith, 1993). This tax incentive does not affect the long-run level of giving but may affect the timing of gifts (Clotfelter, 1985). As with all expenses, firms prefer to report contributions in periods when they face a high tax rate, in order to maximise their deductions. The main disadvantage of having a foundation is that they are required to fully disclose their giving activities. Therefore, firms often maintain both a corporate foundation and a separate direct giving programme (Petrovits, 2006).

Petrovits (2006) examines the strategic use of CP programmes to achieve financial reporting objectives and finds that firms reporting small earnings increases make income-increasing, discretionary foundation funding choices. The author provides evidence that managers strategically time payments to their corporate foundations ("payins") in order to achieve financial reporting objectives. The results of the paper indicate that firms reporting small

increases in earnings, particularly those with high stock price sensitivity to earnings news, make the most income-increasing foundation funding choices. Therefore, corporate foundations offer an opportunity for managers to exercise discretion to influence reported earnings without necessarily affecting the level of giving to outside charities.

2.5. CEO SUCCESSION AND CORPORATE PHILANTHROPY

Our study of the impact of CEO change on CP is a response to a need for a greater understanding of the influence of managerial discretion in organisations, as expressed by Lerner and Fryxell (1994): "efforts to develop a clear notion of what managerial discretion is and how it is manifested in large organisations need to continue".

2.5.1 Values, Behaviours, Decisions and Leadership

We would expect CEO change to influence CP since not all managers will be guided by the same principles (Wood, 1991b). Changes in personal values are likely to affect corporate values, since employees bring their values into the work setting (Robertson, 1991) and CEOs tend to establish the ethical norms in corporations (Agle et al., 1999) as their values "automatically percolate down through the hierarchy" (Desai and Rittenburg, 1997). Managers exhibit their personal values through the exercise of managerial discretion (Hemingway and Maclagan, 2004). Maclagan (1999) asserts that, in order to establish responsibility in organisations, one must "consider the values, motives and choices" of those involved in policy creation. Others have also found that CEOs strongly influence organisational behaviour (Hambrick and Mason, 1984; Hemingway and Maclagan, 2004). Just like other organisational actions, behaviours and outcomes, CP can be viewed as a reflection of the attributes and values of the organisation's upper echelons (Hambrick and Mason, 1984); CSR can be a result of a few managers championing their personal values and beliefs, exerting influence their influence to address personal moral concerns (Wood, 1991a; Hemingway and Maclagan, 2004). For example, Harris and Crane (2002) stress the importance of the managers' personal beliefs in the adoption of a green organisational culture. An alternative example is that one manager might choose to maintain labour standards above competitive conditions for reasons of professional pride, despite opposition from the owners (Berle and Means, 1932).

A number of studies support the view that managerial values influence CP. Firstly, Buchholtz et al. (1999) find that managerial values emphasising service to the community are positively related to CP. However, they find that managerial values only partially mediate the relationship between firm resources, discretion and philanthropy, since strategic philanthropy is independent of managerial values. Secondly, Lerner and Fryxell (1994) find that CP is positively associated with CEO values in Fortune 500 firms; when CEOs score highly on community orientation, companies experience high levels of CP. Thirdly, Thompson and Hood (1993) find that owner values are the most significant predictors of giving by small businesses. Fourthly, Agle et al. (1999) report that the CEO's compassion and willingness to work for others is associated with philanthropic service to the community. Campbell and Slack (2006) uncover a strong relationship between the personal attitudes of the charitable decision maker and the firm's giving behaviour, indicating that personal attitudes play an important role in the firm's decision to become involved in philanthropic activities. Some of the managers surveyed in Drumwright's (1994) survey of buying stated that they were moving beyond their formal responsibilities and acting in terms of the "right thing to do", based on a difficult process of moral reasoning.

2.5.2 CEO Succession and Corporate Philanthropy

The predictions of various theories, including agency theory, concerning CEO turnover, depend to a large extent on the relative levels of CP and the context of the succession event. There are three contingencies with respect to the impact of a CEO change on CP; it can increase, decrease, or have no influence on CP. The outcome depends on the "organisation context" and "content of the succession event" (Friedman and Singh, 1989). In terms of the organisational context, two factors are important: (i) pre-succession organisational performance, and (ii) organisational size. In terms of the content of the succession event, three factors matter: (i) the force initiating the CEO change (e.g. forced or retirement), (ii) the predecessor's disposition (whether or not they stay with the firm), and (iii) the origin of the new CEO (insider or outsider) (Friedman and Singh, 1989). Murphy and Zimmerman (1993) introduce various theories about CEO succession. For example, the "horizon problem" predicts dramatic increases in CP to abnormal levels before a CEO leaves because it is a way of increasing current earnings or compensation, at the expense of future earnings.

2.5.3 The Moderators of CEO Effect on Corporate Philanthropy

5.3.1 Financial performance. When considering the impact of CEO change on CP, we must also consider the financial performance before and after the change. While some scholars take the view that CEO change will improve performance (and therefore CP), others find that CEO change can destabilise a firm. The traditional ecological view of the organisation asserts that any alteration in organisational form leads to higher organisational death rates, since a firm's original form was selected in order to survive in its environment (Hannan and Friedman, 1977). Consequently, a change in CEO will destabilise the company and increase the likelihood of organisational death, implying decreased performance. In a study of US newspaper firms, Carroll (1984) observes an increase in organisational death following successions of publisher-founders. CEO change can result in two forms of performance disruption: destroying the fit between organisation and environment (ecological view) or disturbing internal authority relations and work patterns (bureaucratic theory) (Friedman and Singh, 1989). Furthermore, one must also try to disentangle the fact that CP will also cause changes in financial performance. However, Brammer and Millington (2008) state that the net benefits to financial performance only accrue over the long run when the costs of these initiatives are amortised and the reputational gains start to positively affect stakeholders' decision-making.

2.5.3.2 CEO and firm characteristics. The characteristics of the firm's managers have been related to its philanthropy. For example, Wang and Coffey (1992) find that the proportions of female and minority board members are positively and significantly associated with a firm's charitable contributions. Hypotheses relating to CEO characteristics are consistent with the upper echelons theory (Hambrick and Mason, 1984), which predicts that the CEO characteristics play an important role in determining firm strategy.

2.5.3.3 Governance and compensation. Different compensation and governance structures can encourage philanthropy in different ways. For example, agency theory predicts that agents will behave more like owners and make fewer contributions as their stock ownership increases (Wang and Coffey, 1992). Also, McGuire et al. (2003) hypothesise that long-term incentives, such as stock options, are positively associated with poor social

performance, because they encourage riskier behaviour and provide no actual link with the CEO until they are exercised. Furthermore, trends in philanthropy can be related to shifts in governance pressures. Longitudinal changes in the generosity ratio can also be influenced by pressures on management from external market forces, which can act as a governance mechanism to limit managerial discretion and stamp out agency concerns. Shareholders may suspect that high levels of giving disguise the funding of managerial self-interest (Barktus et al., 2002). In the US during the 1990s, whilst the generosity ratio decreased, governance mechanisms were tightened (Collis and Montgomery, 1998): institutional investors increased their power, the Securities Exchange Commission eased restrictions on communications, boards had more outside directors and executive compensation became more closely linked to performance (Barktus et. al., 2002). Finally, it is important to consider some firm characteristics, such as size, when studying the influence of a CEO change.

2.6. AN AGENDA FOR FUTURE RESEARCH

2.6.1 Limitations of Previous Research

Firstly, we argue that the absence of several important correlates of CP in previous studies has resulted in theoretical deficiencies. For example, the slack resources theory of giving (Siefert et al., 2004) does not explain why giving might increase after an economic crisis. In fact, no theories, except for the intrinsic stakeholder commitment model, would be able to explain this. Even that theory, however, does not explain why firms in certain industries might give more than those in others. To answer these questions we need to incorporate new factors, largely ignored in the mainstream of the literature, which will enable us to fill these theoretical gaps. It is posited that GDP is an important correlate, as are firms' costs. Also, we hypothesise that firms which can be identified as strategic givers are able to generate revenue, and thus profits, through giving, more effectively than can non-strategic givers, thus adding to our understanding of strategic CP and responding directly to several calls for research (Smith, 1994). Finally, despite studies reporting the overarching importance of the CEO, we seek to apply the predictions of leadership and agency theories, as well as theories surrounding CEO succession, in order to isolate the impact of the CEO relative to other firm-

level predictors of giving. Together, our three main chapters address the limitations in separate strands of CP research, thereby furthering our understanding of CP as a whole.

With regards to the research on the cyclical determinants of CP, previous longitudinal studies on the relationship between CP and financial performance in the UK (Arulampalam and Stoneham, 1995; Brammer and Millington, 2008) and the US (Wang et al., 2008; Levy and Shatto, 1978) do not closely consider the influence of macroeconomic conditions on CP. There have been no previous studies of CP and financial performance taking macroeconomic factors, such as recessionary impacts, into account in their modelling, except for Brown et al.'s (2008) estimate of corporate charitable giving for the *Giving USA* reports and Navarro's (1988a/b) seminal papers. Patterns in GDP growth and consumer confidence can affect sales and profitability, whilst changes in stock market values can affect managerial confidence and dividends, all of which are seen to effect CP.

Our theoretical and empirical contribution is made possible through the use of panel data, as well as through the examination of the unique cyclical shock caused by the recent financial crisis. Even though there are plenty of studies on CP using cross-sectional firm-level data (Adams and Hardwick, 1998, Balabanis et al., 1998; Moore and Robson, 2002; Levy and Shatto, 1978; Navarro, 1988a; Seifert et al., 2003; Roberts, 1992; Brammer and Millington, 2004a, 2004b; Brown et al., 2008), there have been several calls for time series research on the relationship between CP and financial performance (Seifert et al., 2004; Griffin, 2004; Wokutch and Spencer, 1987; Adams and Hardwick; 1998; Brammer and Millington, 2004b). For example, Seifert et al. (2004) conclude their study of the correlation between financial performance and CP by stating the following: "we used cross sectional data on corporate contributions even though much could be learned from longitudinal data. Despite the inconsistency in annual reporting, we urge future researchers to strive for information about giving across several years." Whilst discussing topics for future research, Griffin (2004) concludes that "longitudinal examination of philanthropic funding may uncover patterns of relationships between firms and their philanthropic recipients". Wokutch and Spencer (1987) also note that it would be useful to use time series data to consider causality issues not addressed in their study. Finally, Adams and Hardwick (1998) state that "a longitudinal study into the determinants of corporate discretionary donations could thus lead to some interesting comparative results".

Despite these continuous calls for longitudinal studies in CP and financial performance across firms, some studies do exist, especially as data have become more available in the UK (Arulampalam and Stoneham, 1995; Campbell et al., 2002; Brammer and Millington, 2008) and the US (Levy and Shatto, 1978; Fisman et al., 2006; Brown et al., 2008; Wang et al., 2008; Lev et al., 2010). The earliest studies, such as Levy and Shatto (1978) and Keim (1978), only used aggregated figures. For example, Keim (1978) plotted the ratio of aggregate corporate contributions to aggregate net income for corporations with assets in excess of $100,000, between 1940 and 1971. However, later studies have started to use panel data: Wang et al. (2008) use panel data from 817 firms in the *Taft Corporate Giving Directory* from 1987 to 1999; Brown et al. (2008) use *Giving USA* data. Arulampalam and Stoneham (1995) use panel data on 53 top UK donors from the *Charity Trends* publication, between 1979 and 1986 and Brammer and Millington (2008) compile their own data from 537 firms on the London Stock Exchange between 1990 and 1999.

In summary, there is a gap in the literature looking at how or whether the economic climate affects CP. Secondly, previous studies do not test the efficacy of different types of giving and, finally, no studies attempt to isolate the effect of the CEO and compare that with other CP correlates. The theoretical implication is that there are no holistic theories of giving which incorporate the external economic environment, the firm's internal strategy and the CEO's preferences.

2.6.2 New Theoretical Insights

Part of the reason behind the insufficiency of our theoretical understanding of CP up to this point has been the absence of adequate data. With our panel dataset, we are able to examine the determinants of variability in firm-level giving, which was not possible using cross-sectional correlates of philanthropy (Seifert et al., 2003) or the time-series variability of aggregated data (Campbell et al., 2002). We access novel firm-level determinants of variability in CP, which go beyond the traditional financial performance measures, such as profitability, revenue or "organisational slack" (Seifert et al., 2003; Lev et al., 2010). These contributions to the understanding of the determinants of CP include our measure of marginal costs, the impact of GDP shocks, trends in ethical consumerism, and the impact of CEO

change. Furthermore, by assessing the causal impact of strategic versus nonstrategic CP, we are adhering to Smith's (1996) message that research techniques previously used to measure the impact of product quality or marketing, or even R&D, on competitiveness can be applied to evaluating the success of CP initiatives, and that "from these fields we extrapolate ways of describing how CP can add value to the cross functional strategies that companies are striving to achieve these days". Finally, our study on the influence of CEO change adds, not only to our understanding of the relative influence of CEO discretion on CP, but also to the literature on CEO succession.

The following chapters add an extra layer to our understanding of corporate giving and its determinants. They do this by demonstrating how the heterogeneity of firms may result in differences in attitudes towards CP, and its practice. For example, it is possible that some firms may fit the strategic stakeholder management model, whilst others fit the intrinsic one. Moreover, our analysis seeks to test the validity of the strategic stakeholder management model, by asking whether strategic givers do actually receive financial returns from giving. Finally, at the same time as examining the other predictions of leadership theory, agency theory and theories surrounding CEO turnover, we can empirically test the extent of the CEO's influence, merging these two streams to create a better understanding of the determinants of corporate giving. Together, these three studies suggest a need for a new theory of CP, one which is not rooted in stakeholder and agency theories, but is more holistic.

CHAPTER 3[8]

CYCLES AND CORPORATE PHILANTHROPY: SHIFTING PRESSURES FROM GOOD CITIZENS, COSTS AND FOUNDATIONS

ABSTRACT

Through the discussion of the impact of the economic crisis on corporate philanthropy (CP), new themes emerge, which add to our understanding of its determinants. Firstly, the finding that generosity actually increases is evidence of the "good citizen hypothesis", that is contrary to the pro-cyclical behaviour previously established in the literature. However, once trends in ethical consumerism are controlled for, the crisis no longer has a significant impact on giving, revealing the importance of changes in stakeholder pressure. Secondly, we argue that an individual firm's marginal costs have an important role in determining its response to the crisis and its decision over whether to donate in cash or in-kind. Finally, we demonstrate that corporate foundation can insulate giving decisions from economic cycles and managerial discretion. After developing and applying the predictions of intrinsic stakeholder commitment and strategic stakeholder management models, we conclude that no single theory is adequate to explain corporate giving behaviour since we find evidence of heterogeneity in firms' motives for giving. The study uses a panel of 622 large public firms in the UK between 1995 and 2009.

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3.1. INTRODUCTION

The impact of the economic crisis on charitable giving in the UK and US has been widely debated[9] (Foundation Centre, 2008, 2009). In 2009, total UK corporate giving was estimated at £762 million, of which £512 million was in cash, making up 9% of total giving (DSC, 2009)[10]. Following the recession, total giving, at £9.9 billion, fell by 11.4% or £700 million in real terms from the 2007/08 figures (NCVO, 2009). However, corporate giving appears to be less volatile than private giving. The common held view is that firms give a fixed percentage of income to charity and so as income falls, giving falls. This paper challenges this view by introducing new determinants of giving whilst applying the predictions of Berman et al.'s (1999) extension of stakeholder theory. Under the intrinsic stakeholder commitment model, managers are giving out an intrinsic sense of duty whilst under the strategic stakeholder management models, managers are giving in order to maximise profits by pleasing stakeholders (Berman et al.'s, 1999). This paper explores the notion that even if some firms increased giving after the crisis, it may not be out of to an intrinsic commitment but rather because they seek to strategically manage stakeholders such as consumers, or obtain tax relief from dumping excess inventory, or out of a prior commitment to a foundation.

The cyclicality and volatility of CP raises important issues regarding the role of the economy, firm costs, and foundations in determining CP levels. Previous literature focuses mainly on the relationship between giving and profitability (Ullmann, 1985, Roberts, 1992; Adams and Hardwick, 1998), dividends (Levy and Shatto, 1978; Navarro, 1988a, 1988b) and cash flow (Seifert et al., 2003). In the debate over the cyclicality of giving, stakeholder theory, the dominant paradigm applied to CP (Ullmann, 1985), is inconclusive. The most common view is taken by the strategic stakeholder management model, which says that contributions are

[9]In February 2009, the UK government announced a £40 million bail-out for the voluntary sector; in October 2008 and June 2009, "recession summits" were hosted by the National Council for Voluntary Organisations (NCVO) and the UK government; in April 2009, an event to discuss research on the recession was sponsored by the Economic and Social Research Council (ESRC), Volunteering England, and the NCVO (Breeze and Morgan, 2009; Charity Commission, 2009ab). Also, in May 2009, the government appointed the first "Giving and Philanthropy Ambassador", to support Ministers and the Office of the Third Sector. In June 2009, advice was issued by the Charity Commission to charity trustees on how to respond to the economic downturn.
[10]This compares to $15.7 billion, which is 5% of private giving, in the US (Foundation Centre, 2009).

positively associated with revenue (Lev et al., 2010) and explains why giving would fall in a recession. Consistent with the intrinsic stakeholder commitment model, others argue it could be a-cyclical and will rise in face of greater need and managers act like good citizens. Alternatively, it has been suggested that contributions are a preferred expense, rising faster than profits (Levy and Shatto, 1978).

Several new determinants of giving are found and tested. This is the first study to consider the impact of economic trends, such as gross domestic product (GDP) and confidence on giving since the earliest seminal studies of Johnson (1965, 1966) and Levy and Shatto (1978). Also, with the exception of Brammer and Millington (2004a), no studies have yet examined the impact of longitudinal shifts in consumer stakeholder behaviour, such ethical consumerism without using survey methods (De Pelsmacker et al., 2005). Secondly, we would expect to find that cost structure plays an important role in determining levels and timing of in-kind donations. However, apart from Johnson (1965, 1966), literature on CP ignored the impact of costs. By devising a new measure for marginal costs, we assess its influence and evaluate the strength of profit motives arising from "tax loopholes" (Johnson, 1966). Also, this is the first study to investigates how costs can influence the decision to give in cash versus in-kind (non-cash). Thirdly, studies have not yet assessed the impact of corporate foundations on giving levels and variability in order to consider the autonomy of foundations from firms and whether they can signal an intrinsic commitment to giving. Finally, we consider the role corporation tax changes and the introduction of Gift Aid in 2001.

The study employs empirical methods developed by Adams and Hardwick (1998), Brammer and Millington (2004a, 2004b, 2006, 2008), Wang et al. (2008) and Lev et al. (2010). Firstly, we assess the impact on CP of cyclical changes in GDP, economic confidence and tax. Consistent with Navarro (1988a, 1988b) and Brammer and Millington (2008), we use a Tobit model to regress CP on various firm variables. In addition to addressing the impact of entirely new parameters on corporate giving, our contribution is in part made possible by our panel data, which contains a large, strongly balanced sample of 622 large UK firms, between 1994 and 2009. Figures for CP were collected by CharitasData. Not only do we examine traditional cross-sectional correlates of philanthropy (Seifert et al., 2003; Brammer and Millington, 2006), but also macroeconomic indicators to test cyclical influence, a new measure of marginal costs, and a new data source for corporate foundations in the UK. Due

to the absence of longitudinal data, no studies have been able to test the impact of the presence of a foundation on giving variability. The full data requirements of an analysis of the impact of a recession on charitable spending are given by Mohan and Wilding (2009) are met in our study. We control for a list of intervening firm attributes.

Our analysis aims to shed more light on the debate over the extent to which business cycles affect philanthropy. We evaluate the degree to which firms prioritise their giving in the light of income shocks and how these decisions are effected by trends in ethical consumerism, cost structure and having a foundation. These results will help determine which motivational theory of giving best describes the process: strategic stakeholder management or intrinsic stakeholder commitment (Berman et al., 1999).

3.2. CYCLICAL SHOCKS AND CORPORATE PHILANTHROPY IN THE UK

3.2.1 Theoretical Framework

Stakeholder theory has emerged as the dominant paradigm in studies of CP (Roberts, 1992; Ullmann, 1985) and its application has become common practice since Ullmann (1985) concluded that it provides an appropriate justification for incorporating strategic decision-making into studies of corporate social responsibility (CSR) activities. Berman et al. (1999) extend the stakeholder model, presenting the intrinsic stakeholder commitment and strategic stakeholder management model. Under the intrinsic stakeholder commitment model, managers feel a moral obligation towards stakeholders, whilst under the strategic stakeholder management model, the underlying objective is market performance. The stance taken by the strategic stakeholder management model is similar to profit maximisation theory of the firm.

Based on the intrinsic stakeholder commitment model, managers give out of moral conviction, which is also the basis of their corporate value system (Berman et al., 1999). Therefore, the theory predicts that, in response to a crisis and in the face of a growing need for philanthropic assistance, firms will either increase spending, or keep it the same. This is also the view of the “good citizen” hypothesis (Levy and Shatto, 1978). However, firms might be increasing their giving due to a simultaneous increase in consumer stakeholder

pressure, a view supported by the ethical consumer hypothesis and the strategic stakeholder management model, since the motivations can then be inferred as strategic.[11]

The alternative view, argued by strategic stakeholder management model is that all forms of discretionary spending will be cut and CP is one of these. However, profit manipulation theorists, who find that managers manipulate discretionary expenses (such as giving) to meet reporting targets (Roychowdhury, 2006; Petrovits, 2006), could state that it depends on the firm's costs since giving might increase due to a build up of inventory. Giving to avoid paying corporation tax (Boatsman and Gupta, 1996), regulating the timing of giving to a foundation (Petrovits, 2006), and manipulating discretionary expenses (of which giving is one) (Roychowdhury, 2006) are all examples of this. There is a third possibility that giving is not greatly influenced by cyclical shocks (Boatsman and Gupta, 1996; Breeze and Morgan, 2009).

3.3. THEORY AND HYPOTHESES

3.3.1 Economic Cycles: Good Citizens or Economic Confidence

There is strong support for the argument that giving is insulated from changes in income. Navarro (1988b) finds that contributions "are moderately income elastic and so moderately sensitive to economic phenomenon such as merger activity and variations in the business cycle" and that there is little difference across recipient type, going on to state that this finding has implications: "For the philanthropic sector this means that charitable organisations and their recipients are as exposed to the business cycle as for-profit institutions." This vulnerability underscores the need for aggressive fund raising efforts, particularly during recessionary times. For the federal government, this finding vitiates the argument that corporations rather than federal governments can be relied upon to meet social welfare needs in times of recession or depression." In a study of the effect of tax on corporate giving, Boatsman and Gupta (1996) refer to Navarro's (1988b) work whilst concluding that "corporate giving is not greatly impacted by variations in business cycles and that non-profit

[11] Agency theory also predicts that giving will increase in such circumstances but for different reasons. According to agency theory, giving is a form of managerial perk (Fich et al., 2010), so we must ask whether, in times of crisis, we expect such forms of perk to increase or decrease. Our view is that there would be more pressure on executives to report lower incomes, through a pay freeze, or a bonus cut. Therefore, they may want to compensate themselves by having a more substantial CP programme, since this acts as a substitute for executive pay (Brammer and Millington, 2005; Navarro, 1998a).

organisations are not as vulnerable during recessionary times as previously considered". They follow this by proposing that the sustained level of giving during the late 1980s, regarded by some as the beginning of a recessionary period, reinforces their finding.

Others have argued, more recently, that CP is not significantly affected by changes in income or wealth (CECP, 2009; Breeze and Morgan, 2009; Sargeant, 2001). For example, the *Giving in Numbers* report by the CECP (2009) only found a relationship in three of its 24 regressions on the relationship between profit and giving. Also, it has been argued that levels of CP are more affected by humanitarian crises than by the overall economic situation[12]. Breeze and Morgan (2009) advise caution in applying figures relating to the economy to individual donors and conclude that existing research indicates no straight forward relationship between economic conditions and the amount of philanthropic spending because:

> "Philanthropy is not a financial transaction; it is first and foremost a social act that enables people to pursue their passions, to support causes they believe in and to meet their own need to live a successful, significant and meaningful life which is affirmed by others."

This statement is backed up by survey evidence from the UK in 2001 which found that only 22% of donors terminated their support for a charity because they could no longer afford to give (Sargeant, 2001). This view is further supported by managerial utility maximisation theories (Williamson, 1964).

3.3.1.1 The good citizen hypothesis. An alternative position is to state that CP is responsive to the general economic climate, as measured by GDP growth, but that firms actually increase their spending during downturns. According to Levy and Shatto's (1978) "good citizen" hypothesis, CP ought to be counter-cyclically linked to GDP (or GNP). They make the following statement:

> "As economic activity or GNP declines most communities require increased charitable and cultural funds to maintain current services. Thus, corporate contribution levels should move counter cyclically to profits or economic activity; specifically, contributions should rise when economic activity declines during a recession."

[12] Stephen Lawrence, Research Director of Foundation Centre, 2009, Interview.

In other words, good citizenship is needed when economic activity is low, unemployment is high and tax collections are falling.

Since then, some survey-based evidence has emerged supporting the hypothesis that giving will rise in a recession since there is greater need. The trusts and foundations investigated in a report by the Charity Commission (2009b) stated that, in the face of the tough times that charities were facing, it was "wrong to reduce funding in face of need"; at the same time, none of the trustees and foundations interviewed were explicitly committed to funding counter-cyclically although several suggested that many of their clients and causes would "get hammered" and that it was the "appropriate time" to maintain funding, even at the cost of reducing the asset base. One foundation stated that maintaining donations was done to "maintain faith and trust with grantees"; one added that "there is nothing charitable about working to increase the endowment". Data from *Giving USA* shows that three charitable subsectors experienced increase donations during 2008: human services, health organisations, and international aid (Giving USA, 2009). In other words, from one perspective, CP should increase as a result of an economic crisis, since redundancies tend to exacerbate poverty and inequalities, implying a great social need for charitable contributions. Interestingly, the CECP (2008) find that, in 2007, seven out of eight firms reporting a loss in 2007 actually increased their level of giving. Finally, research from the US Foundation Centre (2008) suggests that, after the downturns of the 1980s and 1990s, foundation giving did not decline, giving priorities remained stable, and many US foundations sought to be counter-cyclical.

One of the social implications of the recent financial crisis is that both firms and consumers have become more aware of the limitations of making financial profit the one and only firm objective. This may mean that there is a greater expectation from stakeholders that firms donate to charity. A representative of one foundation, interviewed by the Charity Commission, stipulated that "this might be a time when businesses might look to charitable endeavour as a way of galvanising staff morale and team building". Another interviewee adds that "charitable appeals could gain profile and recognition from the downturn if businesses and other organisations appreciate the need to demonstrate their wider social concern and responsibility" (Charity Commission, 2009b). This social shift is in line with the view that "there is more to life than money" and that the firm's charitable initiatives are critical to the integrity of its values. As one foundation reports in the same study, "there is an

increasing awareness that greed got us into this and I see questioning of values, more thinking about social conscious, collegiality, making do with less, focussing on essentials". These changes in values, according to the report, as well as the tightening of budgets has meant that "it is an interesting moment, reshaping the sector, creativity coming out of the sector and so on". Based on the above arguments and "good citizen" view, we suggest the following hypothesis:

Hypothesis 1. Corporate contributions are counter-cyclical to GDP and so have increased since the financial crisis of 2008.

The alternative view, so far not explicitly stated in the literature, is that CP is related to the state of the economy as a whole, in terms of GDP growth as well as consumer confidence. This argument sees CP as a discretionary expense, set by a select few, who are sensitive to the general economic climate. Relevant measures and proxies for confidence in the economy are GDP growth and Consumer Confidence. We expect the economic crisis to affect CP through two main channels, each of which could influence giving levels and the generosity ratio: changes in actual *wealth* and *income* and changes in *confidence*. Firstly, giving is often linked to donors' wealth, in terms of assets and income (Breeze and Morgan, 2009), and so a reduction in this will, arguably, affect giving. Secondly, the psychological effects of a global recession are bound to influence giving through changes in confidence. According to the *Philanthropy Giving Index* in 2008, confidence among professional fundraisers and their expectations for future giving, sank to its lowest level in ten years (Centre on Philanthropy at Indiana University, 2008). Furthermore, a recession affects income and assets in different ways and there is a debate over which of these is the more important determinant of giving. It is generally assumed that donations are linked more to assets, or wealth, than to income (MacKenzie, 2008; Breeze and Morgan, 2009). Therefore, certain additional issues arise when trying to apply economy-wide phenomena to individual donors (Breeze and Morgan, 2009). Moreover, there may be issues of multicollinerarity between GDP and profitability, which we will test for in our model.

Furthermore, Breeze and Morgan (2009) point out that, even though some charities might have increased demand as a result of the recession, they may represent a small proportion of all charities; most, including medical research, may not be affected at all. UK statistics

indicate that only 23% of charities are in the "social services" field (where those affected by poverty are the recipients) (Kane et al., 2009), while Jagpal (2009) finds that, in the US, only 33% of grants benefit marginalised groups. Therefore, there might not be a much greater need for charity post-crisis as we propose.

3.3.2 Ethical Consumer Stakeholder Pressure and Visibility

Stakeholder pressure is often sighted as a motivating factor for Corporate Community Investment (CCI). Ethical consumer expenditure can be used as a proxy for stakeholder pressure in this context, although other measures were considered, such as the percentage of household waste that is recycled. Stakeholder pressure in the form of ethical consumerism is likely to influence charity expenditure, especially for more visible firms. In their analysis of CCI in the UK over two time periods, 1989-90 and 1998-99, Brammer and Millington (2004a) find that :"in the early period corporate charitable donations were substantially determined by profits. However, this relationship has weakened during the 1990s as firms have become increasingly responsive to stakeholder influences." And so, the results from the 1990s emphasize the increasing importance of corporate visibility and influence of social pressures on corporate giving (Brammer and Millington, 2004a). This implies that changes in consumer behaviour, trends and expectations, may account for changes in CP, more than changes in economic performance do.

Brammer and Millington (2004b) find that the location of control of corporate charitable contributions is a function of the forms of stakeholder pressure experienced by the firm. However, they do not use time-series analysis to test any correlations or causality between ethical consumer spending and CP. Further, this relationship might be stronger for larger firms involved in consumer-facing industries, since they will be more visible and more commercially vulnerable to stakeholder reactions (Roberts, 1992). We expect the effect of the crisis and ethical consumerism on giving will vary depending on industry visibility, since CP can be used in more visible industries to signal product quality, and is thereby linked to greater profitability (Fisman et al., 2006) and so less dispensable.Brammer and Millington (2006) also predict that industry visibility will have a positive effect on CP. We expect to find that, since more highly visible firms are subject to greater scrutiny and more susceptible to changes in reputation, they value their relationships with nonprofits and charities more

than other firms do. Therefore, we expect to find that giving by firms in more visible industries will not be adversely affected to such a great extent by cyclical changes, such as that caused by the recent crisis.

Hypothesis 2. Rises in overall national ethical consumer spending will lead to rises in corporate contributions and we expect this link to be stronger with more visible firms and firms in more visible industries.

3.3.3 Marginal Cost and Cyclical Changes in Profit

Marginal cost measures the change in costs for a given change in output (Varian, 2003). Marginal cost and cost structure are undeservedly ignored throughout most of the literature on CP. Besides Johnson (1965, 1966), no other literature discusses the importance of marginal costs in determining the level of donations. Essentially, firms with low marginal costs are more inclined to make large product donations in times of cyclical downturn, since the have excess inventory and the cost of producing them is low relative to their market value. Johnson (1966) states that product contributions out of inventory increase the net profit after taxes when marginal cost as a percentage of price is less than the tax rate. The allowable deduction is fair market value[13]. And so the corporation can deduct the profit portion of the normal price without having to report such profit as taxable income. And so Johnson (1966) concludes that "giving can be more profitable than selling when manufacturing costs are low and selling costs, to be avoided by the donation are high."

Not only does the cost structure matter for in-kind contributions, the industry and nature of the product is also important. This is because, in some industries (such as utility, finance, and service sectors), product contributions are not deductable since they cannot serve a philanthropic purpose (Johnson, 1966).

3.3.3.1 Marginal cost and levels of giving. As explained above, the marginal cost of production is an important determinant of the levels of giving by different firms, because the

[13]"The lowest price at which goods are regularly sold to the contributor's usual customers". Quoted Internal Revenue Code (Washington, D.C.: Government Printing Office), sec. 170 (1964); Rec Rul. 56-196, 1959 - 1C.B. 56.

net income derived from tax deductions from product contributions is a motivating factor (Johnson, 1965). As a result the motivations behind cash and in-kind donations can be very different, since cash donations are potentially less self-serving. According to the DSC, in the UK, 66.8% of giving was in the form of cash in 2009. This compares to 43% reported by the CECP's *Giving in Numbers Report* (CECP, 2009), based on 137 surveyed US member firms.

The deduction made for a product contribution is the lowest price at which goods are regularly sold to the contributor's usual customers. To avoid a double deduction, appropriate accounting adjustments are made to remove the costs of goods contributed from the costs of goods sold (Johnson, 1965). Since the tax law omits any reference to gross margin, there exists a loophole, whereby a firm can take a deduction for a cost it has never incurred (Johnson, 1965).

Johnson (1965) developed a model showing the importance of tax rates and marginal costs as an incentive for increasing contributions. He found that the higher the marginal manufacturing costs, the lower the opportunity profit, which supports our first hypothesis on this subject:

> *Hypothesis 3a: Firms with low marginal costs will make greater contributions than other firms since they give more in-kind donations.*

3.3.3.2 Marginal cost and cyclical patterns of giving. We now turn to the question of how marginal cost can influence a firm's giving pattern in response to changes in demand. Following an economic crisis the predictions of both the strategic stakeholder management and profit manipulation theories fall into two camps. On the one hand, it can be argued that managers would *decrease* spending in order to boost reported earnings. On the other hand, other scholars predict that in-kind giving would *rise* following a build-up of inventory, due to a drop in demand. Whether or not this is the case, we argue, will depend on a firm's marginal costs. If marginal costs are considered to be an intervening factor in giving decisions, then there is stronger support for the strategic stakeholder management model, since donation decisions are affected by bottom-line concerns. The basic logic is that, when there is a downturn, or a drop in demand, firms will build up inventories. Firms which have low marginal costs, will therefore be inclined to donate these inventories as gifts in-kind. They

will therefore benefit from the kudos associated with philanthropic spending and, in most cases, their donations are inseparable from cash donations.

Therefore, the strategic stakeholder management and profit manipulation theories predict that firms with low marginal costs would increase *in-kind* giving after a downturn. This view is supported by Seifert et al. (2003), who claim that in-kind donations are often strategically motivated, designed to cut costs and enhance revenue:

> "Common purposes for in-kind philanthropy are to dispose of excess inventory (for example, computer hardware given away for educational purposes, perishable food given away) and to create goodwill/maintain institutional legitimacy (for example, a pharmaceutical company's donation of low-cost AIDS drugs in Africa, a beverage company's distribution of drinking water to hurricane victims)."

In low marginal cost industries, such as the pharmaceutical industry, giving donations from surplus inventory comes at minimal extra cost, since most of the costs are sunk costs. Therefore, we argue that, in times of downturn, these companies will be inclined to give in-kind and release excess stock, making their giving acyclical.

Low marginal cost firms end up giving more in times of downturn both because of changes in total *volume* of in kind giving and as well changes to the *proportion* of in kind giving to total giving. The change in volume occurs because, as explained, a drop in demand creates excess stock, which can not be sold. Therefore, the opportunity cost of donations decreases. Its increase as a proportion of total giving can also be explained by the fact that there is less free cash as well as the tax incentives from the previous hypothesis. It follows that:

Hypothesis 3b: Firms with low marginal cost are more likely to give in-kind donations in times of economic downturn.

Note that the counter argument is given by the intrinsic stakeholder commitment model, which says that cost structure would not influence giving because decisions are based on the moral identification of social needs, not costs.

3.3.4 Corporate Foundations as Giving Stabilisers

The foundation hypothesis was first suggested, but never tested, by Levy and Shatto (1978) and predicts that the effect of a crisis will also depend on whether or not the firm has a corporate foundation. We test their hypothesis, predicting that having a foundation will increase stability of CP levels. In further support of this hypothesis, the intrinsic stakeholder commitment model predicts that the presence of a corporate foundation is indicative of intrinsic care for a cause and therefore giving should be unaffected by profits. On the other hand, the profit maximisation and profit manipulation theories would argue that firms will decide to give less to their foundations following a crisis. Under the strategic stakeholder model, managers might no longer see the benefit of CP, or might review their programmes and place further pressure on them to ensure financial returns.

From an agency perspective, in the presence of a corporate foundation, giving decisions are more insulated from managerial discretion, with which CP decisions are traditionally associated with (Williamson, 1964). Under agency theory, managers try to maximise giving because it is another form of perk. However, if a firm has a foundation, there are fewer agency problems and more regulation, monitoring, and scrutiny as to over where the funds go. Therefore, agency theory would predict that giving will be insulated and stay the same.

One of the main rationales behind setting up a corporate foundation is to ensure continuity of giving in an economic downturn (Business in the Community, 2003). This is because many corporate foundation trusts and foundations have endowments and are well-placed to manage the impact of a downturn (Charity Commission, 2009b). On the other hand, corporate trusts and foundations that have no endowments, are entirely dependent on an annual allocation, which is usually calculated in relation to company profits, and so is directly impacted by the company's financial performance (Charity Commission, 2009b). Several companies endow a certain percentage of pre-tax profits to their foundation each year to underpin this commitment (Business in the Community, 2003). For example, Diageo commits 1%, while Northern Rock commits 5% of pre-tax profits to its foundation. However, it is also common in the UK and the US for firms to give a percentage of profits averaged over three years, such as in the case of the Lloyds TSB foundation, and we would expect this to stabilise shocks in income. According to the Foundation Centre (2008), the development of corporate

foundations has insulated charitable giving from the effects of the latest economic crisis, because foundation giving in the US is usually based on a three-year average of asset values.

As a result, the impact of cyclical shocks on foundation income varies depending on the foundation. Amongst other things, the use of total investment return and the advantage of previously-inflated asset values help stabilise the impact[14]. Of the nineteen trusts and foundations interviewed by the Charity Commission (2009b), fifteen reported that they had experienced some small decrease in income since autumn 2008. Ten reported a drop in income of less than 10% while four had actually received an increase in income. Some foundations stated that the return on investments had been overinflated in the years leading up to the downturn and that they were now spending the gains accrued during the years of investment growth. Some used the total investment return method to avoid over-reactions in good and bad times.

Other measures have been taken by foundations to dampen the blow on the recipients of giving. Firstly, they have reported that they are taking a measured approach and are actively working to make sure they are well prepared to manage the impact of the downturn (Charity Commission, 2009b). Secondly, all of the foundations in the Charity Commission's report stated that they had discussed the downturn in board meetings and there is now greater involvement, questioning, and understanding of the investment policies. Sixteen of the nineteen foundations interviewed said they were taking a more cautious approach, resulting in greater scrutiny of grant applicants' financial viability. They now spend more time looking at organisations' accounts and have considered making smaller regular instalments to protect the trust/foundation as an unsecured creditor. The foundations also stated that there was "deeper thinking", "more vigilance", and more collaboration, and that "wanting to fill the gaps left by funders could be a positive spur to working in a more complementary and co-ordinated way" (Charity Commission, 2009b).

[14] "Total return" is a different approach to investment, which ignores any distinction between capital return and income and looks at all investments as a single pot from which a charity will spend a certain amount, perhaps 5%, each year. It allows flexibility in managing invested permanent endowments where the trustee considers the overall return made, whether from income, capital gains or losses, and decides how much of that return to allocate to funding expenditure for that year. This approach creates a lag in the effect of reductions in the value of assets and income.

There are other reasons why the level of giving to a foundation might remain stable. Firstly, if companies wish to identify themselves with CSR, it is important for their foundations to provide consistent levels of philanthropy over time (Werbal and Wortman, 2000). Secondly, since there is evidence that CP is tied to social relationships (Galaskiewicz, 1997), it is essential to maintain those relationships through regular contact and support. Therefore, in practice, foundations are likely to provide a constant amount of giving over time (Werbal and Wortman, 2000).

There is evidence that managers manipulate their giving to foundations for financial reporting purposes. According to Petrovits (2006), managers strategically time the funding of their firms' charitable foundations to increase reported earnings. Firms record contribution expenses when they transfer the resources to their corporate-sponsored foundations ("payins"). The foundations then make grants ("payouts") to public charities. Managers are potentially able to use their firms' charitable foundations as off-balance sheet reserves; an earnings reserve is created by a large payin during a period when the manager chooses to decrease income, and if the manager needs to increase reported earnings, the reserves can be drawn out whilst corresponding payins are not necessary.

It has been shown that, in the US, firms with foundations spend more on charity than those without (Fombrun and Shanley, 1990; Brown et al., 2006), but there has been no research on this in the UK, where there are institutional differences from the US as most giving is done by firms directly, with only 10% carried out through foundations (Smyth, 2000; Business in the Community, 2003). Levy and Shatto's (1978) untested "foundation hypothesis" supports the view that firms with foundations are more predictable and give more steadily than those which give directly since "foundations can collect assets in good times and dispense them evenly through both economically good and bad periods". Also, having a foundation suggests a longer-term, deeper commitment to charity. Limited data from previous downturns illustrates "the disjunction between the effects on trusts' and foundations' income and assets and patterns of giving" (Charity Commission, 2009b).

Recently, companies have begun to establish independent foundations in order to insulate foundation allocation decisions from top management and so reduce the public's concern that corporate giving decisions are nothing more than the CEO donating to his or her charity

(Werbel and Carter, 2002). However, it is still unclear whether the CEO's influence is actually reduced through the governance mechanism of a separate foundation (Wang and Coffey, 1992).

Altogether, given the arguments above, we expect firms with foundations not only to spend relatively more on donations but also spend more steadily than other firms:

Hypothesis 4. Firms with corporate foundations will make more stable corporate contributions that are affected less heavily by economic shocks, such as the recent financial crisis.

If we find giving by firms with foundations is less prone to shocks, then the incentives for building foundations could be considered consistent with the intrinsic stakeholder commitment model, since managers are demonstrating greater concern for the needs of their aid recipients.

3.3.5 Corporation Tax Rate and Changes to Gift Aid in 2002

*3.**3.5.1 Corporation tax rate***. Corporation tax has often been cited as a determinant of a firm's giving levels (Boatsman and Gupta, 1996; Levy and Shatto, 1978; Johnson, 1966; Arulampalam and Stoneham, 1995) because, as taxes rise, the opportunity cost of keeping one's profits decreases, and so giving to charity becomes a less expensive option. Using the average tax rate, Levy and Shatto (1978) find that, as tax rates rise, so does corporate giving. Confirming this finding, Arulampalam and Stoneham (1995) use data on 53 top donors from the *Charity Trends* publication, between 1979 and 1986, during which time the corporate tax rate fell from 52% to 35%. They find that a one percentage point increase in corporation tax increases corporate giving by 1.53% in the next period, holding net pre-tax profits constant. In Johnson's (1966) study, the sharpest drops in CP are found to have occurred in 1946 and 1954, when excess profit taxes were removed (Johnson, 1966). Finally, Johnson (1966) finds that the aggregate contribution ratio exceeds 1% in only three out of the twenty-six years studied, all of which were years with high marginal tax rates on excess profits, and two of

which (1945 and 1953) were followed by years in which the tax was removed and contributions fell sharply[15]. Based on the evidence above, we hypothesise the following:

Hypothesis 5a. The levels and generosity of giving will be significantly and positively related to the corporation tax rate.

3.5.2 Changes to Gift Aid in 2000. In his budget of March 2000, the UK Chancellor launched a package of measures intended to help charities, called *Getting Britain Giving.* Several of the main changes focussed on Gift Aid and the main change was to significantly simplify the administration process for donors (HM Treasury, 2000). Besides the changes to Gift Aid in 2000, there have been no changes to the tax system which would substantially affect donations[16]. Therefore, we propose the following hypothesis:

Hypothesis 5b. The levels and generosity of giving will be significantly and positively affected by the introduction of Gift Aid in 2002.

3.4. DATA AND METHODS

3.4.1 Sample

3.4.1.1 Firm Panel. We used a strongly balanced panel, from 1995 to 2008, of a set of 622 firms listed in the 2009 FTSE Allshare Index, extracted fom DataStream. The firms in this index are representative and make up a large sample of UK firms (Brammer and Millington, 2008), since it includes a large range of firm sizes, and firm industries. Even though the results are more indicative of the largest firms and givers, the inclusion of smaller firms in the index means that the predictions are based on a broad subset of all UK public

[15] The presence of this tax "loophole" has led to the rule that, in the US, firms can only donate up to 5% of pre-tax income. However, evidence from the UK, where there is no limit, and the US, where most firms donate on average 1% of pre-tax profits, points to the fact that the presence of this ceiling does not affect giving.

[16] In an interview carried out for this study, Cathy Pharoah, Director of the Centre for Corporate Giving and Philanthropy stated the following: "In the last 20 years, two changes are that corporate philanthropy became eligible for Gift Aid, and then in 2000 donations became gross of tax rather than net of tax - this meant that whereas before 2000 charities could directly reclaim the tax paid on corporate donations, after 2000 companies reclaimed the tax themselves. Companies should then have raised their donations to ensure that charities did not get less, but many did not do so." A separate interview with the HM Treasury and HMRC confirmed this. Charity tax planners at the HM Treasury were also keen to see empirical research on whether or not this change in 2000 did have any effect on giving.

firms. There are 9,330 observations. However, six cases had reported negative revenues, and these were removed from the sample.

3.4.1.2 Corporate Community Investment. Collected by CaritasData, this dataset covers the period 1995 to 2008. CP or giving is defined as Corporate Community Investment (CCI) in the dataset and consists of one figure for the total cash and non-cash giving. CCI measures the total value of a company's donations to charities, including gifts-in-kind, employee time, product donations, and other forms. It does not include government grants. CaritasData collected giving figures from the company reports of all publicly-listed companies in the UK, where political and non-political giving figures are frequently mentioned in the Director's report. Since publicly-listed companies are legally obliged to report all charitable spending, the absence of a reported figure can be assumed to indicate zero charitable spending. We then manually matched these reported figures with firm-level data from DataStream for each firm in the panel.

The *Directory for Social Change* (DSC) provide CP data, which separates cash and in-kind giving for 585 firms for 2009[17]. To test for robustness, later on we increase the sample size to all firms who report giving, not just those who are also in the FTSE Allshare index.

Note that giving through corporate foundations, funded through an endowment, will not be included in the Caritas dataset. However, the CECP's (2009) surveys of US companies find that only 24% of corporate foundations give predominantly through endowments. Therefore, we estimate that only 24% of £82 million, or £20-30 million, of corporate giving comes straight from an endowment, thereby not appearing in our data.

It is necessary to examine CP both in terms of absolute *levels* and as a *percentage of profits*. The latter is often referred to as the "generosity" (Campbell et al., 2002) or "contribution" ratio (Johnson, 1966). For example, in one year, giving levels may decrease, but firms might still be giving more generously, as a percentage of profits, and so it is important to consider both measures. Illustrating the difference, Johnson (1966) found that when he included loss-

[17] Note that while cash giving and in kind giving are not independent and whilst cash giving is audited, in kind giving is not. For example, it is suspected that some firms in kind for cash in order to make the target of making it into the 2% club.

making corporations in his calculation of the contribution ratio, during three separate recession years (1938, 1949 and 1958), the dollar volume of contributions dropped but the ratio rose because profits fell by more. However, when profits take negative values, the interpretation of a negative generosity ratio (GR) becomes nonsensical, therefore instead, we use the ratio of giving over sales.

3.4.2 Variables

3.4.2.1 The generosity ratio. The generosity (GR), or "contribution", ratio is simply the value of contributions divided by a firm' profit. Even though most companies agree that a percentage of pre-tax profits is the accepted reference point for giving back to society (Smith, 1996), besides appearing in Johnson (1966) and Campbell et al. (2002), the GR seldom appears in the literature on CP. Most other studies focus on giving as a percentage of sales. This is in part due to difficulties in determining the value of the GR when a firm makes a loss. Johnson (1966) addresses this issue by stating that "the inclusion of a loss [making] corporation would lower the aggregate income figures and thus raise the annual contributions ratios. These effects would be greater in recession years and in smaller asset classes".[18] For a discussion of alternative ways of calculating the GR, see Campbell and Slack (2006). However, when profits are negative, it interpretation becomes is nonsensical and so we use CP over sales as a proxy.

3.4.2.2 Economic Crisis. The "Economic Crisis" variable is defined by including a dummy variable for the year 2008. This identifies the period of economic instability, which resulted in wealth losses that peaked around October 2008. The crisis was the worst since the Great Depression in the 1930s (Altman, 2009). We chose to take October 2008 as our date for the peak of the "Economic Crisis" in this study, since this date marks the peak of the TED spread[19], an indicator of perceived credit risk in the general economy. Between June 2007

[18] "Since corporations must have some profit against which to calculate contributions, it might seem obvious that firms without profits should be excluded from any study of behaviour of potential donors, and this reasoning was followed in this study. For some purposes, however, this is not an entirely satisfactory solution. The loss firms of any one year include many firms which may plan their long run level of contributions with reference to their long run income. Excluding the loss-year components of their incomes but including their income and contribution in the other years would tend to overstate contribution ratios." (Johnson, 1966).

[19] The TED spread is the difference between the interest rates on interbank loans and short-term U.S. government debt ("T-bills"). It is an indicator of perceived credit risk in the general economy because T-bills are considered risk-free while LIBOR reflects the credit risk of lending to commercial banks.

and November 2008, Americans lost an estimated average of more than a quarter of their collective net worth. By early November 2008, a broad US stock index, the S&P 500, was down 45% from its 2007 high. From 2006 to mid-2008, retirement, savings and investment asset losses totalled a staggering $8.3 trillion (Altman, 2009). To what extent these wealth effects have affected CP is still being debated. In order to capture the total effect of the economic crisis, we considered two other proxies to account for year-on-year percentage changes in the economy between 1995 and 2010, in terms of confidence and growth: Consumer Confidence and GDP.

3.4.2.3 Gross Domestic Product. Figures for GDP growth are taken from the Office of National Statistics (ONS); we use seasonally-adjusted chained volume measures at constant prices[20] , and calculate the percentage year-on-year change as our proxy for GDP.

3.4.2.4 Consumer Confidence. The *Nationwide Consumer Confidence Index* (NCCI) is the best available proxy for confidence in the UK economy. It is based on the *Conference Board Consumer Confidence Index* method used for the US; respondents are asked about their expectations with regards to the economy, employment and family income. This statistic is only available from 2004 onwards. No other studies on CP have modelled general economic movements, possibly due to autocorrelation with explanatory variables. Therefore, it will be useful to test the significance of the explanatory power of this variable, especially in the light of the shock to the market in 2008.

3.4.2.5 Ethical consumer pressure. In order to capture stakeholder pressure from consumers, we look at changes in the total value of ethical purchases and investments in the UK, between 1999 and 2009. Since 2000, the Co-operative Bank has produced the report *Ethical Consumerism*, acting as a barometer of ethical spending in the UK. The report tracks the total economic value attached to a broad range of personal choices, be they related to food, household products, finance or charitable donations, where that choice has been informed by a concern for a particular issue, such as the environment, animal welfare or human rights.

[20] Data reference code is AMBI.

3.4.2.6 Profitability. Profitability is defined as the ratio of net profits before interest and tax, to turnover, and has been used in previous studies (Adams and Hardwick, 1998; Waddock and Graves, 1997)[21].

3.4.2.7 Corporate foundations. A list of UK corporate foundations was provided by Think Consulting Solutions and the remaining firms in our panel were then looked up in the Directory of Social Change's online *Company Giving Directory*. This is a dummy variable and assumes that, if the corporation had a foundation in 2010, then they had one throughout the entire period. This is a reasonable assumption since a report by Business in the Community (2003) shows that, between 1996 and 2003, the amount contributed by corporate foundations has remained constant, at around 10% of total corporate giving, which has increased in line with inflation. The report estimated total foundation giving to be £82 million in 2003.

3.4.2.8 Marginal cost estimate. Marginal cost (MC) measures the change in costs divided by the change in outputs (Varian, 2003). Average variable cost is often used as an alternative (Olive, 2002). In the absence of output measures, such as the quantity of items produced and their price, we use firm cost characteristics as a proxy. Our ratio for the MC proxy is cost of materials (cost directly related to the purchase of raw materials and supplies used in manufacture) divided by the sum of research and development (R&D) costs plus the cost of goods sold (COGS) (direct manufacturing cost of materials and labour involved in the production of finished goods). All data were taken from DataStream. In order to differentiate between high and low MC, we divide the sample into two based on the median value of MC.

*3.4.**2.9 Industry categories.*** Most studies use two-digit Standard Industrial Codes (SIC) to separate industries (Brown et al., 2006; Seifert et al., 2003; Brammer and Millington, 2006). Our industry categories were first downloaded using the FTSE industry sector name categories, generating over 40 categories. Various industry categories used previous literature were considered and we resolved to use a categorisation based around both the FTSE industry sector names and Brammer and Millington's (2008) categories, in order to make our results comparable and universal.

[21] Other measures of profitability were tested, such as operating profits over sales, but were inferior.

*3.**4.2.10 Corporation tax.*** Consistent with Arulampalam and Stoneham (1995), the main rate of corporation tax is identified as a potential explanatory variable. The figures for the period of 1995 to 2010 are taken from the HMRC.

3.4.2.11 Gift Aid change in 2000. Based upon interviews with the Treasury, it was concluded that the only significant event which could have affected corporate contributions was the changes made to Gift Aid in 2000. Therefore, a dummy variable is included in our model to test the significance of the impact of these changes.

3.4.3 Control Variables

We employ common measures, as used in the literature, for the control variables ownership structure, dividends, age, assets, cash flow, R&D, risk (beta), and leverage.

3.4.3.1 Ownership structure. This is reflected by the percentage of closely-held shares, which represents the percentage of shares held by insiders, as well as shares held by individuals who hold 5% or more of the outstanding shares. This information was found in DataStream.

3.4.3.2 Dividends. Our measure for dividends is the dividend payout per share (%) and is defined as dividends per share over the last 12 months divided by earnings per share (last 12 months).

3.4.3.3 Other. Data on firm characteristics—profitability, size, age, cash flow, dividends, ownership structure, leverage, R&D, risk (beta), and material costs—were taken from DataStream. Size is defined as the natural log of the value of total company assets (Adams and Hardwick, 1998; Brammer and Millington, 2006). Age is the number of years since the company's incorporation. Leverage is defined as total debt as a percentage of equity ((long-term debt plus short-term debt plus the current portion of long-term debt) / common equity * 100). Cash flow over sales is defined as funds from operations over net sales or revenues; this is a measure that has been used in previous studies (Seifert et al., 2004). The beta (β) of a stock or portfolio is a number describing the relationship between the returns on that stock or portfolio and those of the financial market as a whole. If an asset has a beta of 0,

this means that its price is not at all correlated with the market. A positive beta means that the asset generally follows the market.

3.4.4 Analyses

Previous longitudinal studies (Arulampalam and Stoneham, 1995; Campbell et al., 2002; Brammer and Millington, 2008; Levy and Shatto, 1978; Brown, et al., 2008; Wang et al., 2008), use a variety of methods. Of these, at one extreme, Brown et al. (2008) runs 700 models, with 10,000 separate regressions, using 19 variables; at the other extreme, Campbell et al. (2002) do not use any regression model and simply describe linear changes over time. Early studies, such as Johnson (1966) and Levy and Shatto (1978), use aggregated figures but some recent studies use a varietry of methods for dealing with panel data (Arumpalam and Stoneham, 1995; Khanna et al., 1995; Wang et al., 2008, Brammer and Millington, 2008; Lev et al., 2010).

Both fixed effects and Tobit models are popular in this field. Arumpalam and Stoneham (1995) and Khanna et al. (1995), since they overcome sample selection and other firm-specific, unobservable variable issues by using a within-group model. Arumpalam and Stoneham (1995) use the generalised least squares technique, following Clotfelter (1985) in using a log-linear specification of CP. On the other hand, Wang et al. (2008) use a Tobit model but have corporate financial performance as the dependent variable, explained by CP.

Based on Navarro's (1988a) recommendations, we use the Tobit model, which is consistent with other recent studies (Wang et al., 2009; Brammer and Millington, 2008). We use this model because CP is thought to be a censored sample: not all firms donate and the amount given cannot take negative values. The general Tobit model formula is given by (Greene, 2000):

$$y_i^* = x'_i \beta + \varepsilon_{it},$$

where x_I is the vector of factors expected to influence donations and y_i^* is a latent variable that is observed for values greater than 0 and censored otherwise:

$$y_i = 0 \text{ , if } y_i^* \leq 0, \text{ and } y_i = y_i^* \text{ if } y_i^* > 0.$$

The model to be estimated is as follows:

$$\textit{Corporate Philanthropy}_{t+1} = f(\textit{Crisis}, \textit{Profitability}, \textit{GDP growth}, \textit{Consumer Confidence}, \textit{Ethical Consumerism}, \textit{Marginal Cost}, \textit{Corporate Foundation}, \textit{Tax Policy}, \textit{Controls})$$

All of the regressions are run using the log of corporate giving levels and the log of the ratio of giving to revenue in the period t +1, against the independent variables in period t. This one-year time lag is used because firm performance is thought to have a greater influence on giving levels in the follow year than in the current year; this is also the convention used in Wang et al.'s (2008) study. The controls used are company size, firm age, dividends per share, cash flow (over sales), R&D over sales, and leverage, as described in the previous section. There are three interaction terms: the first describes the impact of having a foundation, on CP post-crisis; the second describes the effect of the crisis on CP, depending on a firm's marginal cost; the third interacts the index of ethical consumerism with firm size. All of the variables (except the dummies) are expressed as natural logarithms (*ln*), which means that partial derivatives can be interpreted as elasticities, and also helps eliminate heteroscedasticity in disturbances (Adams and Hardwick, 1998).

3.5. RESULTS

3.5.1 Descriptive statistics

Our results show that, after the crisis, both giving levels and generosity increased because of an increase in the number of firms reporting giving, as well as a fall in profits. However, the mean amount given by firms decreased. Figure 1 compares the mean levels of giving and generosity for our sample of firms with the inflation-adjusted, indexed growth in GDP, consumer confidence and ethical consumerism, between 1995 and 2009. It shows that, despite falls in GDP, corporate giving, in terms of total levels and generosity, continued to increase, even after the crisis. Table 1 describes these changes in greater detail and shows that the corporate giving level of our sample of the FTSE AllShare Index increased by 86% in the period between 1995 and 2009, with generosity increasing by a staggering 83% after the crisis. If we expand the sample to all firms which reported giving, including those outside the FTSE Allshare Index, we actually find that giving drops by 22% after the crisis, but this is offset by a 319% increase in generosity (mostly due to a 25% fall in profits). Critically, we also notice that giving levels fall less than profits after the crisis, for all firms.

The means and standard deviations of the variables (not their logarithms) are provided in Table 2, showing that the average generosity (giving over *profits* here) level is 0.8%, equivalent to £3 million of giving. Giving firms tend to be much larger, with higher profits and better market performance; 12% of them have a corporate foundation, and they have a slightly higher percentage of insider ownership, and a higher cash flow over sales ratio than non-giving firms. On the other hand, they tend to have higher marginal costs, are typically in less-concentrated industries, and give fewer dividends per share.

Table 3 shows the Pearson correlation coefficient matrix logarithms of the variables. It finds that corporate contributions in year t + 1, are significantly negatively correlated with GDP ($p<0.01$) growth in year t. Table 4 shows that non-cash giving is not correlated with GDP, and there are no significant correlations between non-cash giving and either marginal costs or profits. However, cash giving is positively correlated with profits and industry concentration ($p<0.01$). Some of these high covariances could signal the potential for collinearity, and so variance inflation factors (VIFs) were calculated, following Adams and Hardwick's (1998) methodology. VIFs greater than ten are considered indicative of severe multicollinearity. The mean of the VIFs for Models 1, 2 and 3 are 2.74, 7.63 and 7.34 respectively.

FIGURE 1. Indexing of corporate donations, generosity ratio, GDP, Consumer Confidence and ethical consumerism, adjusted for inflation (1995-2009)

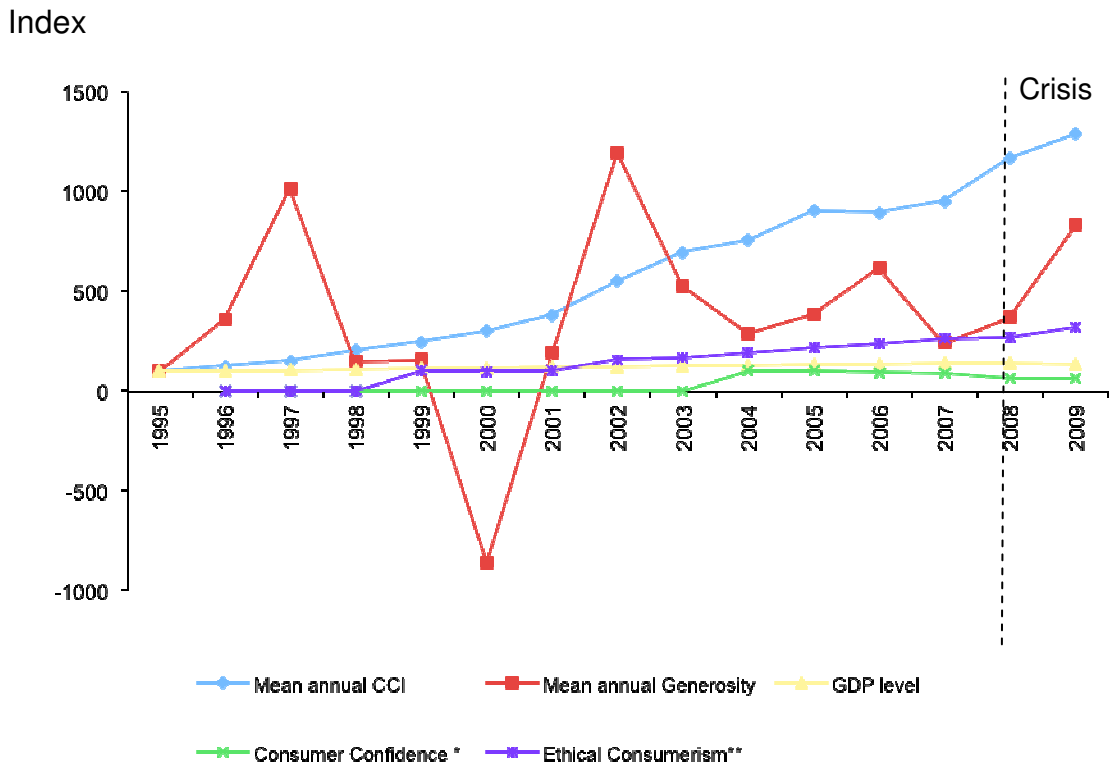


TABLE 1. Descriptive statistics (I): The rate of increase in reported giving and generosity of large UK companies (1995-2009)

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total (1995-'09)
Firms in Sample																
Number of firms reporting giving	154	153	177	177	199	229	221	229	235	239	257	264	263	228	279	3304
Number of firms reporting giving (% yr-on-yr growth)		-0.65	15.69	0	12.43	15.08	-3.49	3.62	2.62	1.70	7.53	2.72	-0.38	-13.31	22.37	44.8
Mean of all giving firms																
Generosity	0.3	1.1	2.8	0.4	0.4	-1.8	0.4	2.5	1.1	0.6	0.7	1.1	0.4	0.8	1.4	0.8
Generosity (% yr-on-yr growth)	0	261	144	-85	-5	-572	-123	509	-57	-46	24	55	-61	77	83	78
CP level (£ '000)	732	915	955	1,312	1,400	1,478	1,940	2,709	3,332	3,569	3,971	3,821	4,079	5,792	5,204	2,974
CP level (% yr-on-yr growth)	0.0	25.0	4.4	37.3	6.7	5.6	31.3	39.6	23.0	7.1	11.3	-3.8	6.8	42.0	-10.1	85.9
Net Profit (£ '000)	118,664	118,614	154,584	159,210	146,240	175,254	216,578	119,655	79,096	171,408	214,150	356,877	294,446	489,341	151,409	205,445
Net Profit (% yr-on-yr growth)	0.0	0.0	30.3	3.0	-8.1	19.8	23.6	-44.8	-33.9	116.7	24.9	66.6	-17.5	66.2	-69.1	21.6
All firms reporting giving																
Number of firms reporting giving	273	327	380	416	430	446	449	441	438	446	482	499	469	355	405	1479.2
Number of firms reporting giving (% yr-on-yr growth)		19.8	16.2	9.5	3.4	3.7	0.7	-1.8	-0.7	1.8	8.1	3.5	-6.0	-24.3	14.1	32.6
Mean																
Generosity	0.25	0.18	0.20	0.20	0.37	0.95	-0.36	0.72	0.47	1.81	0.17	0.25	0.65	-1.34	2.94	0.53
Generosity (% yr-on-yr growth)		-28	11	1	83	157	-137	-302	-35	287	-90	42	165	-305	319	91
CP level (£ '000)	484	480	534	640	791	910	1,048	1,607	1,915	2,052	2,270	2,181	2,459	3,891	3,027	1,479
CP level (% yr-on-yr growth)		-0.7	11.1	20.0	23.6	15.0	15.1	53.4	19.2	7.1	10.6	-3.9	12.8	58.2	-22.2	84.0
Net Profit (£ '000)	14,227	15,021	16,453	15,234	15,990	19,351	13,086	8,968	13,622	21,332	29,034	28,235	32,759	32,662	24,390	20,318
Net Profit (% yr-on-yr growth)		5.6	9.5	-7.4	5.0	21.0	-32.4	-31.5	51.9	56.6	36.1	-2.8	16.0	-0.3	-25.3	41.7

TABLE 2. Descriptive statistics (II)

Giving firm		Corporate Philanthropy (£ '000)	Generousity (%)	Net Profit (£ '000)	Market Performance (%)	Foundation (%)	Marginal Cost ratio (%)	GDP growth (%)	Firm Size (£ '000)	Industry Concentration Ratio (%)	Dividends paid per share	Closely Held Shares (%)	Cash Flow / Sales (%)
Yes	*mean*	2,974	0.8	205,777	24	12.0	5.9	2.0	17,100	32.2	38.1	1.6	2.2
	sd	18,658	16.6	1,140,503	51	32.5	16.5	2.3	109,000	17.5	28.1	2.4	1.1
	n	3,304	3330	3241	2422	3304	3304	3150	3,231	2,281	2,413	3,304	3,304
No	*mean*	0	0	94,288	20	8.8	1.7	2.3	2,105	38.6	41.5	1.2	1.7
	sd	0	0	833,080	42	28.4	10.0	2.0	11,200	19.6	34.7	2.2	1.7
	n	6,026	6,026	4,008	4,088	6,026	6,026	5,558	4,156	2,669	4,052	6,026	6,026
Total	*mean*	1,053	0.29	144,134	21	10.0	3.2	2.2	8,644	35.6	40.3	1.3	1.9
	sd	11,193	10	983,980	45	30.0	12.8	2.1	73,000	18.9	32.4	2.2	1.5
	n	9,330	9,356	7,249	6,510	9,330	9,330	8,708	7,387	4,950	6,465	9,330	9,330

TABLE 3. Correlation Coefficients (I): 1995-2009

Variables	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.
1. CP (£'000) (t+1)	1.00													
2. Generousity (%)	0.03 *	1												
3. Profitability (%)	0.06 ***	0.001	1											
4. GDP growth (%)	0.32 ***	-0.015	0.033 *	1										
5. Consumer Confidence (%)	-0.10 ***	-0.002	-0.033 *	0.165 ***	1									
6. Ethical Consumerism Index growth (%)	0.09 ***	0.027	-0.015	0.116 ***	0.140 ***	1								
7. Foundation	0.33 ***	0.009	0.012	0.009	0.001	-0.010	1							
8. lg Marginal Cost ratio (%)	0.11 ***	0.000	0.009	0.037 **	-0.049 ***	-0.008	0.015	1						
9. Firm Size	0.47 ***	0.018	0.047 ***	0.081 ***	-0.091 ***	0.062 ***	0.238 ***	0.077 ***	1					
10. lg Cash Flow / Sales (%)	0.10 ***	-0.027	0.099 ***	0.112 ***	-0.004	0.006	0.048 ***	0.096 ***	0.289 ***	1				
11. lg R&D / sales	-0.06 ***	0.004	-0.193 ***	0.044 **	0.027	0.016	-0.020	0.078 ***	-0.114 ***	0.021	1			
12. lg Dividends paid per share (%)	0.07 ***	0.021	0.021	-0.006	-0.008	-0.007	0.131 ***	0.153 ***	0.010	-0.001	-0.025	1		
13. lg Closely Held Shares (%)	-0.30 ***	-0.004	-0.014	0.073 ***	-0.010	0.016	-0.221 ***	-0.082 ***	-0.255 ***	0.014	0.045 ***	-0.019	1	
14. Industry Concentration Ratio (%)	0.11 ***	-0.014	-0.061 ***	0.005	0.004	0.009	0.002	0.323 ***	-0.017	0.008	0.032 *	0.108 ***	-0.019	1

Notes:

$p < 0.01$***, $p < 0.05$ **, $p < 0.1$ *

Sample is of all giving firms

TABLE 4. Correlation Coefficients (II): 2009

Variables	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
1. CP (£'000)	1										
2. Generousity (%)	0.030 ***	1									
3. Non Cash Giving (£)	0.036	-0.025	1								
4. Cash Giving (£)	0.275 ***	0.166 **	0.406 ***	1							
5. Net Profit ('000)	0.296 ***	0.007	0.078	0.201 ***	1						
6. Market Performance (%)	-0.005	0.044 ***	0.088	-0.016	-0.024 *	1					
7. Foundation (%)	0.089 ***	0.008	0.086	0.132 **	0.085 ***	-0.016	1				
8. Marginal Cost ratio (%)	0.090 ***	0.007	-0.048	0.039	0.050 ***	-0.029 **	0.002	1			
9. GDP growth (%)	-0.041 ***	-0.013	. ***	. ***	-0.009	0.084 ***	0.000	-0.026 **	1		
10. Firm Size (£)	0.258 ***	0.006	0.076	0.348 ***	0.278 ***	-0.042 ***	0.104 ***	-0.015	-0.044 ***	1	
11. Industry Concentration Ratio (%)	0.103 ***	0.007	0.114	0.209 ***	0.171 ***	0.010	0.076 ***	0.058 ***	0.000	0.246 ***	1

5.2 Hypothesis Tests

Table 5 shows the results of our tests of Hypotheses 1, 2 , 3ab and 4, using the Tobit model. Model 1 predicts corporate giving both in absolute terms and as a proportion of revenue for giving firms, without controlling for the impact of trends in ethical consumerism. In all the models, the coefficient of the crisis dummy shows that the crisis has a positive impact on giving levels but not on the ratio of giving to revenue (GR). In other words, after the crisis, even though companies gave more, they were not more generous, when controlling for sales. Model 2 finds that, once we control for the impact of ethical consumerism, giving is not found to be significantly affected by the change in GDP or the crisis. Model 3 extends Model 2 by controlling for industries.

Hypothesis 1, which predicts that GDP will be negatively related to giving, is not supported. In fact, the coefficient of GDP, 0.094 ($p<0.01$), shows that it is significantly positively linked to corporate giving levels in Model 1. However, despite this, the coefficient of the crisis dummy is 0.345 ($p<0.05$), showing a large, significant and positive impact on giving levels. This tells us that, even though giving tends to generally follow GDP, after the crisis in 2008, it went in the other direction. An alternative perspective is that giving could be related to consumer confidence but, on the contrary, consumer confidence appears to be significantly negatively related to giving. This provides some support for Hypothesis 1's proposal that corporations act as "good citizens". However, once ethical consumerism is controlled for in Models 2 and 3, the coefficient on the crisis variable increases to 1.067 ($p<0.01$) but GDP growth, profitability and consumer confidence are now no longer significant.

Hypothesis 2 posits that ethical consumerism is positively related to corporate giving, and that this effect is magnified as firms become more visible. However, the coefficients of the index are all around 0.026 ($p<0.01$) for giving levels but hypothesis is not supported for the GR. Once firm size is interacted with the index, the coefficients of giving levels (-0.002, $p<0.01$) is significant but negative whilst no major impact is found on the GR. Therefore, the larger the firm, the less the impact ethical consumerism has on their giving.

TABLE 5. The cyclical determinants of corporate philanthropy levels and generosity in year "t +1"and independent variables in year "t": Hypotheses 1ab, 2ab, 3ab, 4

Model		1		2		3	
Dependant Variable (t+1)		lnCP	lnCP/lnRevenue	lnCP	lnCP/lnRevenue	lnCP	lnCP/lnRevenue
	Hypothesis						
Profitability and Cycles							
Crisis dummy (2008)		0.345 **	-0.008	1.067 ***	0.035	1.074 ***	0.035
Profitability		0.016	0.007 *	0.026	0.005	0.026	0.005
GDP growth	H1	0.094 ***	0.005 ***	0.016	0.003	0.019	0.003
Consumer Confidence Growth		-0.007	-0.002 ***	-0.003	-0.001	-0.003	-0.001
Ethical Consumerism							
Ethical Consumerism Index Growth	H2			0.026 ***	-0.001	0.025 ***	-0.001
Ethical Consumerism Index * Firm Size				-0.002 ***	0.000	-0.002 ***	0.000
Foundations and Costs							
ln Marginal Cost	H3a	0.016	-0.003	0.013	0.001	0.013	0.001
Crisis * ln Marginal Cost	H3b	-0.152 ***	-0.012 **	-0.149 ***	-0.011 *	-0.143 ***	-0.011 *
Crisis * Foundation	H4	(dropped)	-0.013	(dropped)	-0.007	(dropped)	-0.006
Controls							
ln Total Assets		0.301 ***	0.042 ***	0.372 ***	0.039 ***	0.396 ***	0.038 ***
Age		0.003	0.000	0.003	0.000 *	0.002	0.000
ln Cash Flows		0.058 ***	0.010 ***	0.034	0.010 ***	0.045 **	0.009 ***
ln Research and Development / Sales		0.021	0.007 ***	0.054	0.007 **	0.041	0.007 *
ln Leverage		-0.026 **	-0.005 ***	-0.040 **	-0.006 ***	-0.052 ***	-0.006 ***
ln Beta		-0.025	-0.005	-0.038	-0.005	-0.069	-0.005
ln Dividends in Cash		-0.550 ***	0.002	-0.508 ***	0.002	-0.170	0.002
Corporate Foundation		2.474	-0.014	2.416	-0.005	0.917	-0.003
ln Corporation tax rate	H5a	1.021 **	0.227 ***	0.411 ***	0.023	0.408 ***	0.023
Gift Aid Changes dummy (2002)	H5b	0.159 ***	(dropped)	(dropped)	(dropped)	(dropped)	(dropped)
Industry		No	No	No	No	Yes	Yes
N observations		6101	2833	4387	2030	4387	2030
Log likelihood		-7710	3151	520	2175	-5711	2193.83

Notes:
Numbers in each cell are parameter estimates for independent variables and intercepts.
p < 0.01***, p < 0.05 **, p < 0.1 *

Hypothesis 3a, which states that firms with low MC give more in-kind donations, is supported by Table 6a, which shows a split between cash and non-cash giving between the high and low MC groups based around the median. This table uses a sample to all firms listed in the *Directory of Social Change* (DSC) and shows that firms with a higher MC give a lower percentage of their gifts in-kind compared to low MC firms (6.9<9.2). Table 7 shows the Pearson correlation matrix; there are no significant correlations between MC and either cash or non-cash giving. However, in all models in Table 5, once MC is interacted with the crisis dummy, the coefficient is -0.15 (p<0.01) for levels of giving and -0.012 (p<0.1) for the GR. This shows that MC has a negative impact on both giving measures, which is consistent with Hypothesis 3b, which states that firms with low MC will increase their giving in response to a crisis. Figure 2 displays the curvilinear relationship between profits and giving for low and high MC firms, as predicted in Hypothesis 3b. It shows that, at the lowest observed non-zero

levels of giving, firms with high MC actually give more than firms with low costs. This could be explained by the lump-sum value of donated in-kind items. Finally, Figure 3 plots the log of profits and giving over time, split between both cost groups. Broadly speaking, we observe that giving follows profits up to 2008. However, after that, despite a negative shock to profits, giving continues to rise in 2009 for both groups, and even more sharply for low MC firms, supporting Hypothesis 3b.

TABLE 6b. Cash and in-kind donations versus MC: Hypothesis 3a (full DSC sample)

		Donation type			
Marginal Cost		Cash (£)	In kind (non cash) (£)	% In Kind	Total (£)
	mean	1,003,714	488,018	9.2	1,485,162
Low	*sd*	3,707,340	2,516,961	24	5,218,964
	N	360	360	360	360
	mean	650,078	352,661	6.9	1,000,512
High	*sd*	2,452,466	2,352,857	22	4,358,958
	N	224	224	224	224
	mean	868,073	436,101	8.3	1,299,269
Total	*sd*	3,285,383	2,454,157	24	4,908,746
	N	584	584	584	584

TABLE 7. Correlations between cash and in-kind donations and MC: Hypothesis 3

Variables	1.	2.	3.	4.	5.	6.	7.
1. Marginal Cost (MC)	1						
2. Cash	0.039	1					
3. In kind	-0.048	0.406 ***	1				
4. % In kind of total giving	-0.029	0.053	0.499 ***	1			
5. Total giving	0.004	0.898 ***	0.766 ***	0.278 ***	1		
6. MC high	-0.091 ***	-0.194	0.171	0.201	-0.194	1	
7. MC low	0.091 ***	0.194	-0.171	-0.201	0.194	-1	1

FIGURE 2. Estimated relationship, Hypothesis 3a: MC

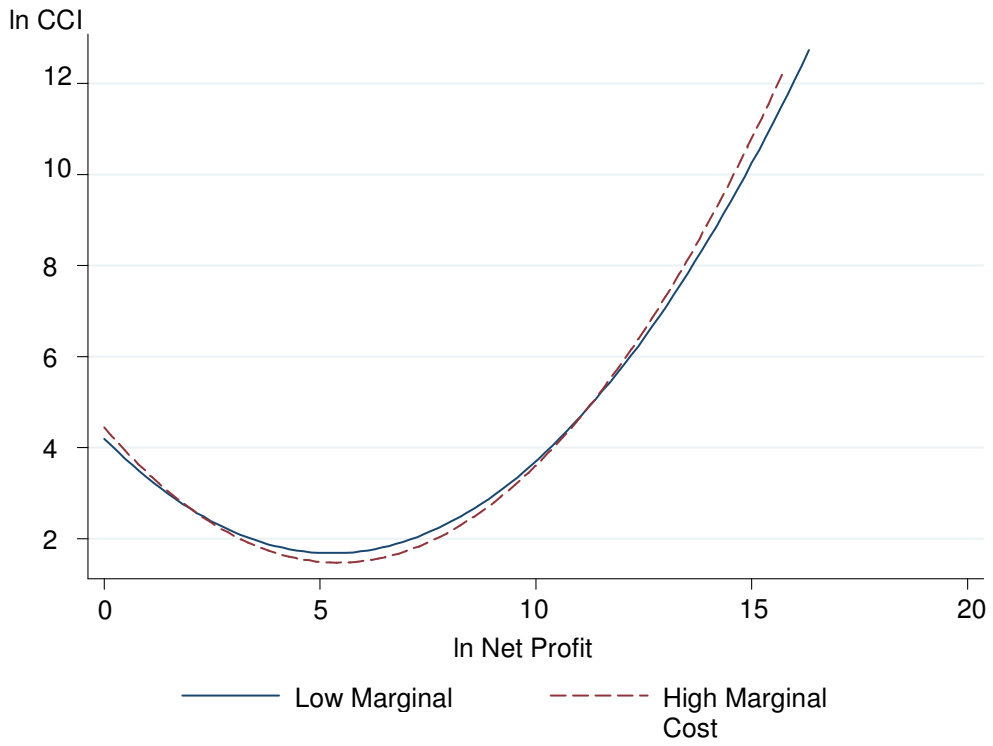
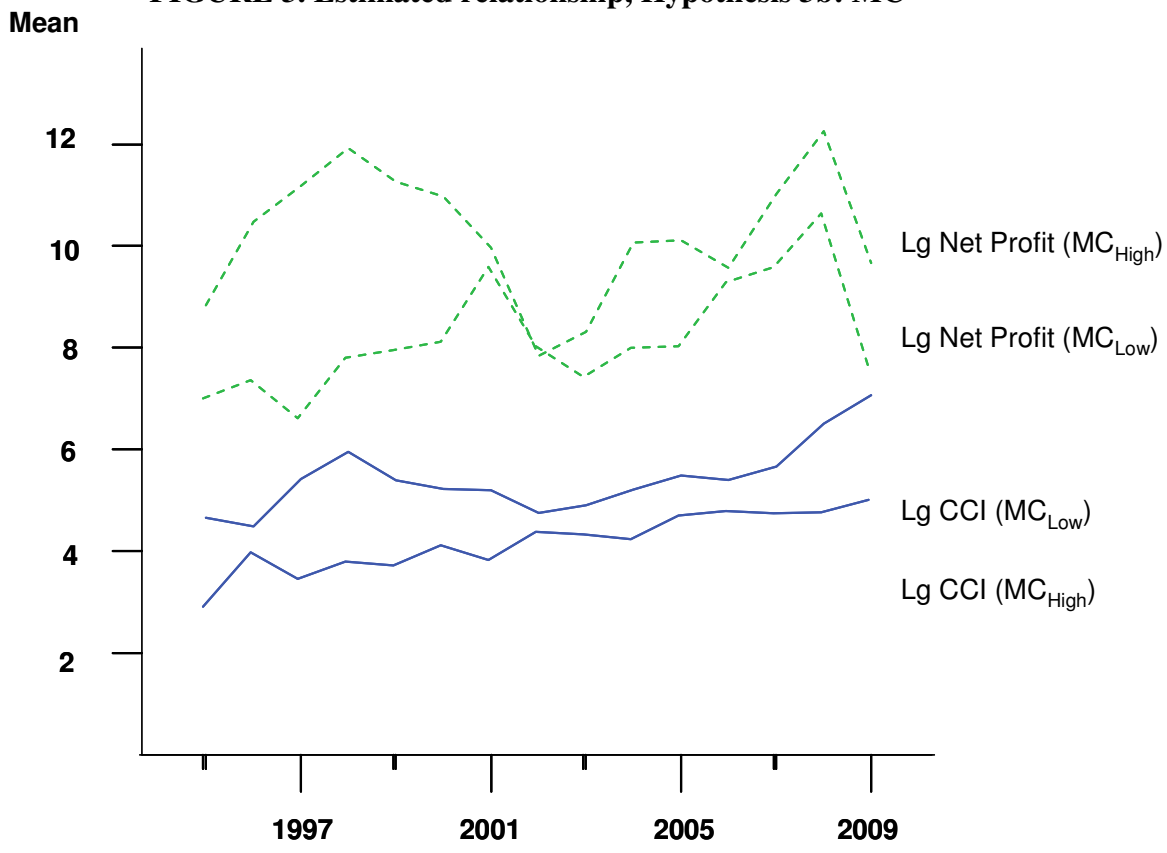


FIGURE 3. Estimated relationship, Hypothesis 3b: MC



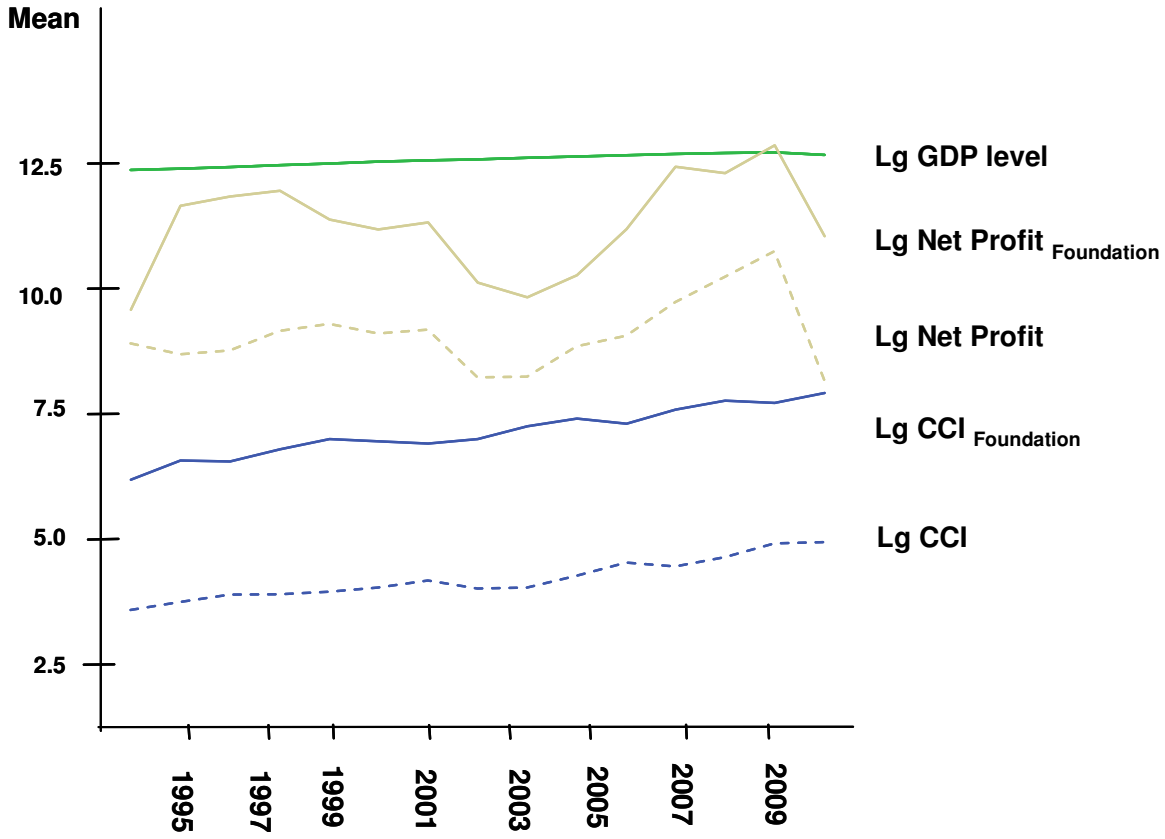
Hypotheses 4, which posit that firms with foundations give more consistently, are confirmed by the results shown in Table 8 and Figure 3. However, though the foundation dummy is amongst the largest in Table 5, none of them are significant. In comparison, Table 8 shows that firms with foundations tend to give an average of £4.0 million, compared to an average of £0.7 million given by those without them. Moreover, a within-group coefficient of variation analysis shows the ratio of standard deviation to mean to be higher for firms without a foundation (15>3), confirming that their giving is more stable. Figure 3 plots giving by firms with and without foundations between 1995 and 2009. It shows that giving is higher for those firms with foundations and that, after 2008, firms without foundations decreased their giving, whilst those with foundations increased their giving, providing further support for Hypotheses 4.

Finally, there is some support for Hypotheses 5a and 5b, as shown in Table 5. Whilst the coefficients of corporation tax in Model 1 are 1.021 ($p<0.05$) for giving levels and 0.227 ($p<0.1$) for GR, showing that it is significantly positively linked to both of these measures, and supporting Hypothesis 5a, meanwhile, the coefficients for both Models 2 and 3 are 0.411 ($p<0.1$) and 0.023 ($p<0.1$) for levels and GR respectively. Based on Model 1, a one percentage point increase in corporation tax causes a 0.3% increase in CP and a 0.7% increase in the GR. Next, Model 1 finds evidence of the positive impact of the introduction of Gift Aid. Therefore, corporate tax is found to be significant and positively related to levels in all models but not to GR, whilst Gift Aid appears to have positively influenced giving.

TABLE 8. Corporate giving by firms with and without corporate foundations: Hypotheses 4

		Corporate Giving (£ '000)					
Foundation		sd/Mean	Mean	sd	Min	Max	N
No	*overall*	15	723	11,121	-	467,000	560
	between			8,534	-	192,400	
	within			7,137	- 191,677	275,323	
Yes	*overall*	3	4,040	11,429	-	85,910	62
	between			9,243	-	48,654	
	within			6,811	- 26,215	60,356	

FIGURE 3. Estimated relationship, Hypotheses 4: Foundations



5.3 Robustness checks and additional analysis

5.3.1 Insider ownership. Firstly, we include the percentage of shares held by insider owners (or "closely-held shares"), which is generally found by previous literature to be negatively related to giving (Adams and Hardwick, 1998). Our significant results confirm this.

The opposing view is that insider ownership is positively related to giving and that, over time, there has been a downward pressure on giving caused by a trend towards a reduction in insider ownership and an increase in shareholder activism. However, we saw no evidence of a decreasing trend in insider ownership. Table 9 shows the regression results of our robustness tests using additional measures. Similar to Table 5, the first model includes the impact of the crisis and cycles (GDP and consumer confidence growth) whilst the second incorporates the influence of the proxy for ethical consumerism in case it is better at explaining longitudinal changes.

3.5.3.2 Industry concentration. Secondly, we controlled for industry concentration, which is a proxy for the competitiveness of an industry. We based this measure on data from the ONS, who derive it as the sum of Gross Value Added (GVA) for the largest fifteen businesses in an industry divided by the total GVA for the industry. When we consider industry concentration, the effect of MC is less clear. Johnson (1966) predicts that industries with either a very high or very low concentration will have lower GRs, since firms in oligopolistic markets try to differentiate themselves using CP. Our results find that concentration is significantly, but only slightly, negatively related to CP levels, and positively related to the GR. Once concentration is interacted with the crisis, a significant positive effect is found on giving levels. This could be because firms in competitive industries are under greater pressure from consumers to increase their spending following an income shock—in keeping with the "good citizen" hypothesis. Once concentration was added into the model, the predictive ability of the MC variables became less significant.

3.5.3.3 Increased sample of firms: cash versus in-kind. We also expand our analysis of cash and in-kind giving to include a larger sample of firms based on data from the DSC. The results of these tests can be found in Tables 10 and 11. Table 10 shows the industry averages for percentage of in-kind giving compared to the average industry MC and industry concentration ratio. Confirming Hypothesis 3a, at 57%, the highest percentage of in-kind giving can be found among pharmaceutical companies, who also have amongst the lowest MC. At the other extreme, the aerospace, defence, and automobiles industry sector has one of the highest MCs and lowest levels of in-kind giving. Table 11 shows the correlation coefficients

between the percentage of in-kind giving, average MC and industry concentration ratio, and finds a significant negative correlation between MC and giving levels, confirming Hypothesis 3a.

TABLE 9: Robustness tests: incorporating insider ownership, industry concentration and the business investment index

Model	1		2	
Dependant Variable (t+1)	lnCP	lnCP/lnRevenue	lnCP	lnCP/lnRevenue
Profitability and Cycles				
Crisis dummy (2008)	0.948 ***	0.031 *	1.131 ***	0.040
Profitability	0.016	0.005	0.032	0.005
GDP growth	0.074 ***	0.006 ***	0.067	0.004
Consumer Confidence Growth	0.004	0.000	0.006	0.000
Ethical Consumerism				
Ethical Consumerism Index Growth			0.024 ***	-0.001
Ethical Consumerism Index * Firm Size			-0.002 ***	0.000
Foundations and Costs				
ln Marginal Cost	0.002	-0.004	0.011	0.000
Crisis * ln Marginal Cost	-0.136	-0.010 *	-0.134 ***	-0.010 *
Corporate Foundation	1.084	0.013	1.075	0.024
Crisis * Foundation		-0.012		-0.010
Robustness tests				
ln Closely held shares	-0.009 ***	-0.002 *	-0.001	-0.002 *
ln Dividends in Cash (t+1)	-0.2	-0.008	-0.191 **	-0.010
Industry Concentration	-0.015 ***	0.001 **	-0.015 ***	0.001 *
Crisis * Industry Concentration	0.009 ***	0.000	0.008 **	0.000
Business Investment Index	-0.003	0.000 *	-0.004 ***	0.000 *
Controls				
ln Total Assets	0.321 ***	0.039 ***	0.409 ***	0.038 ***
Age	0.002 ***	-0	0.002	0.000
ln Cash Flows	0.056	0.009 ***	0.047 **	0.009 ***
ln Leverage	-0.029 ***	-0.01 ***	-0.046 ***	-0.006 ***
ln Beta	0.013 **	-0.01	0.000	-0.007
ln Corporation tax rate	3.165 ***	0.288 ***	4.349	0.417
Gift Aid Changes dummy (2002)		0.011 *		
N observations	5800	2702	4387	2030
Log likelihood	-7275	3008	-5719.8	2178

Notes:

Numbers in each cell are parameter estimates for independent variables and intercepts.

$p < 0.01$***, $p < 0.05$ **, $p < 0.1$ *

TABLE 10. Robustness tests: % of in-kind giving, concentration and MC by industry

	% In Kind giving	Mean Concentration	Mean MC	N
Aerospace, defence, automobiles	9.6	42.5	0.1469	25
Business support	17.9	16.4	0.0397	48
Chemicals	12.5	52.8	0.1552	8
Construction & building materials	1.2	30.7	0.0286	18
Electronic and Electrical Equipment	0.0	30.7	0.0286	25
Engineering & machinery	0.0	28.1	0.1252	11
Financials	7.2	0.0	0.0000	109
Food , drink, tobacco	7.6	53.8	0.1048	50
Health	25.0	17.0	0.1009	4
IT services	1.1	39.0	0.0242	13
Information technology hardware	0.0	81.0	0.0766	3
Media & entertainment	8.1	0.0	0.0088	31
Oil, gas, mining	7.7	65.3	0.0400	13
Other Manufacturing	0.0	24.1	0.0759	22
Pharmaceuticals & biotechnology	0.7	57.0	0.0679	12
Real estate	15.4	0.0	0.0000	21
Retailers	13.5	12.0	0.0219	35
Telecommunications services	12.0	61.0	0.0079	12
Transport	6.0	39.3	0.0001	16
Travel, Liesure and Hotels	13.7	13.0	0.0063	18
Unknown	0.0	17.6	0.0000	1
Utilities	9.1	47.0	0.0941	24
Total	8.4	24.3	0.0	519.0

TABLE 11. Robustness tests: Correlation coefficients between % of in-kind giving, industry concentration and MC

Variables	**1.**	**2.**	**3.**
1. % In kind of total giving	1		
2. Mean Industry Marginal Cost (MC)	-0.097 *	1	
3. Mean Industry Concentration	-0.017	0.430 ***	1

FIGURE 4. Contributions by individual FTSE All Share companies in the UK (1995-2010)

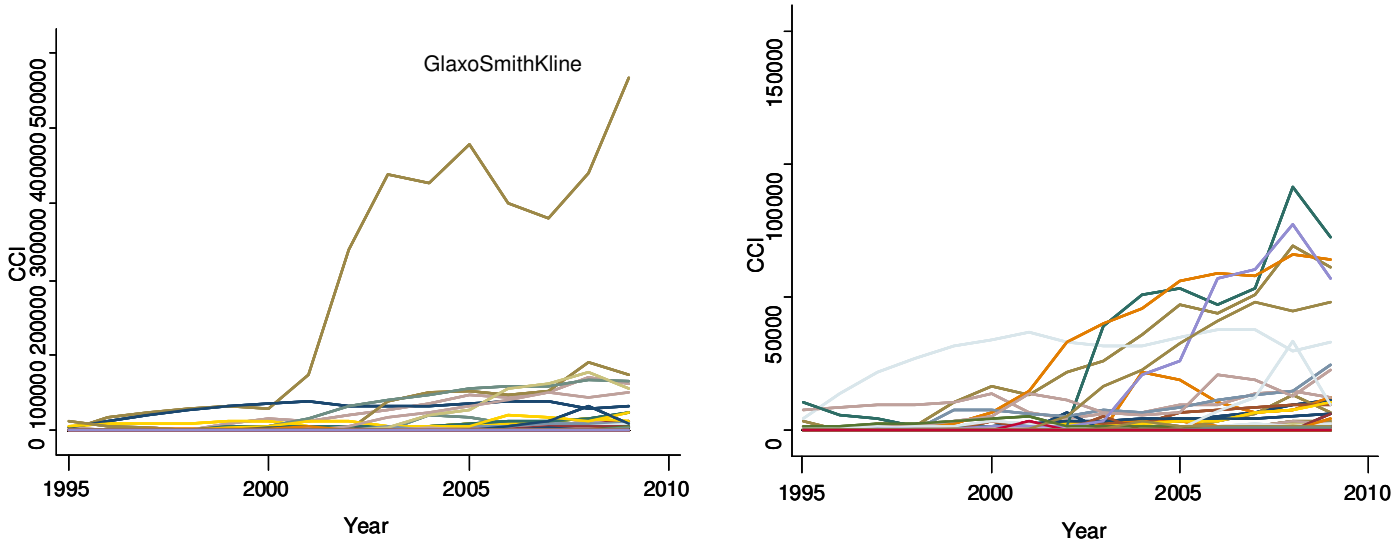


Figure 4 displays all the givers in our original sample across the period 1995-2009. As we can see, besides one large outlier—the pharmaceutical company GlaxoSmithKline (GSK)—most other firms have given less than £100 million per year over the period. In 2009, GSK gave £467 million, which is far more than its closest rival AstraZenica, who gave £59 million. There was a change in reporting legislation around 2002/03 but this change seems to have had little or no effect on the reporting of giving levels. Regarding the consistency of the big spenders around this change in legislation, Figure 4 shows the figures reported by GSK and AstraZenica to be unaffected.

3.5.3.4 Other robustness checks. Firstly, R&D over sales was removed from the regression, in case this was explaining the intra-industry differences that determine MC but this did not qualitatively change the interpretation of the coefficient of the MC variable. Secondly, we changed the timing of the dividends considered in the models to the same year as the charitable giving, since giving is often thought to be a form of dividend or dividend substitute. After this, the coefficients of dividends became less significant in our model. Thirdly, the *Business Investment Index* from the ONS was included, as an alternative measure of business confidence in the general economy. This covers acquisitions minus disposals of vehicles and other capital equipment, together with expenditure on leased assets and new building work across all sectors of the UK economy. It was found to be significantly negatively related to giving levels in the second model. Table 9 shows the results of our additional tests.

3.6. DISCUSSION & CONCLUSION

3.6.1 Contributions to the Literature

Our first finding that, even though giving is pro-cyclical, firms became more generous after the recent crisis, lends support to the good citizen hypothesis and the intrinsic stakeholder commitment model of firm behaviour. In response to a greater need for charity due to the crisis, more companies gave and became more generous, thus acting like good citizens and showing an intrinsic concern for the recipients. However, the fact that once we control for ethical consumerism these results are no longer significant provides evidence for the strategic stakeholder management model. It can be argued that firms started giving in order to please newly sceptical consumers who started placing greater pressures on their CSR and giving agendas. Since stakeholder trends in consumer preferences showed a greater influence on CP than cyclical changes in GDP, the strategic stakeholder management view gains some credence. Moreover, the finding that smaller firms give more in response to positive changes in ethical consumerism suggests they use it as a form of competitive advantage, possibly for market entry. Therefore what at first glance appeared, to be good citizenship behaviour may actually be

strategic. An alternative explanation, still consistent with the strategic stakeholder commitment view, is that firms are just mimicking each other, and so ratcheting up CP spending (Bertels and Peloza, 2008).

As a result, we turned to see if costs can give a clearer insight into motivations behind giving. Our robustness tests showed that firms with lower MC give more in-kind donations. This supports the strategic stakeholder management and profit manipulation theories of motivations behind firms' giving. This is because, for firms with lower MC, the opportunity profit of giving is higher, thereby suggesting that giving decisions are driven by a desire to manipulate profits, and manage donations strategically. The finding that, after the crisis, firms with lower MC increased their giving by more than firms with higher costs, lends further support to the profit manipulation theory of the motivation behind giving, which is also consistent with strategic stakeholder management view. Besides supporting these two theories, this section makes two other major contributions: (i) It is the first instance of giving being analysed both in terms of cash and in-kind, adding an extra dimension to our understanding of the cyclical determinants of giving. (ii) It is the first study to show evidence of the significant importance of costs in determining CP.

Thirdly, the finding that firms with foundations give more consistently is evidence that foundations can insulate giving choices from managerial discretion, thus confirming the view that agency problems arise when choices are given. Moreover, the result that firms with foundations increased their giving by more than those without them is evidence of the intrinsic stakeholder commitment model of behaviour for firms with foundations. However, it can be argued that having a foundation might not always be indicative of intrinsic commitment, because the giving in this case might be inherited from a previous generation of owners. The current owners may be obliged to continue to give consistently because the foundation might have full-time employees or there might be a rule written into the company charter, guaranteeing payments to the foundation. Therefore, firms may differ in their motivation, with some being strategic givers, while others are intrinsically motivated. Based on this, we propose

that the two theories are not necessarily mutually exclusive and can provide useful complementary insights into the differences in the motivations behind giving of different firms.

3.6.2 Limitations and Suggestions for Future Research

There are several limitations to our study and areas for future research. Our work makes a step towards a more detailed study of cash and non-cash spending, and how they are differently affected by cyclical shocks. However, since in-kind giving can theoretically be a-cyclical, while cash giving is thought to be largely pro-cyclical, the presence of in-kind giving in the CP data distorts the key relationship between corporate performance and generosity. Future research can overcome this issue by collecting panel data on a larger sample of firms and comparing cyclical patterns of giving between firms which only give in the form cash and those which only engage in non-cash giving. Future research could also examine how the recipients of aid change over the economic cycle.

Secondly, the presence of corporate foundations could be complicating the picture. For example, in one year, a firm could make a lump-sum payment into a foundation, which the foundation then pays out in future years. In fact, the timing and manipulation of payments to foundations has already been linked to managerial profit manipulation (Petrovits, 2006). Also, if a foundation is funded through an endowment, it can continue giving, even in a recession, and even if the company stops supplying it with cash. One way of adjusting for this would be to research the financing structures of corporate foundations in the UK and adjust the model accordingly. The CECP in the US has data at this level and there have been recent attempts to gather data in the UK (SMART Company, 2010). Therefore, using such data, future research could examine the influence different models of corporate foundations have on giving. Typologies could be based on method of financing, whether predominantly endowed, predominantly pass-through (funded from the company each year), hybrid (endowed and pass-through funding models) or based on the type of recipient.

CHAPTER 4[22]

THE IMPACT OF STRATEGIC CORPORATE PHILANTHROPY ON THE FINANCIAL PERFORMANCE OF UK COMPANIES

ABSTRACT

According to the strategic stakeholder management model, firms engage in corporate philanthropy (CP) in order to achieve financial returns on their giving. The question of *how* to give in order to increase financial returns is of tantamount importance to researchers and practitioners of CP and this study makes a step towards answering it. This is done by separating givers into strategic and nonstrategic categories. Next, we test whether strategic givers are better at causing revenue growth and ask how this can vary depending on industry visibility and concentration. The Granger method is used on a panel of 622 large UK companies between 1995 and 2009, in order to test causality. We find that strategic givers do not experience the same diminishing returns to giving at high levels of giving, and that being in a concentrated industry has a negative impact on profitability, which a strategic giving programme can help offset. However, the estimation of the scale of the impact of philanthropy on revenue tells us that this effect is not particularly large, lending credence to alternative theories, which downplay the positive impact of giving on financial performance.

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4.1. INTRODUCTION

The steady movement toward an increasingly strategic use of corporate philanthropy (CP) is reported by several authors (Marx, 1994; Werbel and Wortman, 2000; Saiia et al., 2003). In Saiia et al.'s (2003) survey, when asked whether philanthropy is becoming more strategic, 126 respondents answered "yes", and 3 answered "no" ($p<0.001$), confirming Marx's (1994) finding that "an overwhelming majority of corporate giving is a strategic practice and that it is continuing to develop in that direction". Over two decades ago, Troy (1986) encouraged the integration of CP into the overall planning of a company: "as companies grow from proprietorships to multinational companies, the contribution function shifts from a 'hip pocket' function of the owner-chief executive to an institutionalized element of corporate public affairs, integrated with overall corporate objectives and plans". Now, a growing body of literature is recognising the strategic, organisational and social significance of CP as a component of corporate social responsibility (CSR) (Porter and Kramer, 2002; Saiia, 2001), while other literature highlights the importance of external stakeholder influence on CP (Adams and Hardwick, 1998; Brammer and Millington, 2004a, 2004b). Studies have shown that CP can increase revenues (Wang et al., 2008; Lev et al., 2010) and the effect is greater in more visible industries (Fisman et al., 2006). However, we are taking the next step in this research area by asking: *does how you give make a difference?* Therefore, we make a distinction between two key types of giving: strategic and nonstrategic. Another reason for making this distinction is the vast literature stating the growing importance of strategic CP (Saiia et al., 2001), and how to give strategically (Porter and Kramer, 2002), but the complete lack of literature assessing the efficacy of strategic CP in improving profitability. In accounting literature, CP is defined as an "unconditional", "voluntary" and "nonreciprocal transfer" (FASB, 1993). Meanwhile, definitions of strategic philanthropy specify a motivation for financial return, or meeting "corporate strategy objectives" (Marx, 1999) and other authors have stressed the importance of congruence or fit (Porter and Kramer, 2002) and managerial evaluation or planning (Saiia et al. 2003).

The debate over whether CSR builds or destroys shareholder wealth has led to over 127 studies (Margolis and Walsh, 2003) and several of these have used CP as a proxy for CSR (Adams and Hardwick, 1998, Balabanis et al., 1998, Moore and Robson, 2002; Levy and Shatto, 1978; Navarro, 1988a; Seifert et al.; 2003; Roberts, 1992; Brammer and Millington, 2004a, 2004b; Brown et al., 2008). The debate between sceptics (Aupperle et al., 1985) and proponents (Lev et al., 2010) has led to several spin-off theories and models, such as the "virtuous cycle" (Waddock and Graves, 1997) and the strategic stakeholder management model (Berman et al., 1999). There has also been a stream of literature reconciling the two camps by stating that CP can be profit-motivated, or strategic, and that this is an increasing trend (Marx, 1994; Werbel and Wortman, 2000; Saiia et al., 2003). However, no literature has emerged to test whether or not this "new paradigm" or type of philanthropy does actually improve performance. The need for research into the effectiveness of strategic CP is mentioned in several recent papers (Smith, 1996; Saiia et al., 2003; Fisman et al., 2006; Lev et al., 2010). Firstly, Lev et al. (2010) conclude that "further research is needed to investigate mechanisms by which corporate philanthropy enhances a firm's competitive advantage and to examine the effectiveness of different types of corporate philanthropy programs on firm performance". Secondly, Saiia et al. (2003) comment that "although many scholars and practitioners have noted an increase in the strategic nature of corporate philanthropy, relatively little empirical attention has been given to this practice". Therefore, researchers are seeking to find empirical answers to questions of whether and how strategic CP enhances competitive advantage (Smith, 1994; Lev et al., 2010):

> "In the emerging paradigm, CP must prove its worth like any other business function. But to do this CP practitioners need good research. However, this research has not been forthcoming. Academics are far too removed from the realities of CP practices to generate the necessary research. Today's advocates are convinced that CP adds to competitiveness….We need to challenge prevailing beliefs with good research." (Smith, 1996)

In our study we take the first steps towards answering the question of *whether* the practice of strategic CP, as defined in the literature (Saiia et al., 2003), is positively associated with better financial performance, vis-à-vis nonstrategic practices. We go further and ask how the

effectiveness of strategic philanthropy varies depending on industry visibility. In the process, we extend and test a model similar to the one introduced by Fisman et al. (2006), who conclude that they "do not have sufficiently refined data to test predictions" and that "more refined data and better identified tests are required to provide a more substantial evaluation of our theory and a better understanding of CSR motivations in general. This should be a particularly fruitful avenue for future research." We also ask whether there is a relationship with insider ownership. Stakeholder theory would predict that greater shareholder pressure (lower insider ownership) would lead to firms reporting greater amounts of strategic use of philanthropy. Finally, we ask whether firms with foundations exercise a more strategic use of philanthropy. The presence of a corporate foundation indicates that a firm has a philanthropic strategy but this does not necessarily mean that they are strategic in their philanthropy, a distinction made by Post and Waddock (1995).

We carry out the above research using data on 622 large UK companies listed in the FTSE AllShare Index, and compare CP spending vis-à-vis profitability for firms which are strategic in their spending and firms which are not. We set up a regression equation with profitability as the dependent variable and include strategic CP as an independent explanatory variable, with a long set of control variables that are commonly used in the literature (Brammer and Millington, 2008). One of the key reasons behind the lack of empirical research on strategic CP is the absence of a clear identification of how to quantify the "strategic" component of philanthropy. We use a definition identified by Saiia et al. (2003) as the most accurate and popular, and which is derived from Smith (1994). To distinguish between firms who practise strategic philanthropy and those who practise the nonstrategic form, we examine the annual reports against a checklist of characteristics that define strategic philanthropy, and thus create a dummy variable.

Part of the purpose of this study is to take the first steps towards being able to measure the returns of strategic CP. This is of importance to managers since they need to be able to justify philanthropic expenditure, especially if they are laying off workers to cut costs (Smith, 1994). Furthermore, since philanthropy is a notoriously ambiguous goal for firms, executives are

prone to seek legitimacy, especially in highly visible firms (Miles, 1987). Secondly, by testing Fisman et al.'s (2006) model, we can determine in which industries CP is most effective at improving profitability, as well as where it could have a negative influence, a topic of interest for marketing practitioners and giving officers. Thirdly, by investigating whether or not firms with higher insider ownership are more likely to have strategic giving programmes, we can test the predictions of stakeholder theory and utility maximisation against traditional profit maximisation theory. Finally, we can determine whether having a corporate foundation allows greater independence from companies, and whether foundations are indicators of strategic giving programmes. This will shed light on the debate surrounding whether the intrinsic stakeholder commitment or the strategic stakeholder management model best describes the motivations behind setting up corporate foundations in the UK.

4.2. CORPORATE PHILANTHROPY: MOTIVATION, STRATEGY AND PERFORMANCE

4.2.1 Increasingly Strategic Motivation behind Corporate Philanthropy

In a survey by LBG (2009) of 440 community involvement professionals in US companies, 72% of the respondents stated that, as a result of the financial crisis of 2008, their giving was more strategic. Also, 22% said that they were allocating a greater percentage of their giving budget to local rather than national organisations than they had done in 2008. Finally, 51% stated that they paid increased attention to measurability and non-profit accountability. Strategic CP describes the giving of corporate resources to address non-business community issues that also benefits the firm's strategic position and bottom line (Saiia et al., 2003). It is an example of the firm seeking to achieve a synergistic outcome by targeting corporate resources at societal problems or issues that resonate with the core values and mission of the firm (Saiia et al., 2003). However, to quote Porter and Kramer (2002), "few phrases are as overused and poorly defined as 'strategic philanthropy'". Whilst avoiding giving a strict definition, they go on to explain that "it is only when corporate expenditures produce simultaneous social and economic gains that CP and shareholder interest converge".

CP is at the top of Carroll's CSR pyramid and represents a 'discretionary' form of CSR that is not obligatory for economic, legal or moral/ethical reasons (Carroll, 1979). The nature of CP is often categorised in the literature based upon the motivation behind it. Strategic CP is often conceptualised as being at the opposite end of the CP continuum from altruism, which is giving without concern for reward (Burlingame and Frishkoff, 1996). Sanchez (2000) identifies three separate models for CP: altruism, profit maximisation, and the political and institutional power model. In the altruism model, the motivation is only to help others. In the profit maximisation model, CP is designed, directly or indirectly, to produce economic gain, for example, cause-related marketing (CRM). In the political and institutional power model, philanthropy is a tool for maximising political returns, through holding a power base within political and institutional environments. Consistent with this, Campbell et al. (2002) create a taxonomy of four motivations behind "corporate charitable involvement": strategic, altruistic, political and managerial utility.

The increase in the strategic use of CP is in part due to higher pressures from key stakeholders, such as shareholders and consumers. In an increasingly competitive market place, corporate managers find themselves in the position of having to justify their existence in terms that are consistent with adding value to the bottom lines of their organisations (Himmelstein, 1997; Saiia et al., 2003), yet they feel conflicted in their traditionally-defined altruistic roles (Saiia et al., 2003). Since making greater profits is a primary concern for a firm, the giving manager must be strategic and seek to augment profits through their giving (Saiia et al., 2003). Furthermore, philanthropic activities can encourage some investors to support companies (Marx, 1994) and shareholders can derive value from CP, but these returns are not easily measured (Lewin and Sabater, 1996). Meanwhile, the trend of ethical consumerism has also been rising rapidly (Doane, 2001). As a result, sponsorships and CRM have increased dramatically while more traditional philanthropy has decreased (Himmelstein, 1997; Saiia et al., 2003). Another view consistent with this is that increases in CP can be explained by "interorganisation contagion" (Galaskiewicz and Burt, 1991), which occurs as firms ratchet up

their CP after seeing their competitors do so (Glaskiewicz and Burt, 1991; Bertels and Peloza, 2008).

The increase in consumer stakeholder pressure has also forced an increase in the reporting of CSR, which in turn may have improved monitoring. For example, research from the 1980s shows that companies do little monitoring of the use to which their donations have been put (Bird and Morgan-Jones, 1981), while Saxon-Harrold (1986) finds that, even among relatively large givers, only half request progress reports. The giving manager increasingly seeks to legitimise their giving programme internally by proving its ability to add value to the firm (Saiia et al., 2003). This is done by strategically selecting programmes that serve the community and advance the objectives of the firm, an example of which is the Ronald MacDonald House for sick children (Saiia et al., 2003).

4.2.2 Determining Causality in the Relationship between CP and Financial Performance

Amongst the literature, establishing causality is the fundamental problem. Also, no one has been able to rule out the possibility of a "simultaneous and interactive" relation or a "virtuous cycle" between charity contributions and revenue (Waddock and Graves, 1997), where the impact appears to be positive. Lev et al.'s (2010) paper makes a considerable contribution to this field in attempting to establish Granger causality between CP and revenues, using consumer satisfaction as the intermediary mechanism.

There are numerous issues to do with the direction of causality when addressing this topic and several authors in fact state that corporate financial performance could influence corporate social behaviour (Ullmann, 1985, Roberts, 1992; Waddock and Graves, 1997; Adams and Hardwick, 1998). Waddock and Graves (1997) separate theories determining causal issues into two categories: *slack resources* and *good management*. Under the slack resources theory, better financial performance leads to the availability of organisational slack (cash), which allows companies to invest in CSR activities. In other words, economic performance directly affects ability to give to charity (Roberts, 1992), "since profitable companies are likely to have the

discretionary funds to commit to charitable and other programs" (Adams and Hardwick, 1998). The good management view states there is a high correlation between good management and corporate social performance (CSP), "simply because attention to CSP domains improves relationships with key stakeholder groups, resulting in better performance" (Waddock and Graves, 1997). Alexander and Buchholtz (1978) add that "socially aware and concerned management will always possess the requisite skills to run a superior company" (where superior is referring to the traditional sense of financial performance). Under the stakeholder view, high levels of CSP are indicators of superior management skill and lead to lower explicit costs (Alexander and Buchholtz, 1978). Also, customer perceptions about the quality and nature of a company's products are important and influenced by good management. McGuire et al. (1988) also support the good management theory.

4.2.3 Theoretical framework

The possibility of a positive association between CP and financial performance can be explained using the stakeholder perspective (Cornell and Shapiro, 1987). Supporters of stakeholder theory (Roberts, 1992; Ullmann, 1985; Adams and Hardwick, 1998) see it as a 'viable framework' for understanding corporate contributions, because it acknowledges that governments and consumers support companies, and in return expect payback through financial support for social causes (Adams and Hardwick, 1998). Under this view, the value of a firm is determined by a firm's explicit costs (e.g. payments to bondholders) and also its implicit costs imposed on other stakeholders (e.g. environmental costs) (Waddock and Graves, 1997). In some cases, if a firm does not act responsibly, parties with implicit contracts may attempt to transform these contracts into explicit agreements, which are more costly for the firm. For example, if the firm does not obey implicit environmental laws, it may receive fines from the government, which will result in explicit costs. Strategic philanthropy recognises the role of serving such stakeholders.

Within the stakeholder literature, two competing models are presented by Berman et al. (1999): the intrinsic stakeholder commitment model and the strategic stakeholder management model.

Under the intrinsic model, there is a moral obligation towards stakeholders. Under the strategic one, the underlying objective behind CP is market performance. This is where we would expect to place strategic CP. The firm manages stakeholder relationships in a deliberate way, with the sole objective of maximising profits. Therefore, all CP must demonstrate foreseeable returns to shareholders. Whether or not it does is our research question. Berman et al. (1999) find support for a strategic stakeholder management model as apposed to the intrinsic stakeholder commitment model.

The strategic management model is consistent with the profit maximisation theory of the firm. Both the strategic stakeholder management model and the profit maximisation theory could be used to predict that strategic giving will increase profitability. According to the strategic stakeholder management model, firms give when they perceive that there is a financial gain to be made. In their view, all giving is strategic, and, based on the prediction of a positive relationship between CSP and corporate financial performance (CFP), will therefore boost profits. This argument is also supported by the profit maximisation view, which states that firms only give in order to reap some financial returns in the future and, in theory, all giving ought to exist only for the sake of this return. Increased consumer satisfaction is the mechanism through which CP improves sales, and therefore profits (Lev et al., 2010). The ability of a firm to do this will therefore depend on how sensitive consumers are to CP spending in its industry. Confirming this, Fisman et al. (2006) present a framework which posits that there is a positive link between CSR and profits in competitive industries (i.e. less differentiated ones), as well as in industries where firms can use CSR to signal their type to consumers.

Under the intrinsic stakeholder commitment model, firms do not participate in CP in order to seek returns but rather out of a "fundamental moral obligation to stakeholders", which forms the "moral foundation for corporate strategy itself" (Berman et al., 1999). Therefore, under this viewpoint, we would expect to find that CP programmes were less strategic and not skewed towards financial return objectives. Ironically, this genuine sense of social duty and citizenship, which is derived from managerial values, may in fact be the source of competitive

advantage and the driver for performance. If a firm's commitment to trust and cooperation is sincere and intrinsic rather than strategic, the firm can reap reputational benefits related to positive stakeholder relationships (Frank, 1988). This might indeed help explain why firms with less strategic CP programmes (based on our definition), could actually be performing better. However, from this perspective, giving has to be driven by a social rather than a bottom line concern.

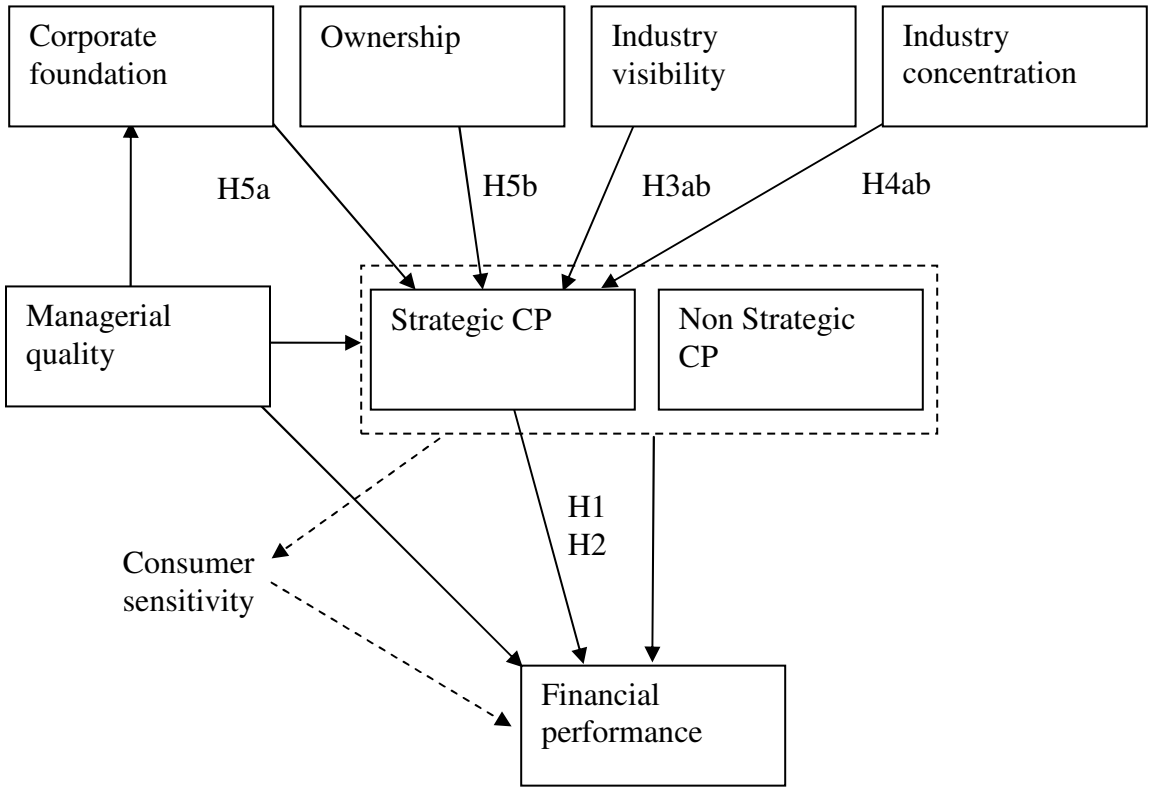
The motivation behind CP under the intrinsic stakeholder commitment model are similar to that proposed by the managerial utility maximisation and agency theories of the firm, because managers get a feeling of "warm glow" associated with serving a social duty. However, the predictions of the models are not entirely the same. Under agency and managerial utility maximisation perspectives, giving is perceived as a managerial perquisite that serves only the social status of managers; there are no financial returns as a result of CP. Proponents of these theories would argue that all giving, strategic and nonstrategic, is a waste of shareholders' resources (Fich et al., 2010). Meanwhile, the intrinsic stakeholder commitment model does not rule out the possibility of gaining financial returns from CP, but simply states that this is not the objective behind the decision to give.

If we find support for the argument that strategic CP is effective at improving performance, then both the strategic and intrinsic stakeholder commitment models gain credibility. However, if it is not, then the intrinsic, agency and utility maximisation perspectives gain more weight. Theories and papers have emerged, discussing how to increase the strategic nature of CP (e.g. Porter and Kramer, 2002). We test the predictions of these papers by asking whether their prescribed ways of increasing the returns from CP actually work. Porter and Kramer (2002) also help to identify the following other ways of conducting strategic CP: by selecting the best grantees, signalling other funders, improving the performance of grant recipients and advancing knowledge and practice in the field.

Figure 1 illustrates the hypothesised links between firm characteristics, strategic corporate philanthropy and financial performance. We hypothesise that there is a positive relationship

between CP and financial performance (H1) and that strategic CP is more effective at improving revenue in industries with higher consumer sensitivity (H3ab). We also hypothesise that industry visibility and concentration, insider ownership, and the presence of a corporate foundation influence the whether or not a firm is strategic in its giving (H3ab, H4ab, H5ab).

FIGURE 1. The hypothesised links between firm characteristics, strategic corporate philanthropy and financial performance



4.3. HYPOTHESIS SPECIFICATION

4.3.1 Does Strategic CP Improve Financial Performance?

CP can benefit a firm and its profitability in a number of ways. The three main cited reasons are stimulating increased demand, by improving its public image (Schwartz, 1968; Porter and Kramer, 2002), improving employee productivity through increased morale (Clotfelter, 1985; Porter and Kramer, 2002), and finally, reducing operating, capital or regulatory and governmental costs (Navarro, 1988b). For example, firms can use CP programmes as a way to fulfill a tacit social contract, particularly in the presence of externalities; they might voluntarily meet obligations to avoid harmful taxes or regulatory policies (Brammer and Millington, 2005). Also, the linkage with marketing or CRM has been widely researched (Brown and Dacin, 1997). Other authors have developed competing theories, for example, Godfrey (2005) argues that, firstly, it can generate positive moral capital among communities and stakeholders, secondly, moral capital can provide shareholders with insurance-like protection on a firm's relationship-based intangible assets, and thirdly, this protection contributes to shareholder wealth. From a survey of 79 of the largest Times 1000 companies, carried out in 1985, Cowton (1987) found that the main reason for making donations, cited by 61% of executives, was to promote a more prominent socially-responsible public image for the company. The shift towards an increased professionalisation of giving, as a result of changing institutional pressures, has meant that managers are now more acutely aware of the need to simultaneously balance community and firm objectives, since the quality of the management of these projects reflects on the sponsoring firm (Saiia et al., 2003). As Smith (1996) concludes, "in short, strategic CP has begun to give companies a powerful competitive edge".

Strategic philanthropy provides a common meeting ground for the opponents and proponents of CP (Buchholtz et al., 1999). Based on a firm's enlightened self interest, strategic philanthropy treats charitable giving as a business opportunity, and judges its value by the profit it generates rather than the social benefit it creates (Drucker, 1984). By definition, we would expect to find that firms engaging in strategic CP will exhibit a stronger relationship

between donations and profitability than other firms. This is because strategic philanthropy is designed to enhance profits. Whether or not it actually does so has never been tested in the literature. The variable of strategic CP is designed to capture whether or not the firm's CSR is aligned with its other business practices and addresses an important gap in the literature as well as managerial concerns[23]. Therefore, we begin by creating a checklist of criteria defining strategic CP (SCP) and expect that practising firms will exhibit stronger financial performance.

Hypothesis 1. CP causes revenue to grow. CP is more effective at causing revenue growth in firms who have a SCP programme.

4.3.2 The Curvilinear Relationship

The first hypothesis suggests that a positive relationship exists between CP and financial performance. In a meta-analysis of over 50 studies on the topic, Orlitzky et al. (2003) find a positive link between CSP and CFP. According to Margolis and Walsh (2003), 127 studies have been published on the topic of whether CSR builds or destroys shareholder wealth. Ullmann (1985) describes this research as "data in search of theory" and states that returns on CSR are contingent, not universal. Empirical tests of the financial correlates of CSR have found factors such as corporate age and industry to be intervening variables (Roberts, 1992; Ullmann, 1985; Cochran and Wood, 1984). However, most of the literature on the CSR-CFP debate does not control for investment in R&D, which is an important determinant of firm performance (McWilliams and Siegal, 2000). When they controlled for this, McWilliams and Siegal (2000) found that the effect of CSR on CFP was neutral. In summary, most of the previous literature has identified either a neutral or a positive association.

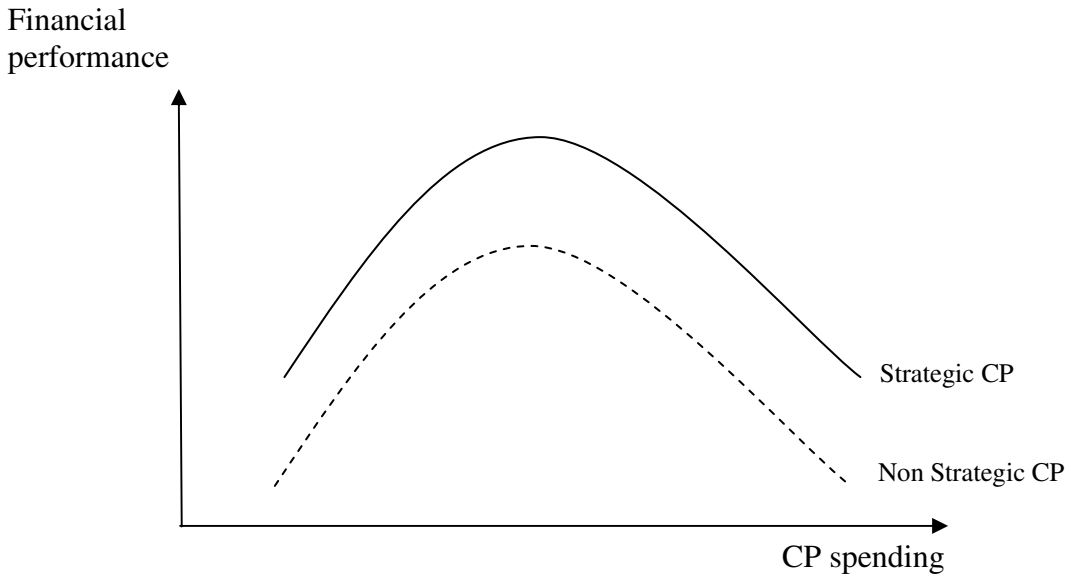
However, recently, there has been support for the notion of a curvilinear relationship between financial performance and CSP (Barnett and Salomon, 2006), or CP (Brammer and Millington,

[23] The need for understanding of what makes charitable spending provide better returns was suggested in an interview for this paper with Sheila Bonini, a Senior Expert at McKinsey & Co., who stated that "the dollar amount tells us nothing and there is no way of knowing whether it is good or bad, so the analysis it might as well be garbage in garbage out".

2008; Wang et al., 2008). Brammer and Millington (2008) find a U-shaped relationship where high-performing firms either choose to differentiate themselves through very high or through very low social contributions. The ones choosing low contributions benefit from redirecting the resources elsewhere, and the ones making high contributions benefit from exceptionally positive reputational differentiation. This leaves another segment of firms "stuck in the middle". On the other hand, Wang et al. (2008) find an inverse U-shaped relationship between CP and CFP, based on market and accounting measures. They explain that, at first, CP allows a firm to have greater control over stakeholder resources, but as CP increases, agency and direct costs increase. Consistent with Wang et al. (2008), Figure 2 shows that we hypothesise there to be an inverse U-shaped, curvilinear relationship:

Hypothesis 2a. The relationship between CP and profitability is curvilinear.
Hypothesis 2b. The relationship between financial performance and CP is stronger for firms with a SCP programme.

FIGURE 2. The curvilinear relationship between CP and financial performance for firms with strategic and nonstrategic CP programmes: Hypothesis 2



4.3.3 Industry Visibility and SCP

Firm or industry visibility has often been cited as an influencing factor on CP (Brammer and Millington, 2006). Scholars have argued that corporate philanthropic contributions help to build a favourable company image in the eyes of stakeholders (File and Prince, 1998; Fry et al., 1982, Saiia et al., 2003). A McKinsey & Co. (2008) survey on CP shows that 70% of companies try to improve their reputation and/or brand through philanthropy. Brammer and Millington (2005) find that the extent to which philanthropy affects reputation varies significantly across industries, suggesting that philanthropic expenditure plays a significant role in informing stakeholder impressions.

The profit maximisation model predicts that, in industries where product awareness is more important, firms will contribute more. Following Fisman et al. (2006), we use the ratio of advertising to sales to capture visibility. This positive link between visibility and CP has been well established in previous literature (Schwartz, 1968; Navarro, 1988a; Brammer and Millington, 2006; Fisman et al., 2006). For the same reasons, Arulampalam and Stoneham (1995) find that industries in which public contact is important, such as financial services or retail distribution, contributions are higher, ceteris paribus. We also expect that CP will have a greater impact on industries which exhibit large social externalities, such as alcohol or tobacco industries (Brammer and Millington, 2005).

At the same time, CP is sometimes closely linked to advertising expenses and often occurs in the form of CRM. Levy and Shatto (1978) provide an excellent contribution to the topic by looking at aggregate corporate data from 1946 to 1972. They find that 50% of the variation in corporate giving across industries can be explained by variations in advertising expenses, supporting the hypothesis that "corporate giving is a major source of exposure and subtle advertising for companies". In a study of the responses of 79 US firms to the 2004 East Asian tsunami, Patten (2008) finds that the amount of aid given by firms influenced the market's and the media's reaction to them, meaning that most large donors benefit in terms of reputation and market value, and no firms were penalised by the market as a result of their giving. More

recently, in an attempt to establish causality between CP and revenues, Lev et al. (2010) use "consumer sensitivity", which is an indicator of visibility, as a mediator.

These studies do not extend their discussion to whether or not charity spending is more effective at improving profitability in more visible industries. The hypothesis is tentatively tested by Fisman et al. (2006), who find that, in advertising-intensive industries, there is a more strongly positive relationship between philanthropy and profit. However, they commented that their study was not conducted with "sufficiently refined data to test predictions". Therefore we expect that:

Hypothesis 3a. CP spending by firms who have a SCP programme is associated with better financial performance in more visible industries

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Saiia et al. (2003) test a related hypothesis of whether higher levels of business exposure are associated with higher levels of strategic philanthropy. Business exposure, defined as the level of scrutiny from a broad range of stakeholders who have established expectations about the company, is similar to, but not the same as, our measure of visibility. They find the standardised regression coefficient of the business exposure variable to be moderately significant (0.270, $p < 0.05$) and "worthy of further refinement". In other words, "a statistically significant relationship exists between a firm's exposure and management's inclination to be more strategic in its administration of the philanthropy programme". They note that this point is "worthy of further refinement" and add that "a better understanding of these relationships can help firms and non-profit organizations better manage limited resources in such a way that incorporates both the business competitive reality and the need for community improvement for a net social benefit". This study seeks to provide further refinement. Due to the positive relationship between giving and revenue in visible industries specified above, we expect that visible firms will be more strategic in their giving. This is because more visible companies are under greater consumer pressure. Also the scale of their operations mean they are more likely to have a larger impact on the communities in which they operate, thus in more need of satisfying all stakeholder concerns. It follows that:

Hypothesis 3b. Firms that are more visible will be more strategic in their use of CP.

It should be noted that there are several other ways of categorising industry, other than visibility, which are useful in understanding CP. For example, other studies have looked at *industry dynamism* (Wang et al., 2008) and *product market competition*, as measured by the Herfindahl-Hirschman Index (Fisman, et al., 2006). The degree to which an industry is under social criticism (Levy and Shatto, 1978) and the degree of governmental pressure and regulation are also important factors since "some industries feel greater government pressures in certain areas of CSR and are therefore more likely to enhance their image through social responsibility" (Cowen et al., 1987).

4.3.4 Industry Concentration and SCP

Industry concentration has previously been used successfully to explain inter-industry differences in corporate donations (Johnson, 1966). The concentration ratio is not a precise measure of competitiveness, but is a useful proxy for this purpose. We expect that firms in less concentrated industries will receive better financial returns from the strategic use of giving because it acts as a means of differentiation. This is because there is more competition in such industries, and it can provide firms with a source of competitive advantage (Porter and Kramer, 2006). Therefore we expect that:

Hypothesis 4a. CP spending by firms that have SCP programmes, is associated with better financial performance in less concentrated industries.

However, studies have suggested that the relationships are curvilinear.There are three scenarios to consider: Highly competitive (unconcentrated), oligopolistic and monopolistic (highly concentrated). In the case of a highly competitive (or unconcrentated) markets such as agriculture, most studies suggest that firms can not afford the additional costs of philanthropy. It is argued that "if the corporation were in a perfectly competitive industry… no amount of

giving could be tolerated", since it would increase costs (Manne, 1962). Murray (1991) also contends that greater competition places pressure on managers to adopt a short-term view of expenditure, thus ruling out extensive contributions. It follows that levels of SCP will be also minimised. As firms become less constrained by competitive pressures and markets become oligopolistic (fairly concentrated markets such as manufacturing or services), they become more generous in their giving (Maddox and Siegfried, 1980). At this stage, giving can become a source of competitive advantage or differentiation, and so we expect that strategic spending on CP will be at its highest. In monopolistic (highly concentrated) markets such as utilities, whether or not firms become more generous is debateable. Johnson (1966) argues that "if concentration leads to measures of economic power, and if power begets responsibility toward a wider range of groups, then firms in concentrated industries should have higher contribution ratios". Johnson (1966) predicts that firms in highly concentrated industries are so powerful that they can get away with spending disproportionately large amounts of cash on causes that serve personal interests. On the other hand, based on the view that "power begets responsibility", it can also be argued that these firms will not make any donations. However, it can be agreed that in such a position even if a firm gives a large amount, their spending will not be strategic unless they need to please regulators. We propose that strategic spending on CP will be generally lower in these circumstances. To summarise, industries with low concentration, competition does not allow any CP spending, whilst in very high concentration industries, there is no need for firms to give, creating an inverted U-shape of givers in the middle. Therefore:

Hypothesis 4b. Firms in industries characterised by either very high or very low concentration levels will have lower levels of SCP. Therefore, we expect to see an inverted U-shaped relationship between concentration and SCP.

4.3.5 Other Predictors of SCP Programmes

3.5.1 The presence of a corporate foundation[24]**.** Corporate foundations play an increasingly important role in strategic philanthropy (Tillman, 1997). Marx (1994) contends that, as CP becomes more focused and issue orientated, foundations can be used to develop major contribution campaigns on specific social issues[25]. The professionalisation of corporate giving during the 1970s was accompanied by the creation of many corporate foundations (Useem, 1987). One of the rationales behind setting up a corporate foundation is to ensure focused giving and the independence of the giving from the business (Business in the Community, 2003). A report by the Charity Commission (2009b) found that, following the recent economic crisis, foundations were careful not to cut their spending on charity, despite falls in income, which forced them to become more strategic and more involved in spending decisions. The report goes on to say that, a time when there is an increasing emphasis on the importance of tightly-specified contracts and measurable outcomes, the role of trusts and foundations has never been more important in ensuring that the most worthy recipients receive aid: "There is clear evidence that the economic downturn has had a positive effect on governance in the trusts and foundations interviewed. All were taking an actively strategic approach to managing investment and pursuit of mission at this time." There is also evidence to show that firms with foundations tend to give greater donations (Fombrun and Shanley, 1990).

However, there is still some contention because it is possible that a firm with a corporate foundation may not necessarily be strategic in its giving. With this in mind, Post and Waddock (1995) make a distinction between *strategic philanthropy* and *philanthropic strategy*. Under

[24] Note that all studies of CP, including ours, exclude private foundations, such as the Berkshire Hathway CEO, Warren Buffet's, foundation, the Buffet Foundation. The Buffet Foundation is an independent (not company sponsored) foundation. When considering the topic of philanthropy, one must note the role of private philanthropy by CEOs and board members, which should be disassociated from CP. However, given that spending on private philanthropy might come almost entirely from incomes from the corporation, such as in the case of the Bill and Melinda Gates Foundation, it is hard to draw the line between personal and CP.

[25] It is important to control for firm size when investigating this topic, since Brown et al. (2006) find that larger firms with larger boards give significantly more to charity, are more likely to report their philanthropy, and are more like to have foundations.

the former, there is a bottom-line motivation behind the philanthropy, while under the latter, firms put a formal giving programme in place, but this lacks congruence with the business. Also, foundations vary in terms of whether they are more integrated or more independent. In the former, the firm has considerable influence on where the foundation spends it money, while the latter type has autonomy over its expenditure. According to Tillman (1997), corporate foundations are playing an increasingly important role in strategic philanthropy. As CP becomes more focused and issue-orientated, foundations, as entities separate from the parent companies, can be used to develop major contribution campaigns on specific social issues (Marx, 1999).

If we take the definition of SCP to just consider giving method and ignore motivation, then foundations will almost certainly result in more instances of SCP. Since this definition is used in this study, and motivations are just inferred based on observations of reported behaviour, we expect that:

Hypothesis 5a. Firms with corporate foundations will be more strategic in their philanthropy spending than firms without.

Under the intrinsic stakeholder commitment model, corporate foundations are more likely to be independent, since managers will feel a moral obligation to allow the foundation's experts to match funds to those areas where the social impact will be greatest. On the other hand, under the strategic stakeholder management model, managers are more likely to intervene in spending, so as to encourage strategic spending, considering the congruence or marketability of the giving programmes. Therefore, despite strong support for the notion that firms with foundations will be more strategic in their spending, this topic is still open to debate.

3.5.2 Insider ownership, spending and strategy. Stakeholder theory predicts that, as insider ownership increases, external shareholders become less powerful. In the absence of short-term market pressure exerted by shareholders, managers could become more long-term-profit-orientated. As a result, they might prefer cash to be used for philanthropy instead of

dividends, and so become more tolerant of corporate giving programmes. This is consistent with the predictions of utility maximisation theory, which state that, as insider ownership increases, managers will have greater discretion to spend on philanthropic causes. Consequently, they will increase such expenditure, not for the benefit of the firm, but to serve their own aims and achieve greater social status.

The study of corporate giving also involves agency concerns, since principals are likely to have a different view of corporate charitable giving than managers have (Werbel and Carter, 2002, who provide a full review of agency problems and corporate giving). Investors may perceive little short-term utility from philanthropy and may prefer to invest in their own favourite charities, rather than the ones selected by the agents[26]. Therefore, consistent with stakeholder and utility maximisation theory, agency theory predicts that, as insider ownership increases, corporations will give more to charity.

The extent to which insider ownership affects the degree to which firms are strategic in their spending is also open to debate. Stakeholder theory would predict that, as insider ownership increases, shareholders become less powerful, and so the firm will be less profit-orientated and less strategic in its spending, for a given level of donation. This is consistent with the utility maximisation and agency view, because increases in insider ownership entail greater managerial discretion to pursue objectives other than profits, and so there will be less concern for strategic patterns of spending. Agency theory predicts that, in firms with less insider ownership, where there is a great degree of separation between ownership and control, managers will act as utility maximisers and will thus spend profits freely on charitable causes to further their own careers.

At the same time, a low level of insider ownership and a high degree of shareholder pressure will mean that shareholders will seek greater transparency in the reporting of donation recipients. If there is any spending on philanthropic causes, then we would expect shareholders

[26] Brown et al. (2006) find that it is not so much board composition (insiders versus outsiders) as absolute board size which influences giving levels.

to require the firm to report how this is likely to affect the firm's bottom line. Therefore, the strategic stakeholder management model and profit maximisation model predict that giving programmes will become more strategic—that is, focussed on measureable outcomes and financial returns.

Hypothesis 5b. As shareholder influence increases (measured by a decrease in the percentage of insider ownership), companies will become more strategic in their spending (measured by the SCP variable).

On the other hand, the profit maximisation theory would predict that ownership will have no effect on giving levels and strategy, since the firm's objective is solely to increase profits and thus it will make the profit-maximising level of donations.

4.4. DATA AND METHODS

4.4.1 Data Sample

4.4.1.1 Corporate donations. CP is defined in the accounting literature as "an unconditional transfer of cash or an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner" (FASB, 1993). The terms "corporate philanthropy", "corporate charitable donations", and "corporate community investment (CCI)" are used interchangeably in the literature. As a dependent variable, previous studies have either used the value of corporate charitable contributions or CP (Wang et al, 2008), divided that figure by sales to control for firm size (Brammer and Millington, 2004a, 2008; Seifert et al., 2004), or used the log of the level of reported CP (Adams and Hardwick, 1998; Levy and Shatto, 1978).

Our dataset covers the CP of all FTSE Allshare Index companies from 1995 to 2009. We use CCI, collected by CaritasData, which is given by one figure equating to the total of both cash and non-cash giving. These data are obtained annually for the *Top 3,000 Charities* publication. CaritasData collect giving figures from the company reports of all publicly-listed companies in the UK, where political and non-political giving figures are frequently mentioned in the Director's report. Since publicly-listed companies are legally obliged to report all charitable spending, the absence of a reported figure can be assumed to equate to zero charitable spending. The CCI figure is the total value of a company's donations to charities, including gifts-in-kind, employee time, product donations and other forms. It does not include government grants. It is important to note that this study is limited in its data to what is reported in the annual reports and, in most cases, there is no differentiation between cash and non-cash giving.

The reported CCI figures are matched manually to the company names in the FTSE Allshare Index for each year[27].

[27] Note that giving through corporate foundations which are funded through an endowment will not be included in the CaritasData. However, the CECP's (2009) surveys of US companies find that only 24% of corporate

4.4.1.2 Firm panel. In order to keep a fixed, consistent panel over the 15-year period, we use the set of 622 firms listed in the 2009 FTSE Allshare Index. Brammer and Millington (2006, 2008) also use this set of companies, since it makes up a "vast majority of large enterprises in the UK" and is "representative of the population of large UK enterprises". The firm panel is set to FTSE Allshare companies as listed in 2010, and then the data are extracted from the sample for those years for which it is available within the period 1995-2009. There are 9,330 observations in total.

It is important to note that the 622 companies in the sample are the largest UK public companies, and so corporate giving by small companies is excluded. On the other hand, there is still a large spread of firm sizes in the sample, from £0.7 million in annual sales to £177 billion[28]. Our corporate giving figures range from zero to £48.2 million. One advantage of having more smaller companies in the sample is that it would allow us to investigate whether they give a higher or lower percentage of their profits. However, Keim's (1978) study has already found support for a "reverse economies of scale" theory for giving in the US. Also, all of the firms are publicly-owned. There might be a difference between the giving practices of public and private companies. This is not an area we discuss or account for here but is a potential avenue for future research. Our results are only pertinent for large UK public companies. There is, however, a spread across all industries.

4.4.1.3 Strategic corporate philanthropy. This dummy variable is based upon definitions of "fit", "congruence" or convergence, as described in the literature (Porter and Kramer, 2002; Becker-Olsen et al., 2006; Menon and Khan, 2003), and collected through comparing individual annual reports against a checklist of characteristics of SCP. The most-detailed and clearly tested measure of SCP is found in Saiia et al. (2003), whose twelve-item survey instrument using Likert-type items is based on an orientation of CP moving from altruism to strategic. The most favoured definition, selected by 76% of Saiia et al.'s (2003) 126

foundations give predominantly through an endowment. Therefore, we estimate that only 24% of £82 million, that is £20 to 30 million of corporate giving comes straight from an endowment, thereby bypassing our dataset.

[28] There were six cases that reported negative sales and these were dropped from the sample.

respondents, states that SCP (i) uses an empowered giving manager or philanthropy czar who coordinates all giving activities, (ii) identifies the community issues that most naturally mesh with the purpose of the firm, (iii) enlists, engages, and uses the firm's other resources and functions in the giving process, (iv) pushes giving activities to all levels and locations of the firm, (v) is a mission-driven process and (vi) is regularly evaluated and revised like any other business function

The checklist includes other criteria as well. Some are based around expert interview comments such as the following[29]: "Do they have accountability? Is the CEO engaged? What kind of people are running it? Is it aligned with the core business? Are there any links back? One way of finding out is by asking who the relevant stakeholders are and whether or not it is a consumer-facing industry. For example, a telecoms firm would be interested in pleasing the regulators, a mining firm in environmental issues, and an extraction firm in the government. Is it aligned with an agenda?" Issues of motivation and fit are mentioned in previous literature. Becker-Olsen et al. (2006) propose the most relevant measure of whether or not a firm's CP programme is strategic, based on its motivation (whether profit or socially-motivated) and the degree of fit (high or low). They define fit as the "similarity between corporate mission and social initiative". Menon and Khan (2003) also deem fit to be important, defining it in terms of the "congruence" between the advertised CSR initiative and the firm's own activities. The final checklist used is as follows: governance and planning (accountability, evaluated and revised in the same way as other business functions, number of people involved and engaged with the process, the nature of CEO involvement, well-reported, advancing knowledge and practice in the field), congruence (similarity between corporate mission and social initiative), geography (fit with location of business or its customers).

Based on the above criteria, this method identifies different ways of giving, based on self reporting, to test if a company is or is not behaving strategically in its giving. Note that this definition, by construction, is based on giving method rather than motivation. However, in order to relate the findings to various theories, we make inferences of motivations - strategic or

[29] Interview with Sheila Bonini, Senior Expert at McKinsey & Co.

not. Previous studies, tend to co-join definitions of SCP to include both method and motivation (Saiia, et al., 2003), whilst we are using the former to infer the latter. Brammer, Millington and Pavelin (2006) also attempt to infer motivation from self-reporting of UK companies. They find that strategic motivations play little part in determining giving quantities or outcomes, even though SCP is common practice. Moreover, they find that companies are seldom either strategic or not, due to diverse perceptions of managers concerning the influences on CP.

There are other caveats to note relating to data collection. Firstly, we are observing the donation strategy as reported by the company. In collecting these data, in a few cases a judgement had to be made, based upon the annual reports and CSR reports, about whether there was a fit, in terms of geography, industry and donation recipient activity. In some cases, there was a description of the decision-making process and the managerial team behind corporate giving programmes. In a few cases, companies only reported a figure, without giving a detailed description of the nature of the recipients. In these instances, we recorded the CP as nonstrategic, although it might have been, but was not communicated as such in the reports. Secondly, reported figures for corporate giving may under-report the true extent of the contributions from corporate sources because they generally do not take into account sponsorships, gifts-in-kind, and the sharing of other resources (Burlingame, 2001). Although often included as part of promotion and marketing, this type of giving could also be considered as strategic philanthropy (Saiia et al., 2003). Also, even though in the UK, unlike the US, under Section 19 of the Companies Act 1967, companies are required to disclose their charitable giving they may not want to disclose information about their spending beyond the actual figures. A firm may think of itself as vulnerable to political, philanthropic and economic criticism (Johnson, 1965). Also, many shareholders may disapprove of corporate charity, and furthermore, the duplicity of making profits under the guise of giving raises questions of ethics (Johnson, 1965).

4.4.1.4 Generosity ratio. The majority of studies on CP use either levels of CP or the level of CP over sales, as the dependent variable of interest. Campbell et al.'s (2002) longitudinal study uses what they define as the "generosity ratio", which is the ratio of CP to

profits: "we define generosity not in absolute terms (in currency units) but as a percentage of charitable donations divided by pre tax (but after interest) profits (PBT in currency units). This seems intuitive as a measure of generosity and is also the one used by the U.K. Percent Club in calculating the magnitude of charitable donations." However, in this study, we decided to use the more common giving over sales as our measure of generosity to avoid methodological issues relating to endogeneity. Seifert et al. (2004) also divide CP by annual sales to control for firm size. The scaling of CP is also useful because larger firms are generally able to support higher levels of CP than smaller firms (Stanwick and Stanwick, 1998).

4.4.1.5 Financial performance: profitability and market performance. We define prfotiability as the ratio of net profits before interest and tax, to turnover, a measure that is consistent with previous studies (Adams and Hardwick, 1998; Waddock and Graves, 1997; Brammer and Millington, 2004a), and with Levy and Shatto's (1978) simple use of net income[30]. The advantages of various measures of financial performance are listed in Griffin and Mahon (1997), who use return on equity, return on assets, asset age, and a five-year return on sales. Studies generally use either accountancy measures (Aupperle, et al., 1985), or stock market measures of financial performance (Alexander and Buchholtz, 1978; Brammer and Millington, 2008). Orlitzky et al. (2003) conclude that "CSP appears to be more highly correlated with accountancy based measures of CFP than market based measures". Similarly, Balabanis et al. (1998) find philanthropic activity to be affected by the gross profit to sales ratio (accountancy measure) and excess market valuation in the past (stock market measure). More recently, alternative measures of profitability, such as Return on Assets (ROA) have been used (Fisman et al., 2006; Wang et al., 2008). Some studies, like ours, use both accounting and market measures of financial performance (Brammer and Millington, 2008; Wang et al., 2008; Lev et al., 2010). Interestingly, Lev et al. (2010) choose to focus on revenue, since it better facilitates the establishment of causality. One point to bear in mind when using the level of net profit is that this figure is net of charitable deductions (Johnson, 1966). However, given the small relative scale of this error, and that it is systematic, no studies account for this

[30] Other options for measures of profitability were tested, such as operating profits over sales, but were found to be inferior.

computational bias. We use Brammer and Millington (2008)'s definition of the market performance (MP) of firm i in year t as $MP_{it} = (P_{it-1} - P_{t-1}) + DIV_t / P_{t-1}$, where P_t and P_{t-1} are the market prices of a firm's shares in the current and previous year respectively, and DIV_t is the dividend paid in the current year[31] [32].

4.4.1.6 Corporate foundation. The list of UK corporate foundations was provided by Think Consulting Solutions[33]. To check the possibility that there were also foundations not included in this list, the other firms in our sample were checked against the Directory of Social Change's online *Company Giving Directory*. The variable is a dummy variable, and assumes that, if the company had a foundation in 2010, then they had one throughout the entire period.

4.4.1.7 Ownership. Ownership structure is reflected by the percentage of closely-held shares, which is the percentage of shares held by insiders plus the percentage of shares held by individuals holding 5% or more of the outstanding shares.

4.4.1.8 Industry categories. Our industry categories were first defined using the FTSE industry sector categories, which generated over 40 categories; this is the most complete dataset available; missing values were completed manually. We then merged these categories with Brammer and Millington's (2008) categories, to make our results comparable and universal.

4.4.1.9 Industry concentration. Concentration ratios provide estimates of the extent to which the largest firms contribute to the overall activity in an industry. These figures are

[31] Alternative market-based measures, such as Tobin's *Q* have also been used in previous papers (Fisman et al., 2006; Wang et al., 2008) but they focus on "market performance" or Total Returns to Shareholders (TRS).

[32] Seifert et al. (2004) state the following: "we feel that measuring firm financial performance based on total stock market returns is particularly appropriate when examining the effects of corporate philanthropy. Thus, the focus is on investor perceptions of expected long term returns from philanthropy. This is especially relevant because strategic philanthropy may enhance a firm's image, thereby influencing stakeholder perceptions of the firm for several years."

[33]This was obtained from the publishers of 'The Future of Corporate Foundations', written by CAF, HMO, and Corporate Citizenship in 2005/6 and now contains 126 corporate foundations.

prepared in the UK by the ONS (2006) and are defined as the sum of gross value added (GVA) for the largest businesses over the total GVA for the industry. We use the figure based on the top fifteen firms.

4.4.1.10 Industry visibility. Following Fisman et al. (2006), we use the median industry advertising/sales figures as a measure for industry visibility. We calculate these figures using DataStream inputs.

4.4.1.11 Control variables. Data on other firm characteristics (size, age, cash flow, leverage, R&D, risk (beta), and material costs) were taken from DataStream. Size is defined as the natural log of the value of total company assets (Adams and Hardwick, 1998; Brammer and Millington, 2006). Age is the number of years since the company's incorporation. Our measure for dividends is the dividend payout per share (%) and is defined as dividends per share over the last 12 months divided by earnings per share over last 12 months. Leverage is defined as total debt as a percentage of equity ((long-term debt + short-term debt + current portion of long-term debt) / common equity * 100). We divide cash flow by sales, specifically we use funds from operations over net sales or revenues; this is a measure used in previous studies (Seifert et al., 2004). The beta (β) of a stock or portfolio is a number describing the relationship between its returns and that of the financial market as a whole[34].

4.4.2 Analysis and Empirical Model Specification

In order to test for causality we use the Granger method, a technique recommended in this context by Lev et al. (2010). This involves setting up two equations:

$$\log(\text{Revenue}_{it}/\text{Revenue}_{i(t-1)}) = f((\log(\text{CP}_{i(t-1)}/\text{CP}_{i(t-2)}),$$
$$\log(\text{Revenue}_{i(t-1)}/\text{Revenue}_{i(t-2)}), \text{Industry Visibility, Industry Concentration,}$$
$$\text{Ownership, Foundation, Controls})) \quad (1)$$

$$\log(\text{CP}_{it}/\text{CP}_{i(t-1)}) = f((\log(\text{CP}_{i(t-1)}/\text{CP}_{i(t-2)}),$$

[34] The price of an asset with a beta of 0 is not at all correlated with the market. A positive beta means that the asset generally follows the market.

$$\log(\text{Revenue}_{i(t-1)} / \text{Revenue}_{i(t-2)}), \text{Industry Visibility, Industry Concentration, Ownership, Foundation, Controls})) \quad (2)$$

We run these regressions for firms with and without SCP programmes, to examine whether CP can "Granger cause" revenue growth, and whether this effect is stronger if a firm is strategic in their approach. We use lagged values of the dependent variable, since these are often used in Granger causality tests to determine whether prior independent variables provide information over and above that provided by prior values of the dependent variable. Equations (1) and (2) are estimated using the generalised least squares technique, which helps address the potential overstatement of the t-statistic due to serially-correlated errors. As with Lev et al. (2010), we allow the error terms to be serially-correlated and firm-specific, computing the robust variance-covariance matrix estimates using firm clusters (see Arellano, 1987; Wooldridge, 2002). For robustness, we also run OLS fixed effects models.

To test for the curvilinear relationship between giving and performance, we compare the results from a generalised least squares and a fixed effects regression, for all giving firms. We used Hausman tests to select between fixed- and random-effects models (Owusu-Gyapong, 1986; Barkema and Schijven, 2008). It was found that the random effects estimator was inconsistent and so it was decided to use fixed effects for all regressions. Khanna et al. (1995) also settle on a fixed effects estimator for their panel data from 1983-1990. To examine the relationship between CP and the financial performance of firms with and without a SCP programme, we run:

$$\text{Financial performance} = f(\text{CP, Strategic CP, Industry Concentration, Foundation, Interactions, Controls}) \quad (3)$$

where financial performance is measured by profitability and market performance, respectively, in separate regressions. There is a one-year time lag on CP. Strategic CP and "foundation" are dummy variables, and the interactions are between SCP and firm size, industry concentration and CP giving levels. Logs are taken of all variables, which means that partial derivatives can be interpreted as elasticities, and which helps eliminate heteroscedasticity in disturbances

(Adams and Hardwick, 1998). Logarithmic transformations also help mitigate the effects of extreme values in the dataset. To reduce systematic variation over time, we introduce a set of year control variables, a technique also used by Brammer and Millington (2008). Finally, to examine the predictors of SCP, we use a probit model using strategic philanthropy as the dependent variable. For example, we would expect firms with larger CP programmes to have more managerial resources dedicated to them. They should therefore appear to be more strategic. Therefore, we also consider the question of the magnitude of CP spending and how it interacts with Strategic CP in equation (3).

4.5. RESULTS

4.5.1 Descriptive Statistics and Correlation Coefficients[35]

Table 1 shows the means of a selection of the most relevant unlogged measures of the 622 firms examined across the 15 years. It shows that the average generosity ratio for giving firms is 0.8% of profits and that giving firms perform better in terms of profitability, market performance and net profit levels, but give fewer dividends per share than non-giving firms, suggesting that CP is a substitute for dividends. Giving firms also tend to be larger in size but are generally situated in less concentrated (more competitive) industries. Table 2 shows the same descriptive statistics but for strategic versus nonstrategic givers. Strategic givers donate an average of £4 million, which is far more than nonstrategic givers do. Even when profits are taken into account, strategic givers are four times more generous than nonstrategic givers and are twice as likely to have a corporate foundation. Strategic givers are also larger firms, with better financial performance. They tend to have a lower level of insider ownership and are situated in less concentrated industries. Table 3 shows that strategic givers give around 83.9% of their gifts in cash, and that cash giving comprises 89.2% of the total giving in our sample. Table 4 breaks these metrics down by industry. At 46%, retailers have the highest proportion of strategic spending, followed by business support and food, drink and tobacco, whilst no

[35] Some of these high covariance figures could signal the potential for collinearity, and so variance inflation factors were calculated, following Adams and Hardwick's (1998) methodological procedure. Factors greater than 10 are considered indicative of severe multicollinearity. The mean for the first Granger causality test, 1.74, is reported at the bottom of Table 6, and is acceptable.

construction and building materials companies were found to give strategically. Food, drink and tobacco companies are the most generous, giving 1.2% of their profits, and over a quarter of these have corporate foundations. Lastly, giving £11.7 million, pharmaceutical companies give on average four times more than any other sector. Table 5 shows a Pearson correlation coefficient matrix for the natural logarithms of these variables.

TABLE 1. Descriptive statistics: Giving versus non-giving firms

Giving firm		Corporate Philanthropy (£ '000)	Generousity (%)	Foundation (%)	Firm Size (£ '000)	Revenue (£ '000)	Profitability (%)	Market Performance (%)	R&D over Sales (%)	Dividends paid per share	Closely Held Shares (%)	Industry Concentration Ratio (%)	Industry Visibility (%)
Yes	*Mean*	2,974	1	12	17,000	3,365	6	24	12	38	19	32	11
	sd.	18,663	17	33	109,000	10,400	111	51	207	28	19	18	1
	n.	3,302	3,328	3,302	3,229	3,230	3,222	2,420	1,104	2,412	3,126	2,281	3,302
No	*Mean*	-	-	9	2,106	1,495	3	20	446	42	23	39	10
	sd.	-	-	28	11,200	11,700	260	42	10,036	35	22	20	1
	n.	6,022	6,022	6,022	4,152	4,147	4,109	4,084	717	4,048	3,946	2,669	6,022
Total	*Mean*	1,053	0	10	8,605	2,314	5	21	183	40	21	36	10
	sd.	11,196	10	30	73,000	11,200	208	46	6,300	32	21	19	1
	n.	9,324	9,350	9,324	7,381	7,377	7,331	6,504	1,821	6,460	7,072	4,950	9,324

TABLE 2. Descriptive statistics: Strategically versus nonstrategically giving firms

Strategic CP programme		Corporate Philanthropy (£ '000)	Generousity (%)	Foundation (%)	Firm Size (£)	Revenue (£)	Profitability (%)	Market Performance (%)	R&D over Sales (%)	Dividends paid per share	Closely Held Shares (%)	Industry Concentration Ratio (%)	Industry Visibility (%)
Yes	*Mean*	4,010	0.796	17.9	20900	4789	10.0	24.2	3.8	37.8	16.7	30.5	10.7
	sd.	23,777	11.100	38.4	121000	13400	133.1	51.1	5.8	28.3	18.3	18.4	1.0
	n.	1,917	1,917	1,917	1,760	1,756	1,740	1,368	617	1,484	1,698	1,290	1,917
No	*Mean*	288	0.158	8.1	4765	1541	2.9	20.2	274.7	41.0	22.3	37.5	10.3
	sd.	2,947	9.614	27.3	48500	10300	226.3	43.9	7,747.8	33.5	21.2	18.8	1.2
	n.	7,407	7,407	7,407	5,621	5,621	5,591	5,136	1,204	4,976	5,374	3,660	7,407
Total	*Mean*	1,053	0.29	0.10	8,605	2,314	4.6	21.1	182.9	40.3	20.9	35.6	10.3
	sd.	11,196	9.94	0.30	73,000	11,200	208.0	45.5	6,300.3	32.4	20.6	18.9	1.2
	n.	9,324	9,324	9,324	7,381	7,377	7,331	6,504	1,821	6,460	7,072	4,950	9,324

TABLE 3. Strategic givers: Cash versus non-cash

Strategic CP programme		Non cash (£ '000)	Cash (£ '000)	Cash (%)
Yes	*Mean*	908	1,304	83.9
	sd.	3,338	4,350	32.2
	n.	95	95	83
No	*Mean*	414	1,015	92.7
	sd.	2,733	4,392	21.2
	n.	143	143	127
*Total**	*Mean*	611	1,131	89.2
	sd.	2,992	4,368	26.4
	n.	238	238	210

Note: * Based on sample from DTS, which is only for 2009, and differs from CaritasData used in study.

TABLE 4. Descriptive statistics by industry

Industry	Strategic CP programme	Corporate Philanthropy (£ '000)	Generousity (%)	Foundation (%)	Firm Size (£ '000)	Revenue (£ '000)	Profitability (%)	Market Performance (%)	R&D over Sales (%)	Dividends paid per share (%)	Closely Held Shares (%)	Industry Concentration (%)	Industry Visibility (%)
Aerospace, defence, automobiles	25.0	357	0.68	0.0	2327	2049	3.90	22.5	4.68	31.2	14.9	42.5	12.7
Business support	38.3	72	0.12	2.1	755	1027	8.50	17.6	0.90	46.1	20.1	16.4	11.1
Chemicals	14.3	53	0.12	14.3	594	1038	5.05	0.2	1.52	47.9	16.8	52.8	12.7
Construction & building materials	0.0	24	0.07	0.0	926	935	7.61	20.8	0.02	-	10.2	30.7	12.6
Electriconic products	25.0	86	0.44	0.0	828	1072	4.63	9.7	4.63	47.1	19.4	25.2	11.0
Engineering & machinery	23.8	71	0.17	4.8	590	733	5.34	36.6	1.43	42.6	17.0	28.1	12.1
Financials	8.5	645	0.30	15.9	19300	1436	27.72	22.0	.	57.1	17.8	.	9.7
Food / drink/ tobacco	33.3	2,665	1.22	25.9	5491	5528	6.37	25.2	0.71	42.3	24.5	53.8	12.2
Health	20.0	174	0.10	20.0	554	524	5.09	19.4	4.96	19.0	23.1	17.0	8.2
IT hardware	37.5	26	0.06	0.0	252	216	-1.94	32.8	19.95	15.1	24.4	25.2	8.9
IT services	13.6	23	0.11	4.5	395	408	-12.73	9.2	17.09	24.7	21.9	39.0	9.7
Media & entertainment	26.9	453	0.50	3.8	1691	926	4.10	20.0	2.54	44.8	29.2	.	10.4
Oil, gas and mining	17.8	2,987	0.23	4.4	13700	14400	-15.11	22.5	0.36	19.2	30.8	65.3	9.2
Other manufacturing	33.3	129	0.20	8.3	1119	1121	5.17	8.7	1.36	38.4	23.9	24.1	11.6
Pharmaceuticals & biotechnology	22.2	11,727	0.35	5.6	2791	2279	-268.44	10.0	2182.11	20.7	17.8	57.0	8.5
Real estate	28.6	56	0.32	0.0	1708	213	16.94	26.1	.	9.2	25.8	.	10.6
Retailers	46.2	522	1.16	11.5	1149	1675	4.67	32.8	0.25	36.3	29.4	12.0	10.7
Telecommunications services	18.2	3,289	0.15	36.4	16200	5386	-5.10	22.6	4.20	33.2	22.9	61.0	11.1
Transport	25.0	366	0.01	0.0	1674	1479	7.61	39.2	0.00	30.3	20.6	39.3	11.2
Travel, Liesure and Hotels	30.8	207	- 1.04	7.7	2165	1463	-3.49	2.8	0.70	24.4	21.3	13.0	11.2
Utilities	27.3	438	0.10	18.2	6415	2594	12.52	22.5	0.41	52.8	9.2	47.0	10.5
Unknown sector	0.0	-	-	0.0	88	155	5.58	3.7	.	51.7	47.5	17.6	3.3
Total	0.2	1,053	0.289	0.1	8605	2314	4.6	21.1	182.9	40.3	20.9	35.6	10.3

TABLE 5. Correlation Coefficients

Variables	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.
1. Strategic CP	1														
2. Corporate Philanthropy	0.134 ***	1													
3. Generousity (%)	0.026 **	0.030 ***	1												
4. Foundation	0.132 ***	0.088 ***	0.008	1											
5. Firm Size	0.094 ***	0.258 ***	0.006	0.101 ***	1										
6. Revenue	0.124 ***	0.259 ***	0.011	0.131 ***	0.382 ***	1									
7. Profitability (%)	0.014	0.004	0.001	0.016	0.002	0.002	1								
8. Market Performance (%)	0.036 ***	-0.005	0.044 ***	-0.018	-0.042 ***	-0.040 ***	-0.003	1							
9. Marginal Cost ratio (%)	0.032	0.075 ***	0.041	0.019	-0.126 ***	-0.175 ***	0.081 ***	0.040	1						
10. R&D / sales (%)	-0.020	-0.004	-0.003	-0.011	-0.009	-0.008	-0.054 **	-0.005	-0.074 ***	1					
11. Closely Held Shares (%)	-0.115 ***	-0.054 ***	-0.015	-0.108 ***	-0.093 ***	-0.104 ***	-0.020 *	0.002	0.004	0.002	1				
12. Dividends paid per share (%)	-0.041 ***	0.009	0.011	0.117 ***	-0.050 ***	0.064 ***	0.129 ***	0.008	-0.026	-0.043 *	-0.163 ***	1			
13. Leverage (%)	0.018	0.015	-0.001	0.008	0.034 ***	0.014	0.003	0.027 *	0.052 **	0.000	-0.027 **	-0.035	1		
14. Industry Concentration(%)	-0.162 ***	0.103 ***	0.007	0.067 ***	0.246 ***	0.205 ***	-0.076 ***	0.010	-0.039	0.034	0.039 **	-0.165 ***	-0.009	1	
15. Industry Visibility	0.141 ***	-0.054 ***	0.004	-0.019 *	-0.062 ***	-0.048 ***	0.042 ***	0.024 *	0.118 ***	-0.049 **	-0.038 ***	-0.011	0.015	-0.238 ***	1

4.5.2 Hypothesis Tests

Hypothesis 1 states that CP causes revenue to grow and has a greater impact on revenue when there is a strategic programme of giving in place. Tables 6 and 7 show the results of the Granger causality tests. Table 6 tests whether revenue is influenced by the CP in previous years and shows that CP growth does not significantly affect revenue growth. If we loosen the criteria of significance, the coefficient of CP growth in t-1, 0.006, is marginally significant (p=0.11) for strategic givers but is still insignificant for nonstrategic givers. According to this finding, if CP spending doubled, then revenue would increase by 0.6%, which is a very small effect. On the other hand, Table 7 tests whether changes in CP are influenced by prior revenue growth and shows that this is the case for both strategic and nonstrategic givers. Taking these two findings together tells us that, even though we have evidence that CP influences revenue growth, the fact that we also have evidence that revenue growth influences CP means that we cannot establish causality between the two using this method. However, based on a p-value of 0.11, Table 6 does tells us that strategic giving has a greater and more significant impact on revenue than nonstrategic giving. Therefore, we cannot find support for the first part of Hypothesis 1 but do have support for the second part: CP does not "Granger cause" revenue to increase but strategic givers experience better revenue growth than nonstrategic givers. We also ran an OLS with fixed effects and the results were qualitatively similar.

TABLE 6. Granger causality (1 of 2): Regression of sales growth on prior growth in giving; dependent variable = log (Revenue $_t$ / Revenue $_{t-1}$), Hypothesis 1

	Hypothesis	Strategic		Non Strategic		Total	
lg CP							
(t – 1) / (t – 2)	1	0.006		0.103		0.052	
(t – 2) / (t – 3)	1	0.137		-0.056		0.077	
lg Revenue							
(t – 1) / (t – 2)		0.292	***	0.153		0.288	***
(t – 2) / (t – 3)		-0.115		0.109		0.019	
lg R&D intensity							
(t – 1) / (t – 2)		0.000		-0.027		-0.010	
(t – 2) / (t – 3)		0.285	*	-0.382	**	0.090	
lg Marginal Costs							
(t – 1) / (t – 2)		0.090		-0.204		-0.121	
(t – 2) / (t – 3)		0.250		0.203		0.228	*
lg Closely held shares							
(t – 1) / (t – 2)		-0.074		-0.198	***	-0.136	***
(t – 2) / (t – 3)		-0.027		-0.140	*	-0.105	**
lg Total Assets							
(t – 1) / (t – 2)		0.303	***	0.274	***	0.269	***
(t – 2) / (t – 3)		-0.168	*	-0.058		-0.099	
Foundation							
(t)		(dropped)		(dropped)		(dropped)	
lg Leverage							
(t – 1) / (t – 2)		-0.076		0.093		-0.009	
(t – 2) / (t – 3)		-0.035		0.014		-0.030	
Industry Concentration (t)		0.330		-0.536	**	-0.231	
Industry Visibility (t)		0.156		1.350		2.405	***
STCP*Industry concentration		4.871	**				
Intercept		-8.781	**	4.222		-2.084	
N		1535		1731		3267	

Notes:

Numbers in each cell are parameter estimates for independent variables and intercepts.

$p < 0.01$***, $p < 0.05$ **, $p < 0.1$ *

TABLE 7. Granger causality (2 of 2): Regression of growth in giving on prior sales growth; dependent variable = lg (CP_t / CP_{t-1}), Hypothesis 1

	Hypothesis	Strategic	Non Strategic	Total
lg CP				
(t – 1) / (t – 2)		0.068	0.200 ***	0.150 ***
(t – 2) / (t – 3)		0.219 ***	0.096 **	0.170 ***
lg Revenue				
(t – 1) / (t – 2)	1	0.109 **	0.082 **	0.110 ***
(t – 2) / (t – 3)	1	0.190 ***	0.174 ***	0.180 ***
lg R&D intensity				
(t – 1) / (t – 2)		0.088	0.139 **	0.146 ***
(t – 2) / (t – 3)		0.129	0.018	0.085
lg Marginal Costs				
(t – 1) / (t – 2)		-0.083	0.036	-0.013
(t – 2) / (t – 3)		0.121	-0.165 **	-0.041
lg Closely held shares				
(t – 1) / (t – 2)		-0.024	-0.091 ***	-0.051 **
(t – 2) / (t – 3)		-0.073 *	-0.031	-0.057 **
lg Total Assets				
(t – 1) / (t – 2)		0.246 ***	0.099 ***	0.176 ***
(t – 2) / (t – 3)		-0.085 *	0.017	-0.031
Foundation				
(t)		(dropped)	(dropped)	(dropped)
lg Leverage				
(t – 1) / (t – 2)		-0.029	0.017	-0.013
(t – 2) / (t – 3)		-0.008	0.007	-0.002
Industry Concentration (t)		0.476 ***	0.026	0.205 **
Industry Visibility (t)		1.481	-1.574 ***	-1.768 ***
STCP*Industry concentration		-2.662 **		
Intercept		-4.090 **	-1.773	-2.406 *
N		1535	1731	3267

Notes:

Numbers in each cell are parameter estimates for independent variables and intercepts.

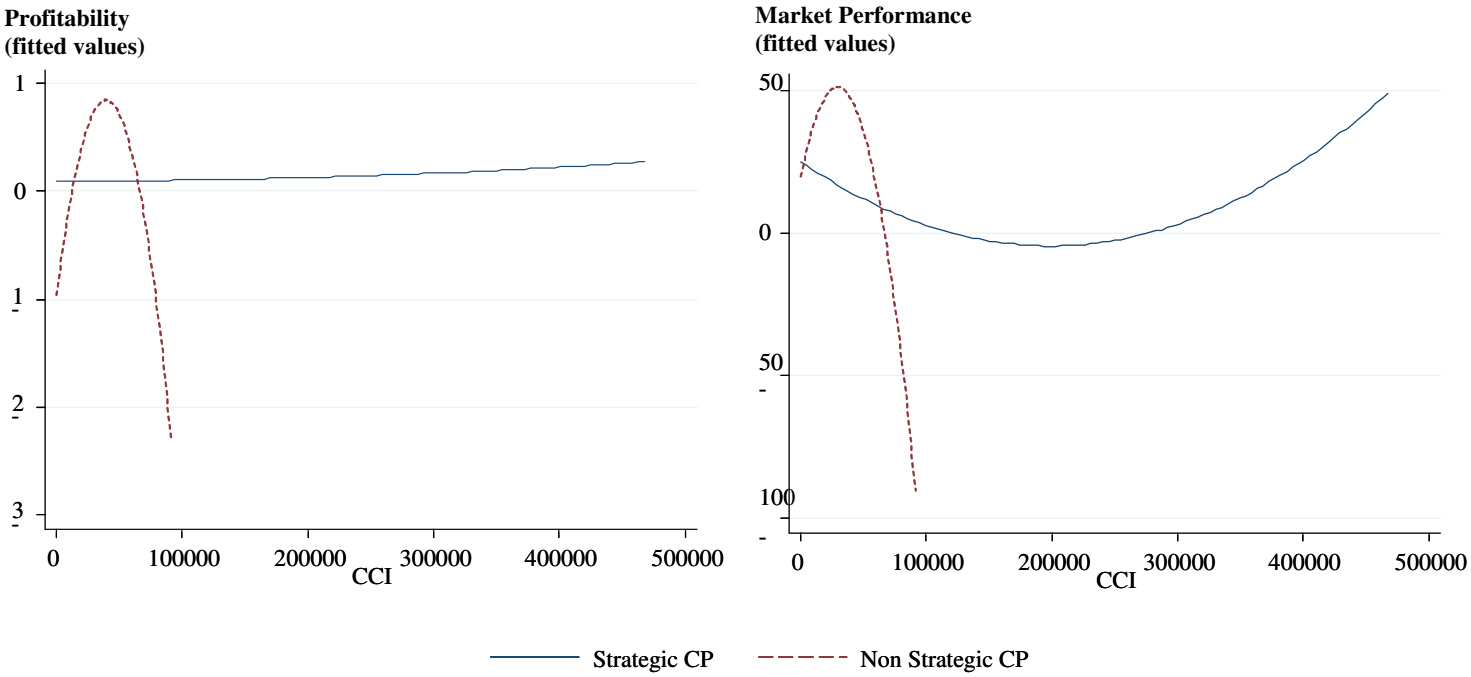
$p < 0.01$***, $p < 0.05$ **, $p < 0.1$ *

Mean VIF is 1.74

Hypothesis 2a states that there is a curvilinear relationship between financial performance and CP. Hypothesis 2b states that this relationship is stronger for firms with a SCP programme. Figure 3 plots the relationship between firms with and without SCP programmes against their profitability and market performance. The first panel shows a steep inverted U-shaped relationship between CP and profitability for nonstrategic givers, all of which give less than £100,000; those that give the most or the least are the least profitable whilst those in the middle

are the most profitable. The same shape is shown in the second panel, where market performance is used instead of profitability. On the other hand, for strategic givers, there is a continuous mild upward-sloping relationship with profitability; there are no diminishing returns to CP here as there were with nonstrategic givers. The same is true for the second panel, where we look at MP, except that now the U-shape is upright, contrary to the hypothesised relationship in Figure 2; for strategic givers, there are positive returns from giving either a very low or high amount, and the firms giving the most perform the best. In summary, nonstrategic givers witness steep negative financial performance for giving levels above £50,000, whilst the financial performance of strategic givers only improves as giving increases.

FIGURE 3. Estimated relationship: Profitability, market performance and SCP, Hypothesis 2



Tables 8 and 9 show the results of the tests of Hypotheses 2, 3 and 4. Table 8 shows the results of the generalised least squares (GLS) (Models 1, 2, 5 and 6) and fixed effects (Models 3 and 4) regressions, exploring the CP-CFP relationship. Models 1 to 4 do not support the curvilinear relationship predicted in Hypothesis 2a. If we restrict the sample to givers only, in Models 5 and 6 there is a significant ($p<0.1$) positive curvilinear relationship between giving levels and

MP, but a negative one between giving levels and profitability ($p<0.05$). Turning to Hypothesis 2b, the coefficient of SCP is only significant in Model 2 ($p<0.01$), where it is 82.4, meaning that strategic givers have over 80 times better MP than nonstrategic givers. Though still large at around 20, this coefficient is not significant in the other models. Nonetheless, this provides additional support for Hypothesis 2b, that the CP-CFP link is stronger for firms with a SCP programme. Note that once interacted with CP, SCP has a negative effect on MP in Models 2 and 6, which can be explained through the curvilinear relationship and dip illustrated in Figure 3. Models 5 and 6 also confirm the hypothesised curvilinear relationship, but the shape depends on whether MP or profitability is used. There have been no previous studies measuring the impact of SCP so we do not have a benchmark from which to compare our unexpected large finding of its impact on sales. When Lev et al. (2010) tested the impact of giving for firms in consumer-focused industries, they found the estimated proportion of actual sales growth explained by contributions is 0.32 percent on average, meaning that a $500,000 increase in charitable contributions results in an estimated $3 million increase in sales.

Hypothesis 3a states our expectation that visible firms with a SCP programme will experience better financial performance. In Model 2 of Table 8, when SCP is interacted with firm size (a proxy for visibility) the coefficient is -5.3 ($p<0.01$), which is the opposite effect to that predicted; based on Model 2, SCP has a better impact on the performance of less visible firms. By contrast, Lev et al. (2010) found that firms in consumer sensitive industries have 3 times better returns to giving than other firms. Moreover, Table 9 finds that, although size is a good predictor of whether or not a firm gives (0.110, $p<0.01$), it is not a significant predictor of whether or not more visible firms are more strategic in their CP, and so does not support Hypothesis 3b.

Models 2 and 4 of Table 8 show the opposite effect to that predicted by Hypothesis 4a. Firms with SCP programmes in more concentrated industries are 6% (-0.011 + 0.017 = 0.06) more profitable, while in Model 1, on its own, the coefficient of industry concentration, -0.011

($p<0.01$), shows that this has a significant negative impact on profitability[36]. In other words, even though firms in more concentrated industries perform worse than other firms, if a firm has a SCP programme in place it tends to be more profitable. Table 9 finds that Industry concentration is not a significant predictor of SCP, and so can not support Hypothesise 4b.

Turning to Hypothesis 5a, Table 9 does not support the view that firms with foundations are more likely to be strategic in their philanthropy. Therefore, having a philanthropic strategy embodied in a foundation is not an indicator of being strategic in one's philanthropy. Finally, the coefficient of insider ownership is -0.052 ($p<0.05$), which shows that, as insider ownership increases, the likelihood of being strategic in CP decreases. This is consistent with Hypothesis 5b, which proposed that as insider ownership increases (and outsider shareholder influence decreases) owners/managers will face less need to justify philanthropic expenses and so will become less strategic.

[36] A model was run without the interaction terms, and industry concentration still had a significant negative impact on profitability (-0.008, $p<0.01$).

TABLE 8. Generalised least squares and fixed effects regressions of SCP on financial performance, Hypotheses 2, 3a, 4a

	Model					
	GLS		Fixed effects		GLS	
	1	2	3	4	5	6
Sample	All firms		All firms		Just givers	
Dependant Variable	Profitability	Market Performance	Profitability	Market Performance	Profitability	Market Performance
Variables						
lnCP	-0.050 *	2.872 ***	-0.007	-2.002 *	-0.035 ***	4.464 ***
lnCP (t-1)	0.046	-0.018	-0.003	-3.344 ***	0.024 ***	-1.625
lnCPsquared(t-1)	-0.004	0.078	0.000	0.188	-0.002 *	0.305 **
Giving firm (dummy)	0.017	-11.469 **		5.545		
SCP	0.666	82.448 ***	-0.236	27.923	0.364	25.423
Foundation	0.014	-15.839 ***			-0.046	-34.745 ***
Size	0.059 ***	0.656	0.027	0.075	0.049 ***	-0.164
Industry Concentration	-0.011 ***	-0.073			-0.002 ***	-0.548 ***
Interations						
SCPxSize	-0.067 *	-5.254 ***	-0.037	-3.081	-0.034 **	-2.947
SCPxIndustry Concentration	0.017 ***	-0.003			0.000	0.521 ***
SCPxCP	0.037	-2.873 **	-0.014	0.148	0.023 *	-4.262 **
Controls						
Closely held shares	-0.007	-0.578 **	-0.009	-0.405	-0.011 ***	-0.786 *
Age	0.003 ***	-0.153 ***			0.001 ***	-0.067
Marginal Costs	0.107 ***	0.296	-0.042	-0.888	-0.004	2.058
Cash Flow / Sales	0.148 ***	0.549	0.041 **	-0.034	0.062 ***	-0.020
Leverage	-0.033	6.299 *			0.025	3.917
R&D / Sales	-0.990 ***	0.233	-0.279 ***	0.105	-0.009	-2.431 *
Beta	-0.005	0.490	-0.018	0.947 **	-0.072 ***	2.521
Dividends per share	0.028	3.412			-0.014 **	0.191
Intercept	-0.875 *	25.032	-0.478	20.976	-0.764 ***	68.534 *
Fixed Year effects						
N observations	5790	4327	5800	4355	2736	2064
N groups	532	469	542	497	258	230
Log-likelihood						

Notes:

Numbers in each cell are parameter estimates for independent variables and intercepts.

$p < 0.01$***, $p < 0.05$ **, $p < 0.1$ *

TABLE 9. The predictors of SCP for giving and non-giving firms, Hypotheses 3b, 4b, 5ab

		Probit	
Model		1	2
Sample		All firms	Giving firms
		Pr(CCI>0)	Pr(Strategic| Giving Firm)
Variables	*Hypothesis*		
Net Profitability		-0.091 ***	-0.041
Market Performance		0.002	-0.002
ln CP/Revenue			-0.098 *
ln CP			0.150 ***
Industry Concentration	3b	0.005	-0.006
Industry Concentration ^{2}		0.000	0.000
Industry Visibility		0.104 ***	-0.079
Size	4b	0.110 ***	-0.071
Age		0.002 *	-0.001
ln Marginal Costs		0.019	-0.024
Foundation	5a	0.145	0.079
ln Closely held shares	5b	0.006	-0.052 **
Cash Flow / Sales		-0.069 ***	-0.052
R&D / Sales		0.017	0.069
Leverage		0.031 *	-0.023
Beta		-0.068	0.026
Dividends per share		-0.104	0.013
Fixed Year effects		Yes	Yes
N		389	211
Log liklihood		-198.2	-122.9

Notes:
$p < 0.01$***, $p < 0.05$ **, $p < 0.1$ *

4.5.3 Robustness and Additional Tests

4.5.3.1 Determinants of generosity. Table 10 shows the results of GLS and Tobit regressions, where both generosity (defined as giving over revenue) and giving levels are explained by firm characteristics. We used a Tobit model because corporate giving levels are a censored sample of firms, who have made the decision to give. Other researchers on this topic do the same (Navarro, 1988b; Brammer and Millington, 2008, Wang et al., 2008). Our results show that strategic firms are more generous. Interestingly, they reveal a positive curvilinear relationship between industry concentration and generosity, as plotted in Figure 4. Firms in very low or highly concentrated industries are more generous than firms in other industries.

The percentage of total shares owned by insiders does not have a significant effect on generosity.

4.5.3.2 Consumer sensitivity. We separated firms into groups based on high or low consumer sensitivity (defined as whether or not the firms were consumer-facing) and on visibility, to investigate whether SCP differs in its causal impact in each category using the Granger method. However, there were not enough observations of firms in less consumer-sensitive and visible industries. This meant that we could not extend our analysis and present causal insight into Fisman et al.'s (2006) finding that, in industries with very low advertising expenditure, there is actually a negative association between philanthropy and profits, and whether this impact is mitigated through a SCP programme[37].

4.5.3.3 Managerial quality. We also considered controlling for managerial quality. One explanation of better performance by companies with SCP programmes could be that they have better managers, with better communication and planning skills, who therefore influence both parts of performance, financial and social. However, Lev et al. (2010), use a measure of organisational capital developed by Lev and Radhakrishnan (2005) as a proxy for managerial quality but found that it to be insignificant in influencing CP[38]. An alternative explanation of the link between managerial quality and CSP is that managers who have confidence in their own ability and the future profitability of the firm will be more inclined to commit to future philanthropic expenditure, and this allows for better planning of spending.

4.5.3.4 Firm age. As a means of differentiation, and to gain a good reputation, younger firms may find it advantageous to spend a higher proportion of their profits on CP. On the other hand, Wang et al. (2008) claim that the same arguments as to why firm size is linked with greater CP, in terms of greater visibility and scrutiny (Adams and Hardwick, 1998; Brammer

[37] However, it is worth noting that a negative "Granger" causal impact of CP was not found by Lev et al. (2010) in industries with very low advertising expenditure.

[38] In fact, Waldman et al. (2006a) have also presented a key finding that strategic CSR is significantly correlated with a measure of the intellectual stimulation of the CEO, as well as firm size, R&D intensity, and prior profit levels. It is not however related to charisma. Their findings are consistent with theoretical and empirical evidence presented in Waddock and Graves (1997) and McWilliams and Siegel (2000).

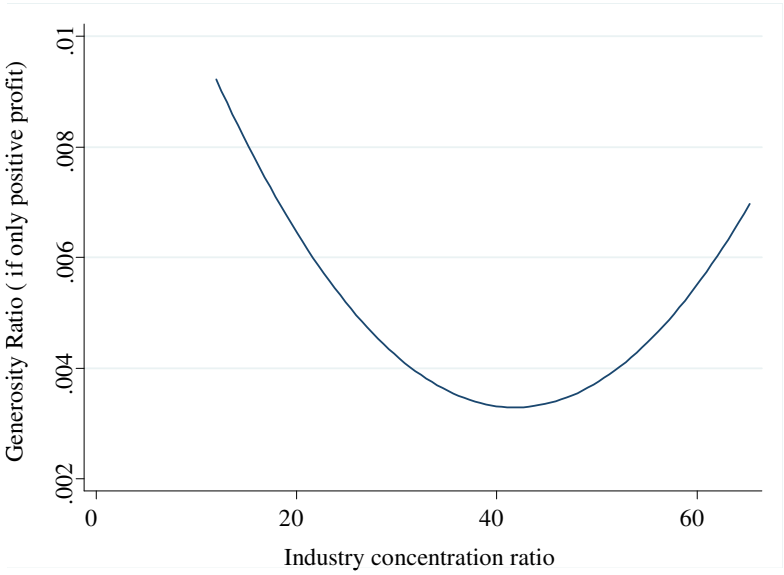
and Millington, 2004a, 2004b; Saiia et al., 2003; Seifert et al., 2003), can be applied to firm age, since older firms are expected to be more well-known. However, we expect that younger firms would spend a higher proportion of their profits on CP because of the increasing trend in giving in acting as a source of differentiation and competitive advantage. The results in Table 10 find that the coefficient of age predicting generosity is insignificant.

TABLE 10. Robustness tests: The predictors of generosity and corporate giving levels

	GLS			Tobit Marginal effects	
Model	1	2	3	4	5
Sample	Giving firms only			All firms	
Dependant Variables	Generousity†	CP/ Revenue	CP Levels	Generousity	CP Levels
Variables					
ln Net Profit	-0.013	0.127 ***	-0.892 ***	-0.1198 ***	-0.011
Industry Concentration	-0.069 ***	-0.071 ***	-0.058 ***	-0.0051	0.051 *
Industry Concentration^2	0.001 ***	0.001 ***	0.001 ***	0.0001	-0.001 **
Size	0.940 ***	0.087 ***	0.136 ***	0.0189 **	0.339 ***
Age	0.002	0.000	-0.004 ***	-0.0001	0.006 **
Marginal Costs	-0.061 **	0.001	-0.012	0.0009	-0.069 ***
SCP	0.013	-0.022	0.020	0.1274 ***	2.129 ***
Foundation	0.456 ***	0.373 ***	0.145	0.0677	0.437
Closely held shares	-0.004	-0.001	-0.006	-0.0012	-0.001
Cash Flow / Sales	0.050	0.160 ***	0.234 ***	0.0481 ***	0.158 ***
R&D / Sales	0.147 ***	0.169 ***	0.179 ***	0.0055	-0.051 *
Leverage	-0.080 ***	-0.051 ***	-0.058 ***	-0.0007	0.003
Beta	-0.183 ***	-0.157 ***	-0.194 ***	0.0127	0.234
Dividends per share	0.205 **	0.206 ***	0.060	0.0004	0.261
Intercept	-8.392 ***	-10.089 ***	-5.673 ***		
Fixed Year effects	Yes	Yes	Yes	Yes	Yes
N	1736	2563	1736	2932	2932
Log-likelihood				-607	-4043

Notes:
Numbers in each cell are parameter estimates for independent variables and intercepts.
$p < 0.01$***, $p < 0.05$ **, $p < 0.1$ *
† Generousity defined as CP divided by net profit.

FIGURE 4. Robustness tests: Estimated relationship: Generosity and Industry Concentration



DISCUSSION & CONCLUSION

4.6.1 Contributions to the Literature and Managerial Implications

This study finds mixed support for the central hypothesis that having a SCP programme improves the relationship between financial performance and CP; however, although firms with a SCP programme generate more revenue, the Granger tests cannot decipher causality, since higher CP spending could be a result of higher revenues. Therefore, our findings cast doubt on Lev et al.'s (2010) finding that CP Granger causes revenue.

However, we do manage to find support for the U-shaped relationship described in previous studies (Brammer and Millington, 2008; Wang et al., 2008). Moreover, we extend this research by finding that this relationship differs for firms with and without a SCP programme, in that having a strategy enables firms to maintain positive returns at high levels of CP. The curvilinear relationship tells us that firms without strategic giving programmes ought to spend as little as possible lest they witness negative returns on their spending. On the other hand, firms with SCP programmes can spend as much as they like, whilst still guaranteeing positive

returns. This evidence should encourage firms to adopt SCP programmes. It also gives credence to the strategic stakeholder management model, since strategic motivation for giving is justifiable through enhanced profitability. On the other hand, it can be argued that the absence of Granger causality and the limited scale of causality reported in this thesis and that of Lev et al. (2010) mean that only limited support can be given to this theory.

Furthermore, our study finds that, although visibility tends to increase the likelihood of engaging in SCP, it does not necessarily increase the returns a firm gains from it. One explanation of this could be that consumers can detect when a firm is strategically motivated in its giving and therefore question the authenticity of its *intrinsic* commitment, thereby causing scepticism, which in turn might moderate any positive returns obtained from giving. Alternative theories which consider marketers' tactics might therefore be usefully applied in future studies. In the presence of the strong arguments and decent evidence supporting the strategic stakeholder management model, it cannot be discounted. However, better theories are needed to explain how firms can, in practice, improve their giving.

Our results also find that, if a firm is in a concentrated industry, then it ought to consider implementing SCP, because this can help mitigate the negative impact industry concentration is found to have on profitability. This provides additional evidence that engaging in SCP adds competitive advantage. Finally, the finding that, as insider ownership increases, firms are less likely to be strategic in their philanthropy, reveals that owner-managers are less careful about how they spend the firm's money in the absence of monitoring or pressure from outside the firm. This finding is contrary to the agency theory view that CP is a perk and that increasing insider ownership will increase strategic giving.

4.6.2 Limitations and Suggestions for Future Research

One of the underlying drivers of whether or not a company gives detailed reporting and has a well managed giving program is the scale of its giving operation. The significance of this link

is evidenced by Table 9. Therefore, one needs to be careful as to what one is discerning from lengthy reporting of giving- whether it is merely indicative of a large programme, or whether its can be reliably discerned as a strategic giving programme. In its defence, though large scale of giving is likely to necessitate more governance and planning, it may not imply congruence of giving with corporate mission - a key criteria for SCP. Moreover, companies that give in strategic ways, ways that are clearly good for the firm's reputation, are more likely to report this giving. Therefore, the presence of giving and the omission of reporting is more likely to be indicative of lack of obvious strategy and congruence with corporate strategy.

Surprisingly, our study found that whether or not a firm has a corporate foundation makes no difference in predicting whether it is strategic in its philanthropy. An alternative test for identifying whether having a corporate foundation is indicative of strategic philanthropy or philanthropic strategy, would be to find out whether the foundation was administered completely by outside directors, in which case this would be a philanthropic strategy, compared to the case where senior firm managers or the CEO was on the board of the foundation, in which case the philanthropy could be more strategic.

Future research could examine further the question of how CP can improve financial performance, by breaking down the notion of SCP into different types, such as those focussing on particular geographic markets, or involving extensive planning. Future studies could also consider the role of communication in determining the effectiveness of CP, and whether or not firms that are highly active and strategic in their CP, but do not communicate news of their activities, witness the same returns to giving as those that invest greater effort in such communication. Also, it is worth noting that the panel we use is made up of large public companies in the UK. Different findings might arise if we were to examine smaller or privately-owned companies. Finally, neither the Granger causality test nor any other statistical test can definitively establish cause and effect. The Granger test can only identify whether a variable has predictive value and thus only alludes to causality (Lev et al., 2010). As established, there is a great demand for research in this area, from academics and practitioners alike. Future research could attempt to explain why strategic givers might not be able to

enhance profitability as dramatically as theory predicts. If best practices in SCP are established, then partnership approaches with NGOs, nonprofits and voluntary sector workers, could result in an increase in salaries in that sector, thereby promoting new forms of social enterprise.

In summary, this study finds that though giving can generate revenue, the effect is very small, tempting us to conclude that "the deed is everything, the glory naught". However, we did find that giving by strategic givers is more effective in generating revenue, and nonstrategic givers can have negative returns to giving. Also, the benefits of strategic giving were more pronounced in concentrated industries, but not in visible industries. Therefore, if a firm does want to give to charity, adopting a strategic approach can improve its financial performance.

CHAPTER 5[39]

GETTING PRIORITIES RIGHT: DOES CEO SUCCESSION IINFLUENCE CORPORATE PHILANTHROPY?

ABSTRACT

This study examines the effect of a change of CEO on corporate philanthropy (CP) in 500 large public US companies. We apply insights from agency, stewardship and transformational leadership theory as well as theories surrounding CEO succession to understand the behaviour of both the departing and incoming CEO with regards corporate giving. We argue that the CEO's treatment of CP depends on the financial performance of the company, his or her personal characteristics, and compensation and governance mechanisms. Contrary to the predictions of agency theory, we find that corporate giving decreases both before and after a change of CEO. This leads us to conclude that CP is not high on the priority list surrounding a turnover, and that charitable donations are closely linked to the CEO's personal ties and so tend to be cut during the succession period.

[39] Special thanks for this paper go to Harry Barkema, Fei Qin, David De-Meza, Alexandre Ayoub, Peter Backus, Michael Best, and Jouni Kuha. This research was made possible by Heli Wang , who kindly donated the data on corporate giving, which her research team gathered from the *Taft Directory of Corporate Giving*.

5.1. INTRODUCTION

> *"A company's social responsibilities are not met by some abstract organisational actor; they are met by individual human actors who constantly make decisions and choices."* (Wood, 1991a)

The CEO has often been cited in surveys as the most import determinant of corporate philanthropy (CP) (Siegfried et al., 1983; Useem and Kutner, 1986; Harris and Klepper, 1976; Merenda, 1981). In a survey of 229 major US companies in 1980-81, "Discretion of CEO" was identified as the most important of twelve factors determining company giving[40]; and over two thirds of the respondents rated it as the key determinant (Siegfried and McElroy, 1981). However, in the canon of literature on the determinants of CP, which focus on its corporate financial performance (CFP) (Levy and Shatto, 1978; Adams and Hardwick, 1998; Navarro, 1988a; Seifert et al., 2003; Brammer and Millington, 2004), there are no empirical studies which measure the impact of a CEO, causing recent research to start mentioning the overlooked importance of managers (Wang et al., 2008; Lev et al., 2010; Fich et al., 2010).

This research is needed because survey data has major limitations. Firstly, there may be a disparity between what CEOs consciously state as being important in surveys and how they act, and that there is not a one-to-one correspondence between attitude and specific behaviour (Fishbein and Ajzen, 1975). Another explanation, given by Lerner and Fryxell (1994), may be that CEOs may not have time to formulate policies that are in line with their attitudes. Alternatively, they say, policies may stem from practices that are institutionalised over a long period of time, reflecting the history of the company, rather than the values or preferences of a dominant individual. Therefore there is a need for a longitudinal study, which captures CEO influence whilst avoiding issues related to the survey method.

[40] Including current and past earnings, volume of requests, and firm size relative to the community.

The paper asks whether a change in the CEO affects CP, how a leaving CEO behaves differently to an entering CEO, and how their behaviour varies depending on the CEO and firm's characteristics as well as governance mechanisms. As a result, it draws on three separate streams of literature: CEO "succession", (also referred to as "change" or "turnover") (Friedman and Singh, 1989; Murphy and Zimmerman, 1993)[41], CEO influence on CP (Buchholtz et al., 1999; Manner, 2010) and the determinants of CP (Navarro, 1988a; Wang et al., 2008; Brammer and Millington, 2008). Even though agency theory has often been applied to understanding managerial discretion over philanthropic expenditure (Williamson, 1969; Fich et al., 2010), and stakeholder theory is the most common paradigm in the literature regarding the determinants of CP (Ullmann, 1985; Brammer and Millington, 2008), we debate several alternative theoretical leadership models for explaining CEO behaviour: stewardship theory (Davis et al., 1997), and transformational leadership theory (Bass, 1985; Waldman et al., 2006a). We do this because the economic determinants of corporate giving "are not more than predisposing conditions, encouraging but never ensuring a firm's responsiveness. The attitudes and actions of senior management are usually what make the final difference" (Useem, 1984).

Data on the CP spending of US S&P 500 companies, between 1990 and 2002, as reported in the Taft Directory of Corporate Giving, are used because this is the best third-party source for US CP data and has been used in recent studies (Brown et al., 2006; Wang et al., 2008; Lev et al., 2010). Our methodology is employed by several other studies on the determinants of CP (Navarro, 1988a; Brammer and Millington, 2008). A Tobit model is used to test the impact of CEO change on CP spending, and to examine how that impact varies depending on pre-succession financial performance, CEO and firm characteristics, CEO compensation and blockholder ownership. Through the use of time lags, an attempt is made to capture the influence of pre-succession organisational performance and the discretionary behaviour of the departing CEO. Longitudinal data on the CP of US companies has only recently been collected,

[41] By accessing individual-level factors affecting CEO discretion, such as successor age and technical or functional background, this study yield insights into the antecedents and consequences of succession.

through studies such as Wang et al. (2008) and Lev et al. (2010), primarily to establish causality in the corporate social performance (CSP) – CFP link. Waldman et al. (2006a) still find it "somewhat surprising that there has been virtually no systematic theoretical or empirical analysis of the relationship between characteristics of CEO leadership and CSR [Corporate Social Responsibility]". CP is defined as cash and non cash giving by companies to not-for profit organisations. It is a discretionary segment of CSR and has been used as a composite measure for CSR, or corporate social performance (CSP) (Griffin and Mahon, 1997).

5.2. CEO CHANGE AND CP: LEADERSHIP, DISCRETION AND VALUES

Although company contributions represent only a tiny fraction of the cash flow that senior managers oversee, top levels of management are almost always responsible for deciding the levels of giving and the recipients (Useem, 1984; Siegfried et al., 1983). Also, the role of the CEO in attracting funding is key since "drawing on the networks of mutual influence within the highest circles of corporate management may have become the single most effective means of attracting and sustaining corporate support" (Useem and Kutner,1986). Previous literature has already investigated the link between CP and CEO attributes (Atkinson and Galaskiewicz, 1988; Buchholtz et al., 1999; Galaskiewicz, 1997), firm size (Adams and Hardwick, 1998; Boatsman and Gupta, 1996), corporate governance (Atkinson and Galaskiewicz, 1988; Bartkus et al., 2002; Wang and Coffey, 1992), and industry effects (Useem, 1988; Navarro, 1988a; Fisman et al., 2006). In a recent study, Wang et al. (2008) conclude that "to the extent that endorsing philanthropic causes is at the discretion of managers, the role of these managers should be taken into consideration to foster a more comprehensive understanding of the relationship between CP and CFP."

There are plenty of surveys supporting the view that the CEO is the most important determinant of company giving (Siegfried et al., 1983; Useem and Kutner, 1986; Harris and Klepper, 1976; Merenda, 1981). In Siegfried et al.'s (1983) survey, in four out of five cases, policies were primarily set by a committee of executives, the chief executive, the board of directors, or the chairman of the board. In a set of interviews with 219 CEOs, carried out for a

study by Siegfried and McElroy (1981), four-fifths of them reported that their own influence on giving levels was decisive. Out of 62 companies from the Massachusetts area, surveyed by Useem and Kutner (1986), most reported the CEO to be the single most important influence on the setting of giving quantities and recipients. Two thirds stated that the CEO exerted a strong influence on giving policies and distribution. So, for example, companies whose chief executives had been pushing for increases in contribution budgets were three times more likely to expect substantial increases. Further, a firm was twice as likely to make pronounced increases in gifts if the CEO was engaged in the giving programmes. Thirdly, a survey in 1975 of 440 major firms revealed that gift policies are developed at the highest levels of management; two thirds reported that the chairman and president played a major role in setting goals and priorities (Harris and Klepper, 1976). Finally, from five in-depth cases studies, Merenda (1981) concludes that, in all cases, "the chief executive is the pivotal figure when it comes to the initiation of voluntary social programs" and that top leadership is critical for the continuation of such programmes as well as their growth.

The alternative view is that succession is inconsequential in terms of performance, and CP, because the link between leaders' intentions and organisational outcomes is weak. Support for this perspective is found in Lieberson and O'Connor's (1972) study of large organisations. The view that CEOs and firms are "swept along by events or somehow run themselves" has been argued by Hall (1977) and, indirectly, by population ecologists (Hannan and Freeman, 1977). Under this view, "the total system tends to frustrate the implementation of new policies" (Hall, 1977) as leaders are constrained by internal and external factors as well as their relative ability (Lieberson and O'Connor, 1972). Lieberson and O'Connor's (1972) results indicate that "in emphasising the effect of leadership we may be overlooking far more powerful environmental influences. Unless leadership is studied as part of a total set of forces, one cannot gauge its impact. Moreover, the leadership effect may vary greatly between goals in an organisation." Therefore, leadership studies need to incorporate relevant environmental influences, in order to identify the relative significance of a change in leadership and avoid overstating the leadership effect. However, Hambrick and Mason (1984) state that "definitive findings of the unimportance of chief executives are not at hand".

5.2.1 The boundaries of stakeholder and agency theory: turning to leadership

Stakeholder theory is the most commonly employed paradigm for understanding the determinants of CP (Ullmann, 1985; Brammer and Millington, 2004a). Under the stakeholder view, the CEO acts as more of a juggler of constituencies, managing the responsibilities of a variety of stakeholder groups (Ansoff, 1984), and his decisions will reflect the various degrees of importance the firm gives to different stakeholder groups (Lerner and Fryxell, 1994). Developments of stakeholder theory, such as Berman et al.'s (1999) intrinsic stakeholder commitment view, incorporate behavioural aspects and so are more consistent with leadership theories, since trustworthy, altruistic and unopportunistic behaviour is identified as effective in guaranteeing firm survival. However, it lacks the micro, behavioural and organisation-level focus of agency and leadership theories. The behavioural view is that complex and strategic decisions are largely the result of "behavioural outcomes, and the balancing of conflicting goals, rather than the result of a techno-economic and mechanical quest for optimisation" (Cyert and March, 1963).

Agency theory provides the dominant critique of CP, since it sees the practice as managers diverting discretionary resources from alternative investment projects, or not returning them to shareholders, in order to seek personal benefits (Brammer and Millington, 2008). Several authors have placed CP under the realm of agency concerns (Williamson, 1964; Jensen and Meckling, 1976; Clotfelter, 1985; Werbel and Carter, 2002; Fich et al., 2010). Shareholders are likely to have a low or perhaps indifferent propensity for charitable giving (Ullmann, 1985) and investors are likely to perceive little short-term or long-term benefit from donations (Werbel and Carter, 2002). In classical managerial discretion models (Williamson, 1963), in the absence of adequate monitoring, utility maximising managers divert "discretionary profits" (Buchholtz et al., 1999; Carroll, 1979) to the consumption of "preferred" (Levy and Shatto, 1978; Navarro, 1988a) perquisites (Fich et al., 2010), which satisfy their desire for status, power, security and prestige (Williamson, 1964). The level of contributions then end up being above the profit maximising level and can generate a warm glow of "the performance of the office for the benefit of society" (Williamson, 1964). To the extent that shareholders believe

that managers are pursuing their pet charities at the shareholders' expense, CP represents an agency cost (Brown et al., 2006)[42].

Agency theory has its limitations. The argument that managers engage in CP out of self-interest and personal preferences is inconsistent with the general evidence that CP has a positive relationship with performance (Choi and Wang, 2007), for which there are many supporting arguments (Levy and Shatto, 1978; Lev et al., 2010). For example, even though it can be seen as a form of a perk or alternative income, CP can act as a good incentive mechanism: high-performing managers can steer a company towards growth and, in turn, reward themselves with discretionary CP expenditures resulting from "slack resources". Choi and Wang (2006) add that CP and performance may be correlated, but this does not necessarily imply a causal link, since both could be caused by managerial values. In the context of understanding the drivers of CP, the key shortcoming of agency theory is that its model of man, with its assumptions around individualistic utility and self-serving motivations, may not hold for all managers. In view of this, Davis et al. (1997) state that the "exclusive reliance upon agency theory is undesirable because the complexities of organizational life are ignored. Additional theory is needed to explain relationships based upon noneconomic assumptions".

Therefore, we turn to stewardship and transformational leadership theory, which often produce different conclusions and prescriptions from the agency view. This allows greater scope to assess managerial characteristics and, as Boddy and Paton (1998) describe, "it is management's skill or lack of it, which balances and satisfies competing interests. This is not an inherently rational or logical process". Waldman et al. (2006a) adds that studies that ignore the role of

[42] There are other agency costs associated with CP as well. For instance, an active CP agenda may send a signal to stakeholders that a firm has a pool of slack resources (Seifert et al., 2004). Cash-rich businesses are more prone to agency hazards (Jensen and Meckling, 1976). Wang et al. (2008) assert that, although managerial misconduct in other areas, associated with cash-rich businesses, is not a direct cost of CP, being involved with CP does potentially send a signal to the investment community, who may then be less willing to cooperate with the firm. Wang et al. (2008) also hypothesise that these agency costs are likely to be minimal at low levels of CP, but more significant at higher levels. The counter-argument is that stakeholders and investors may see CSR as an indicator of management skill and quality (Alexander and Buchholtz, 1978).

leadership in CSR may yield “imprecise conclusions regarding the antecedents and consequences of these activities”.

Stewardship theory argues that CEOs behave in the best interests of their principals (Davis et al., 1997); pro-organisational behaviours yield higher managerial utility than individualistic, self-serving behaviour, and these behaviours are best facilitated by governance structures which give them a high level of authority and discretion (Donaldson and Davis, 1991). Donaldson and Davis (1991) find support for the stewardship theory as opposed to the agency theory, by providing evidence that the return on equity to shareholders is improved by combining the roles of chair and CEO. The main difference between the agency and stewardship theories relates to extrinsic versus intrinsic motivation. Agency theory focuses on extrinsic rewards: tangible, exchangeable commodities that have a measurable "market" value (Davis et al., 1997). On the other hand, Davis and colleagues continue, stewardship theory focuses on intrinsic rewards, which are difficult to quantify, such as opportunities for growth, achievement, affiliation, and self-actualisation. Finally, they say, the followers of stewardship leaders are also motivated by these intrinsic, intangible rewards to work harder for the organisation.

Transformational leadership theory is even more relevant in accessing CEO influences on CP since the transformational leader seeks to go further and satisfy higher needs. In contrast with “transactional” leaders, who pursue cost-benefits and economic exchange, the transformational leader “motivates us to more than we originally expected to do” (Bass, 1985). These leaders raise consciousness about higher considerations through articulation and role modelling. Transformational leadership may shift the management’s purpose from profit maximising to quality of life management, focussing instead on “broader long term societal needs and objectives transcending from the firm’s own immediate interest” (Bass, 1985). Transformational leadership, stewardship and stakeholder theory all stress the importance of the manager in satisfying individual stakeholders. Only an authentic transformational leader can help people develop the common interests of the community beyond the aggregate interests of its individual stakeholders (Bass and Steidlmeier, 1999), making it similar to the model of

man conveyed in the stewardship theory. Such theories go beyond the individual leader or follower, the aggregate of individual interests, or a calculus of greatest utility, and create instead a true consensus, aligning individual and organisational interests and legitimate stakeholder interests (Bass and Steidlmeier, 1999)[43].

5.3. THEORY AND HYPOTHESIS

5.3.1 A question of priorities and resources

5.3.1.1 Out with the old, in with the new. Since, CP is said to be linked in many ways to the CEO's values, and so it follows that what happens to giving is mercy to their discretion, and the level of *priority* they place on it as they leave or enter a firm. We expect that in addition to a new CEO affecting CP through having a different set of values and objectives (they may be hired to increase performance/dividends), the departing CEO's behaviour may change as a consequence of their scheduled departure. Each of the different models of man- agency, stewardship, and transformational- have different assumptions and predictions surrounding the behaviour of the incoming and outgoing CEO. If the outgoing CEO fits the agency model, we would expect CP to rise, as they attempt to expropriate as much profit as possible for personal gain. A departing steward type would only be involved in CP if it benefits the firm and its shareholders, though it is likely to be high given a personal preference for intrinsic rather than extrinsic rewards. Likewise, a departing transformational leader will forgo any personal preference for CP for the sake of the firm and community, and so like the steward will only increase spending if it adds value to the firm. Therefore, both the predictions of agency and stewardship models depend on the nature of the CP-CFP link.

[43] Davis et al. (1997) pose the question of whether transactional leaders follow the agency model. A transactional leader in our case would be one who does not give much money to philanthropic causes. However, according to agency theory, leaders gives a large amount to charity. Therefore, we state that transactional leaders do not follow the agency model.

In any case, if the incoming CEO fits the agency model, CP is also likely to increase since it is always seeking to maximise personal gain. The behaviour of an incoming steward on the other hand would depend on the background of the previous CEO and their levels of CP: if it's a agency type, they will decrease CP, if they were another steward, it might not change since they share values, and if they were a transformational leader, what happens depends on the CP-CFP link. Finally, an incoming transformational leader preceded by an agency type CEO is likely to change the type of giving to suit personal preferences towards donations that serve the interests of the community. If they are preceded by a steward, holding financial performance neutral we expect an increase since they seek to act beyond the interests of the firm, towards greater social needs.

Another way of understanding CEO succession is provided by Murphy and Zimmerman's (1993), who found that the exercise of discretion by leaving and new CEOs can fit into three non-mutually exclusive classes: "the horizon problem" occurs when the CEO is approaching retirement and makes accounting/investment decisions to increase current earnings or compensation at the expense of future earnings; "the cover up" occurs when the departing CEO uses accounting/investment decisions to cover up poor performance; finally, "the big bath" occurs when the incoming CEO boosts future earnings at the expense of transition-year earnings, by writing off unwanted operations and unprofitable divisions (Murphy and Zimmerman, 1993). They only find support for the "big bath" hypothesis: that accruals fall in the transition year (assumed to be controlled by the incoming CEO) and then rise after year '1'. They reject the alternative explanations. Applying these scenarios to CP, we predict that, based on the "big bath" hypothesis, the new CEO will cut CP in the first year, through shedding unwanted and unprofitable activities. According to the "cover up" hypothesis, the departing CEO will seek to cut CP before leaving, in order to free up cash and present an organisation free of agency problems to the new CEO, covering up poor previous financial performance. On the other hand, the "horizon problem" predicts that the departing CEO will wish to maximise CP spending, since they will view it as a perk. Based on their validation of the big bath hypothesis, we expect the new CEO to decrease. Meanwhile, in light of evidence found of

agency problems associated with giving, based on the predictions of the horizon problem, we expect the leaving CEO to increase CP:

H1a. Ceteris paribus, the new CEO will tend to decrease CP, whilst the departing CEO will tend to increase CP before their departure.

5.3.1.2 Preceding financial performance and CEO change. CP is often subject to managerial discretion (Useem and Kutner, 1986; Lerner and Fryxell, 1994; Wood, 1991a, 1991b; Buchholtz et al., 1999; Jones and Wicks, 1999; Wang and Coffey, 1992; Donaldson and Preston, 1995). Studies of top executives agree with Carroll's (1979) assertion that CP is a "discretionary" expenditure, last in the hierarchy of importance (Aupperle et al., 1985) and so at the mercy of executives and top management. As Wood (1991b) puts it, donations are subject to the LIFO principle: "last in, first out". Therefore, it is reasonable to assume that, since CP depends on the manager's discretion, it will rise and fall with the *availability* of discretionary resources (Seifert et al., 2003, 2004)**.** When profits are high, managers possess a pool of discretionary funds which they can spend on CP (McGuire et al., 1998; Adams and Hardwick, 1998). When profits are low, discretionary behaviour is constrained in order to satisfy creditors and shareholders. Available, spare or uncommitted resources are often referred to as "slack resources" and represent a cushion of resources beyond those needed to ensure a productive level of output (Waddock and Graves, 1997; Buchholtz et al., 1999). More precisely, the level of discretionary funds available for CP is best captured by cash flow (either before or after capital expenditure), after all major obligations have been paid off (Seifert et al., 2003, 2004). Free cash flow is defined as "cash flow in excess of that required to fund all projects that have a positive net present value when discounted at the relevant cost of capital" (Jensen, 1986). It provides an accurate measure of the availability of discretionary resources because it consists of money beyond what is need to fund profitable investments (Seifert et al., 2003). Under the agency view, this money should be returned to shareholders, since although it may serve CEO's interests to spend it on CP, this will not maximise shareholder wealth (Atkinson and Galaskiewicz, 1988; Friedman, 1970). Buchholtz et al. (1999) find a positive relationship between perceived resource availability (the CEO's rating of the firm's resource levels relative

to those of other firms and relative to its needs) and philanthropic giving among medium-sized firms in two industries. This relationship was mediated by the latitude given to the CEO to make decisions and by the CEO's values. These findings support the view of CP as "a discretionary social responsibility which managers can overlook with little consequence" Seifert et al. (2003).

Previous studies have examined the impact of CEO change on other types of expenditure that is subject to managerial discretion, such as R&D and advertising (Murphy and Zimmerman, 1993), which have already been shown to be positively linked to CP (Levy and Shatto, 1978; Brown et al., 2006; Brammer and Millington, 2008; Navarro, 1988a; Adams and Hardwick, 1998). The growth rate of R&D surrounding a CEO change is found by different scholars to be declining (Dechow and Sloan, 1991) or ambiguous (Butler and Newman, 1989; Murphy and Zimmerman, 1993). The latter conclude that departing executives do not reduce R&D in their final years in charge but that R&D expenditures are cut by the incoming CEOs (in years 1 to 4). They find that changes in R&D, advertising, capital expenditure, and accounting accruals surrounding a CEO change are mostly due to poor performance. When financial performance is poor in the transition year, all discretionary variables experience negative growth in years 0 and +1. They find no evidence of managerial discretion in strongly performing firms, where the CEO retires as part of a natural process. Reductions in R&D growth or advertising before a CEO change are better explained by overall poor firm performance.

> *H1b. In firms where CEO change is preceded by poor financial performance, the new CEO will reduce CP.*

If the firm is performing well preceding the CEO change, we still expect CP to change because the new CEO will have a different set of values guiding his decisions. Furthermore, corporate growth and stability can increase managerial power by insulating them from stakeholder pressure. After a succession event, the new CEO may even seek to continue the same level of CP expenditure, but might choose to select his or her favourite charities as recipients. Whether there is change in the level of CP depends on the degree to which there are significant

differences in values between the leaving and entering CEOs and on the new CEO's will or ability to exercise discretion.

5.3.2 CEO and Firm Characteristics

Choi and Wang (2006) contend that managerial values should be taken into consideration to discover the "true philanthropy-performance link". Hambrick and Mason (1984) argue choices relating to CP reflect the idiosyncrasies and cognitive base of the decision maker, which include his or her knowledge of alternatives, the consequences of alternatives, and assumptions about future events. They also reflect his or her values, principles and ordered preferences. Examples of observable CEO characteristics are age, tenure in the organisation, functional background, education, socioeconomic roots, and financial position (Hambrick and Mason, 1984). The demographic, economic, cultural and leadership factors are "critical determinants of the CSR values of managers" (Waldman et al., 2006b). Individual characteristics of a CEO are found to be positively associated with the propensity of a firm to engage in CSR (Waldman et al., 2006b)[44]. The degree to which a change in the CEO leads to a change in CP depends on the level of discretion available. This in turn depends on the CEO''s individual characteristics as well as the task environment, the internal organisation, and governance structures and (Hambrick and Finkelstein, 1987). Buchholtz et al. (1999) find that managerial discretion mediates the relationship between firm resources and CP, as it is positively related to CP. Moreover, the greater the level of discretion, the more personally responsible the CEO will feel for his or her philanthropic decisions (Wood, 1991a). However, it is worth noting that, in the literature on individual moral development, individual characteristics alone are insufficient to explain moral and ethical behaviour (Victor and Cullen, 1988), since corporate executives may decide to engage in CP for moral or ethical reasons, a decision which may partly characterise an effective leader (Jones, 1995).

[44] Building on this notion, Manner (2010) finds that the CEO having a bachelor's degree in humanities, their breadth of experience and being female are all positively related to corporate social performance (CSP), whilst a bachelor's degree in economics and having short-term compensation are both negatively related to CSP.

Researchers have listed several reasons why CEOs may seek active involvement in CP. We summarise them as falling into three categories: self-serving, strategic, and altruistic[45]. Firstly, some have argued that CP generally does not benefit the firm or its shareholders but only acts to advance the personal perceptions and prestige of the top managers, enabling them to further their personal, political and career agendas (Barnett, 2007; Friedman, 1970; Galaskiewicz, 1991; Haley, 1991; Werbel and Carter, 2002). These managers engage in CP to enhance their standing in the community through participating in and gaining approval from the social and civic networks of the philanthropic elite, or associations of firms that are active in CP (Galaskiewicz, 1985, 1991). Haley (1991), meanwhile, describes CP as "social currency" for the CEO, since it is attributed to their largesse and is a function of discretionary income. Managers may get some form of utility or "warm glow" from giving and Navarro (1988a) sees them as exercising their discretion in order to maximise utility, since CP represents an alternative form of compensation. Navarro's (1988a) theoretical model finds that the profit motive may be nested within the managerial discretion motive. In other words, management desires profits because of the "relationship that profit bears to discretion, self-fulfilment and organisational achievement" (Williamson, 1964). Alternatively, CP might result from peer pressure from other giving CEOs (Useem and Kutner, 1986; Galaskiewicz and Burt, 1991). Secondly, there can be strategic reasons for CP, such as marketing or PR, which are increasingly salient (Saiia et al., 2003); top managers serve as vehicles to enhance the image or reputation-building effects of CP (Wang et al., 2008) and can play an important role in publishing their firms' active commitment to a social agenda, for instance (Galaskiewicz, 1991). Thirdly, altruism has been mentioned in the literature as a motivating factor behind CP (Haley, 1991; Cowton, 1987; Campbell et al., 1999; Sanchez, 2000). It is likely that giving can be a result of several of the above motivators, and that these are mutually enriching (Campbell et al., 2002). The agency type fits into the self-serving motivational category, whilst the

[45] According to Shen and Cho (2005) there are two variations of managerial discretion: ones which serve managers interest and so "self-serving" (Willamson, 1963), and ones which satisfy stakeholders and so "strategic" (Hambrik and Finkelstein, 1987).

stewardship can be classified as strategic, since he seeks to please both shareholders and managers, and the transformational leader is mostly altruistic since he pursues the interest of the firm and the community.

5.3.2.1 Insider/outsider: CEO orientation. Chief executives brought from outside tend to make more changes to structures, procedures, and people than chief executives promoted from within the firm (Carlson, 1972; Hambrick and Mason, 1984; Friedman and Singh, 1989; Zhang and Nandini, 2010). Parrino (1997) states that research evidence on "the effects of inside or outside CEO succession on policies is consistent with the prediction that outsiders are often hired to change the direction of the firm". In that study's sample of 626 firms, taken between1970 and 1989, outsiders replaced 49.6% of the 127 CEOs who were forced from their positions but only 9.9% (84) of the 850 who departed voluntarily. Helmich and Brown (1972) show that the rate of organisational change, proxied by departures and personnel shifts, is greater following outside appointments. Gouldner (1952) states that an outside successor executes a greater number of strategic replacements than an inside successor. Also, Helmich (1974) finds that the rate of growth after an outside appointment is greater than following an insider appointment. Finally, according to Strong and Meyer (1987), the most important determinant of a write-down decision is a change in senior management, and this is especially true if the new CEO comes from outside the company. If we adhere to the agency view, where CP is an excessive managerial perk, then the comparison with decisions to write down assets is pertinent. The reasons given by Carlson (1972) for this behaviour are less commitment to the status quo, a desire to weaken those who resisted having a new CEO, and a desire to win new subordinates. In other words, "outsiders have a relatively broad latitude to start afresh" (Friedman and Singh, 1989). Executives who have spent their entire career in one organisation will have a more limited array of experience and perspectives (Hambrick and Mason, 1984), and so may be less willing to change the philanthropic vision of the company. Inside successors thus represent stability and continuity (Carlson, 1972).

However, according to Hambrick and Mason (1984), outside succession is more likely when the organisation is performing badly. Therefore, they say, changes may reflect the situation,

rather than the background of the new CEO. However, Friedman and Singh (1989) do not find that pre-succession performance is a significant predictor of whether the successor is an insider or an outsider. Hambrick and Finkelstein (1987), meanwhile, state that leaders are more likely to have more discretion when it is less obvious what steps should be taken to accomplish superior financial ends. This is more likely to be the case when someone is brought in from outside and can provide a fresh perspective.

H2a. A new outsider CEO will lead to greater changes in CP than a new insider CEO.

5.3.2.2 CEO age. Since young managers are linked with corporate growth, it is arguable that younger managers may seek to cut the superfluous or self-serving philanthropic expenditure of the previous CEO. The reasons given for the association between managerial youth and corporate growth include that older executives have less physical and mental stamina (Child, 1974) and that they may be less able to grasp new ideas and learn new behaviours. Managerial age has been linked negatively to the ability to integrate information and to make decisions quickly and with confidence (Taylor, 1975). Taylor also shows that it influences performance more than prior decision-making experience. Other explanations are that older managers have greater commitment to the status quo, that financial security is more important to them, and that their social circles and expectations about retirement income are established, resulting in less risky behaviour (Hambrick and Mason, 1984). Therefore, older managers might be less likely to make substantial changes to a firm's discretionary expenditure, such as CP. Older CEOs may be more interested in CP due to being more concerned with installing their values into the organisation before their departure, and may be less interested in the financial health of the company. The "horizon problem" hypothesises that, as CEOs approach retirement, they are likely to reject investment projects with a positive net present value (NPV) and valuable R&D investments (Smith and Watts, 1992). Therefore, older incoming CEOs may be more inclined to increase CP spending than younger ones.

H2b. Younger incoming CEOs will make greater changes in CP, and will be more likely to cut CP than an older incoming CEOs.

On the other hand, it is also possible that younger CEOs may need to appear to be more socially conscious, due to changes in stakeholder pressure, such as those embodied by ideas of ethical consumerism. Therefore, they might well increase CP.

5.3.2.3 Tenure. In a study of how tenure is related to strategic conformity, Finkelstein and Hambrick (1990), find that firms led by teams with long tenures perform closer to the industry average, and so conclude that experience creates an "inward or restricted mindset", which limits the potential for new strategies, while encouraging adherence to the industry's central tendencies. This finding is in line with Katz's (1982) study, which shows that prolonged tenure is associated with restricted information processing, reliance on habit and routines, and risk aversion. Whether this increases or decreases CP is unclear, but it does imply that those new CEOs with longer tenures are less likely to make large changes to CP.

Very philanthropic firms may experience severe agency problems (Fich et al., 2010), and so poorly performing CEOs could be more difficult to replace. Jensen and Ruback (1983) argue that inferior managers who resist being replaced might be the most costly manifestations of agency problems. Top managers can often entrench themselves in firms, even when they are no longer qualified to run them (Shleifer and Vishny, 1989). Managerial entrenchment occurs when managers get so much power that they can use firm resources to satisfy their own, as opposed to the shareholders', interests. Confirming this, Fich et al. (2010) show that CEO turnover is insensitive to firm performance in philanthropic firms. In other words, the CEOs of philanthropic firms are less likely to leave their posts due to poor performance, which is another argument suggesting that CP may be associated with agency problems[46]. The agency view is that, as tenure increases, organizational entrenchment occurs, and managers abuse their

[46] Also, public firms that give more to charity are 1.4 to 2.8% more likely to be named in a fraud lawsuit (Fich et al., 2010), more evidence of the frequency of agency problems in such situations.

status of authority. Also, a CEO with a long tenure may seek to increase CP in order to leave behind a legacy of citizenship. If this happens, we would expect CP to *increase* as tenure increases. Whilst conceding that there are strong arguments in favor the alternative, our hypothesis takes this agency view:

H2c. Departing CEOs with longer tenures are more likely to increase CP.

The alternative argument is that tenure is also positively associated with increased stewardship behavior**.** Based on Davis et al.'s (1997) proposition that "people who have high identification with the organization are more likely to become stewards in principal-steward relationships than are people who have low identification with the organization", we predict that, as tenure increases, stewardship behaviour increases. This implies that a departing steward CEO may seek to *decrease* CP in order to present a company with few discretionary overheads to the shareholders and new CEO.

5.3.2.4 Firm size. Smaller companies are arguably more susceptible to managerial discretion than larger ones. For example, according to Galaskiewicz (1986), among companies whose annual sales range between $25 million and $50 million, most decisions on both the level and the target of CP are taken by the chief executive alone. There are several reasons for this. Firstly, as Useem and Kutner (1986) explain, companies making small contributions generally allocate money on an ad hoc basis, with few rules, in response to requests made directly to top managers, and according to their personal preferences. Only when giving reaches a certain level, they go on to say, does the procedure become formalised and get assigned to other organisational units. Secondly, formal elements, which can act to limit CEO discretion and autonomy, are mainly evident in larger companies; such elements include, for example, specialist staff who are assigned to manage giving (Saiia et al., 2003), written statements articulating the selection criteria, gift-match programmes to incorporate employee preferences, and the establishment of corporate foundations to insulate giving against variations in income (Useem and Kutner, 1986; Werbel and Carter, 2002) Thirdly, since internal forces are stronger in large firms, CEOs are less able to initiate changes to

organisational outcomes, such as CP spending. Thompson and Smith (1993) find that small businesses tend to "donate to a specific cause or issue with inherent interest to an owner or manager" and that their sample of small businesses gave for decidedly personal reasons, including owner/manager preferences, charitable needs, personal connections, charities' reputations. In their study, the values of the owners stood out as the main rationale for charitable giving; thus, the intrinsic rewards seem more important for small businesses, rather than tangible economic returns.

However, the lack of accountability in larger organisations may lead to more agency problems and therefore excessive CP. It also makes succession less likely when performance is poor. Useem and Kutner (1986) find that the CEO is involved in decisions about the largest as well as the smallest contributions. Moreover, most of the companies in their survey reported that CEO involvement was not a diminishing function of programme size; as the size of giving programmes increases, so does the influence of the contributions office but this power is shared with the CEO, whose influence remains the same. Finally, they find that, as company contribution budgets grow larger, they become more open to influence and guidance by other corporations, and so programme autonomy is inversely-related to programme size. Furthermore, large companies are more likely to have established corporate foundations. This can insulate giving decisions from fickle top managerial discretion, according to Wang and Coffey (1992). However, they state that it is unclear whether such a governance mechanism reduces the CEO's influence significantly. Also, outsiders tend to be chosen as successors in relatively small organisations (Friedman and Singh, 1989), and we have associated outsider CEO change with greater CEO discretion. In sum, we are essentially testing Hall's (1977) assertion that "one point with regard to organisational size is clear. Other things being equal, the larger the organisation, the less the impact of succession. Large organisations are apt to be more complex and formalised, and thus more resistant to change."

H2d. CEO change has greater influence on CP in smaller firms.

5.3.3 Governance: Compensation and Ownership

The chief executive's characteristics are mediated by the degree of managerial discretion available[47]. Hambrick and Finkelstein (1987) state that ddiscretion "attenuates the relationship between executive characteristics (values, experiences and so on) and organisational outcomes. Namely, if high discretion exists, executive orientations become reflected in organisational outcomes; if low discretion exists, they do not." Therefore, mechanisms influencing discretion, such as shareholding and blockholder ownership need to be considered.

5.3.3.1 CEO Base Salary. Whilst there is still some debate in the literature over how CEO compensation can affect performance, it is established that high pay is indicative of agency problems that have in turn been linked to high levels of CP (Fich et al., 2010). Some studies find no clear-cut relationship between CP and executive compensation (Navarro, 1988a). McGuire et al. (2003) find that incentives have no significant relationship with *strong* social performance (measured based on the KLD database) but that high salaries and long-term incentives are related to *poor* social performance, which could be because they are indicative of a less socially-responsible orientation. Incentives provided through executive compensation have a stronger relationship with the avoidance of poor social performance than the adoption of exemplary social performance (McGuire et al., 2003). Therefore, compensation does not usually reward exemplary social performance. Confirming this, Manner (2010) finds an insignificant negative relationship between short-term compensation and exemplary or proactive CSP. Other studies have found that corporate donations and executive pay may be substitutes (Brammer and Millington, 2005; Navarro, 1988a). This could either suggest that low levels of base salary can be compensated by high levels of CP, or that a low base salary is consistent with an agency-free firm, and hence low CP. Deckop et al. (2006), using the KLD database as a measure of CSP, finds that short-term CEO pay, such as base salary, is found to be negatively related to CSP, whilst a long-term pay focus (such as shares), is positively related to CSP. This might be because short-term pay creates a short-term focus and incentives, which are not consistent with the good management of long-term stakeholder relationships. Their

[47] Manner (2010) adds that CEOs have more discretion to influence exemplary or strong CSP than poor CSP.

finding that base salary is negatively related to CSP might be a result of their use of the KLD database to measure CSP, as this measure differs from CP.

Since high salaries are associated with agency problems, they might also predict high CP, based on the agency view. Fich et al. (2010) estimate that CEOs of giving firms are paid $2 million per year more than their non-giving counterparts, and that they enjoy $200,000 worth of additional perquisites. Their results provide evidence of severe agency costs in philanthropic firms, as outlined in Jensen and Meckling (1976), who show that, as managerial ownership decreases, managers tend to expropriate corporate resources in the form of perquisites for personal gain. Fich et al. (2010) conclude that "CP acts as a proxy for residual agency problems: poorly governed companies in which insiders have the discretion to give the firm's money away to charity have more severe agency problems than firms in which managers are not afforded such discretion". Therefore, in general, we would expect that a high base salary will be indicative of agency problems and thus be related to high levels of CP.

H3a. CEOs with higher base salaries are more likely to spend more on CP.

5.3.3.2 CEO shareholding. Under agency theory, CP is a form of managerial perk and, according to Werbel and Carter (2002), the case of CP extends agency theory because it shows that CEOs have other avenues, outside the avenue of direct compensation, through which to behave opportunistically, through using CP as a perquisite. If CP is viewed as a perk, agency theory predicts that managers are likely to exercise discretion to the extent that firm resources make philanthropy possible (Buchholtz et al., 1999). Jensen and Meckling (1976) state that perks are appropriations of shareholder wealth by managers, and that these appropriations should decline as a manager's fraction of company stock increases. Several studies have confirmed this prediction by using stock ownership as a proxy for managerial control, finding that, the larger the percentage of stock held by the CEO, the less the company gives to charity (Atkinson and Galaskiewicz, 1988; Galaskiewicz, 1997; Wang and Coffey, 1992). This suggests that, when managers are owners, they give less to charity and focus more on profit

maximisation. Confirming this, Navarro (1988a) finds lower levels of giving in manager-owned firms.

However, this is a contentious issue, because if the CEO is a steward, higher ownership might lead to greater CP. If they are a steward, then their pro-organisational actions are best facilitated when corporate governance structures give them high authority and discretion (Donaldson and Davis, 1991). Therefore, stewardship theorists advise corporate structures which facilitate and empower rather than those that monitor and control (Davis et al., 1997). A high CEO shareholding is characteristic of high levels of CEO discretion, and so stewardship behaviour will dominate. Characterizing stewards as being in favor of CP, we expect high levels of ownership to lead to greater CP. Therefore, the effect of CEO shareholding on CP depends on which model of man the CEO follows. Despite the stewardship argument, based on evidence from previous research and the agency view we hypothesis that:

H3b. New CEOs with larger shareholdings will not spend as much money on CP.

Examining the relationship between CEO compensation and CP, Bartkus et al. (2002) hypothesise that a smaller cash component (short-term incentive) and a larger shareholding component (long-term incentive) would be consistent with lower CP. However, they do not find significant differences between small and large givers for any of the following salary components: fixed salary, annual bonus, restricted stock awards, long-term incentives, payouts and long-term stock options.

Meanwhile, one must be careful about the direction of causality, since there is some evidence that turnover decisions are influenced by CEO stock ownership (Salancik and Pfeffer, 1980). When a CEO has larger shareholdings, he can be more difficult to replace, since they are a source of power (Weisbach, 1988). Therefore, theoretically, as the percentage of CEO share ownership increases, CP will decrease (because of fewer agency problems) but at the same time, the CEO is less likely to be removed because of poor performance. Both agency and stewardship theorists would argue that an increase in the percentage of CEO ownership will

have a positive effect on CFP but for different reasons. Stewardship theorists encourage entrusting higher discretion to managers and, if this leads to higher CP, they say, it is probably in the best interests of the firm, which is contrary to the agency view.

5.3.3.3 Blockholder ownership. Companies with high blockholder ownership are subject to closer monitoring and control by shareholders, and are less likely to make contributions without their consent. Prior research on the influence of governance and ownership focuses on the impact of blockholders and institutional owners on CP (Bartkus et al., 2002; Adams and Hardwick, 1998; Navarro, 1988a). Governance mechanisms such as powerful owners and board size are shown to be related to philanthropy; blockholders and institutional owners limit CP since they are influential and it can be seen as excessive and the result of agency problems (Bartkus et al., 2002). Such influential shareholders may also create other governance mechanisms to discourage excessive levels of CP. These could include the selection of vigilant executives and directors who are given equity ownership.

Therefore, Bartkus et al.'s (2002) finding that firms that are small givers have a larger amount of blockholders as well as a greater proportion of stock owned by institutional investors is consistent with prior research which confirms agency theory's predictions that more closely monitored firms will be less philanthropic. Moreover, they also find that if those blockholders are also current members of the board of directors, firms give even less. On the other hand, Atkinson and Galaskiewicz (1988) also find CP to be negatively associated with ownership concentration (the number of individuals owning at least 5% of the stock) but find no relationship between CP and family or large institutional block owners.

Since high blockholder ownership has been linked with high monitoring, it follows it will also limit the autonomy of a new CEO. In fact, shareholder dispersion, an alternative measure of ownership concentration, is used as a measure of managerial influence by Navarro (1988a) and Adams and Hardwick (1998); managers in companies with widely-dispersed shareholdings are assumed likely to have considerable discretion over operational decisions. Therefore, in the presence of high blockholders, we would expect that an incoming or outgoing CEO to have

less discretion to make large changes to CP. Furthermore, if the blockholders are insiders, then there will be even greater downward pressure on CP because according to the agency view insider owners entail even closer monitoring and so less autonomy and also less on CP. Therefore, we hypothesise that:

H3c. CEO change has stronger influence on CP when the percentage of shares held by blockholders is less. This will be even more the case with insider blockholders.

5.4. DATA AND METHODS

5.4.1 Sample

5.4.1.1 Firm Panel. We use a strongly balanced panel from 1990 to 2002 of a set of 500 large US companies listed in the Standard and Poor's (S&P) 500 list. Within this period, we have data on CEO change and CP. Our panel also includes data on firms two years prior and after the period in order to capture firm performance before and after the CEO changes. Therefore, the 17 years from 1988 to 2004 are included in the study leading to a total of 8,500 observations and 508 instances of CEO change. In contrast to Murphy and Zimmerman (1993), who use a sample set consisting only of firms where there has been a change in CEO, we include firms without a CEO change. We also include firms who have not reported giving. However, this does not adversely effect our sample because we use a Tobit model.

5.4.1.2 Corporate philanthropy. These figures were obtained from several editions of *The Taft Directory of Corporate Giving,* which reports corporate giving figures and complete profiles of around 1,000 of the largest corporate direct giving programmes and corporate-sponsored programmes in the US. In order to be listed, firms and foundations must give at least $200,000 per year in cash and non-monetary gifts combined. Giving is defined as cash contributions to not-for-profit organisations. Figures include cash contributions made through corporate giving programmes and through corporate foundations. The data set was originally manually collected from the Taft Directories by a research team, for a study by Wang et al.

(2008), who kindly provided the raw data for this variable, starting in 1987 and ending in 2002. We then matched the firm names from the Taft Directory to DataStream data on the firm characteristics of S&P 500 firms, and this was then merged with CompUSA data on CEO characteristics, CEO origin, and blockholder ownership.

CEO change, characteristics and compensation. Data on CEO change (dummy), age, base salary, ownership (percentage of total shares owned by the CEO, as reported) were retrieved using WRDS from the "CompUSA" database. We have included all case of CEO change whether forced or due to retirement in the data. This was done because we are interested in understanding the extent to which giving is correlated with a particular CEO, which is of interest for CEOs who are forced to leave and those who are retiring. Some would argue that retiring CEOs are part of the normal succession process and so will not effect giving. For example, it is common for the chairman and CEO to pass the CEO title on to the president. Warner et al. (1988) excluded these types of CEO change event (by removing retirements from their sample) because they do not involve a change in the group of individuals comprising top management. However, this study takes the position that retiring CEO behaviour is even more important to include because of their behaviour towards CP and the desire to leave a legacy.

5.4.2.2 Firm characteristics (organisational context): performance and size. We use profitability as our measure of performance. It is defined as the ratio of net profits before interest and tax, to turnover, and is also used in previous studies (Adams and Hardwick, 1998; Waddock and Graves, 1997). Firm size is defined as the natural log of the value of total company assets (Adams and Hardwick, 1998; Lenway and Rehbein, 1991; Brammer and Millington, 2006). It is also important to bear in mind that firm size has also been found to be linked with greater relative levels of CP, because larger firms face greater visibility and scrutiny (Adams and Hardwick, 1998; Brammer and Millington, 2004a, 2004b; Saiia et al., 2003; Seifert et al., 2003).

5.4.2.3 Origin of new CEO (outsider or insider). Anyone who spent less than two years in the hiring company before becoming CEO is treated as an outsider. If this information was not found on Compustat, a manual search was conducted for the CEO.

5.4.2.4 Blockerholder ownership. Blockholders' data are reported by firms for the period 1996-2001 and taken from WRDS. The data cleaning procedure used to obtain this data is explained in detail by Dlugosz et al. (2002). And we use the datasets "percentage held by all blockholders for that firm-year" and "percentage held by all officer blockholders". Brown et al. (2006) use the percentage of equity held by blockholders (i.e. those holding over 5% of the shares), and the percentage of equity held by institutions.

5.4.2.5 Controls. Data on other firm characteristics—age, cash flow, dividends in cash (total common and preferred dividends paid to shareholders of the company excluding dividends paid to minority shareholders), ownership structure, leverage, R&D over sales, risk (beta), and material costs—were taken from DataStream. Age is the number of years since the company's incorporation. Leverage is defined as the percentage of total debt divided by common equity. Cash flow was defined as funds from operations over net sales, a measure that is used in previous studies (Seifert et al., 2004). The beta (β) of a stock or portfolio is a number describing the relationship between its returns and those of the financial market as a whole. The price of an asset with a beta of 0 is not at all correlated with the market. A positive beta means that the asset generally follows the market.

5.4.3 Analyses

Following Friedman and Singh's (1989) guidelines, we consider the "organisational context" (pre-succession organisational performance and firm size) and "content of the succession event" (insider CEO or outsider) while examining the effect of a change of CEO. See Hambrick and Mason (1984) for a full critique of methodological issues in early studies of the impact of CEOs on firm performance. Also, Agle and Caldwell (1999) highlight methodological problems when testing models including individual and organisational values separately.

We use an ordinary least squares (OLS) fixed effects model, a generalised least squares (GLS) model and a Tobit model and compare the results. The Tobit model has been used in recent studies (Wang et al., 2008; Brammer and Millington, 2008), based on Navarro's (1988a) recommendations, because CP is thought to be a censored sample: not all firms donate and giving cannot take a negative value. There are two key equations, the first to examine the behaviour of the new CEO, and the second, the behaviour of the outgoing CEO:

$$CP_{it+1} = f(\text{CEO Change}_{it}, \text{Profitability}_{it,\, it-1}, \text{CEO characteristics}_{it+1}, \text{Firm size}_{it}, \text{Governance and ownership}_{it+1}, \text{Interactions}, \text{Controls}_{it}) \quad (4)$$

$$CP_{it-1} = f(\text{CEO Change}_{it}, \text{Profitability}_{it-1}, \text{CEO characteristics}_{it-1}, \text{Interactions}, \text{Controls}_{it}). \quad (5)$$

The controls include dividends paid in cash, the ratio of R&D to sales, and GDP growth. We also control for industry fixed effects because, according to Lieberson and O'Connor (1972), the industry and company account for more variance in performance (but not for profit margins after lags are considered) than does leadership in large organisations. All the variables, except for the dummy variables, are expressed as natural logarithms; this means that partial derivatives can be interpreted as elasticities and helps eliminate heteroscedasticity in disturbances (Adams and Hardwick, 1998). There are a total of 12 interaction terms in equation (5), in which all the independent variables are interacted with the CEO change dummy. For example, in equation (5), CEO Change_{it}* $\text{Profitability}_{it-1}$, describes how the effect of CEO change in the new CEO's first year depends on the profitability of the firm in the year before the change. Finally, in order to compare the influence of the *departing* CEO with that of the *entering* CEO, we include dummies for every year 2 years before and after the CEO change event before and after the event.

Worth noting is the timing of events and the use of lags. Firstly, we observe from previous studies (Wang et al., 2008) that it is acceptable to use a one-year lag between observations of firm characteristics and CP. This is because CP decisions are thought to be more strongly influenced by the performance in the previous year than that in the current year. Furthermore,

we also expect there to be a lag between CEO change and changes in CP, due to the time required for implementation. Lieberson and O'Connor (1972) explain that the lag in leadership effect can create various research problems, such as identifying the lags in the setting of organisational goals and policy directions when leaders face removal from office. We overcome these issues by looking at behaviour two years prior to and two years after the transition year.

Our methodology is set up in an attempt to infer causality. In this respect, our key objective follows the request of Choi and Wang (2007): "since we argue for causal effects of managerial values on CP and corporate financial performance, future empirical studies that are able to clearly demonstrate causality, for example, through collecting longitudinal data and designing appropriate methods that effectively control for alternative explanations, would be most desirable".

5.5. RESULTS

5.5.1 Descriptive Statistics

Table 1 shows the descriptive statistics for our sample of 500 US firms over 12 years, which have an average asset value of $23 billion. There are in total nearly 12,000 observations, in 508 of which there was a change of CEO and, of these, 104 cases where we also have data on CP. The table compares average statistics for firms with and without a change of CEO. In firms with a change, CP was on average $700,000 less than in other firms, at $7.6 million. Furthermore, firms that changed their CEO were, on average, 3% more profitable and, at $643,000, the average salary of those CEOs was $150,000 less than the average salary of CEOs of other firms. Firms that did not change their CEO also had more slack resources (measured by cash flow over sales). However, in both situations the CEO's share ownership was around 5%. Table 2 shows the Pearson correlation coefficient for selected parameters of interest.

Our results provide further evidence of agency problems in philanthropic firms. For example, higher levels of philanthropy are experienced by firms (i) that do not have the market disciplines enforced through changes in their CEOs, (ii) whose CEOs have longer tenures (managerial entrenchment) and (iii) with higher cash flows (slack resources). Fich et al. (2010) show that CEO turnover to be insensitive to firm performance in philanthropic firms, and the authors of that study imply that CP appears to be a symptom of severe agency problems.

5.5.2 Hypothesis Tests

Table 3 shows the results of the Tobit regression analysis on the behaviour of incoming and outgoing CEOs in terms of CP, in year (t + 1). The CEO change event (in year t), as well as CEO and firm characteristics and selected interactions, are regressed against CP in the following year (t + 1). This is based on equation (4) and used to test Hypotheses 1a and b and 3a, b and c. The table shows the results for four models: Model 1 only contains measures of

profitability before and after the change in CEO; Model 2 adds in CEO and firm characteristics as well as their interactions with the CEO change event; Model 3 focuses on CEO change variables, in addition to governance and ownership measures, and their interactions with the CEO change event; Model 4 is the "full" model, including all the variables from Models 1, 2 and 3.

Firstly, Hypotheses 1 a and b concern the relationship between CEO change, financial performance and CP. The results from all of the models tell us that CEO change has a significant and negative impact on the CP levels after the change. For example, in Model 4, the coefficient applying to the dummy for two years before the CEO change (*t*-2) is -0.393 ($p<0.1$) and tell us that CEOs tend to decrease CP before leaving. In the same model, the coefficient of the transition year is -2.30 ($p=0.104$), implying that a CEO change has nearly 40 times the impact of a 1% decrease in cash dividends (0.059, $p<0.1$) on the giving levels in the following year. In none of the models does it appear that the outgoing or incoming CEO significantly increases CP. Table 4 regresses CP in the year before the changes, against firm and CEO characteristics. Hypothesis 1a predicts that a new CEO will tend to decrease CP, while a departing one will increase it before their departure. All of the models in Tables 4 and 5 tell us that both the leaving and the succeeding CEO will decrease CP, thus giving mixed support to the hypothesis.

The behaviour of the incoming and outgoing CEOs, in terms of changes to CP, five years before and five years after a CEO change, is shown in Figure 1; we can see that there is a fall in the mean spending on CP by firms, before and after a CEO change. On average, there is a 15% reduction two years before the change, followed by a 48% reduction in the transition year. No large changes are made to giving both the year before and the year after, suggesting that it is low on the agenda at those times. However, interestingly, three years before the change there is, on average, a 30% increase in giving, and four years afterwards there is a 50% increase, creating a U-shape. Perhaps as CEOs near retirement, they splash out on charitable causes close to their heart and then cut down or "cover up" as their end approaches. At the same time,

may be new CEOs wait until they are settled and confident before supporting their favourite new causes with the firm's cash.

Hypothesis 1b states that, when CEO change is preceded by poor financial performance, the new CEO will reduce CP. However, in Models 1, 2 and 4, the coefficient of profitability two years before the change is negative and significant (Model 4; -0.003, $p<0.01$), telling us that, the higher the preceding profitability, the more the new CEO will cut CP, which is surprising. One possible explanation is that more profitable companies are less tolerant towards giving by firm's straight after a CEO turnover because it may be a distraction.

Hypothesis 2 examines how CEO and firm characteristics affect giving decisions surrounding a CEO succession. Hypothesis 2a states that the presence of a new outsider CEO will lead to greater changes in CP than that of a new insider CEO. Table 5 shows the coefficients of the variation in CP spending by CEOs after their first year, based on their characteristics. It shows that the coefficient of variation is higher for outsiders (4.49>4.23), confirming Hypothesis 2a. Interestingly, according to all the models, the presence of a transition year (i.e. CEO change event in year t), has the greatest influence on CP the following year (t+1). All models show that if the new CEO is an insider, this tends to have a large negative impact on CP. For example, in Model 4 of Table 3, being an insider new CEO decreases giving in the first year after the change by 51% ($p<0.05$). When this is interacted with CEO change, the resulting coefficient, though larger and positive, 0.74, is not significant.

TABLE 1. Descriptive Statistics

CEO change		Count	Corporate Philanthropy ($ '000)	Profitability (%)	CEO Insider	Age became CEO (yrs)	Age left as CEO (yrs)	Tenure as CEO (yrs)	Tenure in firm before CEO (yrs)	CEO Salary ($ '000)	% CEO shares	Assets ($ '000)	% R&D / Sales	% Cash flow / Sales	% All Blockholders	% Officer Blockholders
No	*mean*		8353	6		47	61	12	17	797	5	22900000	7	16	20	16
	sd		18420	39		8	6	7	10	381	8	74800000	10	13	12	10
	n	7992	1707	7992	347	3506	2829	2833	1910	3490	1014	7153	3167	7119	1408	500
Yes	*mean*		7653	7		52	58	6	17	643	5	25300000	6	14	20	15
	sd		12390	15		7	7	3	12	328	7	64900000	7	13	12	8
	n	508	104	508	32	506	382	370	202	499	54	502	255	501	193	38
Total	*mean*		8313	6		48	60	12	17	778	5	23100000	7	16	20	16
	sd		18127	38		8	6	7	11	378	8	74200000	10	13	12	10
	n	8500	1811	8500	379	4012	3211	3203	2112	3989	1068	7655	3422	7620	1601	538

TABLE 2. Correlation Coefficients (year "t")

	Variables	**1.**	**2.**	**3.**	**4.**	**5.**	**6.**	**7.**	**8.**	**9.**	**10.**	**11.**	**12.**	**13.**	**14.**	**15.**
1.	CP	1														
2.	CEO change	-0.01	1													
3.	Profitability (t-1)	0.04 *	0.02 **	1												
4.	CEO Insider	0.00	0.67 ***	0.02	1											
5.	Age became CEO	0.05	0.18 ***	-0.01	0.13	1										
6.	Age left as CEO	0.04	-0.12 ***	0.03	-0.08 ***	0.46	1									
7.	Tenure as CEO	-0.01	-0.30 ***	0.03 **	-0.22 ***	-0.67 ***	0.35 ***	1								
8.	Tenure before CEO	0.20 ***	-0.02	0.03	0.04 *	0.41 ***	0.18 ***	-0.24 ***	1							
9.	Assets($ '000)	0.23 ***	0.01	0.02	0.02 **	0.09 ***	0.09 ***	-0.02	0.07 ***	1						
10.	CEO Salary ($ '000)	0.33 ***	-0.13 ***	0.00	-0.05 ***	0.12 ***	0.18 ***	0.00	0.13 ***	0.28 ***	1					
11.	% CEO shares	0.24 ***	-0.01	0.09 ***	0.01	-0.38 ***	0.00	0.34 ***	0.09 *	-0.05	-0.02	1				
12.	% All Blockholders	-0.03	0.00	-0.08 ***	-0.03	-0.12 ***	-0.06 **	0.03	-0.08 **	-0.12 ***	-0.11 ***	0.26 ***	1			
13.	% Officer Blockholders	-0.14	-0.02	0.00	-0.06	-0.10 *	-0.04	0.09	0.05	-0.02	-0.11 *	0.01	0.78	1		
14.	% R&D/Sales	0.24 ***	-0.02	-0.27 ***	-0.05 ***	-0.24 ***	-0.27 ***	0.04 *	-0.28 ***	-0.09 ***	-0.22 ***	-0.12 **	0.02	0.13 *	1	
15.	% Cash flow/sales	0.06 **	-0.03 ***	0.21 ***	-0.02 *	-0.04 ***	0.01	0.04 **	-0.04	0.09 ***	-0.03 **	-0.01	-0.07 ***	0.05	-0.05	1

TABLE 3. Results of Tobit regression analysis of behaviour of incoming and outgoing CEOs regarding CP in the year (t + 1)

	Models			
	Tobit - Marginal effects			
	Profitability	CEO's characteristics	Governance	Full
Variables	**1**	**2**	**3**	**4**
CEO Succession				
CEOchange (t + 2)	-0.189	-0.209	-0.159	-0.189
CEOchange (t + 1)	-0.001	-0.045	-0.004	-0.044
CEO change (t)	-0.961	-1.980	-1.798 **	-2.304
CEO change (t - 1)	-0.641 ***	-0.146	-0.487 *	-0.123
CEO change (t - 2)	-0.767 ***	-0.395	-0.658 **	-0.393 *
Profitability				
Profitability (t-1)	0.000	0.000	0.000	0.000
Profitability (t-2)	-0.003 ***	-0.002	-0.002 *	-0.002 *
CEO and firm characteristics				
CEO is Insider (t+1)		-0.515		-0.511 *
Age became CEO (t+1)		-0.007		-0.006
Age left as CEO (t-1)		0.013		-0.021 **
Tenure as CEO before departure (t-1)		0.048		0.043 *
Tenure in firm before CEO (t+1)		0.010		0.012
Firm Size		0.082		0.015
Governance and Ownership				
CEO's Base Salary			-0.083 **	-0.021
CEO's Share Ownership			0.096	0.039
% All Blockholders			-0.115 *	-0.046
% Officer Blockholders			0.416 **	0.419 **
Interaction terms				
CEO change (t) * Profit (t-1)	0.022	0.022		0.019
CEO change (t) * Profit (t-2)	-0.036	-0.036		-0.030
CEO change (t) * CEO Insider (t+1)		0.853		0.738
CEO change (t) * CEO's age (t+1)		0.029		0.000
CEO change (t) * Age left as CEO (t-1)		-0.039		0.012
CEO change (t) * Tenure as CEO before departure (t-1)		0.000		0.052
CEO change (t) * Tenure in firm before CEO (t+1)		0.040		0.014
CEO change (t) * firm size (t+1)		-0.037		0.018
CEO change (t) * CEO's base salary (t+1)			0.236	0.169
CEO change (t) * CEO's shares (t+1)			-0.148	-0.083
CEO change (t) * All Blockholders (t+1)			0.109	0.111
CEO change (t) * Officer Blockholder (t+1)			0.306	0.232
Controls				
Research and Development / Sales	0.018	0.191	0.170	0.177
Dividends in Cash	0.077 ***	0.052	0.057 **	0.059 **
US GDP Growth	-0.035	-0.025	-0.020	-0.016
Intercept				
Industry Fixed Effects	No	Yes	Yes	Yes
N observations	8448	8448	8448	8448
Groups	497	497	497	497
Log likelihood	-6892	-6719	-6758	-6711

Notes:

Numbers in each cell are parameter estimates for independent variables and intercepts.

Dependant variable is ln (Corporate Philanthropy) in period t+1, when CEO change occurs in t.

$p < 0.01$***, $p < 0.05$ **, $p < 0.1$ *

Hypothesis 2b predicts that younger new CEOs will lead to greater changes in CP, and will be more likely to cut CP, than older ones. Table 5 shows that, in terms of the growth in CP in the year after the change, the coefficient of variance is slightly higher for older new CEOs (2.40>2.12), which is contrary to the hypothesis. In other words, older new CEOs (above 50) tend to make larger changes to CP than younger ones. In Table 3, Model 4, the coefficient on the age they were when they left as CEO is 0.021 ($p<0.05$), so an increase in one year causes just a 2.1% decrease in CP. None of the other coefficients on age-related variables and interactions are significant, indicating that, following a change of CEO, the CEO's age does not have a significant impact on CP decisions.

Hypothesis 2c states that departing CEOs with longer tenures are more likely to increase CP. The coefficient for this variable, in Model 4 of Table 3, 0.043 ($p<0.1$), shows significant support for this hypothesis. However, there is no significance regarding the interaction term between change and tenure as CEO, leading us to conclude that, although tenure of the departing CEO increases CP in year t+1, this is not affected by whether or not there has been a change in the CEO. In other words, though tenure is positively linked with CP, it does not play a significant role in determining giving surrounding the turnover of a CEO.

Table 5 confirms Hypothesis 2d, which states that CEO change has a greater influence on CP in smaller firms, showing that the coefficient of variation is much higher for these firms (41.3>3.0). However, in Table 3, firm size is not found to have a significant effect on CP, in the year after the CEO change.

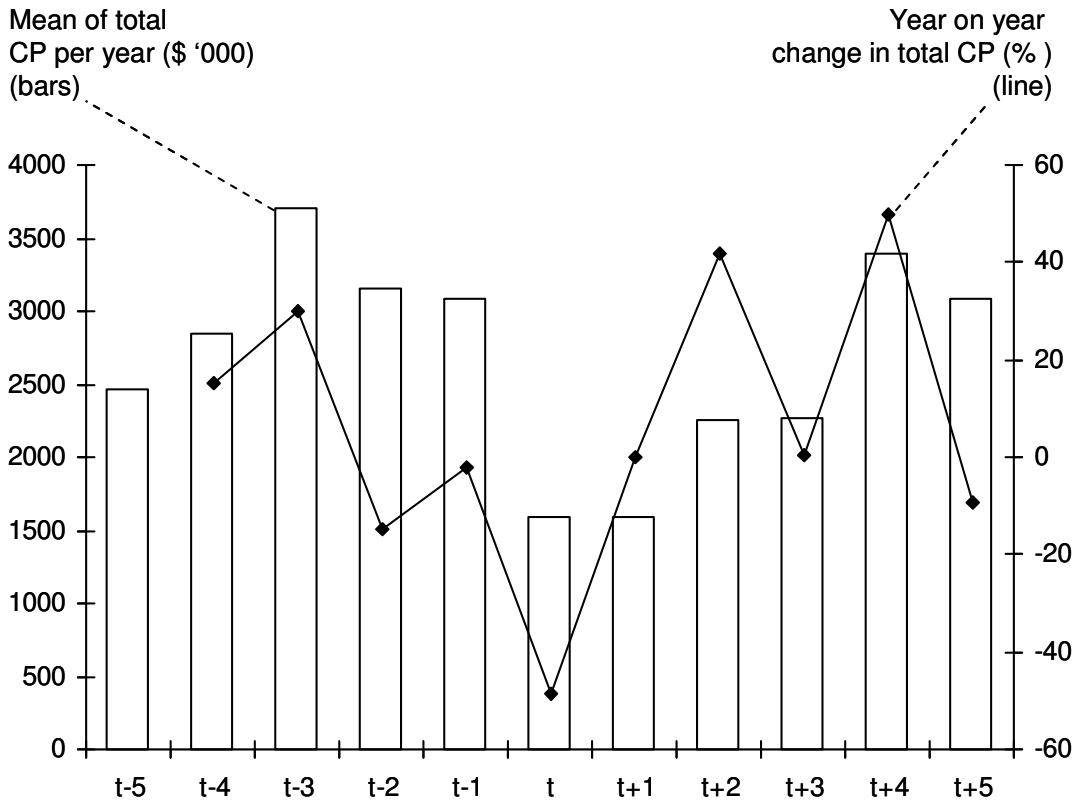
Moving on to the role of governance, Hypothesis 3a states that CEOs with a higher base salary are more likely to spend more on CP. Significant support for this could not be found, except in Model 3, Table 3, where, although base salary is found to have a negative impact on CP (-0.083 , $p<0.1$), when interacted with CEO change, the coefficient becomes positive at 0.236 ($p=0.102$), meaning that new CEOs with a higher salary give 15.3% more (0.236 - 0.083 = 0.153). None of the models found significant support for Hypothesis 3b, which proposes that new CEOs with larger shareholdings will not spend as much money on CP.

TABLE 4. Regression analysis of the behaviour of outgoing CEOs in relation to CP in the year (t-1): Hypothesis 1b

	Models		
	OLS	GLS	Tobit
Variables	1	2	3
CEO Sucession			
CEO change (t)	-0.131	-0.131	-0.108
CEO change (t - 1)	-0.317 **	-0.317 **	-0.412
CEO change (t - 2)	-0.534 ***	-0.534 ***	-0.697
CEO change (t - 3)	-0.352 ***	-0.352 ***	-0.450
Moderators			
Profitability (t-1)	0.000	0.000	0.002
Tenure before CEO	-0.016 ***	-0.016 ***	-0.005
Tenure as CEO	0.015	0.015	0.011
Age left as CEO	-0.011 ***	-0.011 ***	-0.010
Interaction terms			
CEOchange (t) * Profitability (t-1)	-0.004	-0.004	-0.009
CEO change (t) * CEO tenure (t-1)	-0.012	-0.012	-0.015
Controls			
Log Assets	-0.027 **	-0.027 **	-0.062
Research and Development / Sales	0.185 **	0.185 **	0.167
Dividends in Cash	-0.017	-0.017	0.095
US GDP Growth	1.034 ***	1.034 ***	0.019
Intercept	-1.195	-1.195	
Industry Fixed Effects	Yes	Yes	Yes
N	7951	7951	7951

Notes:
Numbers in each cell are parameter estimates for independent variables and intercepts.
Dependant variable is ln (Corporate Philanthropy) in period t+1, when CEO change occurs in t.
$p < 0.01$***, $p < 0.05$ **, $p < 0.1$ *

FIGURE 1. CP five years before and five years after a CEO change across US S&P 500 companies (1998-2004)



Hypothesis 3c proposes that, as blockholder influence increases, CEO will have a weaker influence on CP, and that this will be even more the case with insider blockholders. However, the opposite effect is found in Table 5, where the coefficient of variation of CP in the year after CEO change is higher in the presence of high blockholder ownership (5.13>2.58). In other words, there are greater changes in CP after a CEO change when blockholders own a greater percentage of the stock. Blockholders do not appear to curb managerial discretion after a CEO change. Moreover, CEO change leads to greater changes in CP in the presence of more insider blockholders.

It is interesting to note that the coefficient of blockholder concentration in Model 3 of Table 3 is -0.115 ($p<0.1$); the presence of blockholders generally has a negative impact on giving, which is consistent with agency theory. Also, the coefficient for insider blockholders is 0.419

($p<0.05$) in Model 4 of Table 3, meaning that, as insider blockholder ownership increases by 1%, CP in the first year increases by 42%, making it the second most important determinant of giving after the CEO's background (insider/outsider). However, although officer blockholders have a significant positive impact on giving levels across all models, when interacted with CEO change, the results are no longer significant. In summary, our results find that the presence of blockholders has a negative impact on giving levels but insider blockholders are associated with greater giving. Furthermore, contrary to expectations, the presence of all types of blockholders is associated with greater changes in giving surrounding CEO turnover. Therefore, blockholders appear to be increasing the CEO automony surrounding the turnover event, but generally have a negative impact on giving, unless they are insiders.

TABLE 5 The coefficients of variations in CP spending by CEOs after their first year, based on their characteristics: Hypotheses 2a, b and d, and 3c

		Growth in Corporate Philanthropy in year t+1 (%)			
		mean	*sd*	*N*	*Coefficient of Variation (sd/mean)*
Orientation	*Insider*	10.2	43	40	4.23
	Outsider	14.2	64	17	4.49
New CEO age	*Under 50*	15.1	48	20	3.15
	Over 50	9.7	56	31	5.73
Size	*Small*	0.8	34.1	25.0	41.3
	Large	19.6	58	32	2.96
Blockholders	*Low*	16.2	42	12	2.58
	High	10.1	52	45	5.13
Insider Blockholders	*Low*	20.0	55	7	2.77
	High	10.2	49	50	4.84

TABLE 6. Regression analysis of the behaviour of outgoing CEOs in relation to CP in the year (*t*-1): Hypothesis 1c

	Models		
	OLS	GLS	Tobit
Variables	1	2	3
CEO Sucession			
CEO change (t)	-0.13	-0.13	-0.11
CEO change (t - 1)	-0.32 *	-0.32 *	-0.41
CEO change (t - 2)	-0.53 **	-0.53 **	-0.70
CEO change (t - 3)	-0.35 **	-0.35 **	-0.45
Moderators			
Profitability (t-1)	0.00	0.00	0.00
Tenure before CEO	-0.02 **	-0.02 **	0.00
Tenure as CEO	0.01	0.01	0.01
Age left as CEO	-0.01 **	-0.01 **	-0.01
Interaction terms			
CEOchange (t) * Profitability (t-1)	0.00	0.00	-0.01
CEO change (t) * CEO tenure (t-1)	-0.01	-0.01	-0.01
Controls			
Log Assets	-0.03 *	-0.03 *	-0.06
Research and Development / Sales	0.18 *	0.18 *	0.17
Dividends in Cash	-0.02	-0.02	0.09
US GDP Growth	1.03 **	1.03 **	0.02
Intercept	-1.19	-1.19	
Industry Fixed Effects	Yes	Yes	Yes
N	7951		

Notes:
Numbers in each cell are parameter estimates for independent variables and intercepts.
Dependant variable is ln (Corporate Philanthropy) in period t-1, when CEO change occurs in t.
$p < 0.01$**, $p < 0.05$ *, $p < 0.1$†

5.5.3 Robustness Checks and Additional Analysis

5.5.3.1 Insider ownership. We use the measure of "closely held shares", which is the percentage of shares held by insiders plus the percentage of shares held by individuals holding 5% or more of the outstanding shares. In both the OLS and Tobit models, we found this to have an insignificant impact on CP, following a CEO change.

5.5.3.2 CEO duality. This occurs when the CEO is both the chairman of the board and the CEO. Donaldson and Davis (1991) find that returns to shareholders are improved when

firms combine the roles of chair and CEO, consistent with stewardship theory, but not with agency theory (see their paper for policy implications). In both the OLS and Tobit models, we found this to have an insignificant impact on CP following a CEO change.

5.5.3.3 Reason initiating succession. There are two main categories of departure: forced or retirement. Forced resignations of top managers are rare and usually preceded by large and significant declines in operating performance, and followed by large improvements in performance, according to a study by Denis and Denis (1995)1. Forced retirement is usually preceded by poor performance (Couglan and Schmidt, 1985; Fich et al., 2010; Salancik and Pfeffer, 1980)[48] and so we would expect the incoming CEO to dramatically cut CP spending[49]. Following poor pre-succession performance, new CEOs, particularly in cases which signal a change in strategic direction, are likely to have substantial discretion to make faster organisational changes[50] (Friedman and Singh, 1989; Adams et al., 2005). Altering CP spending is just one of the discretionary and strategic expenditures a new CEO may choose to address. Before a retirement, we would expect the outgoing CEO to increase giving, in order to build a legacy. Figure 2 compares cases where change was due to retirement, with other cases and finds that retiring CEOs make a on average 40% increase giving the year before leaving, whilst other leaving CEOs make the equivalent decrease. The former's behaviour can be explained by agency theory and the desire to leave a legacy's whilst the non-retiring CEO might be dismissed due to poor performance and so decreases spending. If non-retiring departures are forced, then it is not surprising that the new CEOs cut spending in their first year. Moreover, the dramatic spike in giving in the third year is consistent with the exercise of discretion to make large strategic changes[51].

[48] Succession events are potentially adaptive responses to poor performance, and management can be made a scapegoat (Salancik and Pfeffer, 1980). Studies have shown that CEO change is usually preceded by poor share price and earnings performance (Coughlan and Schmidt, 1985; Warner et al., 1988; Weisbach, 1988; Jensen and Murphy, 1990; Murphy and Zimmerman, 1993).
[49] Following management changes there are greater frequencies of asset write-offs (Strong and Meyer, 1987), income-reducing accounting methods (Moore, 1973), and divestitures of previous acquisitions (Weisbach, 1992).
[50] On the other hand, it has been found that rapid rates of succession are associated with limitations on executive control (Grusky, 1970).
[51] Separate models were run based on separate samples where the CEO retired and cases where they left for other reasons in order to avoid sample selection bias. However, there were too few observations.

5.5.3.4 Other. To test for possible endogenieity, we sought to predict CEO change using profitability, CEO and governance measures. Table 6 shows that profitability before a change is significantly negatively linked with a change in CEO, as is the age at which the incumbent became CEO. The models were rerun using only those cases where there was a CEO change (shown in Table 7). In the fixed effects regression, only CEO tenure, total shares owned by the CEO and the number of officer blockholders were significant (and positive) predictors of CP in the first year after the CEO change. We also included the predecessor's disposition, that is whether or not the CEO stayed in the firm after leaving. It could be argued that, if they did stay, then their values and influence would continue to affect the firm, and so the giving programme would not be changed. We also included whether or not the CEO was a founder of the company, but this variable was dropped in the regressions of the full model. Finally, we interacted CEO age with tenure and CEO change, but no significant results were found.

FIGURE 2. Robustness: Retiring versus other reasons for departure and the CEO's treatment of CP

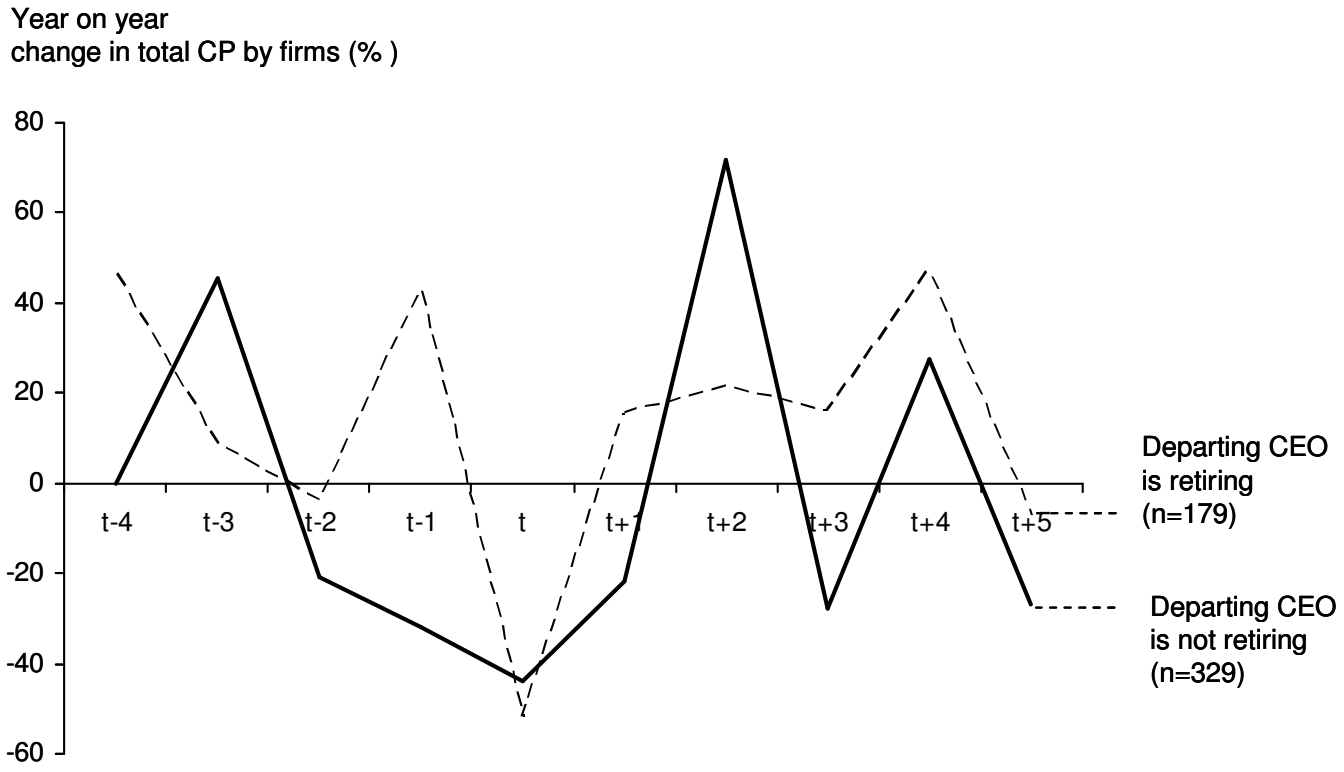


TABLE 6. Robustness tests: CEO change predicted by independent variables

	Models		
Variables	Probit 1	Probit 2	Probit 3
CP and profitability			
Corporate Philanthropy	0.026	0.026	0.021
Profitability (t-1)	-0.054 *	-0.058 **	-0.038
CEO characteristics			
Tenure as CEO	-0.266 ***		-0.258 ***
Age became CEO	0.166	0.480 **	0.156
Tenure before became CEO	-0.085	-0.092	-0.086
Governance			
CEO's Base Salary	0.024	0.016	0.033
% CEO's Share Ownership	-0.026	-0.023	-0.010
% All Blockholders	-0.013	-0.016	-0.021
% Officer Blockholders	0.150	0.150	0.150
Controls			
Firm Size	-0.006	-0.010	-0.007
% Research and Development / Sales	-0.012	-0.007	0.020
Dividends in Cash	0.023	0.023	0.016
US GDP growth	0.017	0.019	0.020
Industry Fixed Effects	No	No	Yes
Year Fixed Effects	No	No	Yes
N	8500	8500	8448
Log Likelihood	-1889	-1897	-1858

Notes:
Numbers in each cell are parameter estimates for independent variables and intercepts.
Dependant variable is a change in the CEO in period t+1
$p < 0.01$ ***, $p < 0.05$ **, $p < 0.1$ *

TABLE 7. Robustness test: Alternative models of the behaviour of incoming and outgoing CEOs in terms of CP in the year (*t*+1): Hypotheses 1a, b and , 2a, b, c and d, and 3a, b and c

	Models					
	OLS				GLS	Tobit
	Profitability	CEO's characteristics	Governance	Full	Full	Full Marginal Effects
Variables	**1**	**2**	**3**	**4**	**5**	**6**
CEO Succession						
CEO change (t + 2)	-0.248 *	-0.280 **	-0.253 **	-0.291 **	-0.085	-0.189
CEO change (t + 1)	-0.055	-0.093	-0.060	-0.096	0.076	-0.044
CEO change (t)	-0.455	0.910	-1.085 ***	0.883	-0.188	-2.304
CEO change (t - 1)	-0.516 ***	-0.028	-0.352 ***	-0.011	-0.217 *	-0.123
CEO change (t - 2)	-0.632 ***	-0.254 *	-0.539 ***	-0.275 **	-0.331 ***	-0.393 *
Profitability						
Profitability (t-1)	0.000	0.000		0.000	0.000	0.000
Profitability (t-2)	-0.003 ***	-0.003 ***		-0.003 ***	-0.003 ***	-0.002 *
CEO and firm characteristics						
CEO is Insider		-0.365 **		-0.372 **	-0.208 *	-0.511 *
Age became CEO (t+1)		-0.005 **		-0.005	-0.006	-0.006
Age left as CEO (t-1)		0.003		-0.021 ***	-0.016 ***	-0.021 **
Tenure as CEO before departure (t-1)		0.055 ***		0.044 ***	0.016 *	0.043 *
Tenure in firm before CEO (t+1)		0.003		-0.001	0.006	0.012
Firm Size		-0.009		0.016 *	0.021 ***	0.015
Governance and Ownership						
CEO's Base Salary			-0.087 ***	-0.016	-0.018	-0.021
CEO's Share Ownership			0.096	0.053	0.047	0.039
% All Blockholders			-0.035	0.014	-0.065 **	-0.046
% Officer Blockholders			0.339 ***	0.351 ***	0.284 ***	0.419 **
Interaction terms						
CEO change (t) * Profit (t-1)		0.002		-0.004	-0.004	0.019
CEO change (t) * Profit (t-2)		-0.011		-0.004	0.001	-0.030
CEO change (t) * CEO Insider (t+1)		0.389		0.475	0.676 *	0.738
CEO change (t) * CEO's age (t+1)		0.009		0.007	0.004	0.000
CEO change (t) * Age left as CEO (t-1)		-0.019		-0.001	-0.004	0.012
CEO change (t) * Tenure as CEO before departure (t-1)		-0.021		0.027 *	0.018	0.052
CEO change (t) * Tenure in firm before CEO (t+1)		0.026		0.013	0.009	0.014
CEO change (t) * firm size (t+1)		-0.150 **		-0.115	-0.026	0.018
CEO change (t) * CEO's base salary (t+1)			0.099 *	-0.004	-0.001	0.169
CEO change (t) * CEO's shares (t+1)			0.008	0.042 ***	-0.010	-0.083
CEO change (t) * All Blockholders (t+1)			0.088	0.090 ***	0.080	0.111
CEO change (t) * Officer Blockholder (t+1)			0.229	0.170	0.242	0.232
Controls						
Research and Development / Sales		0.173 **	0.224	0.199 ***	0.078 ***	0.177
Dividends in Cash		-0.036 ***	0.211 ***	-0.034 ***	-0.038	0.059 **
US GDP Growth		0.228	-0.043 ***	0.253	0.108 **	-0.016
Intercept	1.883	2.630	1.652	1.998	0.801	
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
N observations	8448	8448	8448	8448	8448	8448
Groups	497	497	497	497	497	

Notes:

Numbers in each cell are parameter estimates for independent variables and intercepts.

Dependant variable is ln (Corporate Philanthropy) in period t+1, when CEO change occurs in t.

$p < 0.01$***, $p < 0.05$ **, $p < 0.1$ *

5.3.6 Alternative models. Table 7 compares the results of the fixed effects, OLS, and Tobit regression analyses of the behaviour of the incoming and outgoing CEOs with regards CP in the year (t+1), just as in Table 3. The first four models use the OLS specification, while Models 5 and 6 are Model 4 rerun using Tobit and GLS regressions, respectively, for comparison purposes. Besides confirming the significance of the variables found in the Tobit models, in Model 4, the OLS models show that the following variables are significant: insider CEO, age the CEO was when they left, time spent as CEO before departure, firm size and percentage of total shares held by officer blockerholders; also significant are interactions between CEO change and the following: tenure as CEO before departure, percentage of shares held by CEO, and percentage held by blockholders.

5.6. DISCUSSION & CONCLUSION

Firstly, the significance of the impact of CEO change increases supports for the notion that CP is a discretionary resource, and that the CEO is the most important determinant of giving. The central importance CEO discretion in determining CP is also proven by finding that, in cases where the CEO has less discretion available, such as larger firms or in the presence of blockholders and especially insider blockholders, CEO departure has a less significant impact on giving. In the light of this, further theory could be developed emphasising CEO discretion as a more central determinant of corporate giving.

The result that financial performance does not have a large significant impact on CP giving decisions before or after a CEO change is surprising given the vast CP-CFP literature stressing this link. The finding that both the incoming and outgoing CEOs reduced CP spending is not consistent with any of the theoretical predictions of stakeholder, agency, stewardship theory or transformational leadership theory and an explanation based on the existing theories is that there is a negative CP-CFP relationship, and the outgoing CEOs are stewards or transformational leaders seeking to minimise perk-like expenses before they leave and that an incoming CEO of the same type does the same. Another explanation is that the outgoing CEO decreases spending as a sort of “cover up”, as proposed by Murphy and Zimmerman (1993).

However, the finding that the incoming CEO cuts expenditure is evidence of those authors' "big bath" hypothesis.

Finally, it could be that philanthropy is not high on the agenda of either the outgoing or the incoming CEO in this transitional period, and as a result it is neglected or cut. In other words, in the personal "to do" list of the CEO, CP is far down in terms of priorities for both the leaving and incoming CEO. Since giving closely linked to the CEO's personal connections, the CEO, who knows he is leaving, needs to cut these ties since he will no longer be able to serve these relationships. Likewise, an incoming CEO might want to clean up the firm upon entry by cutting any remaining unnecessary obligations of their predecessor, and start a fresh, supporting groups or interests that mirror their preferences. This paper proposes that existing theories neglect the notion of a prioritisation process conducted by CEOs, since we find it to be the most important determinant of CP levels.

Moreover, the finding that CEO characteristics play an important role in CP supports the upper echelons theory of the firm (Hambrick and Mason, 1984). Our finding that outsiders make larger changes than insiders supports the view that outsiders initiate larger strategic changes to companies. CP is closely related to the CEO's personal ties, and an outsider will typically be tied to a larger pool of individuals, resulting in greater changes. Though the CEO's age did not have a significant impact when interacted with CEO change, older CEOs do appear to be significantly less philanthropic than younger ones. This result suggests that the "horizon problem" does not occur, and supports the view that CP is perceived as being conducive to corporate growth. It is possible that younger managers see CP as a long-term investment, while older ones prefer to divert funds to increase their own pay or give dividends to shareholders. Meanwhile we find that CEOs with longer tenures are more charitable, which is arguably evidence of stewardship behaviour. Curiously, CEO salary and share ownership did not have a significant impact on CP.

5.6.1 Managerial Implications

Our study finds corporate giving is very closely linked to the CEO, who tends to decrease spending towards the end of this career. The question then becomes whether or not we should do anything to decrease this discretion and also to prevent the drop in giving before they leave. While Werbel and Carter (2002) state that, even in the presence of a corporate foundation, the CEO still exerts significant influence on the firm's giving type, they do not draw any conclusions about whether or not this degree of discretion helps or hinders the company. According to stewardship theory, greater CEO discretion is likely to benefit a company when it comes to selecting funding recipients (Davis et al., 1997). However, it seems that the potential for principal-agent conflict continues to drive companies to limit CEO discretion regarding funding opportunities, through agency-theory-sanctioned governance mechanisms, such as corporate foundations (Werbel and Carter, 2002). Whilst stewardship theory suggests the CEO always acts in the best interests of the firm, agency theory states that there is a divergence between the interests of the owners and those of the CEO. Agency theory also recommends increasing managerial ownership but, in practice, that would also end up increasing managerial discretion with regards to increasing spending on CP.

However, there is also an increasing professionalisation of giving, which might act to limit CEO discretion (Saiia et al., 2003). CEOs can also encourage the development of CP by establishing specialised CSR departments (Brammer and Millington, 2004b) and hiring professional managers (Saiia et al., 2003)[52]. A professionalised organisation generally has a more decentralised administrative structure, maximising the discretion of the professional in charge of the function (Saiia et al., 2003). The increase in the professionalisation of giving in the US is indicative of the increased institutional pressures on firms (Himmelstein, 1997). Today, according to Saiia et al. (2003), in well-established CP programmes, a set of mangers attempt to unify the objectives of the organisation and the needs of their communities. The

[52] The operational management of CP can range from the CEO and top management, to specialist CSR departments or sections of other departments (such as marketing or PR). Brammer and Millington (2004b) investigate the extent to which stakeholder pressure on a firm can influence the organisational structure within which firms choose to manage their CP.

quality of the management of such initiatives, the authors continue, is seen as a reflection on the sponsoring firm and, in return for greater discretion, the professional giving manager is responsible for the outcome of the giving. However, Adams et al.'s (2005) results identify a potential cost of diluting CEO power: since performance will be less variable, the probability of spectacular performance will be lower[53].

5.6.2 Limitations and Suggestions for Future Research

There are three potential areas for future research. Firstly, future researchers could examine the role of the CEO's characteristics, values and ties on the *types* of giving done by firms. Hemingway and Maclagan (2004) argue that executives' personal values and interests in a particular social cause can be a motivating factor for CSR. Meanwhile, Waldman et al. (2006a) "strongly encourage research that more directly assesses the moral and ethical qualities of leaders". This line of research would also help to continue the work done by Agle et al. (1999), who find some links between CEO values, stakeholder salience and CSP. An example of the predictive ability of CEO characteristics is given by Thompson and Hood (1993), who find that minority-owned[54] small businesses donate more funds to religious organisations and do so more generously (as a percentage of sales) than non-minority-owned businesses. An understanding of the ties of the CEO would enhance our ability to predict the strategic direction of the company, as well as where CP is spent. For example, Geletkanycz and Hambrick (1997) state that ties within the industry increase information on industry norms, while executives with ties outside the industry provide more novel insights; therefore, they hypothesise that an executive with intra-industry ties will be positively related to strategic conformity. Also, future research could ask how a CEO prioritises funding opportunities to help us understand how that these individual influences combine to create philanthropic decisions (Werbel and Carter, 2002; Buchholtz et al., 1999).

[53] Limiting discretion can be detrimental to a firm's success, as Tirole (1989) explains: "there are many ways in which discretion can be curbed. However, none of them is perfect, and we should expect some possibly important deviations from profit maximising behaviour."

[54] Minority owned refers to businesses own my minority groups, depending on ethnicity or gender.

Secondly, research could be done into how other firm characteristics can mediate the CEO's discretion. For example, whether or not the presence of a corporate foundation is an important mediating factor is worthy of attention. Since 47% of the time the CEO of the firm was also the foundation's decision maker, it is likely that, even if a firm has a foundation, which theoretically would insulate CP from managerial discretion, a change in the CEO would still have a large impact on giving (Petrovits, 2006)[55]. Secondly, institutional ownership can pressure CEOs to be more accountable and so limit their discretion (Johnson et al., 1999)[56] [57]. Thirdly, private companies may be more sensitive to changes at the top, since the CEO might have greater autonomy over how they can use the business for private philanthropic ends than do the CEOs of publicly-traded companies[58]. Finally, CEO's discretion can be mediated by different characteristics of the top management team, since there is evidence that the characteristics of the top management team are more predictive than those of the CEO alone (Finkelstein and Hambrick, 1990; Smith et al., 1994).

Finally, the type of executive chosen is often a product of the financial situation of the firm, and a future study could account for this. Executives are often chosen because they have the background to carry out the actions hoped for by the board of directors, for example an operations executive may be selected to rationalise the firm (Hambrick and Mason, 1984). The occurrence of any particular CEO background is not random and "research design must accommodate this, and interpretation of results must be tempered by it" (Hambrick and Mason,

[55] Petrovits (2006) found that that the CEO or Chief Financial Officer (CFO) was the decision maker 67% of the time and that in 97% of foundations, at least one decision maker listed the parent firm as his employer.

[56] Between 1986 and 1996, corporate giving as a percentage of profits fell by nearly half from 2.3% to 1.3% in the US (Weeden, 1998) and, in part, this trend can be explained by increased institutional pressures and governance measures which mean that managers now have to justify the financial returns on their expenditure (Bartkus et al., 2002). There is evidence that institutional investors have a long-term focus (Graves and Waddock, 1994) as they become locked into their investments and are forced to become active and outspoken monitors of management (Kochhar and David, 1996).

[57] Bartkus et al. (2002) conclude that intuitional owners, as well as blockholders, provide governance mechanisms which can act to limit excessive CP. However, other studies have shown that the number of institutional investors (Graves and Waddock, 1994) and long-term institutional investors (Cox et al., 2004) is positively related to CSP. We would expect that, for firms that are comparatively generous and have institutional owners, CEO change could result in a fall in CP, since there may be pressure on it to limit such expenditure.

[58] When an individual/CEO has control of a privately-held company, then the distinctions between private and corporate philanthropy become blurred. Our sample overcomes this issue by focussing just on publically held companies in the US.

1984). Murphy and Zimmerman (1993) find that allowing CEO turnover to be endogenously determined changes our interpretation of the results relating to the effect of managerial discretion over financial variables. Future studies of CEO succession should seek to account for this.

This study demonstrates that corporate giving is at the mercy of the CEO's discretion and tends to be cut before and after succession. Neither agency, stewardship nor transformational leadership theories predicted this. Instead, their behaviour is consistent with the "cover up" and "big bath" theories of CEO succession given by Murphy and Zimmerman (1993). An alternative explanation is that giving is low on the priority list for both the outgoing and incoming CEO. Moreover, it could be because it is so closely tied to the CEO's personal connections, that donations tend to end with their career at the firm. On top of this reduction, the new CEO then cuts spending to create a "big bath" and start a fresh by supporting causes, which resonate with their personal vision of leadership.

CHAPTER 6

CONCLUSIONS

Major Contributions

Chapters 3, 4 and 5 of this thesis provide a valuable contribution to the canon of theoretical and empirical work on corporate philanthropy (CP). In part, this was made possible through the application of panel data. Instead of discussing aggregate trends, we show that different firms may have different motivations for giving and so one theory of corporate giving may not fit all. In sum, our studies find that the application of stakeholder theory must concede that there is heterogeneity in firms' motivations for giving, and that the causal link between giving and profitability is not as strong as previously thought. Moreover, we find that stakeholder theory is limited since it does not explain the intricacies of some of the key determinants of giving, such as why firms with high marginal costs might give less in-kind donations. In some cases, it is useful for explaining the motivations behind giving, but it is unable to explain key differences in giving patterns, such as those reported by pharmaceutical companies. Furthermore, we find that neither agency theory nor leadership theories can accurately predict what will happen to CP surrounding a CEO change. Though the stewardship, transformational leadership and upper echelons theories all predict that the CEO's characteristics and salary can determine giving levels, none of these theories predict the relationships accurately. The implication is that a more universal theory of giving ought to be developed, which considers the interplay between the role of the CEO and the firm's own characteristics and industry in determining giving levels. Work by Kochan et al. (1984) on strategic choice theory reaches a similar conclusion; future research needs to consider the importance of values as explanatory variables independent of market forces.

In Chapter 3, our analysis of the impact of the financial crisis of 2008 on giving in the UK shows that, even though GDP is positively correlated to corporate giving, the number of firms

giving and the total given still increased after the crisis. At first glance, this supports notions of pro-social behaviour, epitomised by the intrinsic stakeholder commitment model, and what Levy and Shatto (1978) called the "good citizen hypothesis". However, after controlling for ethical consumerism, we find that the result is no longer significant. This suggests that the firms increased their CP spending in response to an increase in consumer pressure on firms to be actively and positively involved in society, since the crisis exposed certain governance practices and the greed of some organisations. Moreover, we reintroduce the importance of costs in this area of the literature, which have been neglected since Johnson's (1966) study. We find that marginal costs are a significant determinant of corporate giving and that low marginal cost firms give more gifts in-kind. Finally, we find that foundations add stability to giving, therefore confirming that giving is vulnerable to managerial discretion. The key findings of Chapter 3 are (i) that there is a heterogeneity in firms' motivations for giving, which is evidenced by the differing reactions to the crisis, and (ii) that costs have a significant impact on both giving levels and the type of giving.

In Chapter 4, we show that causality between giving and revenue growth cannot be established in our sample, which is in contrast to Lev et al.'s (2010) recent study. However, strategic givers are found not to experience the same diminishing returns to giving as nonstrategic givers. We also find that, having a strategic CP (SCP) programme in place can offset the negative effect on financial performance of being in a concentrated industry. Our findings support the strategic stakeholder management model but the scale effect shows that the influence on revenue is not as large as is made out in other studies. Finally, we find that, although firm visibility tends to increase the likelihood of having a SCP programme, it does not necessarily increase the returns from having one. One explanation is that, in visible industries, consumer skepticism about donors' motivations offsets the reputational gains from engaging in SCP. By differentiating between strategic and non-strategic givers, our contribution here is made through providing evidence that the CSP-CFP relationship is contingent on *how* firms give.

In Chapter 5, we see that giving decreases significantly both before and after a change of CEO. This supports the "cover up" and "big bath" hypotheses of CEO succession (Murphy and Zimmerman, 1993) but negates the predictions of agency, stewardship, and transformational

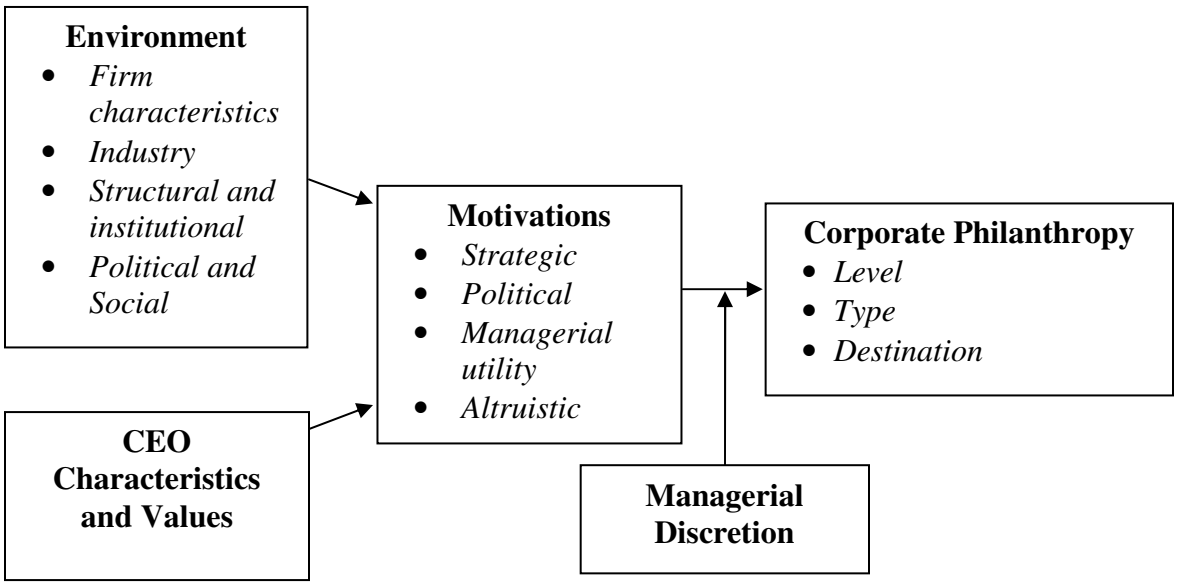
leadership theories. The fact that CEO characteristics, such as whether they are an outsider, or their tenure, influence giving, supports the upper echelons theory (Hambrick and Mason, 1984). In fact, CEO characteristics and CEO change are far stronger predictors of CP than firm characteristics. The theoretical implication is that managerial discretion needs to be incorporated into all future models of CP, and that further theory needs to be developed to show how the CEO's decisions with regards to CP are actually made and implemented in organisations.

Towards a new theoretical framework

In light of the various limitations exposed of the theories explored in this thesis, the development of a new independent theoretical framework is advisable. One possibility is for it to recognise the heterogeneity of motivations behind CP as the central component. Environmental and CEO characteristics activate or determine the nature of these motivations, but their effect on CP is ultimately moderated by the degree of managerial discretion at hand, as illustrated in Figure 1. By identifying the structural correlates of different types of motivations, and in turn, how these influence CP in terms of levels, types and destinations, a new theory can reveal what types of organisations have certain motivations and how that can be used to predict CP.

In the context of this figure, Chapter 2 explored how reactions to the crisis can be revealing of motivations and also demonstrated that costs are an important firm level determinant of in-kind giving. Chapter 3 expanded our understanding of how different motivations (strategic versus non strategic) and methods (destinations), can influence financial performance. And Chapter 4 contributed by including both the CEO and firm level characteristics, making a more holistic and unified understanding of the constructs illustrated below.

FIGURE 1. Towards a new theoretical framework for understanding the determinants corporate philanthropy



Plenty of typologies have been developed for CSR motivations. For example, Sanchez (2000) identifies three separate models for CP: altruism, profit maximisation, and the political and institutional power model. Consistent with this, Campbell et al. (2002) create four categories: strategic, political, managerial utility and altruistic, which we will now adopt. Note that all of these motivations lie on a continuum between self-interest and altruism. Motivations belonging to the strategic category are outlined in Chapter 3 and include: corporate image and reputation (advertising); employee morale, loyalty and productivity; or "ratcheting up" (mimicking others). Political drivers are those which are forced either by governments, consumers or NGO pressure. These drivers adhere to the strategic stakeholder management model whilst altruistic drivers fit the intrinsic stakeholder commitment model. Self serving or ego-building managerial utility drivers are outlined in Chapter 4 and are deservedly separate from altruistic motives, though in reality the difference is hard to capture. Altruistic motivations are characterised by a disregard for corporate objectives when making contributions, and occur

when spending decisions are based on need. It is consistent with the "good citizen" view and founded on intrinsic values.

Environmental characteristics influencing these motivations can be placed in five categories. Firstly, firm characteristics, such as size, can influence giving levels since larger firms are more visible and so may feel more forced to give back to society. Chapter 2 contributes to existing literature on this link by demonstrating how low marginal costs can motivate in kind giving. Secondly, industry categories such as visibility, competitiveness or dynamism influence motivations; for example, an oil company will face greater regulatory and political pressure than an IT software company. Thirdly, structural and institutional characteristics are important. For instance, an institution with a culture of "embedded liberalism" may promote employee engagement in governance, which might have implications for community investment and CP, either altruistically or strategically. Fourthly, the political and social context effects motivations since governments differ in regulatory stance, as do consumer expectations.

At the same time, the CEO characteristics and values, as explained in Chapter 4 are central to understanding a firm's CP expenditures. However, ultimately, regardless of the motivations behind CP, the degree to which managers have discretion to carry out CP expenditures is decisive and this also depends on the task environment, internal organisation and CEO's individual characteristics (Hambrick and Finkelstein, 1987). Using motivations as a core element, a new theory could then seek to explain giving on several dimensions including, level, type (cash and in kind) and destination (cause).

The paradigm of motivations could explain "cover up" and "big bath" behaviour surrounding CEO succession explored in Chapter 4. For example, a CEO, who spends on purely self-serving interests is likely to cut spending before passing on the firm to their successor. Likewise, a new CEO, with differing values, may not have the same motivations behind giving and so is likely to cut all discretionary expenses, creating a "big bath" - to start fresh.

In Chapter 3, Table 9 makes a start in linking motivations (strategic versus non strategic) with the environmental characteristics of firms and industry. Future research could extend this line

of research whilst further segmenting environmental and motivational categories, such as to those prescribed above. However, in order to reveal different motivations and consider alternative organisational structures, a more qualitative approach is required, possibly using survey data. Also, more complete data is required on cash versus non cash giving, as well as on the destination of contributions.

Limitations and Suggestions for Future Research

At the end of each chapter we suggest several more areas for future research. Here, we will just highlight one from each chapter. Firstly, researchers could attempt to collect panel data on cash and non-cash giving by individual firms, and analyse the implications this has for our understanding of the cyclical determinants of CP. Also, a better understanding of corporate foundation funding structures in the UK is necessary in order to gain a more complete understanding of cyclical effects. Secondly, since our study only addresses the difference between strategic and non-strategic giving, in terms of their influence on profitability, future studies could extend this line of research by asking how different *types* and methods of strategic giving influence profitability. For example, one could compare giving to charities based in the same geographical areas as the firm has markets against assisting charities which are aligned or consistent with the firm's brand. Answers to these types of questions are of value to practitioners and theorists alike. In this regard, one must also consider the role of communication and reporting in moderating the CSP-CFP relationship. Thirdly, after establishing that the CEO is instrumental in determining giving *levels*, the next step is to ask how the CEO influences *where* charity donations go, and to what extent the recipients are determined by the CEO's individual characteristics. It is possible that a better theoretical model needs to be developed in order to better understand the role of CEO discretion in determining CP. Also, further research could be conducted into determining how the CEO prioritises funding requests, since this could be of value to fundraisers.

As our overarching conclusion, we advise that an integrated theoretical framework needs to be established to facilitate a better understanding of the determinants of CP. Our study concludes that such a framework must include a firm's costs and strategic posture, and also must capture

the discretion of the CEO. We suggest that a new theoretical framework be developed which integrates the paradigms of stakeholder, agency and leadership theories, all of which have previously been extended and applied to CP. Rather than discarding these theories, a new framework ought to integrate them, whilst filling the gaps we have exposed. This conclusion has been reached by applying these theories but finding that they provide an inadequate explanation of the behaviour of firms and CEOs. Given the relative impact of CEO characteristics found in this thesis, the theoretical framework ought to emphasise the importance of motivations, CEO discretion and values, whilst still incorporating the established firm and industry-level determinants.

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