



## Look Who's Talking: Corporate Philanthropy and Firm Disclosure

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### ABSTRACT

In the U.S., many, if not most, firms donate resources to charitable causes. Although scholars and managers have argued that corporate support of charitable causes enhances corporate reputation, research indicates that the public is generally unaware of corporate donations. Many firms do not disclose their philanthropy, and empirical research of corporate social responsibility and corporate philanthropy have not investigated the issue of disclosure of firm giving. This study investigates why some firms publicize their corporate philanthropy and others do not. Findings indicate that more socially responsible firms and firms with corporate-sponsored charitable foundations are more likely to disclose their corporate philanthropy in outlets that can be viewed by the public. The study also found that differentiation and firm size are not associated with disclosure of corporate philanthropy.

**Keywords:** Corporate philanthropy, corporate social performance, disclosure.

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### 1.0 INTRODUCTION

In the United States, large companies commonly donate resources worth 1-2% of pretax profits to various non-profit and community endeavors (Ostergard & Barber, 2001) as one facet of their corporate social performance. Corporate philanthropy (CP) can take the form of arms-length transactions; in-house projects, such as a bank's credit assistance for low income customers; or collaborative

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efforts/strategic alliances, such as cause-related marketing, corporate sponsorship of a charity, or the licensing of a charity's name to a firm (Berglind & Nakata, 2005; Husted, 2003). Most CP is of the first type, arms-length transactions (Husted, 2003), and that is the subject of this research. Through arms-length transactions, companies can donate cash, equipment, inventory, expertise, and use of facilities, employee volunteer time, or anything else useful to a charitable cause. In 2005, such charitable donations from U.S. corporations totaled nearly \$14 billion (Giving USA, 2006). For cash donations, firms can set up a corporate giving program that donates directly to charities or firms can donate indirectly to charities through a corporate-sponsored foundation. Some firms have both: a foundation and a direct giving program. A corporate-sponsored charitable foundation is a separate legal entity that is funded and influenced by the company.<sup>3</sup> A distinguishing feature of foundations is that all contributions to and from the foundation must be disclosed on IRS Form 990-PF each year. So, a company's decision to create a charitable foundation means automatic disclosure. In contrast, corporate giving programs have no disclosure requirements. Many firms choose not to disclose the amounts and recipients of their generosity to avoid conflicts with key stakeholders. In addition, some firms make non-monetary (or in-kind) donations directly to charities. Unfortunately, few U.S. firms report their in-kind gifts and comparison among firms is complicated by the lack of accounting standards for assigning a cash value to the many types of non-monetary gifts.

CP can be an act of generosity (*doing good*) or instrumentality (*doing good in order to do well*). Potential business benefits of firm giving would include better access to critical resources, enhanced reputation, and organizational learning. Achieving these first two benefits requires information disclosure-stakeholders such as customers, investors, regulators, current and potential employees, and the local community must know that the firm has donated. (Sen, Bhattacharya, and Korschun, 2006) note that public awareness of CP is generally low and must be increased if businesses are to reap the strategic benefits of CP. Surprisingly, many firms prefer to conceal information about their CP. (Burns, 2000) cites an SEC report that indicates fewer than 15% of firms in the Fortune 100 reveal their direct giving and fewer are willing to disclose the recipients. (Minow's, 1999) reasoning provides a logical explanation: even though corporate charity may provide some benefits to shareholders, donation recipients may be incompatible with shareholder preferences. Shareholders may support philanthropy that enhances the firm's image or reputation, but may be against CP that appears to be motivated by special opportunities and perks for the chief executive (Minow, 1999). Some firms' disclosure of CP has led to unhappy shareholders who didn't like the recipients (Jennings & Cantoni, 1998; Strobhar, 2003). Although some firms may be wary of disclosing their CP, in the past several years, the increasing emphasis on corporate transparency (Vaccaro & Madsen, 2009) creates pressures on firms to disclose. (Bandsuch, Pate, and Thies, 2008) argue that "business is primarily a set of relationships with key stakeholders" (page 111), and that true transparency requires that relevant information be easily accessible by and readily available to stakeholders.

CP has been studied in academic research for decades (e.g., Brown, Helland, & Smith, 2006; Fry, Keim, & Meiners, 1982; Gatlin, 2012; Saiia, Carroll, Buchholtz, 2003; Smith, 1994; Useem, 1988); however, the issue of disclosure has not been investigated. In some studies, the issue of disclosure of CP was not considered because the study combined CP with other discretionary donations (Adams & Hartwick, 1998) or the study was an investigation into the broader area of corporate social performance (CSP) or corporate social responsibility (CSR) (see Aupperle, Carroll, & Hatfield, 1985; Holder-Webb, et al., 2009). Many scholars (e.g., Buchholtz, Amason, & Rutherford, 1999; Saiia et al. 2003; Seifert, Morris & Bartkus, 2003) have relied on data from the Taft Group's *Corporate Giving Directories* or Foundation Center's *Foundation Directories*. These data sources contain much more complete and accurate information

<sup>3</sup> (Petrovits, 2006) offers a different strategic purpose for corporate-sponsored foundations besides resource acquisition, corporate reputation, and organizational learning. Charitable foundations must donate at least 20% of their assets each year. Foundations often receive donations from the firm in one year and contribute the moneys to charities over several subsequent years. This de-coupling of corporate "pay-ins" and foundation payouts enables companies to use the foundation to manage earnings while keeping charitable donations fairly constant. (Petrovits, 2006) found that companies time foundation "pay-ins" to meet earning objectives.

about corporate-sponsored foundations than about corporate giving programs. In many of the studies, it is unclear if the absence of information was operationalized as a non-giver and therefore, included as a “zero” value in a regression analysis (e.g., Coffey & Wang, 1992; Wang & Coffey, 1988). Hence, studies generally either used aggregate (industry level) data (e.g., Fry, Keim & Meiers, 1982), or the investigation emphasized the amount firms gave and/or only included firms that disclosed CP (e.g., Brown et al., 2006; Saia et al., 2003; Seifert et al., 2003).

This study investigates why some firms chose to disclose CP information and others did not when surveyed by *BusinessWeek* in 2003. Are there significant differences between firms that did and did not respond to the survey? Our study uses the *BusinessWeek* survey of all the firms in the S&P 500 in 2003 (Conlin & Hempel, 2003). Because firms in the S&P 500 are all large, leading and profitable US corporations (S&P Dow Jones, 2014), the *BusinessWeek* survey seems particularly appropriate to investigate the issue of disclosure of CP. The arguments that suggest that large, profitable companies are likely to give money imply that most (if not all) the firms in the S&P 500 engage in some form of CP.

According to *BusinessWeek*, slightly fewer than 200 firms reported dollar values for their 2002 cash or in-kind donations. Of the 300 firms which did not respond to *BusinessWeek*, half were listed in Taft's *Corporate Giving Directory* (where data are collected from foundation IRS filings, mail and telephone surveys of the companies, press releases, corporate websites, and annual reports and proxy statements); one third had just pledged to one of the September 11 charities (according to the Foundation Center, who collected data from press releases and mail and telephone surveys of companies); and a little more than one-third had a corporate-sponsored foundation with publicly available IRS data. Whereas NGOs and other grant seekers and academic researchers have learned to rely on Taft directories, the Foundation Center, and IRS records to obtain CP data (and expect incomplete data on direct giving), one doubts whether most corporate stakeholders would know about these sources. Therefore, given the opportunity to disclose information about corporate generosity to investors, customers, employees, local communities, and regulators, roughly 60% of the S&P 500 firms declined. Of the firms that declined, about 40% appear to have no public record of CP, but the rest have CP information in relatively obscure locations. In addition to the *BusinessWeek* survey data, we use the Kinder, Lydenberg and Domini (KLD) social performance ratings data database. The KLD data has been shown to be a valid measure of corporate social responsibility (Sharfman, 1996). Data for charitable foundations was collected from the Taft *Corporate Giving Directories*, and data regarding pledges to September 11 is from the Foundation Center. Financial data is from Compustat/Research Insight. Based on results from a logistic regression analysis, we find that CSR is significant and positively associated with disclosure of CP. We also found that firms with foundations are more likely to disclose CP as are firms that pledged to September 11 charities.

Our paper is organized into four parts. First, we present our theoretical argument that disclosure is essential for a firm to gain the benefits of CP and we introduce our hypothesized relationships between CP and (1) CSP, (2) foundations, (3) 9-11 pledges, (4) firm size, and (5) differentiation. In the next two parts of the paper we show our methodology, the analysis and results. Finally, we discuss the implications of our results and present suggestions for additional study.

## 2.0 THEORETICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

Because philanthropy by its very nature connotes altruism, i.e., genuine regard for the needy, CSP, and in particular CP, manifest the inherent tension between commercial and charitable interests. Until the 1950s, U.S. companies were legally prohibited from giving away corporate funds to charitable causes on the grounds that it would violate their fiduciary duty to investors (Smith, 1994). Once legal impediments were eliminated, CP increased in popularity and the general feeling seemed to be that *doing well obligates doing good*. In the 1970s, the rhetoric and practice of CP began to evolve toward the viewpoint that *doing good should facilitate doing well*. Initially, firms were encouraged to pursue their enlightened self-interest rather than expressing pure altruism through CP. Since the 1980s,

management scholars and practitioners alike (e.g., Chrisman & Carroll, 1984; Drucker, 1984; Porter & Kramer, 2002) have argued that firms have to carry out their social responsibilities in financially beneficial ways. A new label, strategic philanthropy, was created to connote CP that helps both charitable causes and the firm's bottom line (e.g., Fry, et al, 1982; Smith, 1994). (Mescon and Tilson, 1987) argued that CP would enhance profitability if contributions were sufficiently market-driven and well publicized. The conceptual foundations of strategic philanthropy are the resource-based view of the firm and resource dependence theory. According to the resource-based view of the firm (Barney, 1991), firms would give to charity to enhance corporate reputation or to develop internal competencies and capabilities (Branco & Rodrigues, 2006). According to resource dependence theory (Pfeffer & Salancik, 1978), firms would give to charity to secure supplies of needed resources, such as cooperation from employees, the local community, and regulators.

The strategic arguments for strategic philanthropy are many of the same arguments used to justify CSR. Consistent with the resource dependence perspective, (McWilliams and Siegel, 2001) expect corporate social performance to be positively related to the bargaining strength of key suppliers. For example, CSP would increase with unionization of the workforce, a shortage of skilled workers or government contracts. In fact, good CSP has been associated with various HRM advantages, including easier recruiting, better retention, higher morale, and greater productivity (Branco & Rodrigues, 2006). According to the behavioral theory of the firm, employees require inducements for their continued participation in the organization (Cyert & March, 1963). Thus, when a company supports community improvement projects in the city where its largest plant is located, it can hope to co-opt employees, who would presumably appreciate an improved quality of life (as well as local politicians, who determine tax rates, utility service and rates, and the quality of the transportation infrastructure). Supporting this resource dependence perspective, (Peterson, 2004) found a positive relationship between employees' perceptions of CSP and organizational commitment, which is related to work performance and turnover. The CP dimension of CSP was not a significant predictor of organizational commitment for male employees, but was the best predictor for female employees.

The human resource management (HRM)-CSP advantage that has been most frequently investigated is easier recruiting. (Turban and Greening, 1997), (Albinger and Freeman, 2000), and (Backhaus, Stone, and Heiner, 2002) found a positive relationship between CSP and a firm's attractiveness as a potential employer. Although the CP dimension of CSP was not significant in the first two studies, the latter study found that job seekers down-graded firms with poor community relations. Recruiting advantages invoke not only resource dependence but also corporate reputation effects. Corporate reputation is a resource that is firm-specific, inimitable, and relevant to a competitive advantage, i.e., a manifestation of the resource-based view of the firm (Roberts & Dowling, 2002).

Corporate reputation is one of the firm's most important intangible assets; it signals firm characteristics to vital stakeholders including potential customers, employees, and investors (Fombrun & Shanley, 1990). Studies have shown that reputation as measured by Fortune's "most admired corporations" survey is positively correlated with financial performance (e.g., Roberts & Dowling, 2002). (Fombrun, Gardberg, and Barnett, 2000) argue that CSP can either increase or decrease a firm's stock of reputational capital. A meta-analysis (Orlitzky, Schmidt & Rynes, 2003) concluded that CSP reputation, measured in various ways, improves financial performance. Orlitzky et al. found that CSP can also enable a firm to develop new internal core competencies and capabilities, but the reputational benefits play a much bigger role in financial performance. When they further examined CSP behaviors and outcomes, as opposed to CSP reputation, these researchers found that philanthropic donations were more closely associated with financial performance than was environmental performance.

A refinement of the strategic philanthropy view is the use of CP as a risk management mechanism (Godfrey, 2005). According to Godfrey, the good reputation earned by a firm's CP creates an insurance-effect: firms that engage in CP create a sufficient level of goodwill with their stakeholders that a negative event has less of a downward impact on the firm's stock price (as compared to firms that did

not engage in broader CSR activities). (Godfrey's, 2005) risk management perspective has been supported in empirical studies (Godfrey, Merrill, & Hansen, 2009; Muller & Kräussl, 2011).

Good corporate reputations cannot be bought; they have to be built over the long run. Nevertheless, they can be lost quickly. So, bad CSP can destroy a firm's reputation, but good CSP can mitigate reputational risk (Fombrun et al., 2000). Fombrun and colleagues are not the only scholars to relate corporate reputation conceptually and/or empirically to risk. In a meta-analysis, (Orlitzky and Benjamin, 2001) found a negative relationship between CSP reputation and financial risk, especially market risk. Based on real options theory, (Husted, 2005) argues that CSP reduces the firm's ex ante downside business risk. Consistent with (Husted's, 2003) claim that CP in the form of cash donations is directed at reputation effects and deflects criticism, (Gan, 2006) found a positive relationship between media attention and cash donations as well as a positive relationship between regulatory lawsuits and cash donations.

Strategic philanthropy with its dual objectives of charity and profitability is now well accepted (Porter & Kramer, 2002). Corporate giving managers in the U.S. claim that CP is becoming more strategic and less altruistic (Saiia et al., 2003). Indeed, some scholars lament that the last vestige of altruism has disappeared from modern corporate philanthropy (e.g., Moir & Taffler, 2004). The strategic motive for CP would (1) encourage companies with good CSP in other ways (i.e., good treatment of employees, customers, the natural environment, etc.) to widely disclose CP in order to add to their stock of reputational capital and (2) prompt companies with poor CSP to disclose as little information as possible.

Alternatively, we might infer a more altruistic motive for CP if the companies that decline to disclose their charitable giving had superior corporate social performance in other ways. The corporate response to the September 11 attacks, the Christmas 2005 tsunami, and Hurricane Katrina suggests that altruism may play a role. (Gan, 2006) found that firms give more in hard times (measured by GDP, poverty rate, and similar microeconomic indicators) and attributed this finding to an altruistic motive that co-exists with a strategic motive for CP. It has been found that firms with relatively good CSP choose not to widely disclose CP, while firms with relatively poor CSP seem to compensate by publicly announcing charitable donations, would support more altruistic motives. Consistent with the use of reputational information to deflect risk, (Adams, 2002) reported that environmental accidents are associated with more subsequent environmental reporting on the part of the perpetrator.

We find the strategic motive for CP more compelling than the altruistic motive and hypothesize:

**Hypothesis 1:** Firms with better corporate social performance in general will be more likely to widely disclose their corporate philanthropy in particular.

In light of the potential reputational benefits, it is puzzling that so many firms chose not to disclose their CP to *BusinessWeek*. (Branco and Rodrigues, 2006) point out that CSP disclosure incurs certain costs (e.g., data collection, communication, and audit). When a firm elects to create a corporate-sponsored charitable foundation, the firm simultaneously decides to reveal information to the IRS about donations that move into and out of the foundation. Firms with direct giving programs in addition to or instead of corporate-sponsored foundations do not have disclosure requirements for the direct CP. It is logical to assume that firms with both types of giving would keep more complete records than firms with no foundation. It is also logical to assume that firms with corporate-sponsored foundations, knowing that considerable information is publicly available via IRS documents, would make their information more widely available. Hence:

**Hypothesis 2:** Firms with corporate-sponsored charitable foundations will be more likely to widely disclose their corporate philanthropy.

During 2003, *BusinessWeek* surveyed S&P 500 companies about their 2002 corporate philanthropy. This was the first year of the survey; thus, this is the most like a natural experiment—companies had to choose to respond before knowing which competitors would respond or what institutional pressures would ensue. The timing was interesting, as the September 11 terrorist attacks provoked an unprecedented outpouring of charitable giving in America according to the Ford Foundation, the *Chronicle of Philanthropy*, and the Foundation Center. When CP was increased by 10.5% in 2002, the AAFRC Trust for Philanthropy attributed this growth to firms' keeping their pledges to September 11 charities. Given this recent attention to charities and the potential reputational benefits for firms, it is again puzzling that so many firms chose not to disclose their CP to *BusinessWeek*. These considerations yielded our third hypothesis:

**Hypothesis 3:** Firms that pledge to September 11 charities will be more likely to widely disclose their corporate philanthropy.

As firms get larger, their business exposure, or vulnerability to stakeholders, increases due to higher visibility and public scrutiny (Miles, 1987). (Rehbein, Waddock and Graves, 2004) found that larger firms are more likely to be criticized by shareholder activists. According to (Brammer & Millington, 2004), larger firms contribute more to charitable causes in order to deflect public criticism. Empirical research on social reporting has concentrated on environmental reporting and found that large firms with high public profiles are more likely to report (Adams, 2002; Dando & Swift, 2003). Thus, we developed the following hypothesis:

**Hypothesis 4:** The larger firms get, the more likely they will widely disclose their corporate philanthropy.

A firm's social performance is widely believed to influence potential consumers, but many marketing studies of these effects have assumed or artificially induced an awareness of the CSP on the part of test subjects, according to (Bhattacharya and Sen, 2004). They found that real-world consumers are, in fact, largely unaware of companies' CSP. When information is available, consumers are more sensitive to bad than good CSP. In a follow-up field study, (Sen et al., 2006) found that media reports and word of mouth generated relatively low awareness of CP, but subjects who were aware felt positively toward the company and had greater behavioral intentions to purchase its products, seek employment, or invest. The researchers concluded that, to reap the benefits of CP/CSP, companies need to raise awareness levels. This suggests a need for greater disclosure, in general, and a motive for differentiators to disclose.

The reputational gains that companies can accrue through corporate philanthropy help firms differentiate their products or services in the marketplace. CP, in particular, and CSP, in general, has long been associated with marketing and differentiation (e.g., Fry et al, 1982; Mescon & Tilson, 1987; Useem, 1988). Accordingly:

**Hypothesis 5:** To the extent that firms differentiate, the more likely they will widely disclose their corporate philanthropy.

### 3.0 METHODS

The sample was the S&P 500. The dependent variable, CP disclosure, was dichotomous, whether the firm disclosed dollar values for their 2002 cash or in-kind donations in response to the *BusinessWeek* survey. The *BusinessWeek* article was published on December 1, 2003 (Conlin & Hempel, 2003) and the data were posted online.<sup>4</sup>

<sup>4</sup> See [http://www.businessweek.com/magazine/content/03\\_48/b3860619.htm](http://www.businessweek.com/magazine/content/03_48/b3860619.htm) and [http://www.businessweek.com/magazine/content/03\\_48/b3860620.htm](http://www.businessweek.com/magazine/content/03_48/b3860620.htm) (retrieved November 23, 2006).

Several independent variables were required to test the hypotheses. Corporate social performance (CSP) was developed from KLD's annual ratings data for 2002. These data have been used in over 40 peer-reviewed academic articles in finance, economics, management, sociology, and other disciplines (KLD, 2006), including Agle, Mitchell, (Sonnenfeld, 1999), (Berman et al., 1999), (Hillman & Keim, 2001), and (Waddock & Graves, 1997). They provide the best available measure of corporate social performance (Szwajkowski & Figlewicz, 1999). KLD evaluates company strengths and concerns along seven dimensions of CSP-community, corporate governance, diversity, employee relations, environment, human rights, and product. We ignored the human rights dimension, as many component variables had become moot by 2002 and little academic research has studied this dimension of CSP. We created an aggregate CSP measure by adding the total number of strengths in the other six dimensions and subtracting the total number of concerns in those six dimensions.

Two variables were dichotomous. For the corporate foundation variable, we identified firms with charitable foundations using the Taft Corporate Giving Directories. For the Sept 11 pledge variable (indicating the firm donated or pledged to donate to relief efforts following 9-11 terrorist attack), we relied on data from the Foundation Center.<sup>5</sup>

Using Compustat/Research Insight for 2002, we measured firm size using the natural log of sales we measured differentiation as the ratio of general, selling, and administrative expenses (SG&A) to sales (similar to Hambrick, 1983). Two control variables that we obtained from Compustat/Research Insight for 2002 were debt to assets (the ratio of total liabilities to total assets) and ROA relative to industry (a measure of the firm's corporate financial performance compared to its industry segment).

To control for industry effects, we classified sample firms according to Schonfeld & Associates' industry sector classification scheme.<sup>6</sup> The 2002 S&P 500 thus consisted of 30 companies in the natural resource and materials sector, 41 firms in the oil, gas, and chemicals sector, 33 firms in the consumer products sector, 36 firms in the health care sector, 37 public utilities, 40 firms in the retailing sector, 78 firms in the financial services sector, 32 firms in the electronics and scientific instruments sector, 42 firms in the computers and software sector, 21 firms in the industrial equipment and furnishings sector, 32 firms in the transportation and travel sector, 12 firms in the sector Schonfeld calls *services except health care*, 13 firms in the construction and real estate sector, 36 firms in the communication products and services sector, and 7 firms in the wholesale distribution sector.

#### 4.0 ANALYSIS AND RESULTS

Table 1 shows descriptive statistics and Table 2 shows correlations. The dependent variable, CP disclosure in *BusinessWeek*, has a highly significant positive correlation with CSP, foundation, pledging to September 11 charities, and firm size, which shows there is some initial support for Hypotheses 1-3. CP disclosure is not correlated with differentiation, debt or ROA.

Table 1: Descriptive Statistics

Variable	Frequencies		Mean	S.d.
	0	1		
1. CP Disclosure	304	196		
2. CSP			0.02	2.821
3. Corporate Foundation	266	234		
4. Sept. 11 Pledge	288	212		
5. Firm Size			8.67	1.195
6. Differentiation			0.27	0.205

<sup>5</sup> The Foundation Center compiled a table of all corporations and corporate foundations that pledged or donated to 911 recovery or relief efforts as of September 2002. The data are at [http://fndcenter.org/pnd/911/table2\\_corporate.pdf](http://fndcenter.org/pnd/911/table2_corporate.pdf) (accessed October 25, 2002).

<sup>6</sup> Schonfeld & Associates, Inc. systematically collects annual advertising, R&D, workforce, and other data for thousands of companies. They classify companies based on their primary four-digit SIC codes into 15 industry sectors.

7. Debt/Assets	0.64	0.229
8. ROA relative to industry	0.04	0.932

Table 2: Correlations

	1.	2.	3.	4.	5.	6.	7.
1. CP Disclosure							
2. CSP	.150**						
3. Corporate Foundation	.265***	.112*					
4. Sept. 11 Pledge	.248***	.171***	.258***				
5. Firm Size	.154**	-.004	.398***	.387***			
6. Differentiation	-.013	.164***	-.159**	-.009	-.446***		
7. Debt/Assets	.053	.023	.279***	.237***	.399***	-.333***	
8. ROA relative to industry	-.036	-.097*	.020	.118**	.033	-.020	.037

\*  $p < .05$ , \*\*  $p < .01$ , \*\*\*  $p < .001$

We tested our hypotheses with binary logistic regression analysis. The results are presented in Table 3. Missing values resulted in a sample size of 376 in our logistic regression model. The model is significant ( $p = .000$ ) with a Nagelkerke pseudo- $R^2$  of 0.223.

Table 3: Results of Logistic Regression Analysis<sup>a</sup>

Dependent Variable: CP Disclosure		
Variable	Beta	s.d.
Constant	-.764	(1.294)
CSP	.119*	(0.047)
Corporate Foundation	1.230***	(0.284)
Sept 11 Pledge	.977***	(0.273)
Firm Size	.041	(0.133)
Differentiation	-.193	(0.745)
Controls		
Debt/Assets	-.834	(0.694)
ROA Relative to Industry	-.200	(0.135)
Industry Controls		
Natural Resources and Materials	-.915	(0.632)
Oil, Gas, and Chemicals	-.509	(0.572)
Consumer Products	-1.491*	(0.646)
Health Care	-.930	(0.642)
Public Utilities	1.559	(1.063)
Retailing	-.881	(0.590)
Financial Services	-.987	(0.620)
Electronics and Scientific Instruments	-.615	(0.667)
Computers and Software	.265	(0.602)
Industrial Equipment and Furnishings	-.127	(0.664)
Transportation and Travel	-.504	(0.689)
Communication Products and Services	-.488	(0.628)
Nagelkerke pseudo- $R^2$		.223
-2 Log Likelihood		430.32
Model Chi-square		67.18***
Correctly Classified		69.7%
n		376

<sup>a</sup>unstandardized logit coefficients (standard errors in parentheses)  
†  $p < .10$ , \*  $p < .05$ , \*\*  $p < .01$ , \*\*\*  $p < .001$

The CSP variable is positive and significant ( $p = .011$ ), indicating strong support for Hypothesis 1. As expected, firms with better social performance in general were more likely to disclose CP information to *BusinessWeek*. The foundation and September 11 variables are also positive and significant ( $p = .000$ ). Firms with charitable foundations and firms that pledged to September 11 charities were more likely to disclose CP information. Thus, Hypotheses 2 and 3 were strongly supported. The support for these three hypotheses suggests that firms that generally engage in socially responsible behaviors are willing to be transparent about these actions (i.e., disclose CP). However, Hypotheses 4 and 5 were not supported. Neither firm size nor differentiation was significant. The control variables were also not significant, except that consumer products firms were less likely to disclose ( $p = .021$ ), opposite what might be expected from considerations of CP as a form of marketing and the importance of differentiation to consumer products companies.

## 5.0 DISCUSSION AND CONCLUSION

We hear more and more calls for transparency and public disclosure of corporate social performance, but little work has been done to investigate the disclosure of recent corporate philanthropy information. In 2003 *BusinessWeek* invited S&P 500 firms to disclose CP figures. This was an opportunity for firms to disclose information about corporate generosity, and thereby highlight positive attributes about the firm to a fairly wide audience of current and potential investors, customers, employees, local communities, and regulators. However, 60% of firms declined to respond to the survey. Of the firms who refused, many may have no donations to declare (these firms may not be engaging in any philanthropy), but it is possible that some of these firms have engaged in CP but prefer to keep their generosity private. Our study investigates why some firms chose to disclose CP information to *BusinessWeek* and others did not. We found some significant differences between “disclosers” and “non-disclosers” in other aspects of firms’ social performance, but we found no differences between “disclosers” and “non-disclosers” for two key firm characteristics.

The finding that CSP is positively associated with disclosure of CP was expected. This significant relationship between CP disclosure to *BusinessWeek* and overall corporate social performance suggests support for a strategic motive for CP-companies with good corporate governance and good treatment of employees, customers, and the natural environment would want to widely disclose CP in order to add to their stock of reputational capital. That is, companies that are *doing good in order to do well* will broadcast it, but companies with relatively poorer social performance records are either unable to disclose giving (because they do not give) or are unwilling to have public attention focused on any aspect of their social performance. Our results also show that companies with charitable foundations (which are required to provide information to the IRS) are more likely to widely disclose their CP; and, companies were more likely to disclose to *BusinessWeek* if they could brag about a pledge to September 11 charities. However, foundation tax forms (and hence giving patterns) are publicly available, and the need associated with the September 11 attacks was so great, that this positive relationship is to be expected. This does strongly suggest that generous firms do want to be acknowledged for their philanthropy.

Although the relationship between foundations and disclosure is positive and significant, we note that all firms with corporate foundations did not disclose to *BusinessWeek*. Perhaps these firms, while willing and able to support community and social causes with funds, are hesitant about attracting or encouraging requests from other charities. Many firms may have favored causes and have limits on total discretionary disbursements to charities: supporting a new or additional cause may require a reduction in the amount of support given to long-standing recipients. The finding that disclosure is not related to firm size suggests that it is the amount of the gift(s) that is significantly associated with firm size, rather than the self-promotion of the firm. This particular finding is difficult to generalize, because all the firms in the study were large firms. Disclosure may be linked to the amount that the firm donates. The most generous companies, i.e., the biggest givers, tend to receive recognition in the press (Aldrich, 2000). Additional studies are needed to investigate the likelihood of a combined effect: are

larger firms that *donate more* (i.e., that are relatively more generous givers) also more likely to disclose their giving?

The lack of a significant relationship between differentiation and disclosure surprised us. For years, many scholars have argued convincingly that a strategic reason for CP is (or should be) to build reputation and thereby attract customers (e.g., Fry et al., 1982; Porter & Kramer, 2002; Useem, 1998). The finding offers some support for (Porter and Kramer's, 2002) assertion that, in reality, much of CP merely reflects the values of the firm's executives. This finding is logical considering the negative relationship between the consumer product industry and CP disclosure. Apparently the disclosure of CP to *BusinessWeek* was not about efforts to increase the firm's image or enhance the firm's reputation with consumers. *BusinessWeek's* audience probably includes investors, executives, and government officials. This suggests that a motivation for disclosure of CP is to enhance reputation with potential (and current) executives, investors and/or curry favor with government regulators. We expected that most (if not all) charitable firms would want to disclose their generosity. Even so, it is possible that some firms do not reveal their CP because disclosure may encourage stakeholder curiosity: *who are the recipients?* If the recipients lack a strategic connection, some stakeholders may critique the firm's choices. It is possible that the disclosure of CP (and the recipients) can reveal self-interested motives on the part of executives (Lev, Petrovits, Radhakrishnan, 2011; Strobhar, 2003) resulting in disgruntled customers and angry shareholders. The firm's reputation may be tarnished rather than enhanced.

The current study attempted to identify some of the characteristics of firms who are willing to widely disclose corporate *philanthropy*. Admittedly, there are many forms of corporate philanthropy. Firms may give cash, products/services ("in-kind" giving is non-cash support), provide labor (employee volunteers), facilities, or even consulting advice to non-profits. Some corporate respondents may have included their cause-related marketing expenditures. Cause-related marketing blends marketing and advertising with corporate giving: typically, companies give a percentage of the revenue (sales price) for each product purchased. Although we did not hypothesize the influence of industry effects, we note that although consumer products firms are probably the most likely to engage in causal-marketing (and also likely to get a positive response from consumers for all forms of CP), results indicate they are also the firms *least* likely to disclose their CP. We believe that this is an area that would benefit from future investigations. We used firms' own self-reporting (as disclosed to *BusinessWeek*) of CP. We are uncertain if firms included all forms of their CP when reporting to *BusinessWeek*. In addition, we have no way of knowing if some firms over-inflated their giving (or under reported it). Additional studies are needed to investigate if some forms of philanthropy typically go unreported, or if cash givers are more (or less) likely to disclose CP than in-kind givers (or vice-versa); or, if the recipient selection impacts the likelihood of disclosure. Further investigations might increase our understanding of how and why firms engage in CP, particularly if the firms don't want to talk about it.

The lack of participation for so many of the largest and leading firms in the U.S. is problematic. Accessible information on corporate philanthropy simply does not exist if firms choose to conceal it. Pressures for some aspects of corporate social performance annual reporting are increasing, but the public doesn't trust the information, which is voluntary and geared to public relations purposes (Dando & Swift, 2003). Only a small percent of firms provide any external verification of the data and there is selective disclosure, as companies are reluctant to disclose negative impacts (Adams, 2004). Furthermore, CSP reporting guidelines have not addressed CP. The Global Reporting Initiative (GRI) emphasizes environmental sustainability, ISO (International Organization for Standardization) emphasizes quality management and environmental management, and Social Accountability International (SA 8000) emphasizes just working conditions (Bhimani & Soonawalla, 2005).

CP differs from other forms of CSP in that charitable donations are regarded as voluntary or discretionary for firms according to widely accepted models of corporate social responsibility (Carroll, 1979; 1991) and stakeholder salience (Mitchell, Agle, & Wood, 1997), while the firm's treatment of customers, employees, the natural environment, and stockholders is viewed as a more serious social

and ethical responsibility (that is, endowed with inherent moral obligations, imbued with Kantian imperatives or rights that cannot be subservient to the profit motive).

Business Week reported:

... There's a reason why corporate philanthropy goes almost completely unstudied: The documentation is spotty at best. Companies aren't required to publicly report their philanthropic spending, and even if they do so voluntarily, there are few agreed-upon standards for valuing gifts, either cash or in-kind goods and services. (Hempel, 2003; 96)

Additional investigations may be helpful in this area, but shareholders need to pressure firms to increase transparency of corporate philanthropy. Some research indicates that CP may be associated with self-serving and opportunistic executives (Barnard, 1996; Bartkus, Morris & Seifert, 2002; Boatsman & Gupta, 1996), secretive CP promotes the likelihood that this will continue to be suspected. Corporate boards and/or corporate charters could require more disclosure of CP, both the amounts that are given and the recipients.

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