

THE DIRTY LITTLE SECRET OF CORPORATE GIVING: INSTRUMENTAL PHILANTHROPY

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Abstract: In this we present a model of philanthropy, which encompasses several other constructs and ideas as mediators between top management values and giving by the corporation. We present an additional mediator (instrumental philanthropy) and argue for its inclusion in future approaches to understand how corporate giving works in practice.

Keywords: corporate giving, instrumental philanthropy

When development directors and executives of nonprofit agencies are targeting corporate donors, they usually look for a personal connection, or read in the paper that such and such firm gave such and such amount to a specific cause or agency. If they are all in a small community this approach works, but complexity increases with legal requirements, shareholder obligations, and the social environment within which the corporate is embedded.

In this paper we develop a model of corporate giving to explain why the situation is both more, and less, than meets the eye. This is written for the practitioner in corporate giving, both the giver and the receiver. The intent is to present a theoretical model for giving; that is, to explain and to predict corporate giving activity.

Corporate giving is the title we use to cover a multitude of activities. All of them concern the transfer of goods, services, and finances from one institution to another. There may be a reciprocal relationship in this exchange, but it is not necessary for all of them. It is this crucial perspective, whether there should be reciprocity or not, that segments this subject from other topics in the business field. While this entire subject is sometimes addressed as philanthropy or charity, we have chosen the term corporate giving, so as to differentiate better between charity, philanthropy, and other paradigms of giving.

The decision of a CEO to engage in corporate giving is mediated by issues not usually considered in an affective commitment or moral obligation perspective, including both the societal and corporate environments. The mediation of senior management values is a key issue that is not usually considered by the practitioner (see Figure 1 for a representation of these mediators).

TOP LEADER VALUES

The single largest predictor of a corporation's actual giving policy is the personal values of the senior management, and the senior managements' perception of a corporation's role in society. The values of senior management will lead to the paradigm used by the corporation to explain their corporate giving program, though this formal or informal policy will still be mediated by other variables. However their image of what should be will drive the adopted paradigm to a large degree.

PARADIGMS OF CORPORATE GIVING

Corporate giving can be looked at through a variety of rubrics. These include giving for strategic reasons, giving for charitable reasons, giving for gift reasons, giving for patronage reasons, and giving for philanthropic reasons. Corporations that give for *strategic reasons* (classical economics) view this as a marketing and public relations expense, or enlightened self-interest. This state is strongly influenced by strength of corporate environment (shareholders), and is drawn from business strategy (Andrews, 1956) and enlightened self-interest (Galaskiewicz, 1985).

Charitable giving is rooted in traditions of almsgiving and religious values (Moe, 1960), though some argue that we are genetically imprinted with this (Joseph, 1985), and religion is grounded in this biological imperative. *Gifting* is rooted in anthropological models in "primitive" societies (Mauss, 1967). This state is influenced by the values and secular beliefs (prosocial orientation from society; Hyde, 1983) of senior management.

Patronage (otherwise known as *noblesse oblige*) is the obligation of those with wealth to share with those without wealth (Hacker, 1967). This state is predicted by senior management values and the degree of personal image benefit sought by those managers (Haley, 1991). Finally, *philanthropic giving* is rooted in Protestantism and secularism (Jordan, 1959), and is strongly influenced by the social environment (Feingold, 1987).

The key issue in our model is that there are five different states of corporate giving, and a practitioner needs to understand all five and the impact that senior management values, corporate environment and societal environment play in determining which state corporate giving will take place.

THE ENVIRONMENT

Carroll (1991) identified a pyramid of responsibilities that impact corporate giving. While he presented these as a collection of ethics that must be in alignment, we see these as more of mediations along a much larger story. Society, within which individuals and organizations exist, entails many social constructs that help define the rules of how individuals and organizations interact. These rules are constructed by individuals and are accepted over time. Organizations do not necessarily create these interactions, except as these organizations' executive officers, owners, and other stakeholders express their views.

Society has many paradigms that must be considered when looking at corporate giving. The first is the construct of classical economics, which looks to organizations to improve

the wealth of their owners. Closest to the corporation among the mass of society are the expectations of owners and shareholders of a corporation. They are usually concerned with their own personal profits or with the corporation buying goodwill in the community within which it operates. Another consideration for corporate giving is the financial position of the corporation. While it is true that some corporations give gifts while in bad financial straits, consistent with Carroll's view it is usual for a corporation to have good financial health before its assets are distributed beyond the owners.

The most obvious manifestation of society's social constructs is law. Both in the legal statutes which are enacted into the laws, and the judicial decisions which interpret and create social understandings, law is the codification of the rules of society. In the United States, the legal allowance for corporate giving has evolved from a mixed consensus of corporate giving, to an understanding of *ultra vires*, to the acceptance of the proof of direct benefit, to an understanding of good corporate citizen, to the present allowance of the consideration of constituencies.

The final two constructs which apply are that of ethics and philanthropy, within which organizations are expected to both do what is right, and beyond that be prosocial participants within their society.

INSTRUMENTAL PHILANTHROPY

While all of these perspectives presented act as mediators in corporate giving, a consideration not usually addressed is interpersonal behavior and influence. Beyond corporate strategic reasons for giving, there are also individual-based gains that motivate top management to contribute. For some it may be reputation enhancement ("I was the person who could get my employer to contribute \$20 million") and for other it may be career advancement ("I championed out United Way campaign within the corporation because I knew it would create a positive halo around me from my boss"). These interpersonal, political, reasons are rarely investigated or discussed in the corporate giving literature (Yukl and Tracey, 1992), but the wealth of research on the topic need be applied in this context (Yukl, 1998), and research needs to be conducted to see which influence techniques are most used and most effective (Higgins, Judge, and Ferris, 2003). Of normative concern are the ethical justifications for such self-interested corporate giving, which Milton Friedman has referred to as a tax on shareholders (1970).

DISCUSSION

The boundaries, assumptions and limitations of our model are several. There are social interactions in and between individuals and groups. There is an assumption of a financial (as opposed to barter) economy and a large assumption about the right to private property and the disposition of same. There is an assumption that corporations (a legal fiction) are allowed to exist, with semi-independent management.

Given these assumptions, this model is an effective mechanism for presenting to both practitioners soliciting corporate giving, as well as corporate employees designing giving

programs, a way to understand the process, and actively engage in it. In the process, we hope for the common good.

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