The Impact of Public Scrutiny on Corporate Philanthropy  

Ailian Gan

ABSTRACT. This paper proposes that a corporation’s vulnerability to public scrutiny drives its corporate giving. The hypothesis that companies donate for strategic motives is tested against the alternative that they do so for altruistic reasons. Court cases and news articles were selected as proxies for public scrutiny. Macroeconomic variables were used to gauge the level of public charitable need and test for altruism. Through examining the philanthropic behavior of 40 Fortune 500 companies over 7 years, this paper finds that companies are strategic and altruistic in their giving.

KEYWORDS: altruism, corporate giving, corporate philanthropy, strategic philanthropy

JEL CLASSIFICATIONS: D64, G34

Introduction

Philanthropy, by its definition and in its early forms, assumes a certain degree of altruism and magnanimity. The Greek roots of the word suggest “love of mankind.” The early philanthropists were described as propelled by a vision to “apply their wealth to the discovery of the underlying causes of personal distress, and to the formulation of strategies to rid the world of such systemic scourges” (Katz, 2004). While many wealthy individuals and private foundations are still motivated by altruism to work towards such lofty and noble goals, few today will believe that pure altruism is the driving force behind corporate philanthropy. Corporate donations totaled $13.5 billion in 2003, according to Giving USA, an annual report on the state of philanthropy published by the American Association of Fundraising Counsel. While this is a mere fraction of the $240.7 billion raised by all charities nationwide, it is nonetheless a considerable amount with significant potential to do much good for those in need of help.

Today, the issue of whether corporations should be engaged in philanthropy at all, for charitable or selfish reasons, is a point of contention. From a traditional economic perspective, the theory of the firm holds the corporation responsible only to its shareholders; that is, the sole objective of the firm is to maximize shareholder value. Under this framework, the corporation has no business giving away shareholders’ money for purely altruistic reasons. In Friedman’s (1970) view, corporate philanthropy is tantamount to managers of a firm stealing from shareholders. From an ethical perspective, however, corporations, as powerful entities that reach into every sphere of society, arguably have an obligation to be socially responsible and to conduct their business activities with society’s interests at heart. While keeping its eye on the bottom line, the corporation must also do right by its employees, its customers, the environment, the local community, etc. This view is best expressed through the stakeholder theory developed by Freeman (1984). Corporate philanthropy, under this framework, is but one of the many duties that are expected of the upstanding corporate citizen.

As it exists today, corporate philanthropy is in many ways a compromise or, perhaps more accurately, a conflicted synthesis of the two points of view. Companies may make charitable donations, but they do so under profit-maximizing constraints. This impurely altruistic donation of corporate resources “to address non-business community issues that also benefit the firm’s strategic position and ultimately, its bottom line” is known in the literature as “strategic
philanthropy” (Saia et al., 2003). The concept of strategic philanthropy entered the business and economics literature as early as 1982, when Fry et al. found that charitable contributions corresponded positively to the extent that firms have public contact. Strategic philanthropy is expected to satisfy some of the company’s ethical obligations to stakeholders. At the same time, it is justified to shareholders because it is treated as yet another business avenue to be judged “by the profit it generates rather than the social benefit it creates” (Buchholtz et al., 1999).

Academics and managers alike have expressed some unease with the phrase “strategic philanthropy,” calling it an outright oxymoron (Godfrey, 2005; Saia et al., 2003). Some go so far as to question whether corporate philanthropy even exists (Moir and Taffler, 2004). If corporate giving is so heavily tainted by business objectives as to be considered “strategic,” does it even merit the name “philanthropy”?

Nonetheless, this apparent contradiction in terms neatly encapsulates one facet of business reality: companies must learn to manage conflicting agendas when they operate in environments with multiple stakeholders and many vested interests. Strategic philanthropy is symbolic of the conflicts that managers of today’s corporations must explore, understand, and resolve. It is “about limited resources and resource sharing, about competitive advantage and community relations, about profit making and corporate giving” (Saia et al., 2003). Indeed, strategic philanthropy “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” (ibid.). Corporate philanthropy’s ability to achieve strategic results has not only garnered the attention of business academics, but there is also evidence to suggest that corporate managers believe that their companies’ philanthropic decisions are becoming increasingly strategic (ibid.). To that end, the strategic motives of corporate giving deserve careful study.

How exactly does this peculiar business avenue operate? Managers and economists have cited the potential for corporate philanthropy to generate “intangible strategic assets like reputational capital, employee commitment, trust, positive action, or acquiescence among key regulatory institutions or legislative bodies” (Godfrey, 2005). Smith (1994) similarly observes that philanthropy can “enhance consumer name recognition and/or employee productivity, reduce R&D costs, or overcome regulatory obstacles, among other uses.” All companies stand to gain from the benefits that corporate giving can confer. However, they are especially crucial to companies that have high visibility and are subject to high degrees of scrutiny.

This paper proposes that vulnerability to public scrutiny drives corporate philanthropy. The company can be impacted by public scrutiny in several ways. The government may impose regulations on an industry and thereby inflict compliance costs on the company. The public may form interest groups to take legal or economic action against the company. The media may report on the company’s operations and behavior, occasionally in negative ways.

Under conditions of high public scrutiny, corporate philanthropy can come to the rescue. Donations can create goodwill and buy influence. Charitable contributions can arguably be classified as a form of political activity (Useem, 1984). Indeed, the motivations behind corporate political donations and corporate philanthropic donations can be very similar. Donations can serve as public relations gestures to help to cultivate a positive, socially responsible image in the eyes of the consuming and judging (and potentially protesting) public. The more likely a company is to run up against legislation, the greater its need to chalk up a store of “brownie points” with the public in order to retain their goodwill. In addition, the donations establish direct links between the for-profit company and the non-profit foundation recipients, which may transform into useful relationships with political leverage to maneuver around regulation. Political opposition from non-profit organizations is arguably more persuasive in the eyes of legislators and the general public than corporate opposition, which is backed usually by a mercenary motive. To that end, the greater the need for political influence over the government or the general public, the more companies will tend to donate to charity.

In contrast to its altruistic roots, this framing of corporate philanthropy lends it a rather commercial, self-serving, and even sinister tone. In this way, however, strategic corporate giving can be both beneficial to shareholders, since it improves the corporation’s standing, as well as public regarding, since the corporation is doing good in response to the