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U.S. Corporate Philanthropy Abroad: Do U.S. firms donate where they do business?

Research Assistance: Eunju Rho

Faculty Sponsor: Abigail Hornstein, Wesleyan Univ. & Minyuan Zhao, Univ. of Michigan

Objectives

We examine if there is a consistent relationship between when firms make charitable donations to organizations in foreign countries and the firm's activity in those countries. Secondly, we are curious how the proportion of the firm's giving to charities in those countries compares to the relative contribution of their subsidiaries in that country to the firm's aggregate bottom line.

Introduction: Corporate Philanthropy

- ***Corporate Social Responsibility (CSR)***

Wood (1991) defines the term as: "a configuration of principles of social responsibility, processes of social responsiveness, and observable outcomes."

- ***Is CSR against shareholders' profit?***
  - → Agency Cost Theory: such spending diverts resources
  - → Reputation Hypothesis: philanthropy acts as a signal of trustworthiness, enhancing corporate reputation
- ***Does CSR help Corporate Financial Performance (CFP)?***

There are a large number of empirical studies on this, but no consensus has been made yet

- ***What types of firms engage in CSR?***

Navarro et al. (1988): advertising and R&D intensity positively predict CSR

Brown et al. (2006): firms with less shareholder monitoring are more likely to have charitable foundation

Why companies give money overseas

1. *CSR as a business strategy*

- Multinational enterprises may be more exposed to CSR demands from stakeholders, and may have more diverse stakeholders.
- Charitable giving may give a firm a competitive advantage.

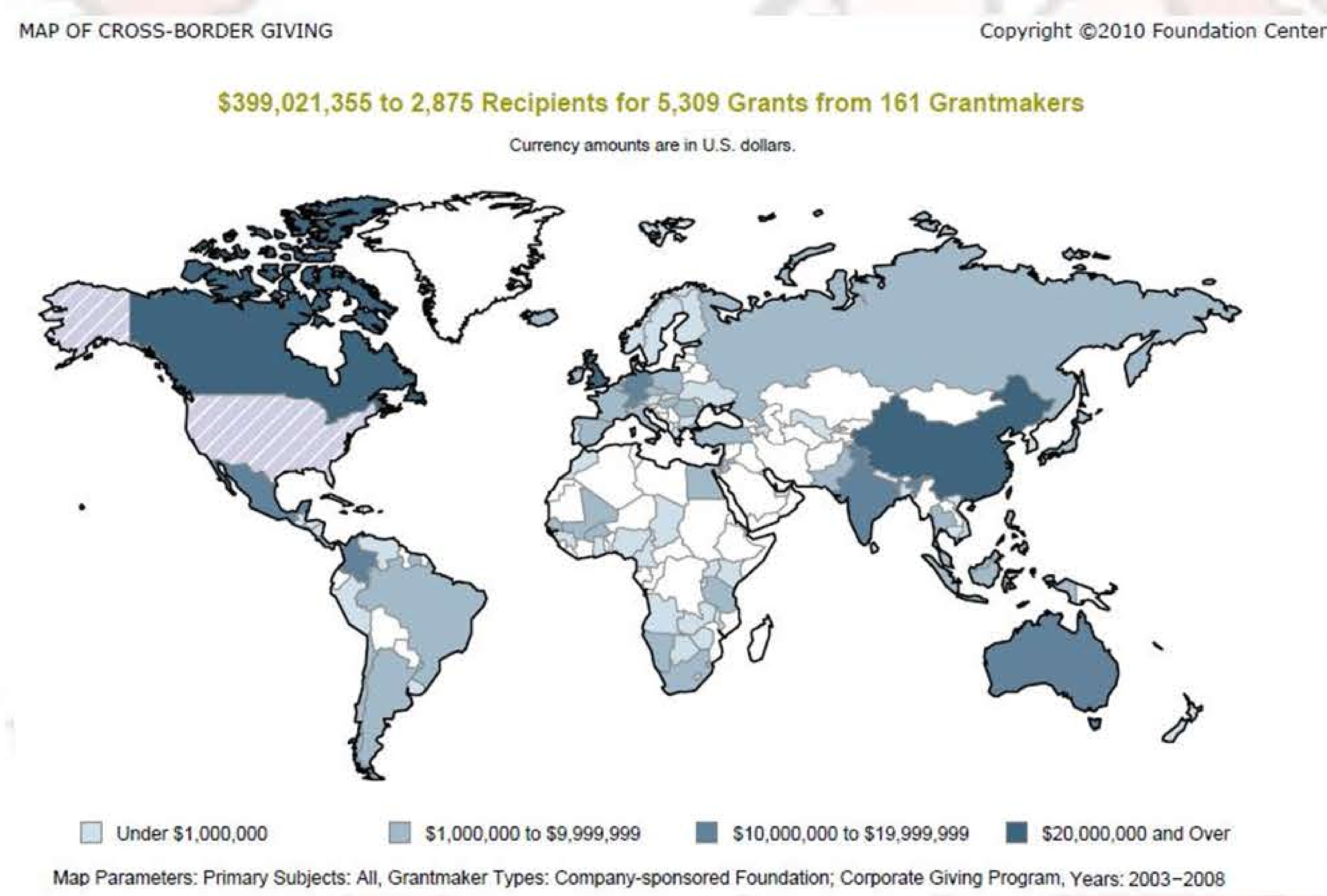
2. *Host country politics may influence CSR decisions*

- With the increase in perceived corruption, MNE's focus on ethical codes increases.
- Firms with CSR focus on ethical codes tend to be assertive with the government.
- Firms with CSR focus on philanthropic contribution and resource accommodation tend to be cooperative with the government.

3. *Host country characteristics may influence CSR*

- Corporations may view CSR as a means of gaining access to local political and business elites.
- Government assistance may proxy for the level of local charitable needs, and corporations may give accordingly.

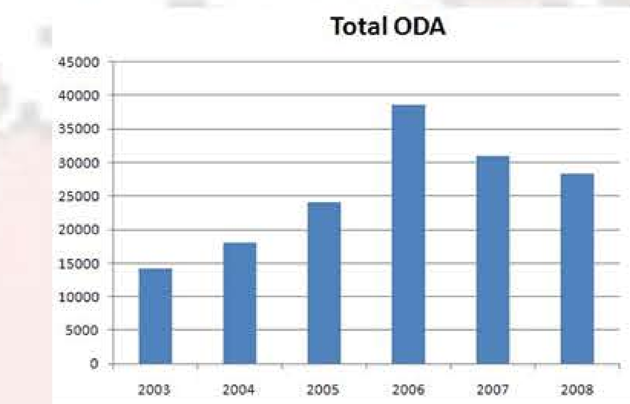
Data and Summary Statistics

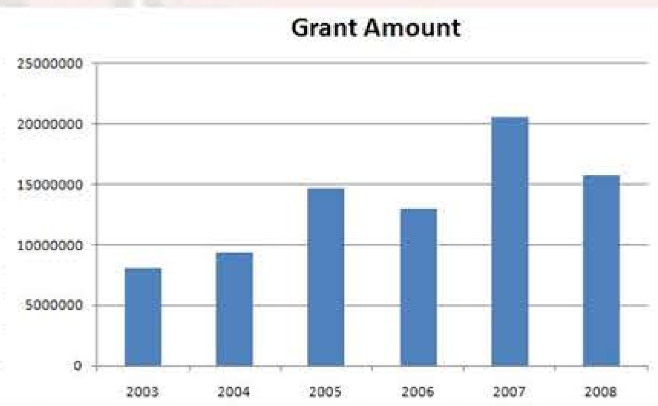


Variable Definition	Obs	Mean (Std. Dev.)	Min	Max
Foundation-level				
Amount Amount donated by foundation to all organizations in a country-year, US$	1922	212,225 (525,283)	1,000	10mn
Grant Count Number of grants made by a foundation to organizations in a country-year	1922	2.81 (3.61)	1.00	36.00
Total Assets Total assets of foundation, US$	1881	116mn (156mn)	1,589	594mn
Total Giving Total givings of foundation (domestic & foreign), US$	1881	26.7mn (23.2mn)	90,057	211mn
Country-level				
GDP per capita Nominal, US$	437	15,603 (18,893)	242	103,824
Total ODA All sources, types, US$	248	622 (918)	944	11,428
Control of Corruption Extent to which public power is exercised for private gain	451	0.36 (1.08)	1.42	2.62
Ease of Doing Business Based on the 10 Governance topics in Doing Business 2010	464	74 (52)	1	178

Hypotheses

1. Do U.S. firms donate only in countries where they operate?
2. Do firms donate money:
   a. Before market entry to facilitate government relations? Particularly in countries where it is harder to do business?
   b. After market entry as de facto marketing and/or government relations?
3. Do firms give proportionally to the importance of the country to the firm?
4. Do firms give more to organizations in countries where the U.S. *or* all foreign countries provide higher levels of Official Development Assistance (ODA)?





Regression Model and Data

$$
\begin{aligned}
Giving_{ict} = {} & \beta_0 + \beta_1 Entry_{ict-1} + \beta_2 Entry_{ict} + \beta_3 E_t(Entry_{ict+1}) + \\
& \beta_4 \, Host\ Country\ Institutional\ Characteristics_{ict} + \\
& \beta_5 \, Host\ Country\ Market\ Characteristics_{ict} + \\
& \beta_6 \, Total\ U.S.\ Corporate\ philanthropy_{it} + \\
& \beta_7 \, Total\ U.S.\ ODA_{ct} + \beta_8 \, Total\ non\text{-}U.S.\ ODA_{ct} + \\
& \gamma \, Firm\ Characteristics + t + \varepsilon
\end{aligned}
$$

(i = firm, c = country, t = time)

- Actual market entry in year *t+1* will instrument for year *t* expectations for market entry in year *t+1*
- Our unique dataset comprises 163 U.S. firms that made 1,922 country-year donations during 2003-2008.
  - Directory of Cross-Border Giving, Foundation Center
  - Directory of Corporate Affiliations
  - Compustat
  - Global Insight
  - U.S. Government
  - World Bank

Conclusion and Expected Results

We expect to find evidence that

- Firms consider corporate philanthropy to be a cost of doing business,
  - to facilitate government relations prior to entry when entering countries with more challenging business environments.
  - to serve as marketing in more competitive markets.
  - with no consistent pattern to the timing, consistent with the U.S. Foreign Corrupt Practices Act (1977).
- Firms direct their overseas giving to the countries that are more important to their organization.
- Corporate giving is
  - *not* influenced by levels of U.S. ODA.
  - influenced by levels of total ODA, which would be consistent with corporations competing in a global marketplace where customers expect companies to act in certain ways irrespective of a firm's nationality.

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