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# Who is Governing Whom? Executives, Governance and the Structure of Generosity in Large US Firms

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## Research Question and Approach

- **How does organization structure affect (or not) the processes by which leaders determine levels of corporate philanthropy?**
- **Approach: Identify proxies for known and likely leadership determinants of corporate philanthropy**
  - **CEO tenure** (Hambrick and Finkelstein, 1987)
  - **Size of corporate boards and the network centrality of their members** (Galaskiewicz, 1985, 1997)
  - **Proportion of women in leadership groups** (Mesch, 2009)
- **Interact these effects with measures of dedicated organizational structure (corporate foundation)**

# Why study corporate philanthropy?

- **A widespread and increasingly strategic activity of F500 firms**
  - **Well-established internal and external benefits** (Bhattacharya, Sen, and Korschun 2008; Hoeffler and Keller, 2002)
  - **But still controversial** (Friedman 1970, Jensen 2002)
- **Heavily influenced by senior corporate leaders (board and executives)**
  - **High discretion over philanthropic giving, subject to social PROCESSES** (Galaskiewicz 1985, 1997; Useem and Kutner, 1986)
- **Associated with an organizational feature, the corporate foundation, that has a specific functional and legal meaning**

# Why do companies give?

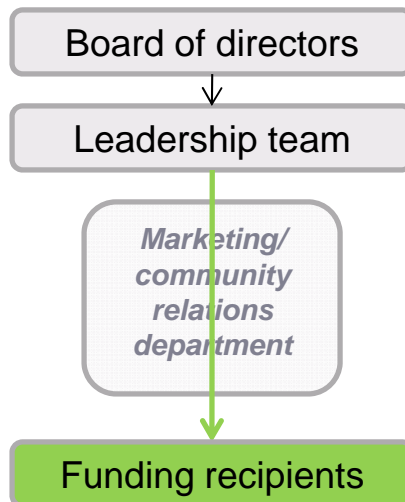
- **To manage firm relationships with a broad set of stakeholders** (Porter and Kramer, 2002)
  - **Corporate reputation** (Fombrun, 1996; Hoeffler and Keller, 2002)
  - **Consumer brand** (Smith and Alcorn, 1991; Cone, 2004)
  - **Employee commitment** (Greening and Turban, 2000; Bartel, 2001; Bhattacharya, Sen, and Korschun, 2008)
- **A “perk” for executives (aka “through the firm giving”)** (Friedman, 1970; Wolch, 1995)
- **Recipients of corporate giving are typically organizations in the non-profit sector** (Useem, 1987)
  - Meaningful to stakeholders
  - Aligned with other corporate interests

# How do companies give?

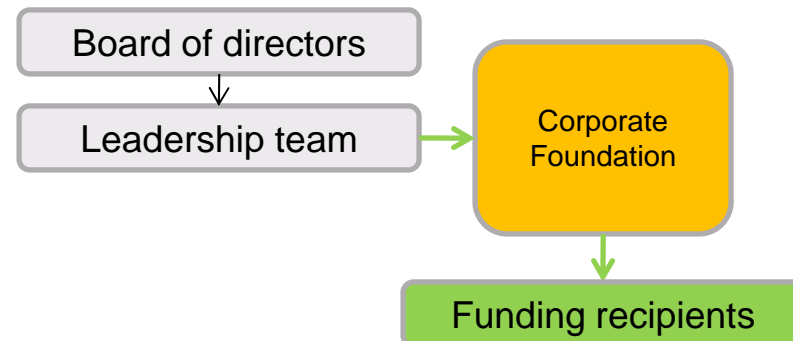
- **As an “in-house” corporate function**
  - As a direct activity of leadership team
  - Sometimes housed in a functional unit, e.g. marketing or community relations
- **Through a legally independent corporate foundation**
  - **Tax benefits** (Coady, 2008)
  - **Specialization and managerial attention** (Useem and Kutner, 1986, Osterower, 2002)
  - **Independence** (Siegfried, McElroy, and Biernot-Fawkes 1983)
- **Overall, use of the corporate foundation structure is increasing**
  - 70% in our Fortune 500 data
  - 50% of all corporate foundations have been founded since 1990 (Foundation Center, 2009)

# How do companies give?

**Model 1**  
(in-house function)



**Model 2**  
(structurally differentiated corporate foundation)



## Senior leaders and corporate giving

- **Corporate philanthropy is influenced by individual managers**
  - Individual interests, e.g. Dave Thomas and Wendy's
  - Through corporate networks (Galaskiewicz, 1997)
  - Through ties to non-profit organizations (Werbel and Carter, 2002)
- **Members of boards of directors also play potentially important role**
  - “Buffer” between organizations and their environments (Davis, 2005; Mizruchi, 1996)
  - Influence philanthropy decisions (Galaskiewicz, 1985, 1997)

## Senior management and corporate giving

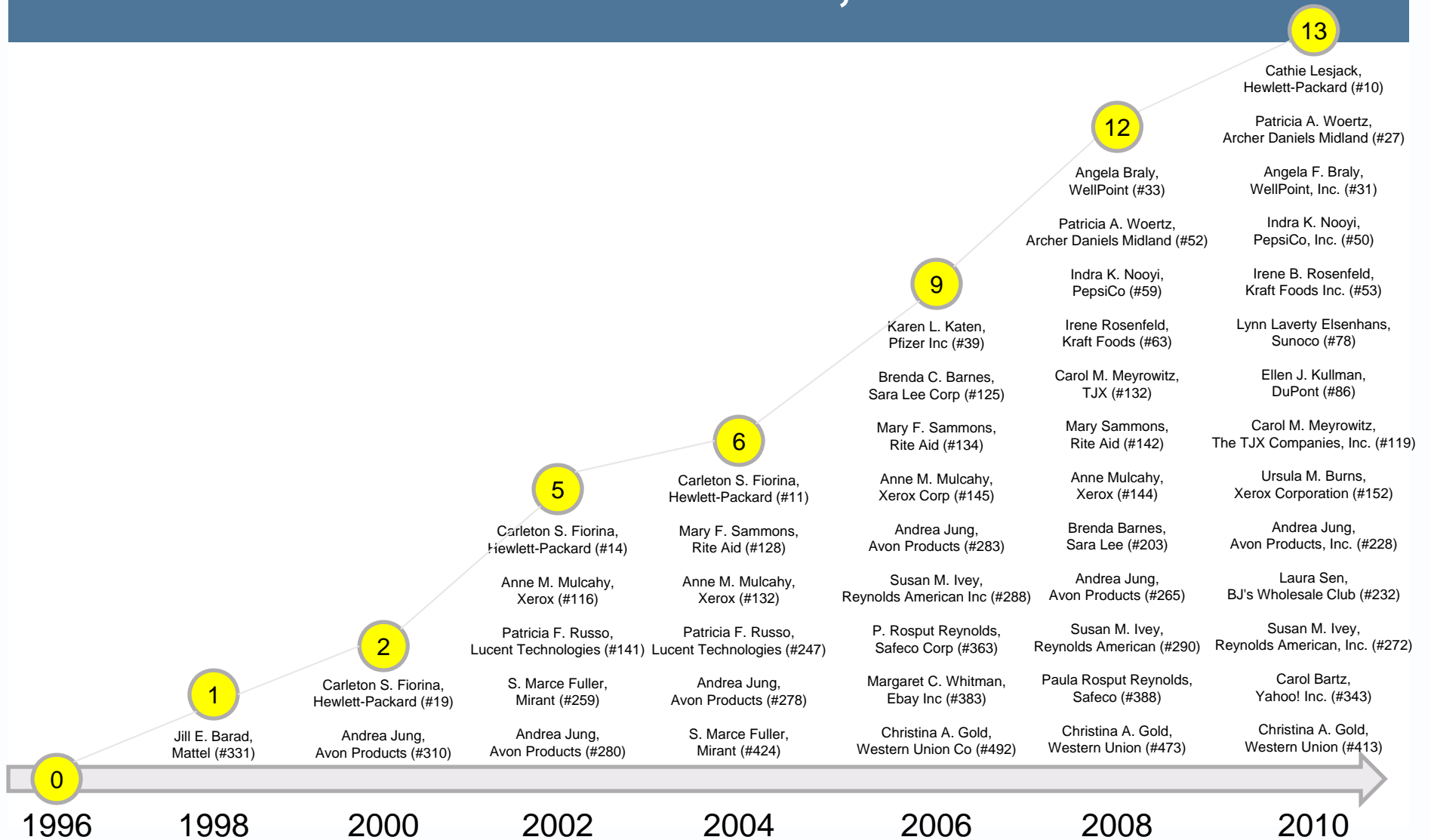
- **Research shows that CEO characteristics can influence their choices, and firm behavior, over time** (Hambrick and Mason, 1984; Hambrick and Fukutomi, 1991)
- **As CEO tenure increases, power and influence increase** (Hambrick and Finkelstein 1987; Pfeffer, 1981; Kacperczyk, 2009)
- **BUT...other evidence suggests that new CEOs especially focus on corporate philanthropy**
  - New CEOs more attuned to external environment (Wiersema and Bantel, 1992)
  - CEOs also grow “stale in the saddle” and less responsive to changes in the firm’s environment (Hambrick, Geletkanycz, and Fredrickson 1993; Miller, 1991)
  - New CEOs want to establish legitimacy in the organization (Khurana, 2002)
  - E.g. Goldman Sachs

***Hypothesis 1: Corporations with shorter-tenured CEOs will have higher philanthropic contributions.***

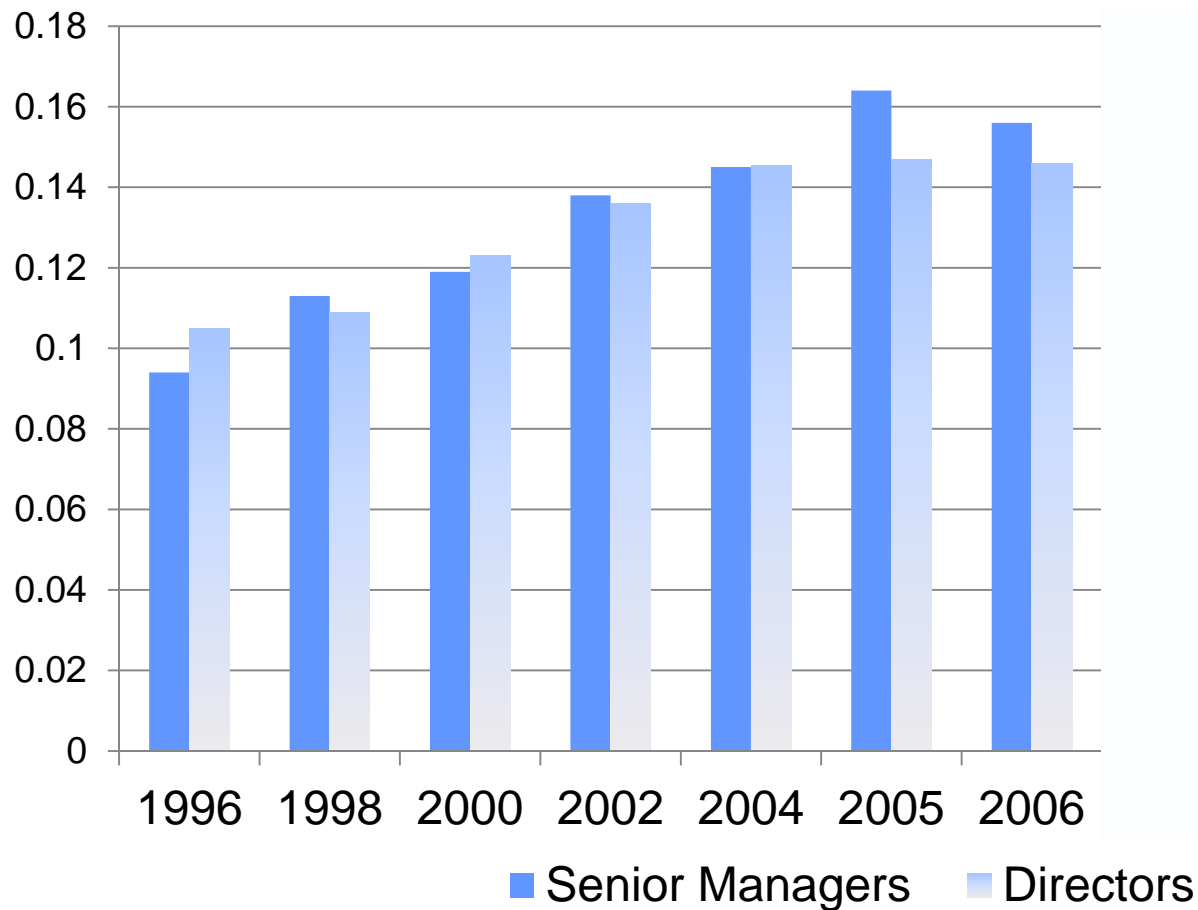
# Why would gendered leadership be important to understanding corporate philanthropy?

- **Past research has found strong relationships between gender and philanthropy** (Mesch, 2009)
  - Individual differences
  - Social facilitation in teams and organizations
- **Importance of sex-segregated occupations to organizational outcomes** (Ely and Padavic, 2007; Williams, 2003; Conry, 1998)
- **Role of corporations in philanthropy is growing**
- **Role of gender in corporations is growing**
  - 8.7% of Fortune 500 corporate officers (1995) → 15.5% (2006)
- **Unpacking the effects of gender in this context has important research and policy implications**

# Women CEOs of Fortune 500, 1996-2010



# Percentage of women senior managers and directors in Fortune 500 firms, 1996-2010



# Gender composition of senior management

- **Research generally finds that women give more on average (see Mesch, 2009 for review)**
  - Up to twice as much as men (Eckel and Grossman, 1998), despite lower average levels of discretionary income (Capek, 2001)
  - But some conflicting evidence
- **Role of gender in giving is complex and moderated by social dynamics**
  - Presence of women may cause men to become more generous (Kamas, Preston, and Baum, 2008; Cox and Deck, 2006)
  - Women are more convincing advocates of their own giving preferences (Kamas, Preston, and Baum, 2008)
- **This likely carries over to corporate philanthropy**
  - More than half of women owners of large business donated \$10,000+ to charity, compared to 40% of men
  - As influencers in organizational philanthropy decisions
  - Through selection into gendered philanthropic roles (Conry, 1998)

***Hypothesis 2: Corporations with a greater proportion of women senior managers will have higher corporate philanthropic contributions.***

## Directors' social embeddedness (1)

- **Research shows that social connections of board members are a source of valuable resources**
  - **Strategic information** (Pfeffer, 1981; Useem 1984)
- **Studies of specific locales have found that directors' social networks influence corporate philanthropy**
  - **Companies with more socially connected directors are more generous contributors** (Useem, 1984; Galaskiewicz, 1985)
  - **Warren Buffett: “the whole [board philanthropy decision] was based on figuring out who was connected to whom”** (Kinsley, 2008)

***Hypothesis 3a: Corporations with boards of directors that are more central in the director interlock network will have higher corporate philanthropic contributions.***

## Directors' social embeddedness (II)

- **Larger boards may also influence philanthropy differently**
  - Larger number of external pressures seeking resources
  - Greater “free-rider” problems in monitoring management leads to **higher giving** (Aggarwal and Nanda, 2004; Brown, Helland, and Smith, 2006)
  - **More difficulty coordinating around focused decisions** (Goodstein, Gautam, and Boeker 1994)

***Hypothesis 3b: Corporations with larger boards will have higher corporate philanthropic contributions.***

# Women directors and corporate philanthropy

- **Greater presence of women directors is also likely to increase giving**
  - **Direct influence on decision-making process**
    - Interview-based study suggests that women are more likely to raise issues related to multiple external stakeholders such as **firm communities** (Konrad et. al, 2008)
  - **Greater experience in non-profit settings** (Williams, 2003)
- **Evidence from related empirical studies** (Williams, 2003; Wang and Coffey, 1992)

***Hypothesis 4: Corporations with greater presence of women on the board will have higher corporate philanthropic contributions.***

# Moderating effect of organizational structure (I)

- **Influence of organizational structure and design on behavior is a central question in organizational theory**
  - A key way that leaders translate strategy into action (Chandler, 1962; Thompson, 1967)
  - Tradeoff between bureaucracy required for specialization and need to respond to environmental changes (Rivkin and Siggelkow, 2003; Davis et. al., 2009)
- **Size of organization reflects a higher degree of structural differentiation (Pugh and Hinings 1976; Davis, et. al, 2009)**
  - Structural differentiation leads to heterogeneity and politics among internal coalitions (March, 1962; Cyert and March, 1963; Pfeffer and Salancik, 1978)
  - Decreases influence of the CEO (Miller and Toulouse, 1986)

***Hypothesis 5a: Greater corporate foundation assets will reduce the effect of CEO tenure on corporate philanthropic contributions.***

***Hypothesis 5b: Greater corporate foundation assets will reduce the effect of the presence of women senior managers on corporate philanthropic contributions.***

## Moderating effect of organizational structure (II)

- **Influence of directors also likely to be mitigated by structural differentiation**
  - Corporate foundation Increases structural “buffer” between external influence and philanthropic behavior

***Hypothesis 6a: Greater corporate foundation assets will reduce the effect of i) board network centrality and ii) board size on corporate philanthropic contributions.***

***Hypothesis 6b: Greater corporate foundation assets will reduce the effect of the presence of women directors on corporate philanthropic contributions.***

# Data and analysis

- **Sample and Units of Analysis:** 500 largest US corporations (i.e. the Fortune 500) in each of the even-numbered years from 1996 to 2006.
- **Dependent Variable:** Corporate philanthropy, which equals the total dollar amount of grants given through a corporate foundation and giving by the corporation directly. From Foundation Center. Log transformed to reduce highly skewed values (Allison, 1999)
- **Independent Variables:**
  - *Foundation assets* from Foundation Center records
  - *CEO tenure* from Execucomp database
  - *Percentage women senior managers* from Catalyst, Inc.
  - *Degree centrality of board of directors* from board interlock data
  - *Number of directors* from Catalyst, Inc.
  - *Percentage of women directors* from Catalyst, Inc.
- **Control Variables:**
  - Financial performance (ROA)
  - Size (Assets)
  - Age
  - Industry (1 digit)
  - CEO age
  - Percentage of women employment by industry
  - *Per capita income* of the core-based statistical area (CBSA)
  - *Total governmental revenue per capita*
  - *Year effects*

# Data and analysis

- **Statistical Modeling:**
  - Random effects model with year effects
  - Clustered standard errors
- **Robustness checks:**
  - Firm fixed effects
  - Window of observations, i.e. early years only

# Results: Main effects of leader attributes

1	CEO Tenure	-0.0226**					-0.0190**
		(0.007)					(0.007)
2	Pct. Women Women Sr. Mgrs.		0.9044*				0.6738+
			(0.515)				(0.521)
3a	Director Degree Centrality			0.0341**			0.0267**
				(0.008)			(0.008)
3b	No. Directors				0.0550**		0.0423*
					(0.019)		(0.020)
4	Pct. Women Directors					2.1951**	2.0415**
						(0.712)	(0.706)

# Gender diverse leadership associated with social responsibility

**FIGURE 1**

*Fortune 500 Companies: 2007 Average Philanthropic Donations by Number of Women Board Directors<sup>11</sup>*

**Zero  
Women Directors**



\$969,000

**Three or More  
Women Directors**



\$27.1 MILLION



**FIGURE 2**

*Fortune 500 Companies: 2007 Average Philanthropic Donations by Percent of Women Corporate Officers<sup>13</sup>*

**0% Women  
Corporate Officers**



\$965,000

**25% or More Women  
Corporate Officers**



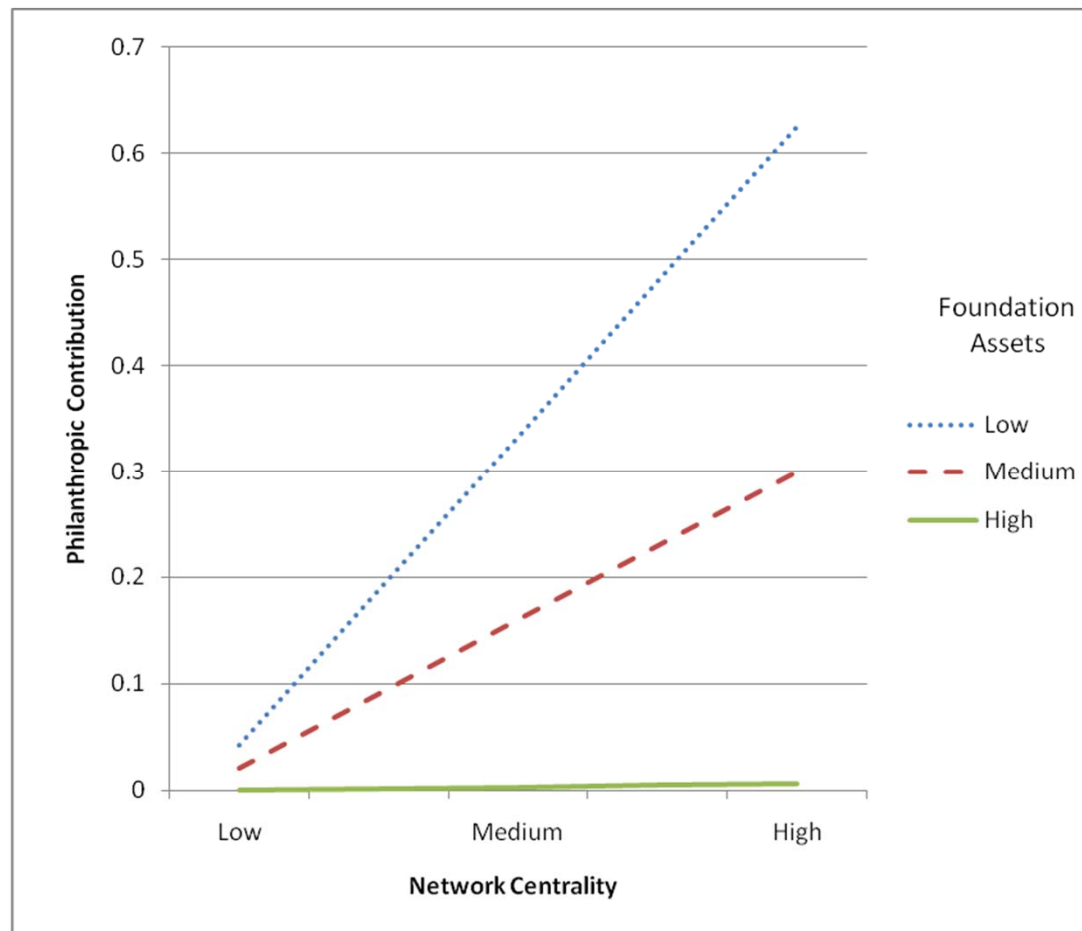
\$12.8 MILLION



# Results: Moderating influence of differentiated structure (corporate foundation)

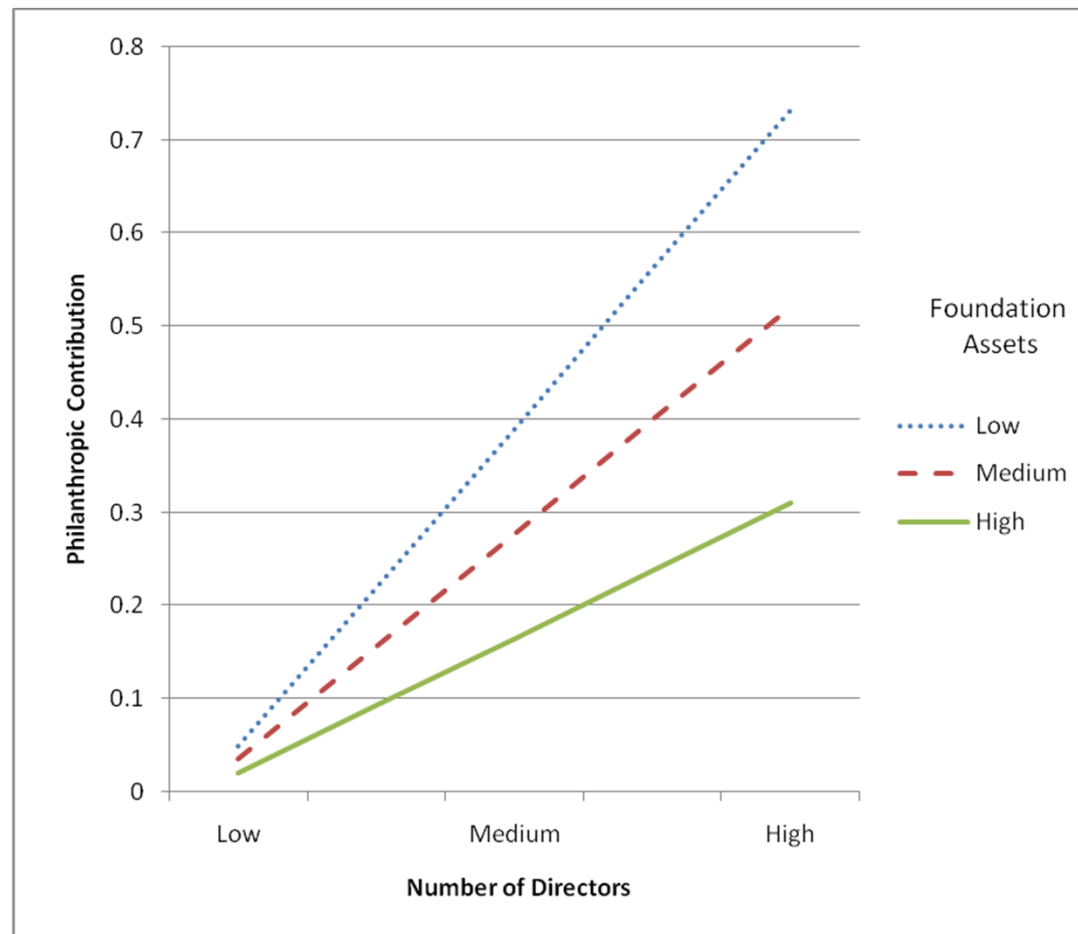
1	CEO Tenure	-0.0216*	-0.0190**	-0.0184**	-0.0185**	-0.0194**	-0.0208**
		(0.009)	(0.007)	(0.007)	(0.007)	(0.007)	(0.009)
2	Pct. Women Women Sr. Mgrs.	0.6753+	0.6725	0.7341+	0.6704+	0.7086+	0.5842
		(0.522)	(0.965)	(0.522)	(0.520)	(0.523)	(0.965)
3a	Director Degree Centrality	0.0267**	0.0267**	0.0524**	0.0272**	0.0267**	0.0469**
		(0.008)	(0.008)	(0.016)	(0.008)	(0.008)	(0.017)
3b	No. Directors	0.0420*	0.0424*	0.0394*	0.0812*	0.0402*	0.0652*
		(0.020)	(0.020)	(0.019)	(0.035)	(0.020)	(0.035)
4	Pct. Women Directors	2.0557**	2.0414**	1.9335**	1.9488**	2.9087**	2.7680**
		(0.703)	(0.706)	(0.697)	(0.704)	(1.125)	(1.130)
5a	Foundation Assets * CEO Tenure	0.0004					0.0003
		(0.001)					(0.001)
5b	Foundation Assets * Women Sr. Mgrs.		0.0001				0.0189
			(0.072)				(0.071)
6ai	Foundation Assets * Degree Centrality			-0.0025*			-0.0019*
				(0.001)			(0.001)
6aii	Foundation Assets * No. Directors				-0.0046*		-0.0033
					(0.003)		(0.003)
6b	Foundation Assets * Women Directors					-0.1081+	-0.1076+
						(0.082)	(0.083)

# Growth in Philanthropic Contributions and the Interaction between Director Network Centrality and Foundation Assets



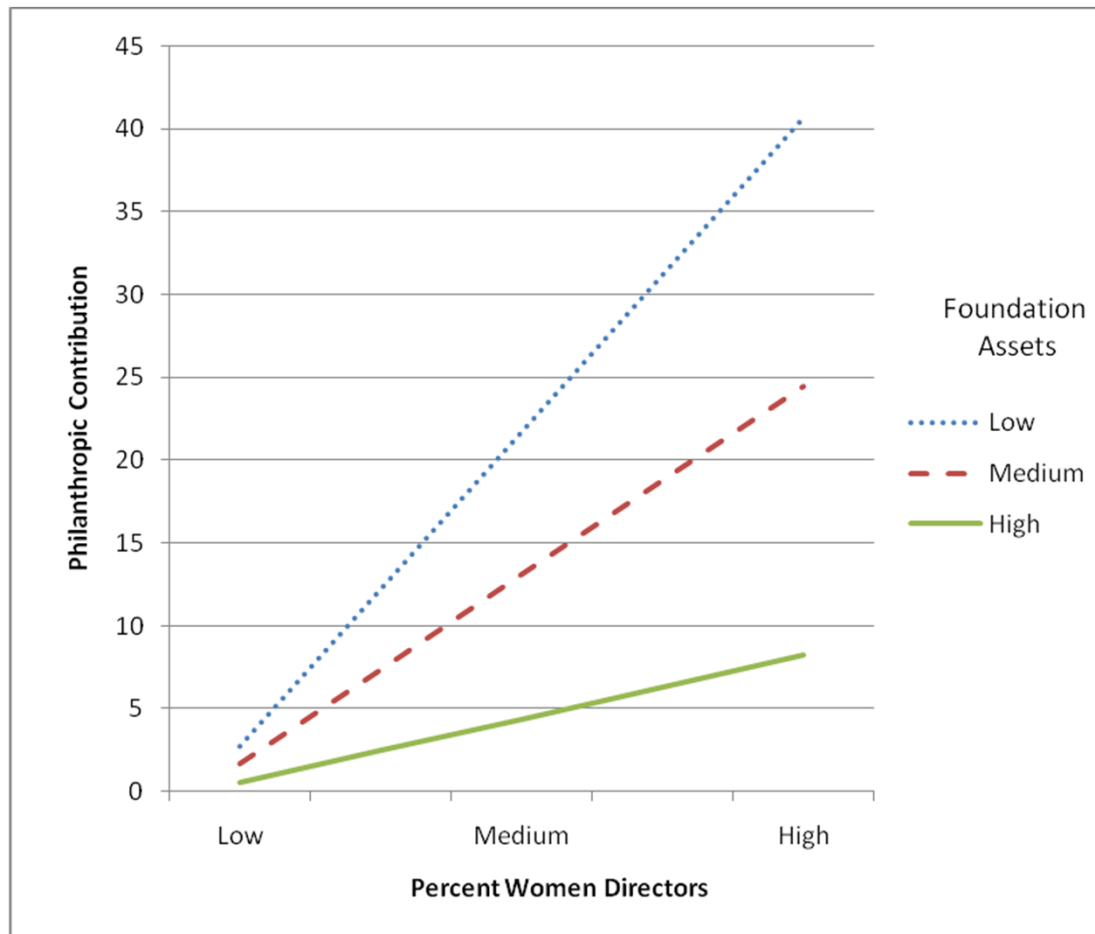
Note: Medium = mean; Low = mean - 1 S.D.; High = mean + 1 S.D.

# Growth in Philanthropic Contributions and the Interaction between Number of Directors and Foundation Assets



Note: Medium = mean; Low = mean - 1 S.D.; High = mean + 1 S.D.

# Interaction between Percentage of Women Directors and Foundation Assets



Note: Medium = mean; Low = mean - 1 S.D.; High = mean + 1 S.D.

## Summary of findings

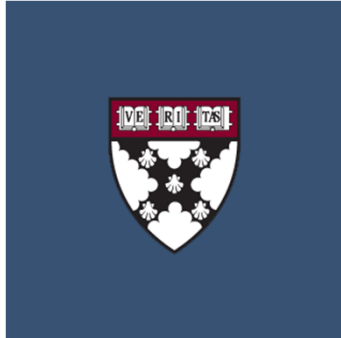
- **Main effects on philanthropic levels significant as predicted**
  - CEO tenure, size and network centrality of boards, and proportion of women in senior management and on boards
- **Director effects are constrained by the presence of corporate foundation structures**
  - Size and network centrality of boards, proportion of women board members
- **Executive effects unconstrained by corporate foundation structures**

# Implications – leadership and structure

- **Relationship between managers, directors, and organization structure**
  - Size of foundation constrained influence of directors, but not senior managers
  - Differentiation between how individual directors and managers influence organizational decisions
- **New support for individual effects on corporate philanthropy**
  - Corporate giving decreases with CEO tenure
    - Contradicts belief that CEO discretion increases with tenure
  - Increased presence of women senior managers and directors leads firms to make greater philanthropic contributions
    - Increasing responsiveness to broader sets of social relations
- **Opportunities for further research**
  - More fine-grained examination of philanthropic decision-making process
  - Specific mechanisms by which gender acts on philanthropy
    - Decision influence versus selection
  - Additional individual leader characteristics
  - Structure constrains opportunism of directors, but does not constrain executives
    - Does this pattern apply to other corporate activities?

# Implications – strategic philanthropy/CSR

- **Strategic function of CSR increasingly relevant to research and practice** (Porter and Kramer 2002)
- **Toward a contingency view of strategic CSR**
  - Suggestive of greater nuance than linear or equilibrium theories
  - Under what conditions are corporations more or less likely to give?
- **Implications for design of corporate philanthropy programs**



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# Thank you!

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