Stakeholder Pressure, Organizational Size, and the Allocation of Departmental Responsibility for the Management of Corporate Charitable Giving

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Based on new survey evidence, this article analyzes the allocation of departmental responsibility for the management of corporate charitable giving within a sample of large U.K. companies. Several qualitatively different forms of management are identified, and a model of the determinants of the choice among these forms is estimated. The findings indicate that the allocation of internal responsibility for the management of corporate giving is significantly influenced by the extent and type of managerially perceived stakeholder pressures, organizational size, and industry characteristics. The evidence indicates that, given the firm is sufficiently large to delegate the management of its charitable contributions, the choice over the location of control is largely a function of the nature of the prevailing forms of stakeholder pressure experienced by the organization.

Keywords: *corporate social responsibility; corporate social performance; corporate philanthropy; charitable contributions; organizational structure; stakeholder management*

The social performance of companies has come under increasing scrutiny during the past 20 years from a rich variety of stakeholder groups (Kapstein, 2001; Wood, 1991). Corporations have increasingly been held

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accountable for a wide range of social issues ranging from implementing good labor practices and supporting community projects to reducing environmental degradation. Recognition of the potential long-term strategic significance of many of these issues spawned the field of issues management that sought to offer a framework within which companies could identify, analyze, and respond to issues in their external environment (Chase, 1977, 1984; Greening & Gray, 1994; Jones, 1983; Post, Murray, Dickie, & Mahon, 1982; Wartick & Rude, 1986).

As the profile of corporate management of social issues has increased, many corporations have adapted their organizational architectures to include new specialized departments, new policies and procedures, and new employment functions (Greening & Gray, 1994; Norton, 2000; Post et al., 1982), and others have amended the scope of the activities of existing functional departments (Norton, 2000; Post et al., 1982). Existing research has highlighted the diversity of the organizational structures within which firms conduct their issues management (Andrews, 1987; Bhambri & Sonnenfeld, 1988) and has established a particular link between issues management and externally oriented business functions such as the public relations (PR) function (Black & Hartel, 2002; Post et al., 1982). Greening and Gray (1994) raised the possibility that "the same issue may evoke a marketing response from one firm and a public relations response from another firm" (p. 468).

A growing body of literature recognizes the strategic, organizational, and social significance of corporate charitable giving as a key component of corporate social responsibility (e.g., Porter & Kramer, 2002; Saiia, 2001), and a developing empirical literature highlights the importance of external stakeholder influences as a key stimulus for corporate charitable donations (Adams & Hardwick, 1998). There have, however, been few attempts to understand either the influences on the organizational structures within which charitable contributions are managed or the role that stakeholder pressures play in affecting managerial structures. In an earlier, largely descriptive study, Siegfried, McElroy, and Bientot-Fawkes (1983) suggested that operational responsibility for the management of corporate charitable donations resides with a broad range of agents in the firm ranging from direct control by the CEO or other member of the top management team to specialist corporate social responsibility (CSR) departments or location in a functional department (e.g., marketing or human resources management). Recent evidence suggests that increasing numbers of U.K. firms have chosen to separate the management of aspects of CSR from other business functions (Smyth, 2000). This article investigates the possibility that the extent and type of stakeholder pressures on the firm may influence the organizational structures within which firms choose to manage their charitable contributions. The results have potentially significant implications because organizational structure may influence the efficiency with which these operations are managed and the composition of corporate charitable contributions.

The determinants of organizational structure are the subject of an extensive literature that draws on economics, business strategy, and institutional sociology. Economic approaches have focused on the relative efficiency of different forms of organizational structure (e.g., Caves, 1980; Jensen & Meckling, 1995; Radner, 1992) and the implications of transactions costs for optimal organizational structures (Williamson, 1985). At the same time, two potentially compatible, conceptual paradigms—institutional theory and resource dependence theory (Greening & Gray, 1994)—have sought to explain the influences on organizational structure. Institutional theory emphasizes the importance of institutional pressure in the firm's external environment for the design of organizational structures and responses (Meyer & Rowan, 1977; Oliver, 1991). Resource dependency theory also focuses on pressures external to the firm but stresses the role of organizational interdependence for organizational structure (Pfeffer & Salancik, 1978). From the perspective of institutional theory so-called good organizational structures are those that are of a similar form to the external institutional pressures the firm faces, and the rewards for good organization take the form of enhanced legitimacy or likelihood of survival (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). From a resource dependence perspective, good organizational structures confer decision-making autonomy and power on the organization, and organizational effectiveness can be judged by the extent to which these ends are met (Oliver, 1991; Pfeffer & Salancik, 1978).

In common with the institutional and resource dependence theories, the stakeholder perspective emphasizes the relationship between managerial decision making and the nature of pressures in the company's internal and external environment. Berman, Wicks, Kotha, and Jones (1999) suggested that firms may take an instrumental approach to stakeholders to manage their impact on the overall objectives of the company. Corporate charitable contributions may play a significant role in the process of stakeholder management by enabling managers to demonstrate their commitment to a social agenda, reducing the risk of adverse reactions by internal and external stakeholders. This suggests that firms should seek to identify and manage the potentially competing demands of different stakeholder groups, and that evolving organizational structures may reflect stakeholder pressures and play a role in effective stakeholder management. Although stakeholder management forms the basis of an extensive literature that explores the codification and analysis of stakeholder attributes (e.g., Mitchell, Agle, & Wood, 1997) and the relationship between corporate strategy and external stakeholder pressures (Oliver, 1991), the relationship between stakeholder pressures and the organizational structures within which they are managed remains largely unexplored.

The analysis in this article draws on recent work by Jones (1995) that has explored the relationship between stakeholder theory and the economics of organization. Jones (1995) placed corporate relationships with stakeholders within a model that draws on transaction cost (Williamson, 1985) and agency theory (Jensen & Meckling, 1976). According to this model, firms can generate competitive advantage through the efficient management of stakeholder relationships, reducing the commitment problems (e.g., agency and transaction costs) that arise when firms seek to manage a set of implicit or explicit contractual relationships. As Jones (1995) argued,

> The contracting process gives rise to agency problems, transaction cost problems, and team production problems (in general, commitment problems), efficient contracting will be profoundly affected by the costs of solving these problems. . . . firms that solve commitment problems efficiently will have a competitive advantage over those that do not. (pp. 421-422)

Therefore, firms face the problem of designing organizational structures that are efficient and capable of reducing the costs of contracting with stakeholders. In the current study, the location of responsibility for charitable contributions within the departmental structure is investigated within a model that considers the level, source, and complexity of stakeholder demands and places these factors within the context of corporate competencies and the constraints imposed by corporate size and resources. The analysis was based on data obtained in a recent mail survey of large British businesses.

The article makes three contributions to the literature. First, it provides the first systematic attempt to understand the influences on the organizational structures within which corporate charitable giving is managed.[1] Second, the analysis investigates the extent to which stakeholder pressures play a role in shaping the internal organization of companies. This approach complements earlier studies that have focused on stakeholder management rather than the implications of stakeholder pressure for the organizational structures within which it is managed. Evidence that organizational structures, which are slow to change and subject to inertia (Chandler, McCraw, & Tedlow, 1996; Columbo & Delmastro, 2002; Schaefer, 1998), are sensitive to stakeholder pressures would provide powerful confirmation of the efficacy of the stakeholder perspective.

Third, the focus on the allocation of departmental responsibility for the management of corporate giving affords insights into the evolving roles of existing functional departments within organizations and into the role played by corporate giving within the wider organizational context.

The following analysis is undertaken in four sections. The first section discusses the conceptual background for the study and outlines the hypotheses. Then the next section introduces the sample, variable definitions, and the empirical approach. The third section reports the empirical results, and a final section discusses the results and conclusions.

CONCEPTUAL BACKGROUND AND HYPOTHESES DEVELOPMENT

The stakeholder perspective places a firm's management at the nexus of a set of relationships with agents with whom the firm is linked. An important strand of stakeholder theory suggests that firms might adopt an instrumental approach to evaluating and responding to stakeholder pressures that takes account of the power stakeholders have over the organization and the degree of moral obligation the organization feels to particular stakeholders in designing responses (Berman et al., 1999; Jones, 1995; Mitchell et al., 1997). From this perspective, managers should prioritize responsiveness to stakeholder groups that present significant threats or opportunities to the achievement of the organization's objectives (Frooman, 1999; Griffin & Mahon, 1997; Welcomer, Cochran, Rands, & Haggerty, 2003). Therefore, the focus is on designing organizational responses to stakeholders that are efficient in the sense that they maximize the organization's objective function (survival, profitability, etc.) subject to the constraints of the prevailing legal, institutional, and stakeholder environment. In this article, we argue that stakeholder pressure affects a company's response with respect to the management of corporate donations. In particular, we argue that the departmental location of corporate donation management will depend on the correspondence between a department's competencies and stakeholder pressures.

Siegfried et al. (1983) highlighted the diverse set of locations within which CSR activities can be managed. It may be managed within the top management group, usually falling within the direct control of the CEO or company secretary, or within a functional department, which may be primarily concerned with the external operations of the company (marketing, PR) or the internal operations of the company (human resources management), or within a specialist CSR department. Although location within the top management group places community contributions close to the strategic center of the company, responsibility for community contributions is usually subsumed within the wider responsibilities of a member of the top management group. Such a distribution may be efficient when charitable contributions are small and motivated by philanthropy. However, increases in the scale of contributions and their strategic role are likely to increase the operational load on senior management within an area that lies farther down in the hierarchy of corporate responsibilities than the management of the firms' economic and legal responsibilities (Carroll, 1979). Location in a functional department is usually associated with the management of charitable contributions by specialized staff and may place the operational control and management of charitable contributions closer to related activities enabling the company to benefit from operational synergies between charitable contributions and the functional area. Location in a CSR department has the advantage that different aspects of CSR can be grouped together reducing the coordination costs implicit in the development of an integrated CSR strategy. However, the benefits from synergy that flow from the location of charitable giving in a related functional department may no longer be available. In this article, we suggest that the location of responsibility for the management of charitable donations within the organization is determined by the level of stakeholder pressure, coordination costs across CSR areas, and the source of stakeholder pressure, subject to resource constraints within the organization. The relationship between each of these factors and location of responsibility is discussed.

Level of Stakeholder Pressure

Where firms are subject to significant levels of external and/or internal stakeholder pressure for socially responsible behavior, the instrumental model suggests that firms must devise and implement effective stakeholder management strategies (Jones, 1995). Charitable contributions may be expected to play a significant role in this process, enabling the firm to signal its commitment to a wider social agenda. This suggests that firms that face significant stakeholder pressures may be expected to make higher levels of charitable donations, a hypothesis that is supported by recent empirical evidence (Adams & Hardwick, 1998). Because effective stakeholder management should also involve an evaluation of the salience of particular stakeholders to the organization (Mitchell et al., 1997) it might be expected that the task of administering corporate giving would be more onerous in organizations that are subject to significant levels of stakeholder pressure.

As with all organizational functions the management of community contributions is subject to economies of scale and indivisibilities that may preclude the employment of specialists or the creation of specialist units at low levels of expenditure. Therefore, because of the increased managerial effort associated with managing higher levels of stakeholder pressure and the higher level of corporate donations this might lead such companies to make, we hypothesize that,

> *Hypothesis 1:* The probability that charitable contributions will be managed by the top management team is negatively related to the level of stakeholder pressure.

Large firms may be particularly susceptible to scrutiny from stakeholder groups because they are highly visible to them and commercially vulnerable to adverse reactions from stakeholders (Roberts, 1992; Watts & Zimmerman, 1978).[2] The level of pressure to demonstrate social responsiveness falls disproportionately on large, visible firms because they are available to relevant publics in the sense that these publics are more likely to have information concerning the activities of companies (Tversky & Kahneman, 1974). Large, visible firms may therefore make high levels of charitable and community expenditures as a means to legitimize their commercial activity. Consistent with these observations, empirical contributions have found that larger firms make higher levels of corporate donations (Adams & Hardwick, 1998; Arulampalam & Stoneman, 1995; McElroy & Siegfried, 1985). In addition, organizational size has been identified as a key driver of organizational structure chiefly because it erects obstacles to centralized management and improves the efficiency of decentralized management by permitting organizations to "enjoy economies of scale that encourage specialization of labor" (Miller, Glick, Wang, & Huber, 1991, p. 373). Even if the management of firm donations is relatively routine, the total administrative burden associated with managing the large volume of donations made by big companies (which are likely to produce more products and have a broader geographic scope) is likely to be greater than that which can be accommodated by senior managers. Consistent with bureaucratic theory (Donaldson, 2001), the management of relatively straightforward tasks tends to be managed within decentralized managerial structures in large companies. Hence, we hypothesize that,

> *Hypothesis 2:* The probability that charitable contributions will be managed by the top management team is negatively related to the size of the firm.

Coordination Cost

U.K. firms are not only increasingly under pressure to respond to stakeholder demands by making higher levels of charitable donations but are also compelled to report on different aspects of social performance to reassure socially concerned investors and to gain inclusion on socially responsible investment indices such as the FTSE4Good Index.[3] Thus, inclusion on the FTSE4Good Index requires that firms report comprehensively on a wide range of aspects of CSR including community and charitable activity. Interdependence between the management of charitable donations and other aspects of CSR may be expected to increase the costs associated with managing CSR in general, and charitable contributions in particular, as firms seek to coordinate different aspects of CSR, collecting and disseminating information on a range of socially responsible activities. Under these conditions, it may be efficient to group charitable contributions with the management of other aspects of CSR achieving economies of scale and reducing the costs of coordination across different functional areas. Because increasing levels of managerial and operational complexity are also expected to reduce the efficiency of a location within the top management group, it is hypothesized that,

> *Hypothesis 3:* The probability that charitable contributions will be managed within a CSR department will be positively related to coordination costs.

Source of Stakeholder Pressure

Donaldson (2001) argued that "environmental and technological change lead to uncertainty for the organization and its managers, creating uncertainty in the tasks conducted inside the organization" (p. 18). Therefore, a firm's stakeholder environment may be a significant influence on the nature of departmental delegation that occurs within the company because it directly affects the costs of managing its charitable donations. Company organizational structures typically evolve slowly and are subject to inertia, and therefore firms that face strong stakeholder pressure may delegate the management of charitable giving within existing departmental structures provided that they have the capabilities to cope with the nature of pressures within their stakeholder environment.[4]

In addition to the direct costs associated with the nature of a firm's stakeholder environment, recent conceptual contributions have stressed that the information or knowledge required to perform specific tasks and the nature of the interdependence between tasks play an important role in determining the relative efficiency of alternative ways in which interrelated tasks are organized within the firm (Aoki, 1986; Jensen & Meckling, 1995; Marengo, Dosi, Legrenzi, & Pasquali, 2000; Milgrom & Roberts, 1990). Existing functional departments may therefore have skills, knowledge, or competencies that are of particular use in implementing effective stakeholder management through the use of corporate charitable activity. Jensen and Meckling (1995) argued that "when knowledge is valuable in decision-making, there are benefits to collocating decision authority with the knowledge that is valuable to those decisions" (p. 4). Therefore, where companies face stakeholder pressure that can be effectively managed using available skills and knowledge within existing organizational structures, it is likely that the management of corporate donations is delegated to those functional departments that possess the relevant skills. Where it is perceived that those pressures come primarily from external stakeholders, it is likely that the management of corporate donations is delegated to an externally oriented functional department such as the marketing or PR function.[5] In contrast, where stakeholder pressure arises primarily within the organization, it is more likely that the management of corporate donations is delegated to an internally oriented functional department such as the human resources function. Hence, we hypothesize that,

> *Hypothesis 4:* The probability that corporate donations will be managed in an externally oriented functional department is greater in firms that perceive higher levels of pressure from external stakeholders.
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> *Hypothesis 5:* The probability that corporate donations will be managed in an internally oriented functional department is greater in firms that perceive higher levels of pressure from internal stakeholders.

Industry conditions may have a significant impact on the delegation of the management of corporate donations. Existing evidence suggests that firms that operate in consumer goods industries may use charitable contributions as a means to enhance external stakeholder perceptions of the company (Navarro, 1988; Smith, 1990). The likelihood that delegation occurs is expected to be higher in these companies because of their higher levels of giving and the presence of well-developed marketing and external relations architectures within which giving can be managed. Similarly, the presence of regulatory scrutiny in the firm's industry typically generates the need to manage the impact of those regulatory forces on the organization. Existing research in the area of corporate political strategy has shown that political activity by U.S. firms is positively related to the extent of government regulation (Burris, 2001; Lenway & Rehbein, 1991) and that such activities may enable firms to minimize or modify regulatory pressures thereby reducing costs. It has been suggested that corporate charitable contributions may fulfill a similar role to political activities and that they can be used to increase access to policy makers (Hansen & Mitchell, 2000) and to influence their perceptions. The increased imperative to make such donations in regulated industries may lead to organizational adaptation and to improved organizational sensitivity to significant stakeholder pressures. We therefore expect that,

Hypothesis 6: The probability that charitable donations will be managed in an externally oriented department is greater in firms that operate in consumer good industries.

Hypothesis 7: The probability that charitable donations will be managed in an externally oriented department is greater in firms that operate in regulated industries.

Recent contributions have emphasized that firms also face internal pressure from their employees to demonstrate their social responsibility (Robertson & Nicholson, 1996; St. Clair & Tschirhart, 2002). Robertson and Nicholson (1996) highlighted that employees are typically identified as key stakeholders in corporate CSR communications. Furthermore, their analysis suggests that the apparent importance of employee stakeholders is enhanced where labor is skilled or highly educated. Firms may be expected to seek to retain knowledge workers within the organization (Lawson, 2001), and CSR activities may improve morale among such staff (St. Clair & Tschirhart, 2002). Conceptual and empirical contributions have shown the importance of improved labor relations as a motivation for corporate charitable giving (Navarro, 1988). Firms may seek to harness their workforce through sponsorship and support of causes chosen by employees, by supporting volunteering, and by matching employees' private giving. Because employee pressure and appropriate corporate responses lie within the organization, we would expect management to be placed in an internally oriented functional department. We therefore hypothesize that,

Hypothesis 8: The probability of management of corporate contributions in an internally oriented department is greater in firms that operate in high-wage industries.

Resources

The health of the organization in financial terms may have an impact on the organizational structures within which charitable giving is managed for several reasons. Financially healthy organizations may face less urgent pressure from financial stakeholders such as creditors and stockholders, and this may enable them to devote more resources to satisfying the demands of nonfinancial stakeholders (Adams & Hardwick, 1998; Navarro, 1988). This, in turn, may lead to higher levels of corporate giving that will favor decentralized management of corporate donations. In addition, slack resources may provide firms with the latitude to modify and develop organizational structures (Bourgeois, 1981; Cyert & March, 1963) and respond to external stakeholder demands. Therefore we hypothesize that,

> *Hypothesis 9:* The probability that management of community contributions will be managed within the top management group will be negatively related to the level of corporate profitability.

METHOD

Data and Sample

The sample of firms analyzed in the current study comprises 180 firms listed on the FTSE All Share Index on March 25, 2002. The approximately 650 constituents of this index make up the effective population of publicly listed companies on the London Stock Exchange. This population was chosen because the vast majority of corporate charitable activity in the United Kingdom is done by large businesses and because of the availability of more detailed secondary data for publicly listed companies. Collectively, the firms in our effective sample of 180 companies made cash donations to charity of £163 million in 2000[6] representing approximately 55% of the cash donated by firms to charity in the United Kingdom. Moreover, the importance of these firms to communities is probably understated by examination of their cash donations because many of the firms in the sample make considerable additional contributions to communities by donating products or services, by supporting employee volunteering, and by contributing office support services toward charities' overheads.

The sample companies were first approached by e-mail or letter and asked to identify a senior manager involved with the management of the firm's charitable giving. When identified, these managers were asked to confirm that they were involved in the management of their firm's donations before our primary data could be collected using a mail survey sent to these preidentified individuals. In a significant number of cases, we were able to validate the identification of relevant individuals using the *Corporate Giving Directory* that identifies a contact name and address for voluntary sector organizations seeking funding. Of the sample companies, an appropriate and willing respondent was identified in 245 cases, and 189 responses were received, and of these a full set of data were obtainable for 180 companies.[7] In every case, a cover letter was attached to the survey ensuring the respondent of confidentiality and a prepaid reply envelope was supplied. Survey responses were also used to verify that the respondent was involved with the management of their firm's charitable donations[8]; in every case, the respondent highlighted the processing of requests for support as a key activity.

The respondents and nonrespondents were checked to identify biases attributable to firm size or industrial classification. On average, the firms in the current study own approximately £11.2 billion worth of assets compared with an average of roughly £6.6 billion for the FTSE All Share Index as a whole. This discrepancy overstates the extent of the sampling bias encountered in the current survey and arises because of a slightly better response rate to our survey among very large financial institutions such as banks and insurance firms for whom the investments and deposits of customers are reflected on the balance sheet.[9]

Table 1 describes the industrial sectoral distribution of survey respondents. The distribution is roughly consistent with the distribution of economic activity in the United Kingdom where manufacturing accounts for approximately 20% of gross domestic product (GDP), service industries contribute about 70%, construction roughly 5%, extraction industries 3%, and utilities about 2%. The main differences arise in the high response rate among construction firms and utilities and the relative underrepresentation of service-sector firms. This is largely a function of firm size. There are a large number of small service sector firms that collectively contribute significantly to overall employment and output but that, because of their size, do not make charitable donations and, therefore, were unlikely to respond to the survey.

Dependent Variable Definition

The respondent's current job title was used as the primary indicator of the location of management within the firm. Job titles were subjected to an open-coding process that led initially to the identification of seven classifications. Analysis of the characteristics of these seven classifications supported a reduction to five final locations.[10] Given the exploratory nature of the research, it was decided that this relatively disaggregated classification provided a good starting point for the research. The classification indicates the very diverse nature of control of the activity across the firms in our sample. Sixty-eight respondents (36% of our sample) were

Table 1
The Industrial Distribution of Survey Respondents

Industry	*No. of Observations*	*% of Sample*
Construction/building materials/real estate	24	12.70
Gas/oil/mining	8	4.23
Manufacturing		
Food/drink/tobacco	11	5.82
Medical equipment/pharmaceuticals	16	8.47
Chemicals	7	3.70
Engineering	5	2.65
Electrical equipment	13	6.88
Other manufacturing	7	3.70
Manufacturing total	39	20.63
Services		
Retailers	16	8.47
Banking	9	4.76
Insurance	9	4.76
Other financial services	2	1.06
Media/printing/publishing	9	4.76
IT/computer services/Internet	12	6.35
Business support services	14	7.41
Restaurants/hotels/holidays	9	4.76
Transport	5	2.65
Other services	2	1.06
Services total	87	46.03
Utilities (Water, electricity, telecoms)	11	5.82
Total	189	100

members of the top management team (CEOs, company secretaries, or finance directors). Almost one third of respondents were involved in PR or corporate communications, while similarly low numbers of respondents worked in either HR or marketing (10 respondents or 5% of the total response each). Approximately one fourth of our respondents were employed in CSR or community-related roles. The dependent variable is therefore a categorical variable that corresponds to the departmental affiliation of the respondent and takes a value of between 0 and 4 according to where a firm's charitable donations are managed within its departmental structure.

Independent Variable Definitions

The earlier discussion suggests that the location of operational control for community contributions will be determined by four groups of factors:

the level of stakeholder pressure, the costs of coordinating the management of community contributions with other aspects of CSR, the source of stakeholder pressure, and resource constraints.

Corporate responses to stakeholders and the organizational structures within which they are managed may reflect the extent of stakeholder pressure as perceived by managers. Firms that perceive a higher level of external pressure to demonstrate their social responsibility may make a higher level of donations in response. Survey respondents were asked to "rate the importance of the following sources of pressure on your company to consider its social responsibilities" on a 5-point Likert-type scale for a range of stakeholder groups. A composite variable, EXTSTA, was constructed by summing the responses to the government/legislators, shareholders/investors, customers, community groups, and environmental organizations categories. As expected, there is considerable variation within individual firms of the perceived importance of these stakeholder groups. Nevertheless, EXTSTA provides a valuable insight into the aggregate level of pressure that respondents perceived external stakeholders placed on the firm. Similarly, the significance of internal pressure from stakeholders was examined through the inclusion of EMPSTA, which ranges from 1 (*completely unimportant*) to 5 (*very important*) according to the perceived importance of employee pressure on the firm to consider its social responsibilities.

Larger firms are more visible to external stakeholders and therefore typically make more donations. Firm size is measured by the natural logarithm of firm total assets. The cost of coordinating the management of charitable donations with other aspects of CSR is expected to be higher when firms face significant reporting requirements across a range of socially responsible activities. Interdependence between the management of charitable donations and other aspects of CSR is expected to lead to the coordinated management of donations alongside other components of CSR. We used information concerning a firm's membership of the FTSE4Good Index as a proxy for the extent of interdependence between the management of corporate donations and other dimensions of firm social responsibility. The FTSE4Good Index is a stock index (similar to the NASDAQ or S&P 500) that is intended to distinguish between socially responsible businesses (those admitted to the index) and socially irresponsible businesses (those that are excluded) to facilitate socially responsible investment. Members of the index are not differentiated from each other; therefore, the only observed outcome is membership status of the firm with the index, rather than a socially responsible rating (such as might be derived from sources such as *Fortune*'s reputational data). To be eligible for inclusion, companies have to demonstrate that they have met the prescribed standard in three areas: environmental sustainability, upholding and supporting universal human rights, and developing positive relations with stakeholders. Companies involved in tobacco, weapons, and nuclear power industries are excluded from the index. The criteria for inclusion are developed over time by an independent policy committee made up of experts in the fields of CSR and socially responsible investment (SRI), and each firm's membership in the index is reviewed semiannually. Therefore, membership in the index involves ongoing administrative coordination of a variety of dimensions of CSR within the firm. This interdependence and the implicit increase in coordination costs are reflected by the inclusion of a dummy variable, FTSE, which takes a value of 1 if the firm is a member of the FTSE4Good Index and 0 otherwise.

The relationship between the source of stakeholder pressure and the location of operational responsibility for community contributions was investigated using a set of variables that include two continuous variables drawn from the questionnaire and defined above (EXTSTA and EMPSTA) and a set of dummy variables. A dummy variable, REG, was created that took a value of 1 if the firm's primary line of business is a regulated industry and 0 otherwise. A dummy variable, CONSUM, was created that took a value of 1 if the firm's primary industry was identified as a consumer good industry on the FTSE Global Classification System and 0 otherwise. Firms that operate in industries with highly skilled and paid labor may face an incentive to enhance employee motivation and morale through an integrated use of corporate giving and individual giving. A dummy variable, HIPAY, was generated that takes a value of 1 if the firm's industry has wages in the upper quartile of the industrial wage distribution. Wage data were obtained from the New Earnings Survey.

Finally, corporate resources are measured using a variable ROTA that is defined as the ratio of pretax profits to total assets. Following the earlier discussion a negative relationship is expected between ROTA and operational management of community contributions within the top management group. Financial data were extracted from DataStream.

Statistical Approach

Estimation of a multinomial logit model is a standard approach to modeling the influences on multiple choices such as occupational choices (e.g., Schmidt & Strauss, 1975) or the choice of travel mode among commuters (Hensher, 1986). Analogously, the approach adopted here is the examination of the influences on the choice of location of management of charitable donations within the firm. Following the discussion above, a dependent variable, Y_i, was constructed that took a value 0 (if charitable donations were managed directly by a member of the top management team) to 4 (indicating management in a CSR department). Following Greene (1993), the multinomial logit model is specified as:

$$\Pr ob\,(Y = j) = \frac{e^{\beta_j' x_i}}{\sum_{k=0}^{4} e^{\beta_k' x_i}}$$

where *j* indicates a particular choice of organizational form chosen from a set of *k* alternatives and x_i is a vector of characteristics of the decision maker.

RESULTS

We begin our statistical analysis by providing descriptive statistics and correlation coefficients for the independent variables in Table 2.[11] The magnitude of the correlation coefficients suggests that multicollinearity is highly unlikely to present serious statistical problems. In addition, Table 2 provides some pertinent facts concerning our sample.[12] It suggests that, approximately one half of the sample companies are members of the FTSE4Good Index, just over one fourth operate in regulated industries, and one third of the sample comes from high-wage industries.

Table 3 presents the results of estimating a multinomial logit model of the determinants of organizational form for the management of charitable contributions. The model correctly classifies 53% of the observations and thus provides a reasonable degree of explanatory power particularly given the cross-sectional nature of the model and the presence of inertia in organizational structures. Table 4 presents the marginal effects of the independent variables on the probability of adopting each of the modes of organization.[13] As well as providing a necessary check for the robustness of the direction of the effect of the independent variables on the choice of organizational form, these marginal effects provide an insight into the size of the effects previously described and allow an evaluation of the relative importance of firm characteristics, stakeholder influences and industry conditions on the choice of organizational form. The following discussion is based on the marginal effects presented in Table 4.

The perceived level of pressure to consider social responsibilities from stakeholder groups has a strong influence on the choice of organizational form. Consistent with Hypothesis 1, the management of corporate donations by a member of the top management team is significantly less likely

Table 2
Descriptive Statistics and Correlations for Independent Variables

Variable	M	SD	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*
1 SIZE	13.51	2.09	—							
2 ROTA	5.17	15.59	.00	—						
3 EXTSTA	17.72	2.43	.02	.00	—					
4 EMPSTA	4.13	.85	.06	–.03	.27	—				
5 CONSUM	.17	.38	–.12	–.05	.03	.10	—			
6 HIPAY	.33	.47	.04	–.16	.10	.13	.04	—		
7 FTSE	.51	.50	.22	.04	.06	.13	–.02	.07	—	
8 REG	.27	.45	.37	–.18	–.06	.20	.19	.29	.14	—

Note: SIZE = natural logarithm of firm total assets; ROTA = return on total assets and equal to the ratio of pretax profits to total assets; EXTSTA = level of pressure for social responsibility from external stakeholders; EMPSTA = level of pressure for social responsibility from employee stakeholders; CONSUM = binary variable take the value of 1 if the firm operates in a consumer-goods industry; HIPAY = binary variable take a value of 1 if the firm operates in a high-wage industry; FTSE = binary variable take a value of 1 if the firm is listed on the FTSE4Good Index; REG = binary variable take a value of 1 if the firm operates in a regulated industry.

Table 3

Multinomial Logit Estimation of the Influences on Organizational Structure

Variables	Departmental Responsibility			
	Public Relations	*Marketing*	*Human Resources*	*CSR*
Constant	–9.065 (2.445)***	–7.678 (4.611)*	–4.551 (3.937)	–13.512 (3.017)***
SIZE	–.303 (.125)**	–.112 (.219)	–.132 (.219)	–.644 (.151)***
ROTA	–.012 (.015)	–.008 (.024)	–.007 (.020)	–.027 (.021)
EXTSTA	–.186 (.093)**	–.491 (.200)**	–.208 (.157)	–.011 (.106)
EMPSTA	–.376 (.277)	–.694 (.429)	–.294 (.409)	–.937 (.353)***
CONSUM	1.210 (.538)**	–.233 (1.313)	–.694 (.977)	–.338 (.738)
HIPAY	–1.110 (.499)**	–.852 (.767)	–.614 (.740)	–.052 (.536)
FTSE	–.243 (.404)	–.645 (.766)	–.324 (.717)	–.066 (.495)
REG	–.609 (.538)	–.708 (1.056)	–.110 (1.037)	–.373 (.647)

Log-likelihood = –204.9

No. of Observations = 180

Note: CEO/Company Secretary is the nomalizing category.

CSR = corporate social responsibility; SIZE = natural logarithm of firm total assets; ROTA = return on total assets and equal to the ratio of pretax profits to total assets; EXTSTA = level of pressure for social responsibility from external stakeholders; EMPSTA = level of pressure for social responsibility from employee stakeholders; CONSUM = binary variable take the value of 1 if the firm operates in a consumer-goods industry; HIPAY = binary variable take a value of 1 if the firm operates in a high-wage industry; FTSE = binary variable take a value of 1 if the firm is listed on the FTSE4Good Index; REG = binary variable take a value of 1 if the firm operates in a regulated industry.

*$p < .10$. **$p < .05$. ***$p < .01$.

Table 4
Marginal Effects

Variables	*CEO/Company Secretary*		*Public Relations*		*Marketing*		*Human Resources*		*CSR*	
Constant	2.365	(.506)***	−1.138	(.480)***	−.061	(.138)	.066	(.196)	−1.233	(.329)***
SIZE	−.083	(.026)***	.035	(.024)	−.010	(.007)	−.012	(.010)	.070	(.017)***
ROTA	−.004	(.003)	.001	(.003)	−.00004	(.0007)	−.0001	(.001)	.003	(.003)
EXTSTA	−.037	(.019)**	.033	(.019)**	.013	(.006)**	.006	(.008)	−.016	(.013)
EMPSTA	−.099	(.057)*	.047	(.056)	−.030	(.015)**	−.029	(.020)	.111	(.041)***
CONSUM	−.206	(.122)*	.244	(.101)**	−.023	(.040)	.010	(.047)	−.026	(.086)
HIPAY	.129	(.098)	−.274	(.099)***	.037	(.026)	.050	(.038)	.058	(.066)
FTSE	.037	(.085)	−.052	(.081)	.023	(.023)	−.013	(.035)	.004	(.060)
REG	−.096	(.115)	.128	(.105)	.015	(.031)	−.007	(.051)	−.038	(.076)

No. of Observations = 180

Note: CSR = corporate social responsibility; SIZE = natural logarithm of firm total assets; ROTA = return on total assets and equal to the ratio of pretax profits to total assets; EXTSTA = level of pressure for social responsibility from external stakeholders; EMPSTA = level of pressure for social responsibility from employee stakeholders; CONSUM = binary variable take the value of 1 if the firm operates in a consumer-goods industry; HIPAY = binary variable take a value of 1 if the firm operates in a high-wage industry; FTSE = binary variable take a value of 1 if the firm is listed on the FTSE4Good Index; REG = binary variable take a value of 1 if the firm operates in a regulated industry.
*$p < .10$. **$p < .05$. ***$p < .05$.

in firms that perceive higher levels of pressure from external ($p = .049$) stakeholders, and marginally significantly less likely in firms that perceive higher levels of pressure from internal ($p = .081$) stakeholders. The coefficients on firm size indicate a strong tendency for larger firms to adopt decentralized management of their charitable contributions within a CSR department. This is consistent with Hypothesis 2 and suggests that the higher levels of corporate giving made by large firms may imply that the location of community contributions in a separate CSR department is subject to significant economies of scale.

The variable FTSE, which is used as a proxy for the increased costs that flow from the collation and dissemination of information on a range of socially responsible activities in response to external reporting demands, is not significant at the 10% level or better. Contrary to Hypothesis 3, increased coordination costs do not, therefore, appear to encourage the location of operational control for community contributions within a specialist CSR department.

The source of stakeholder pressure is found to have a significant impact on the location of operational control for community contributions. Consistent with Hypothesis 4, we found that firms that experience a higher level of pressure from external stakeholders were significantly more likely to locate the management of their charitable contributions in their marketing department ($p = .036$), and marginally significantly more likely to do so in their PR department ($p = .076$). The choice of an outward-facing business function may be motivated by the presence of skills and competencies required to strategically manipulate stakeholder perceptions in these departments. It may also reflect the importance of outward-facing business units in large, visible corporations for which brand or company image represents a key source of competitive advantage. Contrary to expectations, a higher level of external stakeholder pressure does not increase the likelihood that charitable donations will be managed within a CSR department. However, higher levels of pressure from employee stakeholders significantly increase the probability that charitable contributions are managed in a CSR department in preference to either central administration or other forms of decentralized management ($p = .007$).

Consistent with Hypothesis 6, industry external factors were found to significantly influence the location of the management of charitable contributions. Firms in consumer-goods industries are significantly more likely to locate the management of their contributions in PR departments. This may reflect the increasing importance of CSR attributes as drivers of consumer decision making. Conversely, among firms that operate in high-wage industries the likelihood that charitable donations are managed within the PR department is significantly lower than the likelihood of alternative forms of organization. This probably reflects the comparative isolation of the outward-facing PR function from internal/operational aspects of the business. Other industry external factors were found not to affect the location of the management of charitable contributions; REG that takes a value of 1 if the firm is in a regulated industry was not significant at the 10% level or better. Therefore, we find no support for Hypothesis 7.

Profitability was found to be an insignificant influence on the form of organization within which contributions are managed, suggesting that where additional strategic flexibility is available to highly profitable firms, it is leveraged through existing structures rather than providing the impetus for new forms of organization.

An additional one point on the composite measure of external stakeholder importance reduces the likelihood of centralized management of donations by almost 4% and increases the probability of management in the PR or marketing departments by over 3% and 1%, respectively. A corresponding increase in the perceived importance of internal stakeholders reduces the probability that corporate donations are managed centrally or in the marketing department by approximately 10% and 3%, respectively, and raises the odds that giving is managed in a CSR department by more than 11%.

External industry conditions play a quantitatively important role in influencing the choice of organizational structure. Firms in consumer-goods industries are 20% less likely to manage their charitable giving centrally, and 24% more likely to manage their donations within their PR departments. Similarly, operating in a high-wage industry reduces the probability of managing donations in the PR department by more than 27%.

DISCUSSION

Based on new survey evidence, this article analyzes the allocation of departmental responsibility for the management of corporate charitable giving within a sample of over 180 U.K. companies. The results highlight the considerable diversity in form of management chosen for charitable giving across organizations and demonstrate that these choices are systematically related to organizational size, the extent and type of managerially perceived stakeholder pressures, and industry characteristics. The results suggest that the organizational structures within which firms manage their charitable giving reflect the characteristics of stakeholder pressure and the economics of internal organization, which are seen to constrain the development of delegated responses and partially determine their location within the company.

The results provide strong support for the stakeholder perspective. They indicate that organizational structures are sensitive to managerially perceived stakeholder pressure and that organizations appear to allocate responsibility for the management of their donations to functional departments that have the capabilities to cope with the particular stakeholder pressures they face. The evidence indicates that, given that the firm is sufficiently large to delegate the management of its charitable contributions, the choice over the location of control is largely a function of the nature of the prevailing forms of stakeholder pressure on the firm to consider its social responsibilities. Consistent with the arguments of Jones (1995), and with the insights of resource dependence and institutional theories, our findings suggest that firms' choice of departmental responsibility for charitable giving may arise out of a desire to efficiently cope with prevailing stakeholder pressures. Where these pressures come predominantly from external stakeholders such as investors, consumers, legislators, and community groups, there is a marked tendency for firms to ally the management of their contributions with an externally oriented business function where the skills and competencies to effectively manage such external stakeholder relationships reside within the firm. Our findings are also consistent with earlier suggestions that charitable donations and other components of CSR may constitute a key source of competitive advantage by differentiating the firm in the eyes of consumer and investor groups (McWilliams & Siegel, 2000).

However, the results do not suggest that CSR departments are formed in response to external stakeholder pressures or to the coordination costs implicit in external reporting over a range of socially responsible activities. The growing importance of CSR departments does not, therefore, appear to reflect a corporate response to external stakeholder pressure. Although internal stakeholders form a substantial component of total stakeholder pressure in the sample companies, relatively few firms located operational responsibility for charitable contributions in the HR department, and its location is not significantly related to pressure from internal stakeholders. Rather, the evidence is that companies that experience significant pressure for social responsibility from internal employee stakeholders are more likely to manage their charitable donations in CSR departments. The positive relationship between the likelihood of location in a CSR department and internal stakeholder pressures may reflect the importance attached to internal stakeholders in high-wage industries and the significant managerial costs inherent in charitable strategies that include a significant labor content either through matched contributions or staff time.

The investigation sheds light on the evolving roles of functional departments within organizations in light of generally increasing pressure on them to consider their social responsibilities. The results suggest that the capabilities of a wide variety of existing functional departments are deployed by companies in an attempt to effectively manage their relationships with stakeholders. The findings suggest that firms may make strategic decisions with respect to the location of control of these activities within the firm, placing the control of contributions in a department that emphasizes the strategic benefits to the firm of making charitable donations. Where these benefits are derived from influencing external stakeholder groups, location in an outward-facing business function is favored, particularly among consumer-goods producers. Where these benefits are derived from enhanced employee motivation, loyalty, or improved recruitment and retention, firms are more likely to locate control in a CSR department and less likely to choose an outward-facing department for the management of their charitable activity.

The current study suffers from a number of limitations that could be addressed in future work. First, we encountered the usual problems involved in making causal inferences in the context of a cross-sectional study. These are most acute in understanding the relationships between perceived stakeholder pressures and organizational forms. We have suggested that firms allocate the management of their donations function to departments that are best able to cope with the nature of their prevailing stakeholder environments. However, it could also be that those departmental allocations alter the nature of stakeholder pressures as perceived by the organization. Second, our analysis focused on the management of one component of corporate community expenditures: cash giving to charities. Clearly, organizations often make significant contributions to communities via support for staff volunteering, and making gifts in kind and future work could address the significance of these facets of community involvement and their management in greater detail. Third, given that firms with significant externally oriented departments may be more likely to respond to our survey, it is possible that we oversampled businesses that manage their corporate giving in an externally oriented business department, and therefore care should be taken in interpreting some of our results. In addition, we encountered some statistical issues concerning small subsamples (particularly among management in particular functional departments) employed in our analysis. Future work could seek to address these issues through the collection of additional data.

Because environmental scanning is a key part of issues management activities, we might expect that externally oriented departments would have a heightened sensitivity to developments in the external stakeholder environment. These organizational structures are therefore expected to enhance the effectiveness of corporations in business climates that demand increasingly high standards of social responsibility. Developments of this work could examine whether linkages between such stakeholder management structures and organizational effectiveness exist, how strong they are, and which elements of effectiveness (e.g., financial performance, organizational survival, reputation) they are associated with.

NOTES

1. Earlier work has highlighted that corporate community investments can take a variety of forms including cash gifts, employee volunteering, giving of inventory, and so on (see Adams & Hardwick, 1998; Smyth, 2000). It should be noted that our analysis focuses on the location of responsibility for the largest component of overall community involvement expenditures: cash donations to charities.

2. Of course, it may very well be that, proportionally speaking, smaller organizations are comparatively vulnerable to stakeholders. The issue is whether the higher level of pressure (for social responsiveness) on larger organizations is sufficient to generate additional tasks (such as those associated with managing a larger volume of requests for donations) that warrant some differential form of organization compared to small firms.

3. A full discussion of the nature of the FTSE4Good Index is provided in the Method section.

4. Implicitly, the view adopted is that delegation occurs from the head of the organization downward through the organizational hierarchy; that is, that we understand *delegate* to mean "delegate a task to a subordinate." As an anonymous reviewer highlighted, this needn't necessarily be so.

5. Our a priori expectation is that, in addition to the top management team, the marketing, CSR, PR, and corporate communications functions are externally oriented in the sense that their primary roles are associated with managing the relationship between the firm and its external environment. The HR function is expected to be internally oriented. Ultimately, the orientation of a department is revealed in its actions and duties.

6. Questions concerning firm giving did not form part of our survey. Instead, we relied on independently available data collected from company accounts that was validated through the use of directories of corporate giving in the United Kingdom.

7. Therefore, our response rate is 29.3% of all companies contacted, or, alternatively, 77.1% of those to whom the questionnaire was sent.

8. Respondents were asked to identify, on 5-point Likert-type scales, the importance of five tasks associated with the management of corporate donations.

9. For example, if HSBC Holdings (the largest bank listed on the LSE) were excluded from our analysis the average level of total assets held by the remaining 179 firms falls by over £2 billion.

10. The original seven classifications were: top team, corporate communications, PR, marketing, HR, community involvement, and CSR. This was subsequently reduced to the

final five groups by the combination of corporate communications with PR and of community involvement with CSR.

11. Descriptive statistics and correlation coefficients for the dependent variable would, given its categorical nature, be meaningless.

12. It is noticeable that firm profitability (ROTA) is low by historical standards and highly variable. This reflects the downturn on economic activity in the U.K. during the sample period.

13. The marginal effects are evaluated at the variable means.

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