

Having, Giving, and Getting: Slack Resources, Corporate Philanthropy, and Firm Financial Performance

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This study investigates financial correlates of corporate philanthropy in Fortune 1000 companies using structural equation modeling. The results suggest that cash flow (one of the most discretionary types of organizational slack) has a significant impact on a firm's cash donations to charitable causes, but monetary donations do not affect firm financial performance. These findings support the accepted view of corporate philanthropy as a discretionary social responsibility and the traditional thinking about firm giving in the business and society literature—that doing well enables doing good. Contrary to some contemporary thinking, the findings imply no significant effect on profits from corporate generosity.

Keywords: *corporate philanthropy; financial performance; cash flow; organizational slack*

Thousands of businesses jointly donate billions of dollars each year to charitable causes such as education, arts and culture, human services, community improvement, medicine, science, environmental protection, and others. Yet, the proportion of aggregate profits given to philanthropic causes ebbs and flows over time. During the 1990s, whereas profits soared, corporate philanthropy fell from rates well over 2% of pretax profits to levels between 1% and 1.5% (Aldrich, 2000; American Association of Fundraising Counsel, 2002; Hunt, 2000; Langley, 1999). Because of the considerable variation in giving among firms, researchers have tried to identify the factors that determine how much a firm gives. For example, prior studies have investigated CEO attributes (e.g., Atkinson & Galaskiewicz, 1988; Buchholtz, Amason, & Rutherford, 1999; Galaskiewicz, 1997), firm size (e.g., Adams & Hardwick, 1998;

Boatsman & Gupta, 1996), corporate governance (e.g., Bartkus, Morris, & Seifert, 2002; Wang & Coffey, 1992), and industry effects (e.g., Navarro, 1988; Useem, 1988), among other possible predictors. This study investigates key financial correlates of corporate philanthropy at the firm level. Specifically, we examined the relationship between having and giving (i.e., is corporate philanthropy dependent on the availability of slack resources) as well as the relationship between giving and getting (i.e., does corporate philanthropy have an impact on the profitability of the firm). We believe these questions are conceptually interrelated, and we examine them simultaneously using structural equation modeling. Because firm size has been such a dominant predictor of both corporate philanthropy and firm financial performance, we carefully controlled for firm size in our models.

Corporate philanthropy has long been regarded as a corporate social responsibility and, thus, a measure of a firm's corporate social performance (CSP; Carroll, 1979, 1991). The elusive link between CSP and firm financial performance is one of the most researched but least understood relationships in the field of business and society (Griffin & Mahon, 1997; Rowley & Berman, 2000; Wood & Jones, 1995). Researchers and theorists cannot agree on whether firms do good to do well or whether doing well enables a firm to do good. Implicit in the argument that doing well enables doing good is the notion that profitability generates slack resources that can be devoted to social responsibilities (Preston & O'Bannon, 1997; Waddock & Graves, 1997). This represents the traditional thinking about corporate philanthropy as a form of CSP (i.e., having leads to giving; firms are expected to give a certain percentage of profits back to the community in the form of charitable donations). Implicit in the argument that doing good leads to doing well is the notion that effective management of social responsibilities and stakeholders improves firm profitability (Berman, Wicks, Kotha, & Jones, 1999; Ullmann, 1985; Waddock & Graves, 1997). This represents a more modern view of corporate philanthropy, wherein Mescon and Tilson (1987), Smith (1994), and others have advocated strategic philanthropy (i.e., giving with an expectation of getting in return).

The assumption that corporate philanthropy depends on the availability of organizational slack is widely accepted in the business and society literature, yet few empirical tests of this relationship exist, and only one study (Buchholtz, et al., 1999) has gone beyond accounting returns to examine financial slack as a predictor of donations. We consider cash flow a more appropriate measure of slack resources than accounting returns in this context, because cash flow represents the uncommitted moneys that

are available for charitable and other discretionary purposes. Many firms have profits but insufficient cash flow.

The concept of strategic philanthropy, corporate philanthropy that helps both charitable causes and the firm's bottom line, has been seen in the business and society literature for more than 20 years (e.g., Fry, Keim, & Meiners, 1982). Although the existence of strategically motivated giving is both intuitively obvious and empirically documented (Saiia, Carroll, & Buchholtz, 2003), there is little research evidence that giving has a positive effect on firm financial performance. We extend existing research by building a causal model to test this relationship. Moreover, unlike most previous studies that have relied on accounting measures of firm financial performance, we use a market measure of financial returns. The advantage of using market-based returns is that they allow the researcher to discover if investors capitalized expected future benefits and costs. Particularly because strategic philanthropy may have the goal of enhancing a firm's image, which would likely impact several years of consumer behavior, job applicant decisions, and/or regulator predispositions, we expect that investors would recognize the advantages of corporate generosity. There is some research evidence that investors do capitalize future profits expected from social performance (see Jones & Murrell, 2001). Similarly, investors would expect a generous firm to have a better public image and therefore greater long-term profitability.

The conceptual model is shown in Figure 1, where having (cash flow) leads to giving (corporate philanthropy) and giving leads, in turn, to getting (firm financial performance). A number of factors besides slack resources/cash flow would be expected to influence corporate philanthropy; similarly, a number of factors besides firm giving would be expected to influence firm financial performance. These factors are shown with dotted lines in the figure.

THE EFFECT OF SLACK RESOURCES ON PHILANTHROPY

The Discretionary Nature of Corporate Philanthropy and Organizational Slack

Even though American companies have embraced corporate philanthropy ever since a Supreme Court ruling established its legality some 50 years ago (Smith, 1994), their responsibility to charities is somewhat ambiguous. By definition, responsibility implies obligation and accountability, whereas charitable donations are regarded as optional for firms

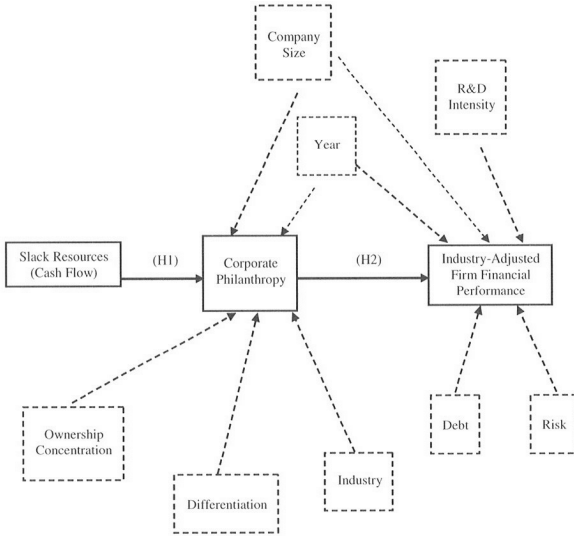


Figure 1. Conceptual Model of the Relationship Between Slack Resources, Corporate Philanthropy, and Firm Financial Performance (Dotted Lines Indicate Control Variables)

Note: H1 = hypothesis 1; H2 = hypothesis 2; R&D = research and development.

according to widely accepted models of corporate social responsibility (Carroll, 1979, 1991) and stakeholder salience (Mitchell, Agle, & Wood, 1997).

Carroll (1979, 1991) conceptualized a hierarchy of corporate social responsibilities. Because firms are fundamentally economic institutions, the most important corporate social responsibilities are economic—first and foremost, managers have an obligation to seek a just return for owners. After legal responsibilities and ethical responsibilities, last in the hierarchy are philanthropic responsibilities (Carroll, 1991), originally labeled discretionary responsibilities (Carroll, 1979). Surveys (e.g., Aupperle, Carroll, & Hatfield, 1985; O'Neill, Saunders, & McCarthy, 1989) indicate that corporate executives agree that corporate philanthropy is a discretionary responsibility and last in the hierarchy in importance. This ranking seems to hold across cultures (Maignan, 2001). As a discretionary form of corporate social responsibility, firm giving is considered voluntary rather than obligatory.

Similarly, Mitchell et al. (1997) considered charity recipients to be discretionary stakeholders. According to their rationale, the beneficiaries of corporate giving have legitimacy but typically lack the power and urgency necessary to become salient to organizational decision makers. According

to Mitchell et al. (1997), corporate executives therefore face little pressure to accommodate such discretionary stakeholders, although top managers may voluntarily choose to participate in philanthropic activities if they wish.

The discretionary nature of corporate philanthropy and charity recipients suggests that a firm's contributions depend not only on the CEO's discretion in decision making but also on the availability of discretionary resources. Discretionary resources constitute organizational slack, which is defined as spare or uncommitted resources, a cushion of resources beyond the minimum necessary to maintain the organizational coalition (Cyert & March, 1963), or excess resources beyond those needed to produce a given level of output (Nohria & Gulati, 1996).¹ Scholars have conceptualized numerous forms of slack resources (e.g., extra raw materials or labor, excess work-in-process inventory or machine capacity), but the most discretionary form is excess cash (Sharfman, Wolf, Chase, & Tansick, 1988).

Empirical Evidence About Slack Resources and Corporate Philanthropy

This section reviews literature suggesting that (a) nonfinancial slack resources may affect nonmonetary contributions from firms to charitable causes, (b) the timing of monetary donations is somewhat sporadic, and (c) corporate giving is related to the CEO's perception that slack resources are available. In addition, we explain that the link between available cash and cash donations is largely untested.

All forms of slack resources (such as extra inventory, labor, machines, space, or cash) can be deployed for charitable purposes, as corporate donations can be nonmonetary as well as monetary. Nonmonetary gifts include finished-goods inventory, use of facilities, managerial expertise, services, and employee release time for volunteer work. Brammer and Millington (2002) have examined corporate community involvement in the United Kingdom and found that the availability of labor and inventory is related to nonmonetary contributions to community programs. St. Clair and Tschirhart (2002) contended that employer and employee perceptions of slack in human resources can influence employee volunteer programs in the United States. These studies lend credence to the possibility that nonfinancial slack resources influence nonmonetary corporate philanthropy.

A common practice in the United States lends credence to the possibility that a firm's financial slack resources influence the corporation's monetary contributions. In the United States, monetary donations may be either given directly to independent charities or to a corporate-sponsored charitable foundation (a legal entity technically separate from the firm but

answerable to the firm's top management) that, in turn, gives to independent charities. According to Foundation Center statistics, the roughly 2,000 corporate-sponsored foundations account for nearly half of corporate contributions. It is not uncommon for a firm to make a sizable cash gift to its foundation in one year and the foundation to make donations to the ultimate charity recipients over several subsequent years (Thayer, 2003). Instead of giving a consistent amount to their charitable foundations every year, it appears that firms may give money when excess cash (i.e., slack) is available.

The most convincing evidence that organizational slack may affect monetary corporate philanthropy comes from Buchholtz et al. (1999), who found a positive relationship between perceived organizational slack (the CEO's rating of the firm's resource levels relative to other firms and relative to needs) and philanthropic giving among medium-sized firms in two industries.² Nevertheless, although a few other researchers have used perceptual measures of organizational slack to examine the relationship between slack resources and nonphilanthropic phenomena (e.g., Nohria & Gulati, 1996; Sharma, 2000), most researchers have preferred measures from publicly available financial data, as advocated by Bourgeois (1981). Using such archival data, Navarro (1988) looked at debt to equity ratios and changes in dividends in firms that made cash contributions to the arts. Although he framed his research question in terms of agency costs and corporate governance instead of organizational slack, dividends and debt/equity are accepted measures of slack resources (Bourgeois, 1981; Greenley & Oktemgil, 1998). As would be expected from the effect of debt on slack resources, Navarro (1988) found that higher debt deterred giving. Contrary to what would be expected from the effect of dividends on slack resources, Navarro (1988) found that increasing dividends were associated with more giving.

Several correlational studies (e.g., McGuire, Sundgren, & Schneeweis, 1988; Preston & O'Bannon, 1997; Waddock & Graves, 1997) found that firm financial performance was more positively related to subsequent social performance than to prior social performance—results that the authors attributed to profitable firms' likelihood of having more slack resources to devote to social responsibilities. Because these studies examined CSP in general, it is not clear what role the corporate philanthropy dimension of CSP played in the findings. In the case of monetary corporate philanthropy, both Adams and Hardwick (1998) and Galaskiewicz (1997) found that accounting returns (income over sales or income over total assets) predicted corporate donations—results that Adams and Hardwick expected because of the slack resources flowing from profits. Even though these results point to a positive relationship between prior

financial performance and either CSP or corporate philanthropy, the suggestion that the findings indicate a link between slack resources and corporate philanthropy is somewhat tenuous.

In the literature on organizational slack (Sharfman et al., 1988; Singh, 1986), financial performance is a precursor of slack resources rather than a measure of slack itself. Moreover, Buchholtz et al. (1999) criticized the use of accounting returns to measure slack resources on the grounds that income figures and profit margins do not reveal how much of a firm's resource pool has been committed and how much is left over for discretionary use. We agree that profits are not necessarily indicative of a firm's slack resources, and we propose that cash flow better captures the notion of resources available for discretionary purposes. Cash flow (according to Lehn & Poulsen, 1989) consists of a firm's operating income before depreciation minus the expenses considered to be nondiscretionary—interest on debt, taxes, and dividends.³ Because most of the firm's major obligations have been paid off, cash flow represents a discretionary resource and constitutes the funding available for charitable or other purposes. We know of no prior studies to examine the relationship between cash flow and corporate philanthropy.

We juxtapose corporate philanthropy and organizational slack in this study. Given that charitable giving is characterized as the most discretionary form of corporate social responsibility, it is reasonable to assume that firm donations would rise and fall with the availability of discretionary funds. Given that organizational slack is defined as discretionary resources and that cash is the most discretionary form of organizational slack, it is reasonable to expect a relationship between cash flow and firm giving. This rationale yielded the following hypothesis:

Hypothesis 1: Corporate philanthropy (in cash) depends on the availability of slack resources (cash flow).

THE EFFECT OF PHILANTHROPY ON FINANCIAL PERFORMANCE

The Strategic Philanthropy Concept

During the 1980s, management scholars and practitioners (e.g., Chrisman & Carroll, 1984; Drucker, 1984) began to articulate the view that a firm's social and financial objectives ought to be compatible rather than conflicting. The emerging thinking was that social responsibilities should be carried out in a way that enhances firm resources and profits; the

assumption was that good employee relations would increase productivity, a reputation for safe products or protecting the natural environment would attract customers, and so forth. At about the same time, the concept of strategic philanthropy was born. Mescos and Tilson (1987) described the trend of companies using charitable donations as part of a strategic plan for the purpose of gaining a competitive edge. A *Harvard Business Review* article (Smith, 1994) claimed that strategic philanthropy could enhance consumer name recognition and/or employee productivity, reduce research and development (R&D) costs, help overcome regulatory obstacles, and lead to similar benefits that could improve profitability. Today, strategic philanthropy has been defined as “the synergistic use of an organization’s core competencies and resources to address key stakeholders’ interests to achieve both organizational and social benefits” (Thorne, Ferrell, & Ferrell, 2003, p. 360). Strategic philanthropy thus has dual objectives: charity and profitability (Porter & Kramer, 2002; Saita et al., 2003). Carroll and Buchholtz (2003) drew the distinction between the more traditional concept of corporate philanthropy and the emerging concept of strategic philanthropy. Traditional corporate philanthropy is often described as giving back a portion of profits to the community to thereby establish or maintain the firm’s legitimacy and serve the firm’s enlightened self-interest. Whereas this form of corporate philanthropy would be expected to implicitly contribute to a firm’s long-term viability, the impact on financial performance could be difficult to detect. Strategic philanthropy is expected to more directly contribute to the firm’s profitability.

The resource-based view of the firm and resource dependence theory provide the theoretical foundations for strategic philanthropy. According to the resource-based view of the firm (Barney, 1991), for charitable donations to increase revenues or reduce costs (i.e., contribute to a competitive advantage/influence the firm’s financial returns), giving would have to enhance a unique and valuable resource. For example, corporate philanthropy might raise a firm’s brand name or reputation—two important intangible resources that are firm-specific and relevant to competitive advantage (Amit & Schoemaker, 1993). According to resource dependence theory (Pfeffer & Salancik, 1978), for charitable donations to increase revenues or reduce costs, giving would have to improve the availability of critical resources from key suppliers. For example, a firm might donate to community improvement projects in the city where its largest plant is located in an effort to coopt labor or local politicians. Some types of giving illustrate an overlap between the resource-based view and the resource dependence perspective on corporate philanthropy. For example, top managers wishing to improve employee productivity might allow workers to select local charity recipients and organize fund drives to either

enhance teamwork (a resource-based perspective) or induce worker loyalty and reduce turnover (a resource dependence motive). The rationale for strategic philanthropy is that firm giving appeals to customers, employees, the local community, and other stakeholders by fortifying a firm's resource base or mitigating its resource dependencies.

The Research Evidence About Giving and Financial Performance

A recent survey of corporate giving managers (Saiia et al., 2003) found that the practice of corporate philanthropy in the United States is becoming more strategic and less altruistic. A marketing-philanthropy connection bolsters the argument that corporate executives use firm donations strategically. Some scholars view corporate philanthropy as a form of indirect marketing (e.g., Carrigan, 1997; Mescon & Tilson, 1987; Useem, 1988), and there is considerable empirical evidence of a positive relationship between a firm's marketing efforts and giving behavior. Studies have found a correlation between charitable donations and advertising expenditures (Fry et al., 1982; Navarro, 1988); have identified marketing or reputation motives for corporate giving (File & Prince, 1998); and have noted that donations tend to be prominently featured in corporate publicity (Useem, 1988), except in the United Kingdom (Carrigan, 1997).

The research evidence about the relationship between corporate philanthropy and profitability is inconclusive. Even though Berman et al. (1999) found a positive relationship between CSP and accounting measures of financial performance, their findings were based on other forms of CSP; corporate philanthropy played virtually no role in their conclusions. Similarly, Griffin and Mahon (1997) found no correlation between accounting-based measures of financial performance and either broadly defined CSP or narrowly defined corporate philanthropy at seven large chemical firms.

Economists (Boatsman & Gupta, 1996; Navarro, 1988) have argued that, if corporate executives viewed philanthropy as profit maximizing/strategic, tax rates would not affect the level of giving. However, their findings are mixed. Navarro (1988) found no relationship between tax rates and the giving rate, but Boatsman and Gupta (1996) found a strong negative relationship between a firm's marginal federal tax rate and giving in dollars.

Because corporate contributions are likely to generate goodwill or public relations benefits, we expected a positive relationship between firm giving and financial performance. These considerations provided our second hypothesis:

Hypothesis 2: Corporate philanthropy (in cash) has a positive impact on a firm's financial performance.

METHOD

Sample

We chose the 1998 Fortune 1000 for our target sample. We selected all firms whose corporate philanthropy data appeared in the Taft *Corporate Giving Directory* for either 1997 or 1998, except for public utilities and banks/financial services companies (because of systematic operating and regulatory differences in these industries that could confound the results). This resulted in an initial sample of 191 firms. A cross-check of corporate philanthropy from the Foundation Center's *Foundation Directory* prompted us to eliminate an additional 34 firms because of contradictory giving data. We found complete data for 157 firms.⁴

Measures

Corporate philanthropy. We measured corporate philanthropy in two ways, both of which excluded nonmonetary donations because of a lack of comparable data across firms. We attempted to identify a firm's monetary donations for fiscal year 1998 but substituted 1997 data if necessary. When 1997 giving data were used, all of the firm's data were from 1997. A firm's cash payout was defined as the sum of its cash gifts either directly to charities or to its charitable foundation(s). Corporate-sponsored charitable foundations often receive donations from the firm in one year and contribute the moneys to charities over several subsequent years. A firm's charity impact was defined as the sum of funds that charities received either directly from a firm or from its charitable foundation(s) during the year. These two variables were divided by the firm's annual sales as a control for firm size.

Slack resources (cash flow). To measure cash flow, we follow the approach of Lehn and Poulsen (1989) and Lang, Stulz, and Walking (1991). Cash flow is equal to operating income before depreciation minus the sum of interest, taxes, preferred dividends, and common dividends. As a control for firm size, we divided cash flow by sales to get a measure of relative cash flow. The data source was Compustat.

Firm financial performance. We measured firm financial performance as the total return to shareholders (percentage change in stock price during the year of a donation plus dividends per share as a percentage of the beginning stock price). The data source was Compustat. We feel that measuring firm financial performance based on total stock market returns is particularly appropriate when examining the effects of corporate philanthropy. Stock prices are future oriented. Thus, the focus is on investor perceptions of expected long-term returns from philanthropy. This is especially relevant because strategic philanthropy may enhance a firm's image, thereby influencing stakeholder perceptions of the firm for several years.

Industry effects on profits are so pervasive that they are taken for granted in the fields of industrial organization economics, finance, accounting, and strategic management. Therefore, a control for industry was incorporated into our measure of firm financial performance from the beginning. We used Schonfeld & Associates' industry sector classification scheme⁵ to categorize 225 firms from the 1998 Fortune 1000 for which we could find corporate philanthropy data into 13 industry sectors. We computed the average total return to shareholders for each industry sector. The dependent variable we tested in our causal models was the industry-adjusted total return to shareholders (defined as the firm's total return to shareholders minus the industry sector average total return to shareholders). Notice that this variable would be positive if the firm were outperforming other firms in its industry sector and negative if the firm were underperforming in its industry sector.

Control variables for corporate philanthropy. A number of factors would be expected to affect corporate philanthropy besides slack resources/cash flow. For example, large firms have greater visibility, which would attract greater public scrutiny and a higher standard for corporate citizenship. Thus, a number of studies (e.g., Adams & Hardwick, 1998; Boatsman & Gupta, 1996; Buchholtz, et al., 1999; Galaskiewicz, 1997) have found a positive correlation between firm size and corporate philanthropy. After defining our corporate philanthropy variables as a percentage of sales to provide one control for firm size, we included asset size, defined as the log of total assets, to provide an additional check for firm visibility. The data were obtained from Compustat.

Corporate philanthropy is believed to vary by industry (Buchholtz et al., 1999; Useem, 1988). One possible explanation is that different product and service offerings generate different levels of business expo-

sure (Miles, 1987). Again, we used Schonfeld & Associates' industry sector classification scheme and categorized 225 firms from the 1998 Fortune 1000 for which we could find corporate philanthropy data into 13 industry sectors. For each industry sector, we computed the average cash payout and average charity impact. These industry sector averages were used to control for the effects of industry.

Corporate philanthropy is one of many special features that companies can offer to differentiate their products or services; moreover, firms that pursue a differentiation strategy are likely to provide multiple differentiated features (McWilliams & Siegel, 2001). As a proxy for differentiation, we used Hambrick's (1983) measure—selling, general, and administrative expenses as a percentage of sales (SG&A to sales)—as did Berman et al. (1999). The data source was Compact Disclosure Securities SEC.

The discretionary nature of corporate philanthropy implies that the CEO's discretion in decision making would affect firm donations. Buchholtz et al. (1999) found this to be the case in a survey of CEO perceptions in two industries. Several scholars have argued that ownership concentration would curtail the discretion managers have in making charitable donations and thus suppress corporate philanthropy. Whereas Adams and Hardwick (1998) and Galaskiewicz (1997) found no relationship between ownership concentration and firm giving, Atkinson and Galaskiewicz (1988) and Bartkus et al. (2002) found a negative relationship. To control for ownership concentration, we observed the number of large-block owners (#blockholders), according to the Compact Disclosure SEC database.

Because the year of the donation was 1998 for most firms in the sample but we had to substitute 1997 for some firms, we included a dichotomous control for year (1997 = 0, 1998 = 1). This would detect any significant change in giving behavior between years.

Control variables for firm financial performance. Following Waddock and Graves (1997), we controlled for the effects of industry, company size, and risk on firm financial performance. Controls for industry were built into our measure of firm financial performance (industry adjusted total return). Large size has been shown to affect profitability by providing greater economies of scale, economies of scope, and bargaining power versus suppliers and buyers (Porter, 1985). As before, we used asset size (the log of total assets) to control for company size. As a measure of market risk, we used beta. Waddock and Graves (1997) used long-term debt to total assets as a proxy for management's risk tolerance and found a negative relationship between debt and accounting returns, but the leveraging effect of debt can increase returns. Our debt variable, long-term debt over

shareholders' equity, controls for these effects. The data source for beta and debt was Compustat.

McWilliams and Siegel (2000) argue forcefully that studies of the relationship between corporate social and financial performance should take into account spending on R&D because of its demonstrated effect on firm financial performance. They found that CSP has a neutral impact on accounting measures of financial performance when R&D spending is included as a control. Therefore, we included R&D intensity (spending on R&D as a proportion of sales). The data sources were Schonfeld & Associates' *Research and Development Growth Trends* and Compustat.⁶

We once again included a dichotomous control for year (1997 = 0, 1998 = 1), as external factors such as general economic conditions or stock market fluctuations could vary over time. A positive relationship between year and financial performance would indicate that conditions were more favorable for profits across the board in 1998, and a negative relationship would indicate that conditions were more favorable in 1997.

Statistical Procedures

We believe that the best way to test Hypotheses 1 and 2 is to view them as part of a simultaneous set of equations as opposed to examining each hypothesis separately. Logically, these hypotheses are connected and not disjoint. The particular structural equation modeling package we used was AMOS (Analysis of Moment Structures).

RESULTS

Descriptive statistics are provided in Table 1. Figure 2 presents the results from the structural equation modeling. We tested two models, one for each measure of corporate philanthropy: (a) cash payout, or the cash a firm donated to charities and to its charitable foundation(s) during the year, and (b) charity impact, or the gifts that charities received from a firm and its foundation(s) during the year. Parameter estimates and goodness-of-fit statistics for each of the full models are provided in the appendix.

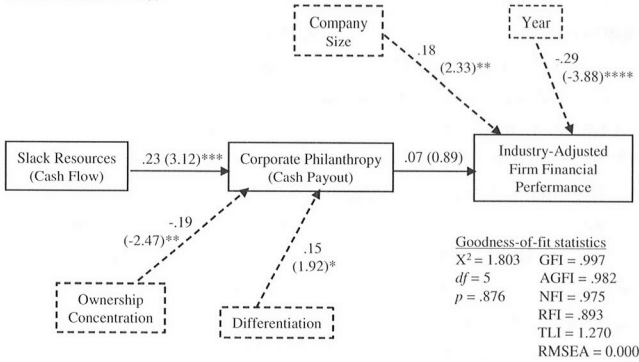
Hypothesis 1 predicted that corporate philanthropy would depend on cash flow. We found support for this hypothesis regardless of how corporate philanthropy was measured. For cash payout (Figure 2, Model A), the path parameter estimate was positive and significant, $t = 3.12$, $p \leq .01$; for charity impact (Figure 2, Model B), the path parameter estimate was also positive and significant, $t = 2.29$, $p \leq .05$. Hypothesis 2 predicted that cor-

Table 1
Descriptive Statistics and Correlations (N = 157)

Variable	M	SD	1	2	3	4	5	6	7	8	9	10	11	12
1. Corporate philanthropy (cash payout/sales)	0.00052	0.00062												
2. Corporate philanthropy (charity impact/sales)	0.00073	0.00062	.75**											
3. Slack resources (cash flow/sales)	0.102	0.060	.25**	.24**										
4. Company size (log of total assets)	9.76	0.53	.10	.05	.10									
5. Ownership concentration (# blockholders)	2.94	2.28	-.22**	-.18*	-.06	-.34**								
6. Differentiation (SG&A to sales)	0.205	0.129	.19*	.24**	.06	-.00	-.15							
7. Industry control 1 (industry sector average payout)	0.00052	0.00022	.10	.17*	.20*	.11	-.12	.14						
8. Industry control 2 (industry sector average charity impact)	0.00069	0.00019	.13	.29**	.28**	.10	-.14	.29**	.75**					
9. Year (1997 = 0, 1998 = 1)			-.08	-.03	-.07	-.03	.03	.00	-.05	-.11				
10. R&D intensity (R&D to sales)	0.041	0.047	.24**	.26**	.47**	.16*	-.08	.15	.09	.41**	-.01			
11. Risk (beta)	0.933	0.299	-.15	-.18*	.17*	.11	.21**	-.04	-.04	-.02	.06	.18*		
12. Debt (long-term debt to equity)	0.813	1.377	.10	.10	.05	.06	.15	.01	-.08	-.08	-.11	-.09	-.09	
13. Industry-adjusted firm financial performance (industry-adjusted total return to shareholders)	0.012	0.291	.11	-.00	.08	.19*	-.14	.06	-.01	.03	-.30**	.06	.10	.08

Note: SG&A to sales = selling, general, and administrative expenses as a percentage of sales; R&D = research and development.
* $p < .05$. ** $p < .01$.

Model A (cash payout as measure of corporate philanthropy)



Model B (charity impact as measure of corporate philanthropy)

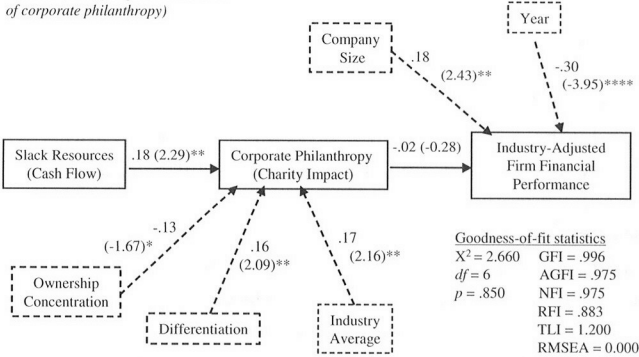


Figure 2. Results of Structural Equation Modeling^a

Note: GFI = Goodness-of-Fit Index; AGFI = Adjusted Goodness-of-Fit Index; NFI = Normed Fit Index; RFI = Relaxed Fit Index; TLI = Tucker-Lewis Index; RMSEA = root mean square error of approximation.

a. Path coefficients are standardized regression weights (t -values in parentheses).

* $p \leq .10$. ** $p \leq .05$. *** $p \leq .01$. **** $p \leq .001$.

porate philanthropy would affect firm financial performance. We found no support for this hypothesis.⁷

We controlled for the effects of five variables on corporate philanthropy: asset size, number of blockholders, SG&A to sales, the industry sector average corporate philanthropy, and the year. We found no effects for asset size or year of donation. As can be seen in Figure 2, the path parameter estimate for number of blockholders was consistently negative ($t = -2.47$, $p \leq .05$ in the case of Model A/cash payout and $t = -1.67$, $p \leq .10$

in the case of Model B/charity impact), whereas the path parameter estimate for SG&A to sales was consistently positive ($t = 1.92, p \leq .10$ in the case of Model A/cash payout and $t = 2.09, p \leq .05$ in the case of Model B/charity impact). When corporate philanthropy was measured as charity impact (Figure 2, Model B), the path parameter estimate for industry sector average charity impact was positive and significant, $t = 2.16, p \leq .05$; however, when giving was measured as cash payout (Model A), we found no effect for the industry sector average cash payout.⁸

We controlled for the effects of five variables on firm financial performance: asset size, R&D intensity, beta, debt, and year. We found no effects for R&D intensity, beta, or debt. As can be seen in Figure 2, regardless of how corporate philanthropy was measured, the path parameter estimate for the effect of asset size on industry-adjusted total return was positive and significant, whereas the path parameter estimate for the effect of year on industry-adjusted total return was negative and significant.⁹

DISCUSSION

The purpose of this study was to investigate the financial correlates of corporate philanthropy at the firm level. Our research questions were: Does having lead to giving, and does giving, in turn, lead to getting? Whereas previous studies have examined these questions separately, because the questions are conceptually interrelated, we tested them simultaneously using a system of structural equations. Our findings suggest that slack resources in the form of cash flow precipitate firm giving. However, we can find no effect of giving on market-based financial performance. The role of organizational slack in CSP has enjoyed renewed attention in emerging research (e.g., Bowen, 2000; Brammer & Millington, 2002; Sama, 1998; St. Clair & Tschirhart, 2002). Our results suggest that organizational slack plays a significant role in corporate cash donations to charitable causes.

The findings with regard to cash flow and firm giving make an important contribution to our understanding of the effects of firm size on charitable donations. It is well accepted in the literature that size matters—large firms give more in dollars (Wood & Jones, 1995). Empirical results bear this out (e.g., Atkinson & Galaskiewicz, 1988; Boatsman & Gupta, 1996; Buchholtz et al., 1999; Galaskiewicz, 1997). We measured firm donations as a percent of sales and included the log of total assets as an additional control variable. Interestingly, we found that firms with relatively more slack resources (cash flow/sales) give relatively more (corporate philanthropy/sales). Although all of the firms in our sample were

large, they ranged in size from less than \$1 billion to more than \$300 billion in total assets. As can be seen in Table 1, the correlation between relative corporate philanthropy (either cash payout/sales or charity impact/sales) and company size was not significant. Thus, the path coefficient between company size and relative corporate philanthropy was not significant in any model we tested. As a practical matter, large firms give more in dollars, but our results imply that firm size does not affect relative giving. Instead, we find that relative slack resources drive the giving rate.

Our findings support the discretionary aspect of corporate philanthropy (see Carroll, 1979; Mitchell et al., 1997). Although several scholars (e.g., Adams & Hardwick, 1998; McGuire et al., 1988; Preston & O'Bannon, 1997; Waddock & Graves, 1997) inferred that good financial performance provides adequate slack resources for firms to devote to social and/or philanthropic activities, we felt that separating currently available slack from past financial performance was a more rigorous test of the discretionary nature of firm giving. As Buchholtz et al. (1999) pointed out, profits are a crude proxy for slack resources. We believe our measure of slack resources (operationalized as cash flow—operating income before depreciation less interest, taxes, and dividends) to be a superior means of identifying the likelihood of uncommitted resources.

We included several control variables that can provide some insights about firm giving. First, although slack resources had the strongest effect on corporate philanthropy, it appears that ownership concentration (i.e., number of blockholders) had a negative effect on donations, and differentiation (proxied by SG&A to sales) had a positive effect. The significance of ownership concentration is consistent with previous findings of Bartkus et al. (2002): The presence of large-block owners tended to suppress charitable giving. It appears that both discretionary resources (in the form of cash flow) and the manager's discretion in decision making (which would be limited by ownership concentration) are important. Whereas Buchholtz et al. (1999) found that the CEO's perception of slack and perception of latitude in decision making mattered, we find consistent evidence from financial measures.

The significance of differentiation suggests that competitive positioning and strategy does influence giving decisions, even though we found no evidence that corporate philanthropy enhances financial performance. This is puzzling. Perhaps some firms are extending fewer dollars to charitable recipients through their philanthropic donations, yet the public still perceives an enhanced product image from funds spent on cause-related marketing. Cause-related marketing is a rapidly growing phenomenon (Barone, Miyazaki, & Taylor, 2000), where companies donate to charities contingent upon customer purchases or jointly advertise the company's

products and a particular charity (Varadarajan & Menon, 1988). Technically, if cause-related marketing is a marketing expense, it is not philanthropic behavior. Thus, studies of corporate philanthropy would not include the funds spent on causal marketing, and studies of causal marketing may not include funds extended to charities with a less tightly focused marketing connection.

When we defined corporate philanthropy as the donations that charities *received* (either directly from a firm or from the firm's charitable foundation), the industry average donation was a significant predictor of firm giving. However, this was not the case when corporate philanthropy was defined as the cash that a firm *paid* (either directly to charities or to the firm's foundation). We found this to be particularly interesting. In terms of charity impact—what customers, employees, regulators, and other stakeholders most readily see—both firm-specific differentiation and industry-wide norms mattered. By contrast, in terms of cash payout—what stockholders would presumably care most about—industry norms did not come into play but firm-specific differentiation did. We believe this suggests that executives consider the *impact* of philanthropy (and perhaps their causal marketing efforts) carefully in conjunction with their differentiation strategies (competitive positioning). Industry norms appear to pressure firms to create an image of generosity, even though firms' stockholders may limit executive discretion in philanthropic gestures.

We believed that investors would view strategic corporate philanthropy in a positive light. If this were the case, logically, investors would expect a generous firm to have a better public image and therefore greater long-term profitability. A positive change in the stock price of the firm would indicate the expectation of greater long-term profitability. We did not find this effect. We cannot completely rule out alternative explanations for this result. Perhaps, as we have already suggested, we have an incomplete picture of corporate giving today; many firms give generously through nonmonetary contributions (which are largely unobservable among our target sample) and/or channel money into cause-related marketing (which would appear in the marketing budget instead of the philanthropy budget). Perhaps firms do not yet give strategically enough. This is the argument of Porter and Kramer (2002), who sharply criticized most corporate philanthropy—numerous small donations to disparate charities—as nothing more than ineffective public relations. Perhaps shareholders prefer to give to charities on their own instead of giving through their investments. Shareholders do not penalize firms for giving, but neither do they reward it. Or perhaps shareholders are not adequately informed about firm contributions for corporate philanthropy to have an impact on stock

prices. Testing these possible explanations is beyond the scope of this study.

LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

This study suffers from several limitations brought about by the difficulty in obtaining corporate giving data. First, we used cross-sectional data on corporate contributions even though much could be learned from longitudinal data. Despite the inconsistency in annual reporting that hinders longitudinal studies, we urge future researchers to strive for information about giving across several years.

Furthermore, to obtain shareholder data, we restricted our sample to U.S. firms. This was an unfortunate concession to practicality given ample evidence of recent growth in international corporate philanthropy. U.S. firms are giving more abroad (PNN Online, 2002), foreign firms are giving more in the United States (according to the Foundation Center's annual profile of the 1000 largest foundations in the United States), and corporate philanthropy is well accepted in various parts of the world (e.g., Adams & Hardwick, 1998; Sanchez, 2000). Studies that compare corporate philanthropy across national boundaries are needed, particularly because of the finding that giving has a relationship to firm differentiation and many domestic firms' products are now in direct competition with products from foreign firms.

Finally, we had to ignore nonmonetary (or in-kind) giving, as we could obtain pertinent information for only 26 of the 157 firms in our sample. Giving of products or employee release time for volunteer work seems particularly relevant to strategic philanthropy, as it is easy to see how such donations might cut costs or enhance revenues. Nonmonetary philanthropy can be used to dispose of excess inventory (e.g., perishable food given away to food banks, soon-to-be-obsolete computer hardware given away for educational purposes); to create goodwill (for example, a beverage company's distribution of free drinking water to hurricane victims, a pharmaceutical company's donation of low-cost AIDS drugs in Africa); and/or to motivate employees. Unfortunately, nonmonetary giving among U.S. firms is very difficult to examine empirically, as few firms report it, and comparison among firms is complicated by the lack of accounting standards for assigning a cash value to the many types of nonmonetary gifts.

CONCLUSION

In sum, this study extends previous work on corporate philanthropy in the United States by employing a more rigorous methodology (structural equation modeling) and a more precise measure of slack resources (cash flow as a percent of sales) than have been used in prior studies. Whereas previous research has found firm size to be the major determinant of giving in dollars, we find that relative giving (corporate philanthropy/sales) depends on the availability of slack resources. Our results serve to bolster the traditional thinking that doing well enables doing good, but they neither support nor contradict the emerging view of strategic philanthropy (doing good to do well). Although we cannot document corporate giving that provides both social and corporate benefits, it appears that society benefits while firm owners do not lose when firms contribute to charitable causes.

APPENDIX
Results of Structural Equation Modeling (Full Models)

Model 1 (Cash Payout/Sales as a Measure of Corporate Philanthropy)

		Path Coefficient (Standard Regression Weight)	Critical Value (t-value)
Hypothesis 1: slack resources (cash flow/sales)	>>	corporate philanthropy	.23 (2.97)***
Control: company size	>>	corporate philanthropy	.02 (0.23)
Control: ownership concentration	>>	corporate philanthropy	-.18 (-2.21)**
Control: differentiation	>>	corporate philanthropy	.15 (1.92)*
Control: industry average	>>	corporate philanthropy	.01 (0.14)
Control: year	>>	corporate philanthropy	-.06 (-0.82)
Hypothesis 2: corporate philanthropy	>>	industry-adjusted financial performance	.08 (1.10)
Control: company size	>>	industry-adjusted financial performance	.16 (2.10)**
Control: R&D intensity	>>	industry-adjusted financial performance	-.01 (-0.06)
Control: risk	>>	industry-adjusted financial performance	.12 (1.55)
Control: debt	>>	industry-adjusted financial performance	.04 (0.58)
Control: year	>>	industry-adjusted financial performance	-.29 (-3.90)****
Goodness-of-fit statistics:			
$\chi^2 = 12.327$	GFI = .986	RFI = .458	
df = 7	AGFI = .870	TLI = .661	
p = .090	NFI = .931	RMSEA = .070	

(continued)



APPENDIX (continued)

Model 2 (Charity Impact/Sales as a Measure of Corporate Philanthropy)

	Path Coefficient (Standard Regression Weight)	Critical Value (t-value)
Hypothesis 1: slack resources (cash flow/sales)		
>> Control: company size	.18	(2.32)**
>> Control: ownership concentration	-.03	(-0.41)
>> Control: differentiation	-.14	(-1.71)*
>> Control: industry average	.16	(2.05)**
>> Control: year	.18	(2.17)**
Hypothesis 2: corporate philanthropy		
>> Control: company size	.00	(0.04)
>> Control: R&D intensity	-.01	(-0.18)
>> Control: risk	.17	(2.19)**
>> Control: debt	.02	(0.28)
>> Control: year	.10	(1.29)
Goodness-of-fit statistics:		
$\chi^2 = 15.088$		
$df = 7$		
$p = .035$		
	GFI = .455	
	TLI = .609	
	RMSEA = .086	

Note: R&D = research and development; GFI = Goodness-of-Fit Index; AGFI = Adjusted Goodness-of-Fit Index; NFI = Normed Fit Index; RFI = Relaxed Fit Index; TLI = Tucker-Lewis Index; RMSEA = root mean square error of approximation.
* $p \leq .10$. ** $p \leq .05$. *** $p \leq .01$. **** $p \leq .001$.



NOTES

1. Organization theorists (Bourgeois, 1981; Cyert & March, 1963; Sharfman et al., 1988) posit that slack resources are essential to cope with internal pressures (i.e., resources as inducements and for conflict resolution) and environmental change (i.e., resources for experimentation and adaptation). Although slack resources connote inefficiency from the perspective of neoclassical economics, organization theorists argue that the benefits of slack resources outweigh the costs up to some optimal level, beyond which additional slack resources would damage the financial performance of the firm.

2. This relationship was mediated by the CEO's latitude in decision making and partially mediated by the CEO's values.

3. Although one could argue that dividends should be considered discretionary, CEOs have found it difficult to wean shareholders off of the dividends they have become accustomed to receiving.

4. The average size of the sample firms was \$15 billion in total assets, with a range of \$783 million to \$304 billion, and the average net sales was \$12 billion (range \$934 million to \$159 billion). On average, firms donated \$3.58 million directly to charities (range \$0 to \$47 million). The average gift to corporate-sponsored charitable foundations was \$3.35 million (range \$0 to \$100 million), whereas the average donation from a corporate-sponsored foundation to charities was \$4.41 million (range \$0 to \$37 million). Sample firms were in oil, gas, and chemicals ($n = 27$); consumer products ($n = 26$); natural resources and materials ($n = 25$); industrial equipment and furnishings ($n = 19$); health care ($n = 14$); transportation and travel ($n = 13$); electronics and scientific instruments ($n = 10$); and computers and software ($n = 10$) with two to four firms in each of the following industries: communication products and services, retailing, construction and real estate, wholesale distribution, and services other than finance or health care.

5. Schonfeld & Associates, Inc., systematically collects annual advertising, research and development (R&D), workforce, and other data for thousands of companies. They classify companies based on their four-digit Standard Industrial Classification codes into 15 industry sectors: natural resources and materials; oil, gas, and chemicals; consumer products; health care; public utilities; retailing; financial services; electronics and scientific instruments; computers and software; industrial equipment and furnishings; transportation and travel; services except health care; construction and real estate; communication products and services; and wholesale distribution. The public utilities and financial services sectors were not relevant to our study.

6. The availability of data on R&D spending is a constraining factor in this type of research. Although we could find charitable giving data for 248 firms in the 1998 Fortune 1000, we could find R&D data for only 157 of these firms.

7. To provide a thorough test of Hypothesis 2, we created two additional models based on an accounting measure of financial performance: return on assets (ROA; defined as income before extraordinary items divided by total assets). We defined the relevant time period for ROA as the year after a charitable donation—the time lag used by Preston and O'Bannon (1997) and Waddock and Graves (1997). Controlling for industry as we had done with total return to shareholders, we created the industry-adjusted ROA (the firm's ROA minus the industry sector average ROA). With the possible exception of R&D intensity, the path coefficients for the models using industry-adjusted ROA as the measure of firm financial performance were very similar to the path coefficients for the models shown in Figure 2. However, no models using industry-adjusted ROA achieved a sufficiently good chi-square to explore further.

8. A variation of these models was run by using industry-adjusted charity impact (the firm's charity impact minus the industry sector average) or industry-adjusted cash payout (the firm's cash payout minus the industry sector average) as the dependent variable and then eliminating industry sector average charity impact or industry sector average cash payout as one of the control variables. We did this to eliminate any possible concern over the inclusion of a variable with only 13 different values. The significant paths remained the same when these substitutions were made.

9. The negative path parameter estimate for year indicates that the overall stock market experienced higher performance in 1997 than in 1998.

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