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A STUDY OF EXECUTIVE'S VIEWS AND THE DECISION PROCESS OF LARGE CORPORATIONS IN MAKING PHILANTHROPIC CONTRIBUTIONS

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A STUDY OF EXECUTIVE'S VIEWS
AND
THE DECISION PROCESS OF LARGE CORPORATIONS
IN MAKING PHILANTHROPIC CONTRIBUTIONS

Joseph C. Dorgan

A dissertation submitted to the faculty of the Graduate School of Business, Pace University, in partial fulfillment of the requirements for the degree of Doctor of Professional Studies in Management.

1979

As in most dissertations, the culmination of the research reflects the efforts of the writer, but without the interest and expenditure of time by many others, accomplishment might never take place. Such has been the situation with this research.

I would like to thank the members of my dissertation committee at Pace University, Dr. Earl Zack, Dr. Frederick Hauser, and especially the Chairman, Dr. William Welty for their patience and guidance. In addition, without the strenuous, dedicated and persistent efforts in typing by Mrs. Elsie Sabo this dissertation would never have been accomplished. Among the many others who were of grest assistance were Mr. Leyland Cobb, President, The Association of New Jersey Colleges and Mr. Moreau Brown, Former Vice President, Council for Financial Aid to Education.

PRECIS

The basis of all organizations and how they function is directly related to people and more specifically to the managers of corporations. Corporate philanthropy, based upon the total dollars given each year, is big business. The problems considered in this research are how do executives of large corporations view philanthropy by business and the decision-making process used to determine the amounts and their allocation in light of varied and often conflicting pressures.

To accomplish the necessary research a questionnaire was mailed to the chief executive officers of four hundred ninety two of the largest United States corporations. This information along with that developed in interviews formed the foundation for this study.

This research has found that the most outstanding factor limiting greater contributions by corporations is the effect on profits. While corporations may legally give up to five percent of their pretax income to recognized philanthropies, the historic average has been one percent and there is little probablility that this will increase. If there is to be an increase in corporate philanthropy, it will not be on a percentage basis but must be accomplished through widening the

base of support. Without a substantial growth in contributions, the potential exists for an even greater role by government in supporting philanthropy.

The two outstanding factors in developing the giving budget are corporate image and societal pressures. However, there exists a paradox inasmuch as most corporations neither identify the amount of their contributions nor the recipients. While many corporations have established a giving philosophy, many have not formalized a procedure to determine the amounts to be expended and typically have practically no staff for administrating philanthropy.

The personal charitable philosophy of many chief executive officers remains an influence in corporate giving while the role of the stockholders, the owners, has little if any effect. There is however, the tendency of executives to support causes which their peers both within and outside the corporation find of personal interest. The use of a quid pro quo is used both by executives among themselves as well as between donor and donee. While the demands for corporate support grow, today's executive has not found this to be either a blessing or a curse.

Corporate philanthropy will continue on its present course with little deviation. While the dollars available may grow, the clamor for them will be made by more organizations. Business giving will continue to be determined by the

pressures of society and will never lead in social responsibility but always move as a result of the forces which it considers to be most threatening.

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CHAPTER I

INTRODUCTION

In recent years the social structure in the United States has undergone substantial change. A larger middle class has developed, greater recognition of minorities and women has taken place, and many traditions, roles, attitudes and values have been altered or eliminated. During this metamorphosis the function of business as more than just a profit producing entity has been examined and debated. Not only has the role of business been questioned, but business and its managers have found themselves caught in the cross currents, not always sure how to proceed. The subject of corporate philanthropy serves as an excellent example of the change and confusion that mark the relationship between contemporary business and the larger society of which it is a part.

THE PROBLEM

Statement of the Problem

The problem is to investigate the administrative structure of corporate philanthropy and the role of executives who are involved in making decisions about philanthropic contributions by large business corporations.

Specific Problems

The first problem is to determine executives' views regarding corporate philanthropic contributions in the face of conflicting pressures from stockholders, customers, employees, and society in general.

The second problem is to examine the decision-making process by which business corporations determine the size and allocation of philanthropic contributions.

Definition of Terms

The following definitions will be used for the purpose of this study.

Business corporation refers to an institution whose prime function is to produce goods and services for profit.

Philanthropy is considered to be a charitable function which disburses funds for the general or specific needs of all or a part of society. This definition excludes all but business giving of a cash nature.

Executive refers to "a person or group of persons having administrative or supervisory authority."[1] In addition the use of the term "manager" will be used synonymously with "executive."

1) The Random House Dictionary, unabridged ed. (1966).

Delimitations

This study will consider only monetary charitable contributions made totally for domestic application within the United States and will exclude all other types of funding or support such as management assistance, works of art, educational programs and time off for employees. For purposes of this study, corporate giving will include grants made by company foundations but will exclude grants by corporations to their foundations. Only those companies ranked in the first four hundred industrial corporations by Fortune magazine in 1977, and the first twenty in each of the areas of commercial banking, life insurance, diversified financial, retailing, and transportation will be a part of this study.

BASIC ASSUMPTIONS

It is assumed that corporate executives play a decidedly important role in business giving. Although managers may or may not direct how much and to whom their corporations will give, if they give at all, it is assumed that they will have a strong influence on whatever philanthropic policy is pursued.

BASIC HYPOTHESES

It is hypothesized that corporate activity in philanthropy is more often the result of forces external to the business,

such as societal pressures, than of the particular social interests of individual executives.

It is further hypothesized that the decision making procedure used in corporate philanthropy is generally informal or without a planned and fixed structure.

THE NEED FOR THE STUDY

The Social Report of the Prudential Insurance Company of America expresses the dilemma of business:

> This report is one of many attempts being made within corporations as well as in academic and political circles to establish criteria for defining the role of the corporation and its impact in contemporary life. As the reader can assess, Prudential does not have all the answers nor are the criteria set forth here for measuring corporate social responsibility necessarily applicable to other institutions. In this, as in every area of our business, we will be searching for new ways to be useful, new ways to contribute to the quality of our individual and collective lives, for ourselves, yes, but also for the generations to follows.[2]

The problem is not only how business faces the present social needs, but, and of perhaps even greater significance, how the manager of tomorrow will meet societal demands. In Managing the Socially Responsible Corporation, a collection of the Garrett Lectures delivered by a group of distinguished business and professional leaders at Columbia University's Graduate School of Business, reference is made to Courtney C. Brown, Dean Emeritus of Columbia.

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2) H. Van Lenten, ed., Social Report (Newark: The Prudential Insurance Company of America, 1976). p. 42.

"Dr. Brown recognized at the outset of his occupancy of the Garrett Chair the importance of a central focus of attention on management problems associated with implementing corporate social responsibility...."[3] Melvin Anshen adds to Brown's concern: "American society is at a stage in its development when it needs, expects and is beginning to demand a range of business behavior radically different from the previously accepted and approved pattern of business performance. The evolutionary process can be described as the creation of a new social contract between society and business."[4] Anshen goes on to illustrate the obstacles faced by business as a result of the social change. "Business responses to the requirements of the new social contract present difficult, often new, management problems for corporate executives. The problems range from goals and values to operating details."[5]

There is general agreement that business is confronted with a rapidly changing public attitude, but there is certainly no unanimity of opinion as to whether it is the function of business to support financially social needs outside of its historic role as a producer of profits.

The Nobel Laureate economist, Milton Friedman, stated, "So the question is, do corporate executives,

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3) Melvin Anshen, ed., Managing the Socially Responsible Corporation (New York: MacMillan Publishing, 1974), p. X.

4) Ibid., p. 239.

5) Ibid., p. 240.

provided they stay within the law, have responsibilities in their business activities other than to make as much money for their stockholders as possible? My answer to that is no, they do not."[6] Friedman added: "The crucial question is: What right does the executive have to spend his stockholders' money? Who gave him the right to decide how their money should be spent? If 'socially responsive' business executives would stop and think, they would recognize that in effect they are acting irresponsibly."[7]

Dan W. Lufkin, Commissioner, Department of Environmental Protection, State of Connecticut, illustrates the paradox faced by business. "We call upon the managers of business not only to maximize profit, but to increase social benefits as well. We ask them not only to enhance earnings, but to take on a wide variety of programs unrelated to their essential business activities. We demand that they not only increase productivity, but absorb constantly increasing costs of social welfare without passing them on to the consumer. We expect them not only to grow, but to build into their operations all the safety factors that reduce the harmful aspects of growth while at the same time inhibiting expansion."[8]

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6) Ibid., p. 5

7) Ibid., p. 6.

8) Ibid., p. 136

If many of the increasing demands of society for improvement of its ills are being directed at business then business will have little choice but to recognize the situation and begin to react and act. As the Prudential Social Report candidly states, "Generally, speaking Prudential has not taken the initiative in analyzing society's needs, sorting our priorities and concentrating corporate resources in the solution of problems."[9] Candor is admirable but:

> Businessmen, business writers, and business organizations tend to emphasize the effort and overstate the accomplishment. Yet, instead of being praised for its accomplishment, business is assailed for explanations of why the actions came so late and why so little is being done and there are demands for new and more extensive actions. The country seems more anxious to discuss what business has failed to accomplish, and in the process increasingly large proportions of America's social ills are translated into demands for business social action.[10]

If society is making new and larger demands in a more vocal and forceful manner, then perhaps it would be incumbent on business to find new methods for meeting societal needs. "All of this has begun to impose upon business a necessity to go beyond individual good will. What the public seems to be requiring is that business simultaneously rethink its role in society and act to cure the ills for which it is

9) Van Lenten, ed., Social Report, p. 35.

10) William G. Capitman, Panic in the Boardroom (Garden City: Anchor Press, 1973), p. 20.

deemed responsible. The evidence suggests that, with the best of will, business cannot cope with the contradictions imposed by new social demands on old ways of corporate thinking."[11]

As part of society's search for remedies, persistent questions arise as to what role today's manager plays in funding the social good. The book Education and The Business Dollar refers to this situation by asking, "Does anyone have the right to give away the business dollar? Is this not imprudent, unauthorized, and possibly even illegal?"[12] Within the context of further searching the manager's position, Patrick and Eells go on to state:

> And since they must first be answered by the manager to whom the function has been delegated, because he is being measured on his performance, there is built-in compulsion for good answers. There is an obvious need for study and research and evaluation; for a rationale that will be both defensible and productive; for sensible patterns of support that will reflect a company's objectives as well as its circumstances; and for competent administration of programs.[13]

The pressures upon managers continue to mount; a Dun's Review article states, "Nowadays, however, as a growing

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11) Ibid.

12) Kenneth G. Patrick and Richard Eells, Education and the Business Dollar (London: The MacMillan Company, 1969), p. 16.

13) Ibid.

swarm of organizations, institutions and causes clamor for financial support, more and more companies are finding that what they used to think of simply as plain corporate virtue has turned into an increasingly knotty problem for top management."[14] The need to examine this "knotty problem" becomes a central rationale for this study.

"A searching question facing the corporations of today is: Should business corporations make gifts for scientific, educational and charitable purposes; and if they do, what principles and policies should they adopt as a guide to their philanthropic programs?"[15] The A. P. Smith case established justification for corporate giving, and the Internal Revenue Act of 1935 exempted from taxation up to five percent of net income for corporate contributions.[16] As Eells states,"If charity has no business 'sitting at the board', through what legal fiction, or through what theory of business enterprise, can the fact be explained away that business corporations give annually almost a half billion dollars to charity?"[17]

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14) Jaala Weingarten, "Corporate Giving: A Growing Problem," Dun's Review, August 1967. p. 31.

15) Richard Eells, Corporation Giving in a Free Society (New York: Harper and Brothers, 1956), p. 1.

16) A. P. Smith Mfg. Co. v Barlow et at., 26 N.J. Super. 106 (1953); affirmed 98 Atl. (2d) 581.

17) Eells, Corporation Giving in a Free Society, p. 3.

Part of the problem of corporate philanthropy as suggested by Eells is the haphazard approach to funding.

> The fact is, however, that much corporation giving has had no systematic base. It has too often been run-of-the mill charity-'drives', 'pet-project', and ephemeral undertakings moved by opportunism and restrained by inertia. At best it may be cautious, conservative and traditional. At worst, it may lead to harmful public reaction and invite firmer control of philanthropic activities. The truth is that boards of directors are unable to stem the daily tide of philanthropic activities. An increasing clamor for corporate support of 'good causes' has become a major fact of life for the corporate executive. He can resign himself to the inevitable and remain an open target for a host of miscellaneous demands; or he can take thought of his philanthropic policies in the same way that he takes thought of his sales policies and give method, direction, and purpose to defined undertakings.[18]

Echoing Eells, J. Moreau Brown, Vice President, Council for Financial Aid to Education, stated that there is a need for current analysis of corporate philanthropy, particularly as to the feasibility of an annual established percentage or dollar amount to be given by business. In Brown's opinion there is too often a lack of structure and corporate objective in business giving, with the whims of the chief executive officer many times dictating both the

18) Ibid., p. 6.

amounts and the recipients. Brown felt strongly that there is a definite need to update research in this area.[19]

In Davis and Blomstrom's Business and Society it is mentioned that, "In order to perform their new socioeconomic role effectively, business leaders need to develop value systems that recognize responsibilities to claimants other than stockholders. There is strong evidence that many managers already have this kind of value system."[20] Such a value system may have evolved, but there is still lacking a clear and definitive approach to giving by managers. Thus, the manager has two dilemmas: he must decide whether philanthropy is a justifiable corporate function, and he must determine by some mystical process how much and to whom support should be given.

Inasmuch as there has been philanthropic aid given for years it would appear that there does exist some rationale, some process for corporate giving. However, as Eells has stated and Howard R. Bowen confirms: "A generally accepted philosophy of corporate giving has not yet emerged, and the solutions reached by various companies are far from uniform."[21]

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19) Interview with J. Moreau Brown, Vice President, Council for Financial Aid to Education, New York, New York, 9 February 1977.

20) Keith Davis and Robert L. Blomstrom, Business and Society: Environment and Responsibility (New York: McGraw Hill, 1975) p. 507.

21) Howard R. Bowen, "Charity and the Corporation," in Issues in Business and Society, ed. William Greenwood (Boston: Houghton Mifflin, 1971), p. 122.

Regardless of whether monetary contributions by business are sufficient in the eyes of the recipients, the fact is that it is estimated that in 1975 corporate giving amounted to $1,175,000,000.[22] Add to this the time involved on the part of corporate managers who must determine which organization to fund and how much to give, and it is clear that this is a significant cost item.

Leyland Cobb, President, New Jersey College Fund Association, in an interview encouraged this kind of study and suggested that the decision making process needed research: "I think you're going to find the decision process is a mish-mash of whims and fancies. Crazy formulas."[23]

Therefore, this study is being undertaken because there is no known research either in the area of executive's views regarding corporate philanthropy or in how the decision-making process regarding philanthropic contributions works. Because this study is ground breaking in origin, it may be considered as a pilot study, establishing a foundation for future endeavors in the field of corporate philanthropy. In this light, the study should be seen as an exploratory one.

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22) The Conference Board and Council for Financial Aid to Education, "Advance Report from the Annual Survey of Corporate Contributions for 1975." New York, 1976. (Mimeographed).

23) Interview with Leyland Cobb, President, New Jersey College Fund Association, Summit, New Jersey, 2 March 1977.

SUMMARY

Corporate philanthropy represents a substantial investment in time and money, yet as a management process, little is known. Because there is this lack of knowledge in an area which is at the fore-front of corporate social activity, it is important to gain an understanding of the executives role in the decision process of business giving.