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# CORPORATE CONTRIBUTIONS AS INSTITUTIONALIZED PRACTICES

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**<Abstract>**

It has been an increasing trend since 1940s that corporations give money to the nonprofit sector. Traditionally two perspectives have been most popular in the literature of corporate contributions: altruistic model and rational choice model. These micro-perspectives stick to the notion that organization is merely an assemblage of individuals, and that the individuals are the most fundamental unit of analysis in organizational studies. Therefore, both models believe that corporate contributions are governed by psychological traits of organizational members or by the discretion of few organizational elites such as managers and owners.

Altruistic model views corporate contributions as purely philanthropic because 1) most corporations do not expect or receive material benefits for their donation; 2) money given by the corporations is seldom reciprocated materially, and even when corporations do receive benefits in return for donation, the benefits are difficult to measure; and 3) neither government nor external institution interferes with the monetary transaction between the corporation and the recipient. In contrast, rational choice theory argues that corporate contributions are a rational investment aimed at immediate or long-term benefits. Corporations are assumed to be obtaining such benefits as tax exemption, self-esteem, and enhanced public image. Pointing out those incentives, rational choice model insists that corporate contributions are just another strategic behavior aimed at profit maximization.

While altruistic model is criticized for confusing altruism with disguised self-interest and for committing methodological fallacies in conducting research, rational choice model is criticized for ignoring the large social context in which the donor-recipient transactions occur. Both altruistic and rational choice models treat organizations as closed systems. That is, both micro-perspectives think as if organizations operate independently of external constraints.

Instead, institutional theory, that steps in as an alternative, focuses on the dominant culture which exerts tremendous external constraints over organizational behaviors. External forces such as law, legitimacy, peer pressure, resources and political outcomes greatly influence organizational behaviors. According to institutional theory, organizations adopt more and more the policies and structures prevailing in the society as they become more concerned with the environment. The theory regards corporate contributions as just one of the institutionalized strategies that organizations employ in a highly competitive environment.

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# 제도화된 행동으로서 기업체의 기부행위

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<요 약>

1940년대 이후부터 기업체에서 비영리단체에 돈을 기부하는 것이 보편적인 현상으로 꾸준히 확산되어왔다. 이러한 현상을 설명하는 연구논문 중에서 주종을 이루는 두 가지 관점이 있으니, 그것은 바로 利他主義이론과 합리적선택이론이다. 이 미시적 관점들은 조직이란 단지 개인들이 모인 집단일 뿐이고, 조직행동에 관한 연구에서 가장 중요하게 초점이 맞추어져야할 대상은 바로 그 집단을 구성하고 있는 개인들이라는 가정에 깊이 근거하고 있다. 따라서 이 두 관점들은, 기업이 비영리단체에 돈을 기부하는 행위는 기업체의 구성원들의 심리적인 특성이나 조직의 소수 엘리트의 개인적인 성향에 의해 좌우된다는 주장을 펴고 있다.

이타주의모델은 1) 대다수의 기업체는 돈을 기부하면서 물질적인 보상을 기대하거나 받지 않는다는 것, 2) 기업체의 기부행위는 대부분의 경우 물질적으로 보상되지 않으며, 혹시 어떤 혜택이 기부행위에 대한 보상으로 주어질 경우에 그 보상을 객관적으로 측정하기가 어렵다는 점, 그리고 3) 정부나 다른 어떠한 外的인 요소나 강압이 기업과 비영리단체 사이의 관계에 간섭하거나 영향을 미치지 않는다는 사실을 들어, 기업의 기부행위는 단순한 박애주의에 근거한 행위라고 주장한다. 이에 반해, 합리적선택이론은 기업체는 즉각적으로 얻을 이익 또는 오랜 기간 후에 결국은 얻게 될 물질적인 이익을 기대하면서 비영리단체에 돈을 기부하기 때문에 이러한 기부행위는 전략적인 투자라고 주장한다. 즉, 세금혜택이나 기업엘리트의 자존심, 또는 자기업의 공공이미지 등이 기업이 돈을 기부하면서 얻는 이익이라고 지적하면서 합리적선택이론은 기부행위가 효용극대화를 위한 또 다른 하나의 이기적 조직행동에 불과하다는 주장을 전개한다.

이타주의이론은 박애주의라는 개념과 위장된 이기주의라는 개념을 제대로 구별하지 못한다는 비판과 연구조사에 있어 방법론적인 오류를 범하고 있다는 비판을 받으며, 합리적선택이론은 돈을 주고받는 두 당사자, 즉 조직과 비영리단체를 둘러싸고 있는 사회적 상황을 도외시한다는 비판을 받는다. 또한 이 두 미시적인 관점들은 조직을 "닫혀진 체계"로 인식하며, 조직들이 흡사 외부의 상황에 무관하게 독자적으로 행동하고 있는 것처럼 조직

을 이해하고 있다는 점에서 함께 비판을 받는다.

반면, 이 두 관점에 대안으로 등장하는 제도화이론은 조직행동에 거대한 영향력을 행사하는 지배적인 조직문화에 초점을 맞춘다. 법, 합법성, 동료조직들에 의한 압력, 자원, 정치현상 등 외적 요소들은 조직의 행동에 상당한 영향을 행사한다. 제도화이론에 의하면, 조직의 환경에 대한 관심이 높아지면 질수록 사회에서 보편적으로 운용되고 있는 정책이나 구조를 더욱 더 도입하려는 경향이 있다는 것이다. 이 이론은 기업체의 기부행위라는 것도 경쟁적인 환경속에서 조직들이 동원하는 제도화된 책략이라는 것이라고 주장한다.

## INTRODUCTION

Researches on corporate contributions have received increased attention from sociologists, economists, and management theorists in recent years. The main reasons for this are the large amount of corporate donations to the nonprofit sector[1] and the speed at which the donations grow. A statistics by the United States Department of Commerce shows an increasing trend of corporate contributions to the nonprofit sector since 1940. According to the data, corporate gifts to the nonprofit sector were $38 million (.38% of the income of business firms before taxes) in 1940. Corporate contributions rose to $252 million (.59%) in 1950, $482 million (.97%) in 1960, $797 million (1.05%) in 1970, $2.17 billion (.90%) in 1980, 5.87 billion (1.6%) in 1990, and reached 6.11 billion in 1994. The statistics demonstrates that the amount of corporate giving has increased correspondingly with the growth of the income of business firms. Interestingly, the ratio of contributions to the business income has risen consistently from .38% to 1.6% during the period between 1940 and 1994.

It has been a never-ending debate whether corporate contributions are made out of individual characteristics of corporate members or by the social condition in which the corporations are placed. Traditionally two perspectives have most popularly represented the former group in the literature: altruistic model and rational choice model. These two perspectives stick to the notion that organization is merely an assemblage of individuals, and that the individuals are the most fundamental unit of analysis in organizational studies. Therefore, both models believe all organizational behaviors, including corporate contributions, are governed by psychological traits of members (eg: personality, cognition, mentality and rationality) or at least by the discretion of few organizational elites such as managers and owners.

Scholars adhering to altruistic model argue that corporate contributions are the result of altruism because monetary donations do not guarantee appropriate return of benefits for the donors. Corporate contributions are seldom reciprocated in most cases, and even when the corporations do receive benefits in return for their monetary donation, the benefits are hard to measure. This type of money-giving relationship

1) Here, the nonprofit sector refers to private organizations (sometimes referred to as NGOs or not-for-the-profit organizations) that are forbidden to "make profits" for their owners.

between the corporation and the nonprofit sector is somewhat anomaly from an exchange perspective. On the one hand, the nonprofit sector is inherently unable to generate material benefits for the donor, and on the other, benefits to the donor usually come from a third party, for example the government that is not directly involved in the transaction between the parties. Altruistic model focuses on the fact that most corporate contributions are made voluntarily with no governmental intervention. On the basis of the fact that corporations give money with no anticipation of rewards, and that no external pressure affects the process, altruistic model attributes corporate contributions to altruism of corporations.

In contrast, rational choice theory considers every organizational behavior goal-directed. Organizations are designed to achieve goals and thus employ, albeit within the scope of their limited knowledge and capabilities, various strategies for the better attainment of goals. Since no organization is completely self-contained or in complete control of the conditions of its own existence (Pfeffer and Salancik, 1978), business organizations are engaged in purposeful exchanges of resources, services, products, commodities, or information with other organizations. To rational choice model, which eschews the notion that organizational exchange is a selfish and goal-directed investment, corporate contribution is just another strategic behavior aimed at profit maximization.

Both explanations suffer criticisms. While altruistic model is criticized for confusing altruism with disguised self-interest, rational choice model is criticized for ignoring the large social context in which the donor-recipient transactions occur. As an alternative, institutional theory steps in. Institutional theory is not pleased by both altruistic and rational choice perspectives for they view organizations as closed systems. Institutional theory argues that in modern world organizations are not free from external constraints, especially institutional practices. March and Olsen (1984), for example, state that organizations now operate in a world where social, political, and economic institutions have become larger, considerably more complex and resourceful, and prima facie more important to collective life. This paper adopts institutional perspective and develops several propositions for systemic research.

## ALTRUISM VS SELF-INTEREST

### Altruistic Explanations

According to Durkheim, even a highly developed organic society needs a common faith (collective conscience) in order not to disintegrate into a heap of mutually antagonistic and self-seeking individuals (Coser, 1977). Most altruistic authors take this idea literally and do not seek the causes of corporate contributions elsewhere. For them, that a community/society successfully maintains integration is because its members share a certain degree of common faith or collective responsibility. Business organizations are no exception in this regard for they are part of the community/society just like ordinary individual persons. These authors contend that as voluntarism and active participation in various community affairs indicate individual actors' commitment, money-giving is simply a manifestation of citizenship felt by business organizations.

Borrowing Durkheim's idea, altruistic authors suggest that corporate giving is mostly the consequence of corporations' sense of belongingness to and moral responsibility in a society where they operate. Several scholars (eg: Eells, 1956; Nelson, 1970; Ermann, 1978) argue that the corporations are a citizen responsible to its several constituencies of employees, shareholders, customers, suppliers, government, and general society. And corporate giving is based on this civic duty. Altruistic authors, especially Eells, to defend their position, point to the fact that neither coercive rule nor law operates behind the transaction between the business organizations and their recipients. The governmental policies including tax exemption are not enough to justify corporate contributions since tax benefits are negligible comparing to the benefits corporations would obtain if they invested the money otherwise. Thus altruistic authors conclude corporate giving is simply motivated by the good will toward fellow men, and at the same time it is a means of demonstrating private efforts to promote their welfare. Fremont-Smith (1972) basically agrees with most altruistic authors, but points out the fact that corporate contributions are disguised as profit-maximization to avoid legal questions.

**Critique**

Altruism is an unselfish regard for or devotion to the welfare of others (Webster, 1980). A corporate contribution is altruistic insofar as it is made purely on a philanthropic ground, and as no benefits are accrued to the donor as a consequence of its behavior directly or indirectly, immediately or long after.

There are several problems in altruistic explanations. But before we start discussing the problems, the unique nature of corporate philanthropy must be clearly conceptualized. It is not all clear if corporations ever expect or receive benefits for their charitable donation. Even when corporations actually receive benefits, the time lapse between the donation and the realized benefits varies, making the causal reasoning somewhat complicated. The types of benefits that corporations may expect or receive also vary depending on the types, functions, goals, and strategies of corporations. Moreover, when benefits are returned to the donor, benefits are usually conferred by a source seemingly unrelated either to the donor or the recipient, and sometimes through multiple and indirect channels.

The most serious problem originates from these unique and evasive features of corporate philanthropy. Due to the methodological difficulties of assessing unprompted benefits, altruistic authors often attribute corporate giving to altruism. However, the altruism which stems from a sense of social responsibility or good will should be distinguished from enlightened self-interest. Corporations are assumed, by altruistic authors, to be fully aware of the fact that they are component part of the community/society which they belong to. And as a result, corporations are also assumed to genuinely believe that they eventually or indirectly benefit themselves by giving money to the community/society even if the benefits are proportionally small compared to the money given out.

Useem (1985) finds an interesting tendency among money-giving corporations. That is, corporations usually select out those nonprofit organizations (as recipients) that are located near their operating boundary. This tendency leads us to suspect that the practical intention for corporations to discriminatively selecting recipients from within their strategic domain is, in fact, to make anticipated benefits more immediate and more realistic. Were that true, however disguised is the intention, corporate contributions are not simply giving money away, but rather a cyclic input purposed to benefit the corporations ultimately. If money giving is not aimed at profits, there is no reason for corporations to choose only those recipients which possibly yield more direct benefits and more collective share to the donor. Also if altruism stems from social responsibility, there is no reason for corporations to feel responsibility only to their own community since corporations are member of the whole nation as well as their own community. So, for the altruistic hypothesis to be upheld, there should be no discriminatory practices in choosing recipients across the country except that the contributions are initiated by the donee and folks knocking on doors that are closer to them. What irony! A corporation becomes the beneficiary of its own donation when the corporation gives money to its own community. If money benefits the very corporation that actually gives money (due to the fact that the money goes to the community of which the corporation is part), no matter how small the share of the benefits is to the corporation, the donation is not truly altruistic.

Secondly, business organizations are heavily concentrated in metropolitan areas which are characterized by a high degree of anonymity. In those cities of large population and high anonymity, individual efforts to promote collective welfare often look trivial and unrealistic, thus causing community/societal members to feel diffused civic responsibility. In fact, business organizations are better equipped than individual persons to promote community welfare due to the large amount of money, large personnel, and pooled cognitive abilities the organizations can mobilize. In the mass and anonymous society, however, one of the most serious problems for the collective action is free riding. In terms of free riding, there is no reason to believe that organizational actors are any different from individual actors. To the extent that business organizations can benefit from the collective good achieved by the efforts of others anyhow, and to the extent that collective welfare is hard to come by the sole efforts of few, the organizations are expected to remain reluctant to act. Galaskiewicz (1985) states;

> Rational actors will withhold their contribution to the effort as long as they are not barred from consuming the fruits of others' labors. In other words, if the good or service will be available to them anyway, it is more

strategic to withhold one's resources, wait for someone else to contribute, and reap the benefits of their generosity.

Galaskiewicz suggests selective incentives as a means of getting reluctant actors involved in collective actions. Social recognition is one of the most effective incentives. Organizational good deeds such as charitable donations seldom go unrecognized. Corporate sponsorship of arts, education, health, and human services by such corporations as AT&T, Exxon, GE, GM, IBM and Mobil is usually well publicized through periodicals, personal announcements, newspapers and so on (Useem, 1984). If, however, a corporate sponsorship is motivated by a selective incentive, the contribution is not altruistic no matter how beneficial is the incentive to the donor.

Thirdly, most altruistic authors commit methodological fallacy when conducting researches on corporate contributions. Altruistic theorists usually conduct personal interviews with top executives in order to find the genuine intentions for money-giving. Interviews with top executives, however, especially when the interviews are done retrospectively, are not appropriate for finding the true motives. Many authors (eg: Fry et. al., 1982; Galaskiewicz, 1991) insist that corporate contributions are commercially oriented. They argue corporations use philanthropy as a means to gain name recognition and to establish a good image among the public. Finding a high correlation between corporate gift and publicity-oriented purposes, the authors conclude that corporate gift is simply a strategy aimed at promoting the corporation's products or establishing public relations with constituencies (Levy and Shatto, 1978; 1980; Burt, 1983). The image of a corporation would be greatly enhanced to the extent that the public perceives the contribution as an unselfish regard for community welfare. The better is the image of a corporation, the more willing would be the consumers to pay back the corporation and to buy its products. Is it any wonder that the top executives are often tempted to distort the motives? In this context where the possibility for deliberate lying is extremely high, the research findings based on the confessions by top executives are hardly reliable. In fact, most interviews with top executives conclude that corporate contributions are the result of corporations' philanthropy or generous social responsibility.

Were corporate contributions the function of firms' genuine altruism, money-giving behavior should bear no difference between high and low public contact industries, and between firms with a varying degree of public visibility. Quite contrary to the general expectation, Fry and colleagues (1982) find that firms with more frequent public contact have a stronger tendency to give money to the nonprofit sector than do firms with less frequent public contact. Levy and Shatto (1978) compared the relationships of net income, net investment, and advertising of corporations with money-giving behavior. On the basis of the finding that the variable which is most highly correlated with money-giving is advertising, they concluded that corporate giving is a major source of public exposure and delicate advertising for the companies. Also Burt (1983) finds a firm evidence to conclude that the corporations increase their philanthropy and advertising expenditures to the extent that their network positions in the economy give them a market incentive to co-opt the household sector. These findings lead us to believe that there is a big gap between the practical motives behind corporate contributions and the normative (many times even disguised) motives suggested by top executives. Moreover, the findings also enable us to dispute the methodological validity of interviews with top executives.

### Self-Interest Explanations

As a substitute for altruistic explanations, rational choice model presents self-interest motivated explanations of corporate giving. The most important elements of rational choice model can be summarized as follows: 1) organizational action (including corporate contributions) is goal-directed; 2) the roles of top management are very important in creating organizational purposes and in managing the organizational niche; and 3) organizational processes are relatively independent of environmental conditions (or at most, the environmental effects on the organization are minimal).

Rational choice theory, pointing to the various selfish motives for corporate giving, states that corporate giving is simply a purposeful behavior aimed at specific goals. First, corporate giving is aimed at tax benefits (Dowling and Pfeffer, 1975; Levy and Shatto, 1978; 1980; Nelson, 1970; Useem, 1984; Useem, 1985). Since 1935, corporations have been allowed federal income tax deductions for charitable donations. Initially, the ceiling for deductions was 5% of the firm's taxable income, but raised under the Economic Recovery Tax Act of 1981 from 5% to 10% (Useem, 1985). Rational choice theorists contend that this tax policy serves as an incentive for corporate donations. More specifically, Levy and Shatto (1978) say that because the level of aggregate corporate giving depends upon the costs of giving such as tax rate, corporate giving increases when tax rates increase.

Second, corporate giving is considered by some authors being motivated by community-wide concerns which, in the long run, would eventually benefit (not necessarily economically) the donor and the community/society altogether (Galaskiewicz, 1985). The notion is called the "enlightened self-interest." The basic assumption of the enlightened self-interest is that corporations, by protecting or maintaining the optimal economic, social, political system of the community/society where they are operating, will be ultimately paid off as member of the community/society. Corporations motivated by the enlightened self-interest are not concerned with the direct, prompted and tightly-coupled benefits, but are concerned with the long-term and indirect returns to them. The enlightened self-interest hypothesis is in fact supported in several studies. Some authors find a strong correlation between the enlightened self-interest and corporate giving (Burt, 1983; Eelle, 1956; Galaskiewicz, 1985; 1991; Useem, 1985)

Third, corporate giving is a way of establishing and protecting organizational legitimacy in the society of which the corporations are part. Parsons (1960) once stated that since organizations operate in a super-ordinate social system and utilize the resources within the system, organizations, for continued influx of resources and social support, must be able to justify the social elements of their activities. Organizations are said to be legitimate as long as the community/societal members collectively perceive that what the organizations pursue and how they do are consistent with the goals and values of the community/society. If the values or methods of the organizational activities are not congruent with the dominant societal values, the organizations would be labelled as being deviant and suffer negative sanctions by the community/society. In this context, many authors say that corporate contribution is a way to ensure organizational legitimacy (Dowling and Pfeffer, 1975; Galaskiewicz, 1985; 1991; Useem, 1985).

Fourth, corporate giving is viewed as a way to establish a good image among the public. Corporations which sell products to their constituencies usually spend a large amount of money in order to promote good public relationship with the consumers. According to them who regard corporate contribution as a strategy of enhancing public relations, corporate gift is aimed at advertising effects/public relations. Some authors find a high correlation between corporate giving and advertising effects (Levy and Shatto, 1978; 1980; Fry et al, 1982). Also, Burt (1983) concludes that corporate giving is a co-optive strategy to gain better market share.

In addition to those motives, corporate giving is believed to be aimed at broadening milieu control or organizational autonomy (Ermann, 1978; Dowling and Pfeffer, 1975), at enhancing self esteem or satisfaction of some powerful organizational actors (Galaskiewicz, 1985), and at reducing organizational uncertainty (Ermann, 1978; Burt, 1983).

According to rational choice model however, whether the motives for monetary donation are purely psychological (for example, aimed at personal satisfaction) or social (for example, aimed at public relations), corporate giving is ultimately selfish for every organizational behavior is a deliberately planned action to persue specific goals (Scott, 1992). The goals of business organizations are, of course, basically material in nature. Analyzing corporate contributions, rational choice theorists mainly focus on the compensatory benefits that corporations obtain in return for the donation. A couple of implicit assumptions are present in rational choice explanations: 1) Corporations are well aware of the causal relationship between the monetary donation and the positive consequence(s) that the donation would bring to the donor; 2) Corporations are able to compare the relative benefits and costs of the donation to those of other choices; 3) Since corporations make optimal decisions (for rational choice model) or satisfying decisions (for bounded rationality model), monetary donation is expected by the corporations to be one of the most effective means for achieving goals.

## Critique

From a rational choice point of view, corporate giving is calculated investment for valued reward. The core in the transaction between the corporation and the nonprofit sector is the donor corporation's firm belief or expectation that its contribution will be certainly reciprocated, although the returning benefits are of varying kinds. Rational choice reasoning also suffers methodological problems as altruistic explanations do. The most serious problem stems from the difficulties of assessing the benefits conferred in return for monetary donation. Except for tax benefits, it is almost impossible to objectively measure organizational benefits. With regard to this problem, Nelson (1970) states that the value to the corporation of its purchases of philanthropic services is hard to measure because contributions may return a benefit to the corporation only after a delay in time and often only in a very general way. The problem is more serious when benefits are not immediately returned (eg: advertising effects), or when benefits are not directed to the donor organization but to the general public as a whole (eg: collective good).

Such benefits as enhanced community welfare (enlightened self-interest) and advertising effects are a kind of benefits materialized not immediately after the corporation's contribution. Therefore, to be able to construct a causal reasoning, researches should look at the process through which the benefits are generated as the consequence of the corporation's contribution over a long period of time. But in reality, there have been no longitudinal studies examining the long-term process. Galaskiewicz (1985), in a study conducted in the Twin Cities, finds a high correlation between corporate giving and corporation's reputation as a generous company. But even in this study, there is no way of knowing how the enhanced image (as a consequence of monetary donation) affects the donor company. Even if the company's enhanced reputation actually brings benefits to the donor, we have no way of quantifying the benefits that the good reputation brings to the donor company. Galaskiewicz (1985; 1991) therefore painfully acknowledges that even though enlightened self-interest may be realized in the future, there still almost impossible to measure these benefits, and enlightened self-interest is irrational from an economic point of view.

Another methodological problem lies in the fact that the majority of the contributions are reactive rather than proactive. That is, many corporations give money simply because they are asked. If solicitation (by the recipient) causes contribution, geographic proximity may be an important factor. The recipient that is near the donor corporation has better chance to get money. This proximity rationale partly explains the monetary transactions frequently observed between the donor and the recipient who are geographically close to each other. Corporations may present noble causes for donation. But there is no way of knowing whether the cited causes are real or simply a retrospective justification. So, when a donation is initiated by request, it is very hard to find the true motive of the donation.

Among other things, tax benefit provides the most salient rationale for many authors who believe corporations are driven by self-interest. There has been a continuous and rising trend of corporate giving during the past 50 years. Since 1935 when the Amendment first allowed 5% tax exemption on charitable contributions, corporate contributions to the nonprofit sector have increased continuously. The ratio of the corporate giving to the net income of the firms increased from .38% to 1.60% during the period between 1940 and 1994. If we take the inflation rates during the period into account, the increase in the absolute amount of corporate giving is somewhat meaningful.

In most charitable contributions, benefits are commonly returned to the donor after a lag of time. The long-term benefits, however, are deferred, uncertain, and only roughly measurable. Compared to long-term benefits, immediate tax returns are more concrete and easier to measure. So authors hastily conclude that the manipulation of tax policy provides a strong incentive for corporate giving, and that corporate income tax rate has much greater impact on decisions about the size of contribution budgets than considerations of a price index for contributions. Nelson (1970) particularly insists that only immediate tax benefits provide a strong incentive to giving because other types of benefits are largely invisible or made possible to capitalize only after some indefinite lag of years. However, some studies suggest that such a conclusion is premature (Burt, 1983).

Empirical studies suggest that tax policy does not seem to be a factor in corporate contributions. The law allows up 5% tax deduction of the income, and up to 10% since 1981. Strangely, the percentaged donations have remained relatively stable at approximately 1% until 1980s. Researchers find that many companies during the time thought the 5% federal income tax limit on tax-deductible contributions is too low. The 1.6% donation of the net income of the firms in 1990s is still well below the 10% maximum deduction allowed to corporations. According to Burt (1983), only 53% of 408 chairmen and presidents of large American firms surveyed in 1975 said that increased tax incentives would result in their firms increasing charitable donations by even one-half within two to five years. Ermann (1978) provides a plausible evidence. In his study of corporate contributions to the Public Broadcasting Service, Ermann compared nineteen contributing corporations with nineteen other profitable non-contributing corporations whose taxes were ranged between 0% to 48% in 1974. He found no tendency of giving money among high tax paying companies, and found a money-giving tendency among low and medium tax paying companies. If tax exemption were the main cause of corporate giving, there would be a stronger tendency among high tax paying companies than among low tax paying companies since the former are more to gain by giving money to the nonprofit sector. These findings partly suggest that tax policy is not a good predictor for the corporate contributions.

Two major underlying motives were reviewed: altruism and self-interest. While these two groups interpret collective political and economic behavior as the aggregate consequence of individual choice (DiMaggio and Powell, 1991), there are some methodological and logical problems in attributing corporate giving to philanthropy or to self-interest. Moreover, the findings and arguments are often inconsistent and contradictory at times.

# CORPORATE CONTRIBUTIONS FROM INSTITUTIONAL PERSPECTIVE

## Review of Institutional Theory

Rational choice theory has previously been regarded as being theoretically sound since its assumptions and hypotheses basically rest on the most fundamental human nature - hedonism. In that regard, rational choice model satisfies Homans' strict requirement for scientific theory. Homans (1974) once argued that a true theory must contain propositions, one of which must be general and cannot be derived from any other propositions. That human beings act and react on the basis of hedonistic nature is an undeniable proposition. And as a result, organizations which are composed of hedonism-driven rational individuals have been unquestionably understood as collectively rational actors who set preferences, gather information, think rationally, select behaviors, and seek profits. However, under the dominance of rational choice theory for some decades, scholars began to realize that rational choice theory does not suffice to help understand every organizational behavior.

Organizational behaviors are not always as deliberate, rational, and benefit-oriented as some scholars believed. Often times organizational behaviors themselves are anomaly even from a rational perspective. Organizations make irrational decisions, members form cliques and conflict over preferences, anticipated benefits not returned, and plans and activities disrupted. These unreasonable practices are hard to understand using microscopic rational perspectives. More strikingly, authors argue that those irrational practices are more norms than exceptions. For example, DiMaggio and Powell (1991) point out that administrators champion programs that are established but not implemented; managers gather information assiduously, but fail to analyze it; experts are hired not for advice but to signal legitimacy.

Institutional theory looks at organizational practices anew, and argues that organizational behaviors are largely constrained by the environment. The external forces such as law, legitimacy, peer pressure, resources and political outcomes greatly influence organizational behaviors. Organizations adopt more and more the policies and structures prevailing in the society as they become more concerned with the environment. This incredible tendency is not necessarily aimed at increasing efficiency, but at pleasing the environment and its constituencies such as the government, suppliers, and customers upon which the organizations depend for resources and support. The process through which organizations adopt the dominant forms and practices is referred to as institutionalization. Meyer and Rowan (1977) first coined the term, institutionalization. They explain;

> Organizations are driven to incorporate the practices and procedures defined by prevailing rationalized concepts of organizational work and institutionalized in society. Organizations that do so increase their legitimacy and their survival prospects, independent of the immediate efficacy of the

> acquired practices and procedures..... Institutionalized products, services, techniques, policies, and programs function as powerful myths, and many organizations adopt them ceremonially. But conformity to institutionalized rules often conflicts sharply with efficiency criteria and, conversely, to coordinate and control activity in order to promote efficiency undermines an organization's ceremonial conformity and sacrifices its support and legitimacy. To maintain conformity, organizations that reflect institutional rules tend to buffer their formal structures from the uncertainties of technical activities by becoming loosely coupled, building gaps between their formal structures and actual work activities. (p 340)

Importantly, organizations, adopting the common practices and structures in the society, become similar with one another in form and behavior. However, when many organizations adopt the similar practices, organizational efficiency decreases because the isomorphic change inevitably brings competition among them. Therefore, the more organizations adopt the common practices, the more it becomes irrational for the organizations. To the eyes of ordinary thought, there is no explanations for the overwhelming phenomenon that organizations are increasingly adopting the common practices and rules despite the disadvantages the changes bring to the organizations. This is where Meyer and Rowan (1977) introduced the concepts, "institutional myth and ceremony." DiMaggio and Powell (1983) add;

> Organizations are still becoming more homogeneous, and bureaucracy remains the common organizational form. Today, however, structural change in organizations seems less and less driven by competition or by the need for efficiency. Instead, we will content, bureaucratization and other forms of organizational change occur as the result of processes that make organizations more similar without necessarily making them more efficient. Bureaucratization and other forms of homogenization emerge, we argue, out of the structuration of organizational fields. (p 147)

When certain practices or cultural elements are institutionalized, they become norms and prevail among organizations. For highly institutionalized acts, it is sufficient for one person simply to tell another that this is how things are done, and each individual is motivated to comply because otherwise his actions in the system cannot be understood (Zucker, 1991). That applies to organizations as well as to individual actors. Organizations play no independent role in the process through which certain practices and acts are being created, maintained, and institutionalized. Organizations simply follow the practices, raising no doubts since the institutionalized practices and cultural elements are perceived as the ways how things ought to be done. Institutionalized practices are not only external to organizations but also exert coercive power over organizations. For organizations however, following the dominant practices increases legitimacy and chance for survival because the society views the organizations as doing things right. In this context, institutional theorists consider corporate contributions just one of the institutionalized practices.

## Organizational Legitimacy

According to Parsons (1960), the characteristics of the organization are defined by the kind of situation in which it has to operate, which consists of the relations obtaining between it and the other specialized subsystems of the larger system of which it is a part. Since Parsons brought up the idea that the values pursued by the organizations must be congruent with wider societal values if the organizations are to receive legitimation and to have an appropriate claim on societal resources, legitimacy has been largely interpreted as pertaining to societal evaluations of organizational goals (Scott, 1991). Organizations' need for legitimacy largely stems from their dependency for resources. Organizations are not able to internally generate all the resources or functions required to maintain themselves, and therefore must enter into transactions and relations with the elements of the environment that can supply the required resources and services (Aldrich and Pfeffer, 1976). For smooth functioning and continued operation, organizations need at least three resources: 1) money (material resource) to produce services or products; 2) information to reduce uncertainty and to predict the future for decision-making; and 3) legitimacy (social or political support).

Legitimation concerns the problem of explaining or justifying the social order in such a way as to make institutional arrangements subjectively plausible (Scott, 1991). Because organizations are part of the larger social system from which they draw resources, organizations are inevitably subject to institutional controls, and therefore, administrators should develop the means to satisfy the demands of the environment. The effectiveness and ultimate survival of the organizations depend upon both doing "well" (efficiency) and doing "good" (legitimacy) (Miles, 1982).

From exchange perspective, the rewards that organizations receive from the exchange relations with others are of two kinds: inherent rewards and avoidance of punishment. Corporations whose values and goals are not consistent with those of their superordinate social system may be labelled as being deviant and negatively sanctioned. One of the main tasks of organizations is, therefore, to demonstrate their necessity and privilege to exist in a functionally differentiated society. In this context, corporate giving is an effective means for demonstrating legitimacy. Contributing money to the nonprofit sector, corporations can influence their task environment in such a way as to insure rewards and to avoid penalties. It is easily assumed that corporations with bad reputation are more in need of demonstrating legitimacy, therefore would try hard to establish friendly relationship with their task environment and with other organizations in the environment. Ermann (1978) assumes that corporations whose environment is hostile will be more generous when charitable activities could reduce such problems.

*Proposition 1: The worse is the image of a corporation, the more likely the corporation is to donate money.*

Corporate prestige as a good citizen can help the organization better cope with the constraints and controls of its task environment. As McGrath (1976) finds in his interview with corporate executives, a good reputation of the corporation enhances its chance to establish rapport with the influential groups as well as the general customers in the community. However, the corporation's good image not only depends on the size and the frequency of monetary contribution, but also on the visibility of the contribution. If the corporation's activities for the society are not known to the public, the corporation cannot enhance its reputation. Giving money to the recipients whose visibility is high, the corporation can show its good will more effectively to the general public.

*Proposition 2: The worse is the image of a corporation, the more likely the corporation is to give money to visible recipients.*

Some recipient organizations are in a better position to publicize the good deed of the donor corporations than others. Mass media such as the Public Radio and Public TV are themselves able to announce corporation's charitable donations. Organizations whose activities frequently attract media spotlights can also be a good target for corporate contributions compared to educational institutions and religious organizations.

Another important function of the corporate giving is advertising. Corporations, by improving their good image in a community through contribution, can attract more customers. Corporations may contribute to the extent that their contributions yield sales profits to them. The majority of the studies support the relationship between corporate giving and advertising effects except Galaskiewicz's (1985) study. Galaskiewicz, in a study conducted in the Twin Cities (Minneapolis and Saint Paul), finds no relationship between the percentage of sales to households and corporate giving. Although we have no reason to deny this finding, we must pay attention to the unique and exceptional characteristics of the Twin Cities. Different from the ordinary metropolitan areas, the Twin Cities are known for their best municipal government, the best civic leadership, and exceptionally great amount of corporate contributions (Galaskiewicz, 1991). The strong loyalty of Minnesota-based corporations and the cooperative mood among community elites are well known outside Minnesota. Such nation-wide news media as the Time Magazine ("Minnesota's Magic Touch", June 11, 1984); the Wall Street Journal ("A Northern City That Works: How Minneapolis Manages It.", August 5, 1980); the New York Times ("Minnesota: A Model of Corporate Aid to Cities" July 27, 1981) praise the partnership between government, business, labor, and educational leaders to develop new high technology enterprises in the Twin Cities and in the state of Minnesota. Also, the top executives in the area are connected by strong ties such as the "Five Percent Club." The CEO relationships are exceptionally well organized. Considering that the Twin Cities do not represent most metropolitan cities of the U.S. due to the exceptional characteristics, we would better look at other studies conducted in many different areas across the country. Burt (1983), on advertising effects of the corporate giving, says:

> Corporate philanthropy can be viewed as serving a dual function for firms responding to a high market incentive to co-opt the household sector. First, philanthropy legitimates the firm to the public as a protector of the public interest. This in turn can be expected to channel public buying toward commodities that the firm has had a hand in producing. Second, philanthropy can provide a further stimulus to demand by improving the ability of specific classes of individuals to purchase the firms' products. (p200)

In relation to this idea, many authors find evidence that advertising and contribution are strongly correlated with one another (Fry et. al., 1982; Levy and Shatto, 1978). To the extent that corporations consider charitable donations a means for establishing public relations or for promoting their products or services, there will be a predictable relationship between changes in corporate gifts and advertising (Levy and Shatto, 1978). More specifically, Burt (1983) says that both advertising and donations cultivate a favorable impression of the firm in the public eye.

Although advertising is a more malleable and direct form of reaching out to people, it is typically received with suspicion. Ermann (1978) compared ten contributing and nine non-contributing companies to Public Broadcasting Service during the period between 1969 and 1974. They were originally similar in annual profits. During the five years, nine out of ten contributing companies showed upward mobility, and six out of nine non-contributing companies showed downward mobility in their annual profits. With these data, Ermann concludes that corporate giving and upward mobility are positively correlated in marketplace.

If charitable contribution is one of the effective means for promoting a corporation's products and for strengthening the relationship with the general consumers, it is assumed that the corporation whose operation and survival heavily depend on public exposure would be more willing to donate money. Fry and colleagues (1982) find that firms with higher levels of public contact spend more on contributions than to firms with little public contact.

*Proposition 3: The more a corporation depends on public exposure, the more likely the corporation is to donate money.*

*Proposition 4: The more a corporation depends upon public exposure, the more likely the corporation is to donate money to visible recipients.*

Those two propositions are based on the idea that either corporations which have monopolistic control over the market or corporations whose operation and survival depend less on public contact would not feel much urge to donate. Many multinational corporations exported production lines abroad (mostly to the underdeveloped countries) in order to avoid high tax and expensive labor at home. Although some of them (eg:

oil refinery and chemical plants) produce environmentally hazardous materials at the local sites, they seldom give money to the local community because they make most of their sales profit at home and because they have monopolistic control over the labor market of the host country.

Another needs for demonstrating legitimacy derives from the competition between organizations for governmental support. Organizations are subject to institutional control such as the government taxation policies and regulation of the security market as well as to the general social control (eg: culture). Organizations are dependent on institutional governance to the extent that the government provides necessary resources and information to the organizations. Organizational dependence on the government becomes even stronger when governmental withdrawal of a certain contract or governmental manipulation of information affects the very survival and benefits of the organization. To obtain needed governmental support, organizations should comply to the demands of the government. Salancik (1979) find that firms that are more dependent on government are more responsive to the affirmative action policies implemented by the government.

Sometimes organizational efforts are needed to solve society's vast problems because the government alone is not fully able to solve the problems. So corporate contribution is one of the ways to respond positively to the governmental demands. By doing so, corporations may satisfy the powerful groups of the government, thus ensuring continued support from the government. The size of corporate contribution reflects the degree of organizational dependence on the government and the degree of competition among organizations for governmental support.

*Proposition 5: The more depends a corporation on the government, the more likely the corporation is to donate money.*

The size of corporation may affect organizational contribution because larger firms usually entail more transaction costs, and smaller firms do not have enough monetary resources to donate even if they feel strong incentives for doing so.

*Proposition 6: Organizational size being equal, the stronger the competition is among corporations for governmental support, the more likely the focal corporation is to donate money.*

**Uncertainty Reduction**

One of the major problems in organizational behavior is uncertainty. Uncertainty problems mostly arise from the environment. Organizations, inter-organizational relationships, and the environment encompassing the web of organizations constantly change and fluctuate, albeit not in a chaotic manner. In the tide of changes, organizations face problems of anticipating external contingencies. Here arise uncertainty problems. When organizational environment is unstable, unpredictable, and fluctuating, the organizations can not operate in a consistent way. Organizations therefore exert continuous efforts in order to stabilize the conditions in an orderly fashion.

Uncertainties, however, sometimes stem from within the organizations. Powerful elites on top of the organizational ladder usually exert tremendous efforts in order to create and maintain the organizational culture in accordance with their cherished values and goals. But as conflict theorists argue, organizational structure of both horizontal and hierarchical division of labor often creates conflicting interests among subunits. Organizational subunits do not always think or act in the same way. They may interpret external contingencies or stimuli differently, advocate different strategies and technologies, and struggle over goals and means. When organizations can not solve the disputes over goals and means due to the conflicting interests and orientations among subunits, the organizations may have to rely on external legitimacy to cope with the internal uncertainties. The following two propositions are based on the idea by DiMaggio and Powell (1983). They argue that when goals are ambiguous or when organizational technologies are poorly understood, organizations may model themselves on other organizations that are perceived as successful. Corporate contributions are one of the behaviors which successful organizations commonly practice.

*Proposition 7: The more ambiguous the goals of a corporation are, the more likely the corporation is to donate money.*

*Proposition 8: The more ambiguous the means of a corporation is, the more likely the corporation is to donate money.*

Modeling on successful organizations enhances legitimacy because it serves as a gesture that the organizations are doing the right thing in a right way. Modeling behaviors are not necessarily aimed at enhancing internal efficiency because there are no objective internal criteria for judging efficiency. Instead, modeling as a means for settling internal ambiguity is aimed at securing legitimacy. In terms of mimetic isomorphism, DiMaggio and Powell (1991) explain specifically;

> There are two reasons for modeling. First, organizations with ambiguous or disputed goals are likely to be highly dependent upon appearances for legitimacy. Such organizations may find it to their advantage to meet the expectations of important constituencies about how they should be designed and run. In contrast to our view, ecologists would argue that organizations that copy other organizations usually have no competitive advantage. We contend that, in most situations, reliance on established, legitimated procedures enhances organizational legitimacy and survival characteristics. A second reason for modeling behavior is found in situations where conflict over organizational goals is repressed in the interest of harmony: thus participants find it easier to mimic other organizations than to make decisions

on the basis of systematic analyses of goals since such analyses would prove painful or disruptive. (p 75)

With respect to external uncertainty, there are four major sectors of task environment which are the sources of uncertainty: 1) customers (both distributors and users); 2) suppliers of material, labor, capital, equipment, and work space; 3) competitors for both markets and resources; and 4) regulatory groups, including governmental agencies, unions, and inter-firm associations (Thompson, 1967). To the extent that environmental changes are unpredictable, they interfere with the orderly operation of the organizations and reduce their performance.

The most effective method for controlling uncertainty is to control the source of the uncertainty. Organizations attempt to institutionalize relations with their task environment by establishing linkages with the environment and by using these linkages to secure access to resources, to stabilize outcomes, and to avert environmental control (Pfeffer and Salancik, 1978). Linkages through mutual agreements help reduce uncertainty - cooptation.

Corporate giving is a way to absorb the contingencies from the government, and to institutionalize the relationship with the government. Corporations depend upon the government for material resources, favorable policies, and moral support, and therefore are subject to governmental controls. And the government depends on corporations for money because the government is not able to solve vast social problems all by itself. By donating money, corporations can influence powerful decision makers of the government and secure continued supply of resources, thus, reducing uncertainty stemming from the government.

*Proposition 9: The more uncertain is the task environment of a corporation, the more likely the corporation is to donate money.*

Corporations pour products into the market. The market itself is a source of uncertainties for the corporations. The market structure changes over time because peoples' lifestyles change and so their needs, consumers' demands change, new technologies are developed, new corporations enter the market and some leave, and the competition intensifies. Corporations must cope with the fluctuation of the market. But corporations cannot foretell all the contingencies arising from the market, let alone adapting to all the contingencies exhausts the corporations' energy. Internal rearrangements as a way of reacting to the frequent and hard-to-grasp market changes are too costly, sometimes impossible, for the corporations. Hannan and Freeman (1977) state that there are a number of limitations on the ability of organizations to adapt to the external contingencies: 1) organizations' investment in plant, equipment, and specialized personnel constitutes assets that are not easily transferable to other tasks or functions; 2) organizational decision makers face constraints on the information they receive; 3) structural changes cause redistribution of power within the organizations, and this would face resistance from various subunits.; and 4) the costs for changing preexisting standards of procedure and the allocation of tasks would serve as an obstacle to adaptative changes.

Under these circumstances, corporate giving serves as a strategy for winning public support, more specifically for establishing and maintaining stable demands from consumers. Burt (1983) says that corporate philanthropy is a co-optive relation directed at persons collectively as a consumer sector of the economy. He states that corporate giving is a behavior to court the affections of people as consumers since that affection translates into stimulated demand for the firm's products. To the extent that the market changes are unpredictable, frequent, and overwhelming, corporations would incorporate the dominant organizational practices such as charitable donation so as to demonstrate to the prospective consumers that they are doing right. It is easily expected that consumers would be more wiling to support those corporations whose practices look appropriate and consistent with the dominant values. For charitable donation is an institutionalized behavior commonly practiced among successful corporations, corporations which face various difficulties adapting to the frequent market fluctuations would donate money in order to create consistent demands from consumers. Appealing directly to consumers is a way of controlling the very source of uncertainty.

*Proposition 10: The more unpredictable is the market, the more likely the corporation is to donate money.*

Organizations newly enter the market. Preexisting organizations make hard efforts to prevent new organizations of a kind from entering the market, but the efforts are not always successful. Some organizations leave the market. Most remaining organizations in the market, however, are survivors in the competitive market, and may be armed with effective strategies for success and survival. New technologies and inventions are continuously introduced into the market. The government sometimes implements regulations in order to protect new organizations from the monopolistic control of the preexisting organizations in the market. All of these factors greatly influence organizations' relationships with the consumers, and force them to find ways to appeal to consumers.

*Proposition 11: The stronger is the competition among corporations in the market, th more likely the corporation is to donate money.*

## Institutionalized Leadership

Corporate contributions are sometimes motivated by the idea that the well-being of the task environment (community) is related to the well-being of their own corporations. Many of the corporate leaders believe that money given to civic and community affairs such as local projects on fresh air, clean water, transportation, and housing will ultimately benefit their corporations. This enlightened self-interest is often demonstrated by the findings that corporations tend to donate money to the sectors which have a vital significance to the future of the corporations. Useem (1985), for example, finds that education is the leading beneficiary of corporate dollars, receiving more than two-fifths (40.7%). This tendency can be explained by the enlightened self-interest of the firms. The firms, giving money to educational institutions, could establish cooperative relationships with educational institutions, and though the relationships, they could increase the quality of prospective employees or could enhance their own knowledge or technology in certain areas. One of the functions of corporate giving is to provide a disciplined body of knowledge concerning the donor company's social, political, and economic milieu. So, by giving money to educational institutions, the donor companies can attract more qualified human resources, or at least, can enhance general quality of the people in a certain field some of whom will be their employees eventually. Also, corporations can increase and develop knowledge and technology on a specific field by working together with educational institutions. Levy and Shatto (1980) say that contributions by the firm will result in more customers and better satisfied employees.

A variety of researches, however, suggest that corporate elites have tremendous discretion in charitable donations. For example, the personal discretion of the chief executive officers is one of the most important factors in giving (Useem, 1984; 1985), and there is a positive relationship between elite network index and contributions (Galaskiewicz, 1991). The important fact is that the enlightened self-interest is institutionalized through the informal networks of the business elites. Top executives have informal or business networks with other business leaders which provide them opportunities to compare policies and share information and concerns. Many corporate elites are interested in winning prestige, respect, and esteem of others in their institutional environment (Galaskiewicz, 1985; 1991). In this context, corporate contribution is a means for establishing one's position in the status hierarchy among business elites. Corporate elites contribute money to win public applause, to ensure a continued membership of informal groups among business elites, and to have satisfaction as humanistic people that they have a hand in improving community welfare. Regardless of the personal motives of the corporate elites, as corporate contributions becomes popular among corporations, the money giving behaviors become dominant culture within the elite networks, and business elites do exert pressure upon one another.

*Proposition 12: The more a corporation is motivated by the enlightened self-interest, the more likely the corporation is to give money to its own community.*

*Proposition 13: The stronger is the group pressure among business elites, the more likely the focal corporation is to donate money.*

## CONCLUSION

Traditionally two closed systems approaches, altruistic model and rational choice model, have been most popularly cited in the literature of corporate contributions. Both models are similar in two senses: 1) corporate contribution is viewed as the aggregate consequence of individual choice; and 2) the corporate leaders (eg: administrators and top executives) play a major role in making decisions on donation. The models are also similarly criticized on the ground that they largely ignore the corporate climate and the social culture which impede organizational discretion tremendously.

Rational choice model is based on behavioral principles. For rational choice model, corporate giving is a purposeful behavior aimed at obtaining rewards from the task environment. Material benefits such as tax exemption are considered incentives for corporate contributions. So if there is no benefits, there is no contributions. But this rationale is not convincing because many corporations actually donate money to the nonprofit sector even when benefits are not reciprocated. In contrast, altruistic model emphasizes humanistic motives of corporations. Altruistic model is also criticized because the model confuses altruism with disguised self-interest. Most altruistic theorists collect data through personal interviews with top executives. Personal interview, however, are not appropriate in finding the true motives of the contributions because corporate leaders tend to deliberately distort genuine intentions in order to win public applause.

Institutional theory looks at corporate contributions differently from the two perspectives. Organizations adopt the policies and structures prevailing in the society as they become concerned with the environment. This tendency is not necessarily aimed at increasing efficiency, but rather aimed at pleasing the environment and its constituencies upon which the organizations depend for resources and support. When certain practices or cultural elements are institutionalized, they become norms, and organizations simply follow the practices, raising no doubts since the institutionalized practices are perceived as the ways how things ought to be done. These institutionalized practices exert tremendous pressure upon corporations. To institutional theory, corporate contributions are just one of the institutionalized culture among corporations.

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