

# Who Is Governing Whom? Senior Managers, Governance and the Structure of Generosity in Large U.S. Firms

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**WHO IS GOVERNING WHOM?**  
**SENIOR MANAGERS, GOVERNANCE AND THE**  
**STRUCTURE OF GENEROSITY IN LARGE U.S. FIRMS\***

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**ABSTRACT**

We examine how organizational structure influences strategies over which corporate leaders have significant discretion. Corporate philanthropy is our setting to study how a differentiated structural element, the corporate foundation, constrains the influence of individual senior managers and directors on corporate strategy. Our analysis of Fortune 500 firms from 1996 to 2006 shows that leader characteristics at both the senior management and director levels affect corporate philanthropic contributions. We also find that organizational structure constrains the philanthropic influence of board members, but not senior managers, a result that is contrary to what existing theory would predict. We discuss how these findings advance understanding of how organizational structure and corporate leadership interact, and how organizations can more effectively realize the strategic value of corporate social responsibility activities.

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Is corporate philanthropy a managerial perk, or is it a strategic activity that delivers benefits to firms? Research on this question has produced remarkably mixed results. Critics of corporate philanthropy suggest that it is pure “agency loss;” a misuse of shareholder profits by managers pursuing personal gain (e.g. Friedman, 1970; Jensen, 2002). But long-standing research also suggests that such activities can burnish corporate reputation (Fombrun, 1996; Hoeffler and Keller, 2002) and increase employee commitment (Bartel, 2001; Bhattacharya, Sen, and Korschun, 2008) and so provide an essential strategic lever for dealing with a broad set of stakeholders (Porter and Kramer, 2002). Despite scores of articles that attempt to validate or discredit the strategic role of philanthropy by estimating its effect on financial performance, the processes by which philanthropy might deliver actual strategic benefits to firms remain obscure (Margolis and Walsh, 2003). Recently, scholars have begun to unpack some of the external contingencies that shape the strategic outcomes of philanthropy, such as the dynamism of the external environment (Wang, Choi and Li, 2008) and characteristics of key stakeholders (Rowley and Berman, 2000; Brammer and Millington, 2005; Barnett, 2007). Insider narratives of philanthropy strategy-setting in large corporations depict similarly complex organizational processes within firms (Levy, 1999; Benioff and Adler, 2007). But research has not yet systematically addressed the critical questions of how internal actors and characteristics, such as leadership and organizational structure, may interact to direct corporate philanthropy in a more or less strategic direction.

In this paper, we use corporate philanthropy as a lens to theorize about and test how structural features of organizations influence the ability of senior leaders to shape firm strategy.

Corporate philanthropy is influenced by two intra-organizational factors: the idiosyncratic qualities of individual corporate leaders (Hambrick, 2007; Galaskiewicz, 1997) and the organizational units that systematize and align decision-making with the strategic goals of the firm (Lawrence and Lorsch, 1967; Coady, 2008). Our approach builds on upper echelon theory, which focuses on how individual senior managers influence firm strategies and governance (Hambrick and Mason, 1984; Hambrick, 2007; Hambrick, Werder, and Zajac 2008), by also considering how structural features of organizations can constrain organizational outcomes and strategy (Rivkin and Siggelkow, 2003; Davis, Eisenhardt, and Bingham, 2009; O'Reilly, and Tushman, 2008). While significant earlier work explains the development of organizational structures as a way that leaders translate strategy into action (Chandler, 1962; Lawrence and Lorsch, 1967; Thompson, 1967; Fligstein, 1985), subsequent studies have advocated a reciprocal relationship in which structure also influences strategy (Amburgey and Dacin, 1994; Ocasio, 1997). Our approach explores the process underlying the latter perspective; we examine how and why existing organizational structures may modify the strategies that individual corporate leaders are able to enact.

In our study, we include both senior managers and members of the board of directors, and collectively refer to these two groups as “corporate leaders”. A number of characteristics of the senior management team have been shown to be central to corporate strategy formulation and enactment (Hambrick and Mason, 1984; Hambrick, Werder, and Zajac 2008; Finkelstein, 1992). At the board level, the influence of individual directors on strategy have received less attention, but have been found to significantly influence strategy through mechanisms such as activity-specific expertise (McDonald, Westphal, and Grabner, 2008) and CEO selection (Westphal and Fredrickson, 2001), as well as through the diffusion of operational strategies, such as acquisitions

and financing (Haunschild, 1993; (Mizruchi and Stearns, 1994). Given the prominent role of both senior managers and directors in shaping corporate strategies, we investigate how and why internal structural features of firms may moderate these individuals' roles in strategy-making.

The corporate philanthropy of large US firms is an ideal setting to study how corporate leader characteristics and organizational structure affect corporate strategy for a number of reasons. First, corporate philanthropy is a practice over which large firms' senior managers and directors are known to exercise considerable influence (Galaskiewicz, 1985; 1997; Atkinson and Galaskiewicz, 1988). For instance, CEOs can direct corporate philanthropy for a number of purposes, including stakeholder management (Barnett, 2007), or to satisfy personal interests (Schwartz 1968; Useem and Kutner, 1986; Fry, Keim and Meiners, 1982). Based on past findings in the strategy and philanthropy literatures, we also explore the effects of senior managers' gender on corporate philanthropy (Krishnan and Park, 2005). Directors are also subject to philanthropic pressure, due to their social embeddedness (Galaskiewicz, 1985; Granovetter, 1985) and demography (Konrad, Kramer & Erkut, 2008). But corporate philanthropy is frequently managed through a common type of specialized organizational structure across firms, the corporate foundation, and is increasingly employed as a strategic activity that generates business results (Porter and Kramer, 2002 Margolis and Walsh, 2003; Wang, et al., 2008). We therefore theorize that while each corporate leader has his or her own interests and motivations to shape corporate philanthropy, the corporate foundation, as an existing structural element within the corporation designed to monitor and organize philanthropic activities to strategic ends, will moderate the ability of these leaders to achieve their individual philanthropic objectives.

To test our hypotheses, we have constructed and analyzed a unique dataset of the corporate philanthropy behaviors of Fortune 500 companies during the period from 1996 to 2006. We focus on large firms because of their dominant role in overall corporate philanthropy activity in the United States. A preponderance of large corporations with sales over \$500 million have philanthropy programs, while many small companies do not (Useem and Kutner, 1986; Useem 1988). The relative scale of philanthropy in large companies is quite significant. For example, Fortune 100 companies donated a median of approximately \$50 million in 2007 (Coady, 2008), and a recent study suggests that the philanthropy of the largest 200 companies accounts for the preponderance of total corporate philanthropy (Cavicchio and Turok, 2008). Because of this concentration, large corporations' philanthropy has significant relevance for the overall practice of corporate social responsibility.

Our paper offers a number of contributions to understanding the management and leadership of large organizations as well as the study of corporate social responsibility. Our primary contribution is to understanding the interaction of corporate leadership and organizational structure. While upper echelon theory has found that senior management effects are moderated by external forces (Finklestein and Hambrick, 1989; Hambrick, 2007), we contribute the idea that differentiated structural elements *within* organizations may also modify the ability of a firm's senior managers and directors to achieve their idiosyncratic objectives. In particular, while governance research has shown directors to be influential in myriad corporate practices (Davis, 1991; Haunschild, 1993), the idea that existing organizational structures constrain their influence on firm strategies has not yet been established. We also extend research on how senior managers background and characteristics influence organizational behavior (Finklestein, 1992) to the domain of gender composition (Ely and Padavic, 2007). A second

major contribution is to understanding corporate social responsibility as a strategic activity.

While extensive prior research has looked at the impacts of corporate philanthropy on financial performance (Margolis and Walsh, 2001; Wang et. al, 2008), we join a recent trend in studying the antecedents of such philanthropic activities (Marquis, Glynn and Davis, 2007), highlighting intra-organizational contingencies that may determine whether philanthropy is being pursued as a strategic activity (Porter and Kramer, 2002) or a managerial perk (Useem and Kutner, 1986).

We close with a discussion of how corporations can more effectively realize the strategic benefits of CSR.

### **CORPORATE PHILANTHROPY IN LARGE US CORPORATIONS**

The role of philanthropy in corporate strategy is more widely studied and debated today than at any other time in history (Margolis and Walsh, 2003). In the early years of corporate philanthropy in the U.S., giving was justified as a moral activity, to “bear what many considered a proper share of its responsibilities for community welfare” (Andrews, 1952:24). Subsequent studies identified how senior managers’ control over philanthropy functions as a managerial perk (Useem and Kutner, 1986), and potentially, an exploitation of shareholder value for managers’ personal gain (e.g. Friedman, 1970; Jensen, 2002). In recent years, however, companies have begun to engage in “strategic philanthropy” that “addresses important social and economic goals simultaneously, targeting areas of competitive context where the company and society both benefit because the firm brings unique assets and expertise” (Porter and Kramer 2002: 58). A recent survey of executives found that 88 percent consider business goals when thinking about their corporations’ philanthropic contributions (Bonini and Chenevert 2008). Whereas philanthropy was once seen as peripheral to core business activities, many practitioners today view it as a legitimate strategic activity.

Corporations use strategic charitable contributions to manage firm relationships with a broad set of stakeholders (Porter and Kramer, 2002). For instance, past research shows that corporate philanthropy can enhance corporate reputation (Fombrun, 1996; Hoeffler and Keller, 2002) which affects consumer support (Sen and Bhattacharya, 2001). “Cause marketing” programs establish favorable brand associations with charities that influence the purchasing habits of customers (Smith and Alcorn, 1991; Cone, 2004). Within the firm, corporate giving to charity can deepen employee commitment (Greening and Turban, 2000; Bartel, 2001; Bhattacharya, Sen, and Korschun, 2008), with implicit benefits for the retention and attraction of talent. Recipients of corporate giving are typically organizations in the non-profit sector, with specific organizations supported by each corporation based on their location and alignment with the corporation’s strategy and stakeholder interests (Useem, 1987).

The typical formal structural element for corporate philanthropy is the corporate foundation, a legally separate entity that exists to pursue the philanthropic activities of its parent company. Prior to becoming viewed as a strategic activity, corporate philanthropy typically was managed informally by the CEO and senior management, outside the purview of other organizational stakeholders. However, as the scale of corporate philanthropy has increased, so have demands by stakeholders for internal accountability and control (Himmelstein, 1997) and opportunities for increased efficiency. These pressures have led corporations to organize foundations characterized by increasingly well-defined roles, processes, and organizational forms managed by specialized professionals (Useem and Kutner, 1986; Osterower, 2002). Areas of specialization frequently include public relations, gift administration, and reporting.

A second common reason for the establishment of a corporate foundation is that it enables the funding company to better control the regularity and tax impact of its gifts. Slightly

greater than half of large firm foundations maintain endowments, which allow them to sustain philanthropy in circumstances when their benefactor corporations may have less discretionary cash to donate (Coady, 2008). Although this involves permanently ceding control over resources to the foundation, firms have a strategic interest in “smoothing” giving over time in order to provide responsible financial stewardship for funding recipients and to maintain steady levels of goodwill (Wolch, 1995).

A third and final rationale stated by some companies is the desire to maintain the independence of philanthropic decisions from other business decisions. One survey suggests that for 5 to 10 percent of corporations with foundations, philanthropic autonomy is a “major purpose” of the corporate foundation (Siegfried, McElroy, and Biernot-Fawkes 1983). These autonomous values are formally articulated in a separate charter defining the philanthropic aims of the foundation. Nonetheless, corporate foundations depend almost fully on the firm itself for future resources and therefore remain heavily influenced by corporate decision-makers. In addition to controlling resources, corporate managers and directors, in particular, the CEO, frequently control distributions exceeding a certain size as well as the general policies of the foundation, either informally or as officers of the foundation (Fry et. al, 1982).

Overall, the use of the corporate foundation structure appears to be increasing: In a 1981 survey of large Massachusetts firms, approximately 50 percent had foundations (Useem and Kutner 1986). Our recently-constructed database of Fortune 500 corporations, covering the years 1996-2006, shows that approximately 70% have foundations throughout this time period. A national study of corporate foundations conducted in 2007 found that over 50% had been founded since 1990, suggesting substantial recent growth in the use of foundations as a means to strategically direct corporate philanthropy (Foundation Center, 2009).

## **CORPORATE LEADERSHIP AND PHILANTHROPY**

The process of corporate philanthropy strategy-making takes place primarily at the top of the organizational hierarchy (Buchholtz, Amason, and Rutherford, 1999). Although research has shown corporate philanthropy to have a range of strategic benefits, the implicit nature of these benefits complicates their attribution and measurement (Margolis and Walsh, 2003). Resulting uncertainty in the means-ends linkages of philanthropy results in a relatively high degree of managerial discretion, or the range of acceptable behaviors available to managers (Hambrick and Finkelstein, 1987). Previous studies have confirmed that firm-level philanthropic behaviors are influenced by individual-level characteristics of the managers responsible for disbursement (Atkinson and Galaskiewicz, 1988; Galaskiewicz, 1997). It is also well-established that the magnitude and allocation of a company's philanthropy can be strongly influenced by the individual relationships of management with leaders of other companies (Useem and Kutner, 1986; Galaskiewicz, 1997) and with non-profit organizations (Werbel and Carter, 2002). In some cases, the relationship between corporations' philanthropy and their senior managers is unassailably clear. For example, Dave Thomas, the late CEO of Wendy's Old Fashioned Hamburgers, who was himself adopted, focused the philanthropy of his firm on adoption issues (Marquis, Glynn and Davis, 2007).

Directors have a less formal, but still prominent role in determining philanthropic activities. While not as deeply involved as senior managers in day-to-day decision-making, boards of directors serve as an important buffer for the organization in how it integrates external demands with internal strategy (Thompson, 1967; Davis, 2005). Beyond monitoring and advising senior managers, boards are in fact influential in a number of different types of strategic decisions, although primarily in an advisory role (Mizruchi, 1996). Since philanthropy is an

increasingly important strategy organizations employ to manage external constituencies (Porter and Kramer, 2002), directors are frequently involved in setting firm contributions policies and directing donations (Galaskiewicz, 1985, 1997).

To assess whether idiosyncrasies of key leaders systematically explain the extent to which philanthropy is directed to their personal interests, we focus on a broad set of characteristics of senior managers and directors for which prior research suggests a relationship with personal philanthropic preferences. For senior managers, these include CEO tenure, and gender composition of senior management. For directors, we consider social embeddedness, board size, and gender composition.

### **Senior Management Teams and Corporate Philanthropy**

Research on how senior management teams influence firm strategy has identified a number of different processes by which these leaders shape corporate strategies (Hambrick, 2007; Hambrick and Mason, 1984). In most cases, the most significant member of senior management is the CEO, and we build on prior work in upper echelons theory that analyzed the importance of CEO tenure as a measure of discretion to understand how CEO tenure would affect the discretionary activity of philanthropy (Miller, 1991 Hambrick and Fukutomi, 1991; Hambrick & Finkelstein, 1987). A second key feature of the senior management is its demographic characteristics (Hambrick, 2007; Hambrick and Mason, 1984). For example, the greater the proportion of senior management with finance backgrounds, the greater the likelihood that companies make acquisitions (Finklestein, 1992). Regarding philanthropy, as we discuss more below, we believe that a key demographic characteristic is gender (Mesch, 2009), and so we hypothesize how gender composition of senior management would influence corporate philanthropy.

**CEO Tenure:** Among senior managers, CEOs have traditionally had a uniquely prominent role in corporate philanthropy. A 1981 survey of 240 large firms found that the company president and chairman were central figures in the establishment of firm giving policies (Siegfried, McElroy, and Biernot-Fawkes 1983). This finding is supported by a number of other large-scale surveys of firms from the 1970s and 1980s (Harris and Klepper, 1976; Useem and Kutner 1986). In a study of corporate philanthropic activity in the greater Minneapolis area during the 1980s, Galaskiewicz (1985, 1997) described how local CEOs gained individual prestige through their companies' generosity. More recently, Osterower (2002) also described the importance of corporate CEOs in funding elite arts organizations. Such rationale for philanthropy has been called "through the firm giving," which is defined as the act by corporate managers of incorporating their personal interests and agenda into the management of the firm's philanthropy program (Wolch, 1995). Research suggests that in some cases, philanthropically-minded managers eschew high individual taxes by informally taking some portion of their total compensation as corporate donations directly to their favorite charities (Fry et. al, 1982).

Given this prior theory and research, a key question then is what are some key individual differences in CEOs that may lead to their firms to have greater or lesser levels of philanthropic donations? Upper echelon theory proposes a model by which CEO characteristics influence firm behavior, with changes over the course of the CEO's tenure (Hambrick and Mason, 1984; Hambrick and Fukutomi, 1991). But if CEOs pass through different stages while occupying their positions, then how do these stages affect philanthropy?

Traditional conceptions of agency theory focused on discretion and opportunism would suggest that philanthropy should increase as CEOs are in their positions longer, reflecting their greater power and influence over the organization (Hambrick and Finkelstein 1987; Pfeffer,

1981; Kacperczyk, 2009). However, work in upper echelon theory provides several pieces of evidence that suggests the opposite may be true. A core finding of this perspective is that early in their tenure, CEOs are highly attuned to their external environments and therefore enjoy gradual increases in performance through a process of adaptive learning. For instance, the likelihood of implementing strategic change is greater for senior management teams with shorter tenures (Wiersema and Bantel 1992). However, as time goes on, CEOs become focused on internal operations and demonstrate an inability to meaningfully adapt to volatile external environments (Miller, 1991; Miller and Shamsie, 2001; Henderson, Miller and Hambrick 2006). Organizations with long-tenured senior managers display greater strategic persistence with respect to current strategy, as well as conformity with the strategies of peer companies in the same industry (Finkelstein and Hambrick 1990). As Miller (1991) described, long-tenured managers can become "stale in the saddle" and less responsive to changing social and external needs as their tenure increases. Related behavioral studies similarly show that CEO tenure within an industry is correlated with commitment to a strategic "status quo" (Hambrick, Geletkanycz, and Fredrickson 1993). In such an environment, external, exploratory activities such as philanthropy diminish as CEO tenure increases.

Additional evidence supports the hypothesis that shorter tenured CEOs may focus more on philanthropy. For example, early in their tenure, CEOs typically make a number of visible and high profile changes to demonstrate the establishment of a new reign and establish their individual legitimacy within the organization (Khurana, 2002; Chatterjee and Hambrick, 2007). Philanthropic spending by CEOs can be used for these purposes and so may thus be high at first, but decrease as his or her need to form new bonds with such groups decrease. Additionally, many CEOs have their own particular philanthropic interests which become supported by their

organization after they take over that role. For example, Goldman Sachs developed a series of new and different CSR programs following CEO leadership transitions (Marquis, Rangan and Ross, 2009). These were focused on employee volunteering (developed by CEO Jon Corzine), environmental conservation (developed by CEO Hank Paulson) and women's entrepreneurship (developed by CEO Lloyd Blankfein). In each instance, new activities did not displace, but were added to, the prior activities as incremental corporate social responsibility spending.

Thus, considering both research on senior management teams and leadership effects on corporate philanthropy, we suggest that a key relationship to understand effects of CEO on philanthropy is their tenure, and that corporate philanthropy would be highest for corporations with new CEOs, and decrease with CEO tenure.

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

**Gender Composition of Senior Management:** Several empirical studies have explored a possible link between gender and philanthropic giving. Although the majority of studies that address this question conclude that women are more charitable, there is variation in the magnitude, and even the direction, of this effect (see Mesch, 2009 for a review). At the individual level, research on gender and philanthropy has shown that women are more generous donors than men, in spite of their lower average levels of discretionary income (Capek, 2001). Research funded by the National Science Foundation indicates that women, on average, donate twice as much as men (Eckel and Grossman, 1998). Another study showed that, during a recessionary period in 1991, men's giving decreased by over 20 percent, while women's giving actually increased by 2 percent (Mixer, 1993). However, a frequent result across a range of settings is that while women are more likely to donate, they on average give smaller amounts

(Belfield and Beney, 2000; Andreoni et al., 2003; Bekkers, 2004). Other studies have identified gender variations in sensitivity to the “price” of giving, such that men give more when it is cheap to give, while women give when it is more expensive (Andreoni and Vesterlund, 2001), yet these studies, too, show conflicting results (Andreoni and Vesterlund, 2001; Cox and Deck, 2006). The variation in findings suggests that pure gender effects are unlikely; rather, the effect of gender on giving is a complex process that is highly contingent on social context and other factors.

Organizations represent a particularly important context for studying gender and philanthropy. In particular, several studies have pointed to the special importance of women in facilitating organizational giving. For instance, in cooperative laboratory teams, the presence of women may cause men to be more philanthropically generous (Kamas, Preston, and Baum, 2008; Cox and Deck, 2006). Similarly, in mixed-sex pairings, women were more likely than men to convince their partner to adopt their personal giving preferences (Kamas, Preston, and Baum, 2008). Gender differences in attachment to philanthropic causes also appear in small firms. For example, the Center for Women’s Business Research (formerly the National Foundation for Women Business Owners) has shown that among businesses with assets of \$1 million or more, over half of women business owners contributed at least \$10,000 annually to charity, compared to only 40% of men.

Regarding effects of women on large corporations, it is important to note that women are increasingly represented among the ranks of senior managers. In 1995, women held 8.7% of corporate officer positions in Fortune 500 companies; by 2000, this percentage had increased to 12.5%, and by 2006 to 15.5% (Catalyst 1996, 2000; 2006). Figure 1 illustrates the increasing prevalence of women senior managers and directors in large US corporations. While meta-analyses overall show negligible gender differences in leadership characteristics (Eagly and

Johnson, 1990), we believe that their philanthropy is a particular activity in which gender is a salient leadership characteristic.

Gender may influence the philanthropy of large corporations through at least two distinct mechanisms. The most obvious of these extends the logic of the research on generosity cited above and suggests that women senior managers will directly influence corporate giving strategies. But a second way that the relative presence of women senior managers may influence corporate philanthropy relates to the existence of gendered roles within corporations. In corporate philanthropy, leaders of the foundation or the functional unit in which philanthropic activities take place are disproportionately women (Conry, 1998; Konrad et. al, 2008). Research on gender in organizations consistently highlights the importance of sex-segregated occupations to organizational outcomes (Padavic and Reskin, 2002; Britton, 2003; Ely and Padavic, 2007). Thus, it could be as well that women are disproportionately represented in the corporate leadership roles that are closest to philanthropy and so are more likely to influence it. Although the connection between gender and philanthropy is by no means conclusive, we predict that the combination of these two processes will lead corporations with more women senior managers to be more generous.

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

### **Boards of Directors and Corporate Philanthropy**

In addition to characteristics of the CEO and leadership team, we also consider the effect of boards of directors on corporate philanthropy. Corporate boards of directors, while typically seen as an external group that monitors and advises senior management (Fama and Jensen, 1983; Davis and Useem, 2001), have also been shown to influence the operational strategies of

organizations (e.g. Haunschild, 1993; Mizruchi and Stearns, 1994). Boards of directors function as an interface between the corporation and the broader society, a high-status role that some suggest is an even greater enticement to prospective directors than financial compensation (Hambrick, et al. 2008). As philanthropy is an important way that companies establish and maintain relationships with broader stakeholder groups, it is quite likely that a corporation's directors and particularly their social embeddedness play an important role in its philanthropic decisions. Furthermore, building on the arguments about gender and philanthropy above, we also consider why gender composition of the board may influence corporate philanthropy.

**Directors' Social Embeddedness:** An important process that relates specifically to philanthropy is how the social embeddedness of the board members may broaden exposure of the board to potential philanthropic projects. In general, directors' ties to other corporations are a critical source of strategic information (Pfeffer, 1981; Useem 1984). For philanthropy specifically, research has shown the relational network linking corporate decision-makers to be one of the most important mechanisms for stimulating giving by large firms. Useem (1984), for instance, found that companies with socially connected directors were on average more generous contributors, particularly to arts organizations. Galaskiewicz's 20-year study of corporate philanthropy in Minneapolis showed that companies typically gave more if their executives and directors had social connections to other local businesspeople who promoted corporate giving and corporate social responsibility (Galaskiewicz, 1985, 1997). For example, Warren Buffett, a veteran of corporate boards, has characterized the influence of boards on corporate philanthropy decisions as highly informal and focused on relationships rather than charities' merit. According to his account of the corporate philanthropic allocation process, "the whole thing was based on figuring out who was connected to whom" (Kinsley 2008; pages 20-40). If this account of the

search process is true, highly-connected directors should receive more requests, which they would then pass on to the corporation and its foundation. We therefore expect to find in our national sample of large firms that the greater the level of social embeddedness of the board, the more likely the corporation is to be philanthropically generous.

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

**Board Size:** A second, related feature of the board is its number of directors. Since requests made through the board are presumably brought primarily to individuals, boards with more members should attract a greater number of demands for philanthropic resources. Prior cross-sectional work in economics has shown that firms with larger boards donate more, which the authors attribute to free-rider problems and the greater difficulty that large boards have in monitoring the corporation (Aggarwal and Nanda, 2004; Brown, Helland, and Smith, 2006). Studies of the influence of board size on strategy-setting also suggest that large boards have a more difficulty coordinating activities and may be more vulnerable to fractures and the emergence of special interests (Goodstein, Gautam, and Boeker 1994). Organizational research suggests that individual peer pressure is an important mechanism that leads boards to give (McElroy and Siegfried, 1986; Galaskiewicz, 1997; Marquis, Glynn and Davis, 2007). So while greater network connections should lead to greater individual pressure on directors to give, larger boards would face more opportunities to give, possibly with less monitoring.

We therefore hypothesize that in addition to network connectedness, large board size will lead to greater corporate philanthropy.

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

**Women Directors and Corporate Philanthropy:** We also predict that having a greater presence of women directors may lead a company to be more generous, again in part because of the frequently-demonstrated relationship between gender and philanthropic orientation. A recent study that reported results from interviews with 50 women directors from Fortune 1000 boards suggested that one benefit of increased presence of women on boards is that the firms would be more likely to raise issues that pertain to multiple stakeholders such as firms' communities (Konrad et. al, 2008), which are typically the targets of philanthropy. Additionally, akin to the occupational sex-segregation argument presented above (Ely and Padavic, 2007), it may be that female directors are more likely to be from non-profit backgrounds (Williams, 2003), which would give them greater awareness of and exposure to corporate social responsibility ideas; firms with more women directors may therefore be more likely to take up those ideas in their philanthropic activities.

Several studies support this reasoning regarding increased women directors and greater philanthropy. In a study of 185 Fortune 500 companies during the period 1991-1994, companies with relatively high proportions of female directors were more likely to give to certain different types of charities, including community service and arts organizations (Williams 2003). Wang and Coffey (1992) similarly find in a 1984 sample of 78 companies that firms with more women and minority directors were more generous. Thus, building off of these related studies, we expect to find a more general relationship that firms with a greater percentage of women on their boards of directors will have higher overall philanthropy.

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

## **THE MODERATING EFFECT OF ORGANIZATIONAL STRUCTURE**

While upper echelons research has identified important processes of how corporate leaders influence strategy, this literature has also suggested that these effects may be contingent on environmental, organizational and interpersonal factors (Hambrick, 2007; Hambrick and Finkelstein, 1987). In particular, research in this domain has focused on the important external and institutional forces that may constrain the extent to which leaders can enact their strategic wishes, i.e. their discretion (Hambrick, 2007). For example, Finkelstein and Hambrick (1990) in a study of senior management tenure and strategic persistence and performance, found that companies in the computer industry, where managers have more discretion, were more influenced by manager characteristics than companies in the regulated natural gas industry. Finkelstein and Hambrick (1990) also found that individual manager influence varied depending on the extent of slack resources or size of the organizations. But our question of how and why an organization's particular structure might constrain the influence of its leaders on strategy-making has not been studied.

Most studies of organization structure have conceptualized structure as a key way that leaders deliberately translate strategy into action (Chandler, 1962; Lawrence and Lorsch, 1967; Thompson, 1967; Fligstein, 1985). As organizations and their subunits grow in size and scale, corporate leaders actively design and formalize differentiated subunit structures, such as role definitions, predefined tasks, standard operating procedures, and extensive documentation (Weber, 1968, Blau, 1970, Astley, 1985, Donaldson, 1995: 39). The literature on organizational structure largely portrays organizations as rational systems of specialized, complementary functions (Galbraith, 1974; Tushman and Nadler, 1978). A central concern of this perspective is the tradeoff between the constraints of formal, bureaucratic structure and leaders' abilities to respond to changes in the firm's external environment (Burns and Stalker, 1961; Rivkin and

Siggelkow, 2003; Davis et. al., 2009). In a study of 97 small firms based in Quebec for instance, Miller and Toulouse (1986) found that the influence of the CEO decreased as firm size increased.

In the case of corporate philanthropy, as noted above, the establishment of the corporate foundation provides structural differentiation. As corporations' philanthropic activities become more complex and distinct, they are located in a functionally differentiated unit to coordinate and manage these activities. Consistent with research on organization design that shows how size is an important reflection of the degree of structural differentiation (Child, 1973; Pugh and Hickson 1976; Pugh and Hinings 1976; Davis, et. al, 2009), larger corporate foundations tend to be the most structurally differentiated from the rest of the firm. For example, a recent survey of corporate philanthropy programs found that those that gave under \$5 million annually had a median of two full-time employees dedicated to philanthropy activities, whereas those with giving exceeding \$100 million had a median of twenty-four such full-time employees (Coady, 2008). Thus, the size of a corporate foundation is a good indicator of its structural differentiation from the rest of the corporation.

The structural differentiation of corporate philanthropy may result in tension between the decisions made by this unit and the personal preferences of the corporation's senior managers and board members. Prior to the creation of a corporate foundation, corporate leaders typically controlled all aspects of a company's philanthropy strategy, including the overall amount of giving and portfolio of recipient organizations. The creation and endowment of foundations formally allocates some of these functions to specialized professionals and locates them in an independent authority responsible for maintaining that the philanthropy of the firm is consistent with overall firm strategy. Thus, structure functions similarly to the governance role of directors on senior managers (Jensen and Meckling, 1976), in that the differentiated organizational

structure of the corporate foundation constrains the influence of individual leaders on firm behavior.

Thus, our analysis of corporate philanthropy emphasizes the “coalition” nature of organizations, a perspective that views organizational decision-making as a political process involving many independent actors (March, 1962; Cyert and March, 1963; Pfeffer and Salancik, 1978). In this framework, individuals and subunits within an organization have interests and goals that may diverge, and decision-making represents an allocation of scarce resources necessary to achieve them. Put simply, a structure, such as a corporate foundation, may be designed to focus attention on one area, while leadership interests aim attention on another area. Thus, in the hypotheses that follow, we focus on how the extent of structural differentiation of the foundation, measured as foundation size, may moderate the main effects of senior managers and directors on corporate philanthropy hypothesized above.

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

As with individual managers, we expect the effects of director characteristics to be moderated by the size of the foundation. As noted, boards of directors are an important interface between the corporation and broader society (Thompson, 1967; Davis, 2005). Thus, they are involved in setting policy and funneling requests from outside constituencies to the organization. The independence of the specialized philanthropic processes by which these requests are handled will vary depending on the size and differentiation of the corporate foundation. Thus, we believe that the extent to which directors’ networks and embeddedness outside of the corporation lead

their corporations to contribute greater amounts is reduced by having larger corporate foundations.

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

## METHODS AND ANALYSES

**Sample and Units of Analysis:** To test the hypothesized influence of senior managers and board member characteristics on corporate philanthropy, and how differentiated organizational structure may moderate those processes, we focused on the 500 largest US corporations (i.e. the Fortune 500) in each of the even-numbered years from 1996 to 2006. As noted above, such large corporations are the primary set of businesses that are involved in large-scale philanthropy and are therefore an appropriate test site for our research questions. Our choice of time period was motivated in part by the limited availability of key variables, including the prevalence of women senior managers and women board members. Owing to missing observations on some of our variables<sup>1</sup>, we tested our predictions on a dataset that includes approximately 2100 company-years.

**Dependent Variable:** We assembled data on *corporate philanthropy* from the National Directory of Corporate Giving in the relevant years (Foundation Center, 1997, 1999, 2001, 2003, 2005, 2007<sup>2</sup>). We manually looked-up each corporation in our sample for each year and recorded the corporate philanthropy, which equals the total dollar amount of grants given

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<sup>1</sup> This is mostly due to missing CEO tenure data. Results on other coefficients do not change when CEO tenure is not included in the analyses.

<sup>2</sup> There is a one year difference between the Foundation Center book citations and the years of our other variables because the Foundation Center books publish the philanthropy of a given corporation in the year after the donation.

through a corporate foundation and giving by the corporation directly. We log transformed this variable to reduce highly skewed values (Alison, 1999).

**Independent Variables:** To account for the key structural element of the corporation that we hypothesize will have an important effect on corporate philanthropy, we also recorded *foundation assets* from the directories listed above. As noted, about 70% of companies in our database have foundations, and companies without a foundation were given the value of zero. Our conceptualization of structure in terms of size is consistent with existing literature that views organizational structure in amount, with more pronounced effects as the amount of structure increases (Davis, et. al. 2009). Prior research also suggests that the level of organizational structure does not increase linearly with size, but that marginal increases to structure diminish as the organization grows (Blau, 1966; Pondy, 1969). In order to model this relationship, we log transformed the level of foundation assets, which also has the advantage of attenuating the prominence of the very largest and smallest foundations.

Our other major set of independent variables relates to the corporate leadership of the corporation, and following prior research, we focus on characteristics of the senior management team and boards of directors. Regarding the senior management team, the *CEO tenure* of each corporation in our sample was obtained from the Standard & Poor's ExecuComp database<sup>3</sup>. This is a measure of the number of years the CEO has been in that position. *Percentage women senior managers* was obtained from Catalyst, Inc. Catalyst has collected such data since 1995 for its regular publication "Catalyst Census of Women Corporate Officers and Top Earners of the Fortune 500." In these data, percentage of women officers reflects women represented among

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<sup>3</sup> Because our arguments focus on CEO discretion, as an alternative operationalization, we also included the ratio of CEO compensation to senior management compensation. This variable did not return significant results or affect our hypothesized relationships, so was not included in the presented models.

senior managers with official governance responsibilities. See Catalyst (1996, 1998, 2000, 2002, 2004a and 2006) for more details on the methodology.

Regarding the corporate boards of directors, to calculate the *degree centrality* of the corporations' board of directors, we obtained interlock network datasets based on shared directors among the boards of all public firms during the two years of 1997 and 2002. Companies in years 1996, 1998 and 2000 were given the 1997 values and companies for years 2002, 2004 and 2006 were given the 2002 values. While we would ideally observe these data every year, such data are exceptionally difficult to organize in a fashion that makes analysis possible. Furthermore, prior research has shown that these network relationships are quite stable over time (Mizruchi, 1996; Marquis, 2003)<sup>4</sup>. The variables *number of directors*, and *percentage of women directors* were constructed using the data obtained from Catalyst, Inc who collected the data for its publication "Catalyst Census of Women Board Directors of the Fortune 500." Number of directors and percentage of women directors include officially elected directors. See Catalyst (1996 - 1999; 2001; 2003; 2006; 2007) for more details on the methodology.

**Control Variables:** To account for possible alternative explanations to our arguments and for factors found to affect philanthropy in previous studies, we included in our analysis several control variables at the organization, industry and community levels. At the organization level, we included measures of financial performance, size, age, industry and CEO age. Financial performance, which has been shown repeatedly to influence philanthropy (e.g. Navarro, 1988) was operationalized as return on assets (*ROA*). Firm size is seen to be another important factor, as not only do larger firms have greater resources, but also higher visibility in the marketplace (Wolch, 1995). We operationalized size as firm logged *sales*. We believe that *age* of the corporation is also an important factor such that older companies would likely be more

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<sup>4</sup> In addition, we conducted a robustness check only including 1996, 1998 and 2002, and results remained the same.

embedded in philanthropy networks and may also have been founded during an earlier time when philanthropic contributions were more institutionalized (Hall 1987; Marquis, 2003; Abzug and Siminoff, 2004). We also included the *CEO age* to control for any potential cohort effect on philanthropy (Putnam, 2000) that may be related to CEO tenure. A number of studies have postulated industry differences for philanthropy (Galaskiewicz, 1997) so a series of industry indicators were also included to make sure that the philanthropic patterns observed were not a function of different industry effects. Following prior studies (e.g. Wolch, 1995), we include indicator variables for the following industries that have been previously shown to have specific giving profiles or preferences: *manufacturing* (SIC groups 2 and 3; see Safford, 2009), *retail* (SIC codes 5200 to 5999; see Burt, 1983), *financial* (SIC group 6; see Marquis, et. al, 2007), *service* (SIC groups 7 and 8; see Brammer and Millington, 2005). The reference category for this variable is thus other industries that have not been shown to have specific giving interests or preferences: agriculture (SIC group 0), mining and construction (SIC group 1), transportation and communication (SIC group 4) and governmental (SIC group 9).<sup>5</sup> Furthermore, to ensure that our effects related to women's leadership are not the result of some industries just having a greater presence of women employees, we controlled for the percentage of *women employment* in the industry, measured at the 2 digit SIC level. These data were from the US decennial census, with the 1990 values used for years 1996 and 1998, and the 2000 values used for 2000-2006.

We also included measures of the economic environment of the local community in which the corporation is headquartered, as the location of the corporate headquarters is seen to be an important determinant of philanthropy (Marquis, et. al, 2007). For instance, higher levels of

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<sup>5</sup> Results are the same when we add a control variable for each major industry group. We report models with this reduced list of controls as they are relevant to the literature on corporate philanthropy.

poverty might direct attention to social issues (Weisbrod, 1998), and more generally, the economic well-being of communities may influence philanthropy, so we included the *per capita income* of the core-based statistical area (CBSA) of the companies' headquarters. These data were collected from the US Census. Prior research has also shown that tax rates are an important determinant of corporate philanthropy (Useem, 1988). During our time period, tax rates were lowered as governments generally encouraged the outsourcing of welfare state functions to community actors such as nonprofits, hence these nonprofits may have sought greater corporate support (Salamon, 1987). More generally, as discussed previously, tax rates have broad theoretical bearing on corporate philanthropic behavior (Webb, 1994). We operationalize the tax rate as the total *governmental revenue per capita* (from the Census of Governments, which is taken every five years in years ending in 2 and 7; again, companies in years 1996, 1998 and 2000 were given the 1997 values and companies for years 2002, 2004 and 2006 were given the 2002 values) for the corporate headquarters' CBSAs. Finally, to ensure that these results were not a function of other time effects, indicator variables for each of the years, 1998 to 2006, with 1996 as the reference category, were included in the models.

**Statistical Models:** Important considerations in our choice of statistical model include the continuous nature of our dependent variable, as well as the observation of the same corporations' year-over-year in our panel data. To accommodate these factors, we conducted the analyses using the *xtreg* command in STATA with the random-effects option. As noted, we included year fixed effects to control for any unobserved time effects, and we also used the cluster subcommand in STATA to adjust our standard errors to account for the multiple observations per corporation. While an alternative would have been to include firm fixed effects, this approach was not ideal because of our interest in including time-invariant variables such as

industry indicators that had been shown to be important determinants of philanthropy in prior research. We did however estimate fixed effects models without these variables and similar results were obtained.

## RESULTS

Table 1 provides the descriptive statistics and correlations for the variables included in our analyses. For the most part, our theorized variables do not highly correlate with control variables or with each other, so multicollinearity is likely not an issue; however because there are some high individual correlations and since we have a large number of interaction effects, we present each of our main effect findings in separate equations. We furthermore ran regression diagnostics and found that that none of the variables in the equations we present had a variance inflation factor greater than 10, the recommended maximum threshold (Gujarati, 2003).

Table 2 presents the results of our analyses. Model 1 estimates the coefficients of our control variables. Models 2 through 6 estimate the main effects of each of theorized variables in each of the leadership attributes hypothesized to influence overall philanthropy: CEO tenure, female senior managers, board centrality, board size, and female directors. Model 7 is a model containing all of these main effects. Models 8 through 12 estimate the effect of the size of the corporate foundation by adding the interaction of foundation assets with each of the two senior manager attributes and each of the three board attributes. Model 13 is a full model containing all of the aforementioned variables. This model is presented for informational purposes only as the inclusion of so many interaction effects makes interpretation of individual estimators difficult.

[Insert Tables 1 and 2 about here]

**Main Effects:** Beginning with the main effects of corporate leader characteristics, Model 2 tests Hypothesis 1 by estimating the effect of CEO tenure on philanthropy. The model shows

that the coefficient on CEO tenure is negative and significant, providing support for Hypothesis 1. Post-hoc analyses to better understand this negative relationship between CEO tenure and philanthropy suggested that as predicted this result is driven mainly by new CEOs increasing philanthropy rather than long-standing CEOs detaching from the activity.<sup>6</sup>

Model 3 investigates the main effect of the presence of female senior managers on philanthropy, finding a positive and significant coefficient, supporting Hypothesis 2. This finding is consistent with the literature discussed above showing the propensity of women to engage in philanthropic activity. It is notable that while these effects are significant for women at the senior management level, the control for the overall proportion of women employees in the companies' industry has a negative effect on philanthropy. This finding suggests that gender of leadership plays a distinctive role beyond the effects of some industries being more female-gendered. In fact, it should be noted that corporations in industries with greater female employees have lower philanthropic contributions on average, making the main effect of female senior managers on giving especially remarkable.

Models 4, 5 and 6 investigate the relationship between board attributes and philanthropy. Model 4 shows a positive and significant estimate of the effect of board centrality, supporting Hypothesis 3a. Model 5 shows that the effect of the number of directors on philanthropy is positive and significant, supporting Hypothesis 3b. These findings indicate that both of these board-level attributes are consequential to philanthropy decisions. It is noteworthy that the size of the board alone has a significant effect on philanthropy. One interpretation of this finding is that greater size results in a greater number of interests to be satisfied, resulting in a greater

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<sup>6</sup> We created dummy variables to reflect short-tenured CEOs (those with 2 years or less; the 25<sup>th</sup> percentile in the tenure distribution), and long-tenured CEOs (those with 9 years or more; the 75<sup>th</sup> percentile in the tenure distribution). The short-tenured CEO was a marginally significant positive predictor of corporate philanthropic contributions, while the long-tenured variable had no effect. Furthermore, consistent with our other results, the foundation assets did not moderate the short tenure effect.

overall level of philanthropy. Model 6 estimates the main effect of the proportion of female board members on overall philanthropy, and finds a positive and significant coefficient, supporting Hypothesis 4.

**Interaction with Corporate Foundation Effects:** Models 8 through 12 test the interaction effects of corporate leader characteristics with the assets of the corporate foundation proposed in Hypotheses 5 and 6. The results partially support our hypotheses. In particular, the main effects estimating board member influence on philanthropy are significantly moderated by foundation size, but the main effects of senior manager influence are not. Model 8 includes the interaction effect of foundation assets and CEO tenure and finds that the effect on philanthropy is not significant, rejecting Hypothesis 5a. Model 9 explores the interaction effects of women senior managers and foundation assets on philanthropy, and finds that the size of foundations does not significantly affect the influence of women senior managers, so we also reject Hypothesis 5b.

[Insert Figures 2, 3 and 4 about here]

Models 10 and 11 investigate the interaction effect of foundation assets with the network centrality and number of directors on philanthropy; both coefficients are significant. As Figures 2 and 3 show, the size of the structural element of the foundation diminishes the previously-shown effects of board attributes, supporting Hypothesis 6a. As is apparent from the figures, when foundation assets are low (1 S.D. below the mean), the positive effect of network centrality and board size on philanthropic contributions is strongest; when foundation assets are high (1 S.D. above the mean), network centrality appears to have no effect, and board size only a weak (positive) effect, on philanthropic contributions. Model 12 tests the interaction effect of foundation assets with the proportion of female board members and finds a significant, negative

effect, supporting Hypothesis 6b. Interestingly, the size of the corporate foundation moderates the effect of women directors, but not of women senior managers, on philanthropy. As expected, Figure 4 also illustrates that the positive effect of women directors on philanthropic contributions is most pronounced when foundation assets are low. When combined with the other findings regarding board member effects, this finding suggests that the corporate foundation structure affects the influence of directors on philanthropy, but not of the senior managers themselves. We address this further in the discussion section.

**Control Variables:** Examining the control variables highlights a number of additional noteworthy relationships. Regarding corporate-level factors previously considered in understanding corporate philanthropy, somewhat surprisingly, ROA is not significant, although sales is significant across models. This suggests that a mechanism by which strategic considerations influence philanthropy is focused more on the firm's relationships with customers than with shareholders. That is, firms that are larger and presumably more visible in the marketplace feel compelled to give more, while firm financial performance is less important. Age has a positive and significant coefficient, supporting our prior speculation regarding the imprinting effects on firms' philanthropic behavior (Hall, 1987; Abzug and Siminoff, 2004). This could additionally be a result of the deepening of firms' embeddedness and commitment to their broader environments over time. Our results supports prior findings that manufacturing, financial, service and retail firms all have reasons to be more philanthropically generous than other types of firms. CEO age did not have an effect on philanthropy, which strengthens our conclusion that our CEO tenure effects are a result of the processes we theorize as opposed to cohort effects. Finally, regarding features of firm's headquarters community, the coefficient on per capita income is positive and significant, showing that even after the inclusion of a wide

array of other factors, community-level effects are still an important determinant of philanthropy. Additionally, local tax rate has a significant negative coefficient across all the models, supporting prior research which suggests that when there is greater government provision of social services, corporate philanthropy decreases due to less demand from private nonprofits (Salamon, 1987).

## **DISCUSSION AND CONCLUSIONS**

Our study focused on the ways that organization structure regulates the idiosyncratic influence of individual corporate leaders on firm-level strategic decisions. A number of individual-level and team-level characteristics of the senior management team and board of directors were shown to affect corporate philanthropic contributions. Furthermore, and perhaps more importantly, we found that the corporate foundation constrains the influence of directors, but not senior managers. To date, most research on organization structure and leadership has depicted leaders and specialized structures as complementary forces contributing to a unified strategy. Our findings, however, provide evidence of structural tensions within organizations. Furthermore, these findings show how specialized structures function as an important check on how corporate leaders, particularly directors, influence firm strategies.

**Upper Echelons and Organizational Structures:** Organizational structures are typically seen as the “normative system designed by management” (Scott, 1981, p. 82) to formally channel the behaviors of individuals within the organization, including the managers themselves, toward corporate ends (Pfeffer, 1981). To date, much of the literature on organizational structure has focused on performance benefits of “optimal structure” that allow organizations to balance efficiency and flexibility with different environmental needs (Rivkin and Siggelkow, 2003; Davis et. al, 2009). In corporate philanthropy, the risk of agency loss is a

consideration which companies are frequently called to confront (Friedman, 1970, Jensen, 2002). We contribute to this dialogue by showing that structure not only constrains organizations' leader-mediated responsiveness to their environments, but that it also can serve an important constraint on leaders' ability to influence firm behavior. In addition, while much recent literature on structure utilizes simulations to identify structural effects (e.g. Rivkin and Siggelkow, 2003; Davis et. al, 2009), our approach utilizes archival data on firm characteristics to identify how and why structures may constrain the discretionary activities of leaders.

Thus, a significant objective of this research was to highlight the importance of the interaction between upper echelons and organization structure. A novel finding in this regard was that the size of foundations effectively constrained the influence on philanthropy of directors, but not of senior managers. This finding breaks with prevailing assumptions on governance and suggests that in the case of corporate philanthropy, structure's moderating effect on director agency exceeds parallel effects on senior managers. One possible explanation for this pattern of findings is based on differences between the formal leadership roles of senior managers and directors. Because senior managers have formal, day-to-day purview over the organization, they are more likely to be able to co-opt the internal structures to their ends. Without this formal power over the organization, directors are subject to greater constraint by the organizational structure. We considered the possibility of a significant interaction effect between our directorship variables and CEO tenure, but in unreported results, we found no support for such an effect.<sup>7</sup> Understanding more fully how directors, senior managers and organizational structure interact is a ripe area for future research.

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<sup>7</sup> Also related to CEO power dynamics, in unreported results, we considered the ratio of insiders to outsiders on the board for period 2002 – 2006 where data was readily available. This variable was not statistically significant, and including it did not reduce the significance of other variables.

While the finding that structure moderates director influence may appear counterintuitive at first, it is consistent with the many studies of director influence on corporate operational strategies (Palmer, Jennings, and Zhou 1993; Davis 1991; Haunschild, 1993; Mizruchi and Stearns, 1994). A particularly relevant example that supports our findings is the influence of directors on corporate financing. Mizruchi, Stearns and Marquis (2006) documented how the effect of directors' embeddedness on corporate financing behavior fell after the mid-1980s, which these authors argue was a result of the emergence of a new institutional logic focused on agency theory (Davis, Diekmann and Tinsley, 1994; Zajac and Westphal, 2004). One manifestation of this change that they tested is that finance became institutionalized within firms, and so as corporations adopted the position of CFO, the boards' influence on financing naturally deteriorated. This analysis did not investigate whether it was directors who reduced their financing advice as the logics changed, or they continued the same level of financial advising, but the new finance function provided a check on the directors' impact. Our results suggest that, at least in some cases, the latter process is operant. As with senior managers and the process of 'through-the-firm giving,' corporate philanthropy provides personal benefits to directors, generating "social currency" that is important to gaining the approval of other business elites in the society (Galaskiewicz, 1985). If this is true, our results illustrate one way that the structure of the corporation protects the corporation from abuse by the board of directors.

Our main effect findings also show a number of patterns that are relevant to advancing research on upper echelons and the growing literature on corporate social responsibility strategies. Of note is our finding that corporate giving decreases with CEO tenure. While this finding may appear contrary to the general belief that CEO discretion increases with tenure (Hambrick and Finkelstein, 1987; Jensen and Meckling, 1976), it supports theories that depict

the early years of a CEO's tenure as qualitatively different from later periods (Hambrick and Fukutomi, 1991). Additional analyses support this result, showing that it is primarily increases in corporate giving during the very early years of CEO tenure that are responsible for this effect. Thus, we believe that this finding contributes new evidence to upper echelons theory that CEOs attempt strategic change immediately upon entering their new jobs (Greiner and Bhambri 1989; Wiersema and Bantel 1992), and suggests that corporate philanthropy may be one strategic lever with which they are quickly influential.

We also add to understanding of how the demographic mix of corporate leadership influences firm strategy (Hambrick, 2007; Finklestein, 1992). Significantly, the finding that increased presence of women senior managers and directors leads firms to make greater philanthropic contributions not only adds an important gender component to upper echelons theory, but also contributes to understanding the complex relationship between gender and philanthropy (Mesch, 2009). In particular, our findings support the assertion that large corporations are becoming more responsive to broader sets of social relations as their leadership becomes increasingly feminized (Wicks, Gilbert, and Freeman, 1994; Guthrie and Roth, 1999). Following this logic, women senior managers and directors of corporations may be better able to appreciate the importance to the firm of relationships with potential beneficiaries of corporate philanthropy. As a result, the perceptual boundaries of large firms may be expanding into areas clearly outside the corporation to incorporate more diverse stakeholders (Konrad et. al, 2008). The identity of the corporation itself has become increasingly predicated upon a network of stakeholders over the past decades (Davis et al., 1994), and the greater presence of women leaders may expand corporate identity to include an even broader set of the elements in firms' social context. Of particular interest for future research is the effect of gender at the CEO level,

since this position is so central to corporate philanthropy and corporate strategy in general. During the period of our sample, the number of female Fortune 500 CEOs grew from zero in 1996 to nine in 2006. This number was too small to permit statistical tests in this study, but we strongly believe that future research should investigate the implications of CEO gender, whether through statistical or qualitative methods.<sup>8</sup>

Regarding our gender results, we acknowledge the possible existence of a self-selection process by which women seek out organizations that are already more prone to engage in philanthropy. While it is challenging to methodologically rule-out this possibility (e.g. through an instrumental variable approach), we believe that the extensive other research, including studies of women's influence on philanthropy at a number of different levels (Eckel and Grossman, 1998; CWBR, 1999), and qualitative examinations of how presence of women influence corporations (Konrad, et. al.2008) suggest that at least some of the causality flows through the paths we hypothesize, particularly given the myriad other criteria individuals typically use to select employers. Furthermore, we also think this interpretation is less likely to affect the women director findings as directors are typically selected by organizations (Mizruchi, 1996), and our key findings of differential interaction effects between senior managers and directors are even less likely to be driven by such endogenous processes. Thus, while we do acknowledge a modest endogeneity risk to this one variable, we don't feel that it in any way compromises our broader findings and interpretations.

Further research could also examine more fine grained dynamics underlying each of the main effects we explored in our broad analysis with more granular data, and perhaps different methods. For instance, our data on gender does not allow us to conclusively determine how organizational contexts may differentially affect men's and women's generosity, nor how

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<sup>8</sup> By 2010, the number of women CEOs of Fortune 500 firms had increased to 14.

gendered organizational roles reproduce differences in behavior (Ely and Padavic, 2007). Current data limitations also prevented us from conducting further tests on how other characteristics of the senior management teams of corporations in our sample influence philanthropy strategies. Past research on more focused samples of senior management teams has examined how diversity measures such as ethnicity, functional work experience, educational background, geographic and age diversity influence cognitive patterns (Kilduff et al. 2000) and group processes for decision-making (Knight et al. 1999). We also expect that individual measures, particularly those that reflect senior managers' personalities or values, could be important in this context. Future research in these areas should explore additional variables at both the senior management and board levels to build a comprehensive understanding of the characteristics germane to corporate philanthropy.

**Corporations and Strategic CSR:** Finally, we also believe that our paper illuminates a key element of the interaction between corporations and the broader society, an increasingly important topic in recent years (Margolis and Walsh 2003). As noted, while scholars recently have guided managers toward strategic philanthropy (Porter and Kramer 2002), researchers have failed to reach consensus on the directional effect on performance of socially-oriented activities, such as philanthropy, let alone understand the subtleties of how these activities actually influence important firm outcomes (Margolis and Walsh, 2003). Our findings help unpack this relationship in a number of ways that suggest important areas of future research to better understand the strategic nature of corporate social responsibility.

An important part of the ongoing debate on whether philanthropy is strategic regards the largesse of senior managers. We show that leaders' philanthropic interests do influence firm-level philanthropy, but that these interests can be reined in by differentiated philanthropic

structures. We also find that philanthropy decreases with CEO tenure, and that this effect is not reduced by differentiated structures. Notably, the latter finding could be interpreted as support for the critique that philanthropic behavior is to some extent driven by the circumstances of the CEO, rather than by firm-level strategies. This adds yet another layer of complexity to the diagnosis of philanthropic behaviors, but also creates an opportunity for those interested in corporate philanthropy to understand one of its individual-level antecedents.

Some limitations of our study arise from our inability to observe certain processes in more granular detail and so future research is needed to better connect leadership, structure and strategic corporate philanthropy. For instance, disclosure requirements do not allow us to analyze the qualities of the specific charities to which funds are directed, nor can we see, for such a large sample, specific features of the relationship between corporations and their philanthropic foundations. Further investigation of these dimensions of philanthropic giving using more granular data would shed additional light on the influence of individual corporate leaders, and furthermore how leaders negotiate with, and overcome organizational constraints that are designed to moderate their individual influence (Pfeffer, 1977, 1981; Zajac and Westphal, 1996; Westphal and Zajac, 1998).

Recent research has also suggested that one way to better understand strategic CSR is to focus on organizational contingencies, such as degree of external dynamism (Wang, et. al, 2008) and the different stakeholders (Rowley and Berman, 2000; Barnett, 2007) underlying the connection between philanthropy and corporate performance. Our study extends this view to internal contingencies by illustrating the significant and interwoven mechanisms by which individual leaders and organization design determine philanthropic behavior. If the “holy grail” (Kelly, 2004) of management research connecting social performance with financial

performance is to ever be found, scholars need to increasingly examine organizational structure and design processes within organizations to understand this multi-level and multi-dimensional organizational phenomenon. Such inquiry would shed significant light on the critically important nexus of business and society (Hinings and Greenwood, 2002).

In closing, our results thus also suggest that organizational structures and processes can be a powerful tool for strategic CSR. As strategic philanthropy continues to grow in prominence and theoretical grounding (Porter and Kramer, 2002), the structure of organizations takes on a greater role as the setting in which philanthropic activity takes place. Following this view, our results suggest that corporations should increasingly focus on the corporate foundation as a strategic center, rather than an instrument of powerful individuals. As numerous academics and practitioners have argued, business is under increasing pressure from many stakeholders to make philanthropic contributions (Economist, 2008). While some corporate leaders may treat philanthropy as discretionary, or simply part of the “overhead” of doing business in certain locales, our results suggest that by making conscious organizational choices, corporations may be able to more effectively harness the elusive strategic benefits of their social responsibility programs.

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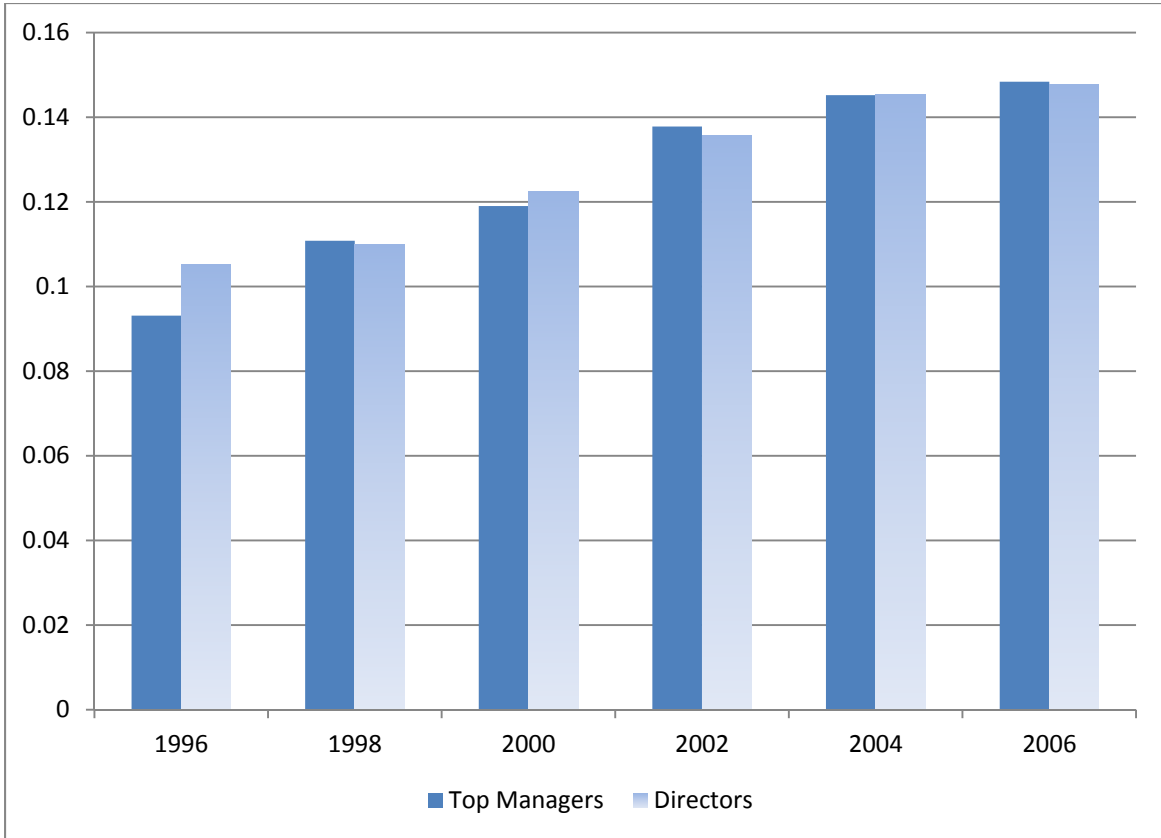


**TABLE 2**  
**Corporate Philanthropy of the Fortune 500, 1996-2006 (Random Effects Models with Year Fixed Effects)**

	1	2	3	4	5	6	7	8	9	10	11	12	13
1 CEO Tenure		-0.0226** (0.007)					-0.0190** (0.007)	-0.0216* (0.009)	-0.0190** (0.007)	-0.0184** (0.007)	-0.0185** (0.007)	-0.0194** (0.007)	-0.0208** (0.009)
2 Pct. Women Women Sr. Mgrs.			0.9044* (0.515)				0.6738+ (0.521)	0.6753+ (0.522)	0.6725 (0.965)	0.7341+ (0.522)	0.6704+ (0.520)	0.7086+ (0.523)	0.5842 (0.965)
3a Director Degree Centrality				0.0341** (0.008)			0.0267** (0.008)	0.0267** (0.008)	0.0267** (0.008)	0.0524** (0.016)	0.0272** (0.008)	0.0267** (0.008)	0.0469** (0.017)
3b No. Directors					0.0550** (0.019)		0.0423* (0.020)	0.0420* (0.020)	0.0424* (0.020)	0.0394* (0.019)	0.0812* (0.035)	0.0402* (0.020)	0.0652* (0.035)
4 Pct. Women Directors						2.1951** (0.712)	2.0415** (0.706)	2.0557** (0.703)	2.0414** (0.706)	1.9335** (0.697)	1.9488** (0.704)	2.9087** (1.125)	2.7680** (1.130)
5a Foundation Assets * CEO Tenure								0.0004 (0.001)					0.0003 (0.001)
5b Foundation Assets * Women Sr. Mgrs.									0.0001 (0.072)				0.0189 (0.071)
6ai Foundation Assets * Degree Centrality										-0.0025* (0.001)			-0.0019* (0.001)
6aii Foundation Assets * No. Directors											-0.0046* (0.003)		-0.0033 (0.003)
6b Foundation Assets * Women Directors												-0.1081+ (0.082)	-0.1076+ (0.083)
Foundation Assets	0.2395** (0.011)	0.2370** (0.011)	0.2366** (0.011)	0.2342** (0.011)	0.2377** (0.011)	0.2373** (0.011)	0.2271** (0.011)	0.2249** (0.013)	0.2272** (0.014)	0.2607** (0.016)	0.2814** (0.030)	0.2414** (0.014)	0.3012** (0.031)
ROA	-0.2473 (0.433)	-0.1561 (0.439)	-0.3005 (0.435)	-0.2608 (0.449)	-0.2439 (0.435)	-0.2433 (0.429)	-0.2268 (0.450)	-0.2174 (0.446)	-0.2251 (0.450)	-0.2405 (0.440)	-0.242 (0.444)	-0.2336 (0.446)	-0.2427 (0.433)
Sales	-0.0727 (0.080)	-0.0876 (0.080)	-0.0629 (0.081)	-0.1654+ (0.086)	-0.1181 (0.082)	-0.0974 (0.079)	-0.2019* (0.084)	-0.2021* (0.084)	-0.2021* (0.084)	-0.2000* (0.085)	-0.2012* (0.085)	-0.1997* (0.085)	-0.1982* (0.085)
Age	0.3037** (0.085)	0.2869** (0.087)	0.3097** (0.089)	0.2931** (0.084)	0.2993** (0.085)	0.2764** (0.085)	0.2652** (0.091)	0.2668** (0.091)	0.2649** (0.091)	0.2623** (0.091)	0.2506** (0.090)	0.2600** (0.091)	0.2479** (0.091)
CEO Age	0.0055 (0.385)	0.7363+ (0.431)	-0.0305 (0.386)	0.0001 (0.384)	-0.073 (0.383)	0.0673 (0.384)	0.5329 (0.436)	0.5297 (0.436)	0.5332 (0.436)	0.5514 (0.438)	0.5178 (0.438)	0.5317 (0.437)	0.5323 (0.435)
Service Industry	0.4727* (0.216)	0.5076* (0.218)	0.4793* (0.215)	0.4922* (0.218)	0.4924* (0.216)	0.4115+ (0.215)	0.4815* (0.218)	0.4781* (0.218)	0.4818* (0.218)	0.4478* (0.220)	0.4938* (0.218)	0.4756* (0.218)	0.4539* (0.222)
Retail Industry	0.3469+ (0.210)	0.3721+ (0.218)	0.3548+ (0.214)	0.3642+ (0.210)	0.3623+ (0.210)	0.2673 (0.207)	0.3346 (0.219)	0.3302 (0.219)	0.3347 (0.219)	0.3318 (0.218)	0.351 (0.218)	0.3219 (0.218)	0.327 (0.218)
Financial Industry	1.2324** (0.213)	1.2428** (0.215)	1.2623** (0.216)	1.1532** (0.205)	1.1088** (0.210)	1.1542** (0.213)	1.0657** (0.211)	1.0634** (0.211)	1.0660** (0.211)	1.0594** (0.208)	1.0937** (0.213)	1.0579** (0.211)	1.0689** (0.212)
Manufacturing Industry	0.5766** (0.165)	0.5439** (0.167)	0.5977** (0.168)	0.5302** (0.161)	0.5641** (0.163)	0.5498** (0.164)	0.5044** (0.165)	0.5029** (0.165)	0.5049** (0.164)	0.4991** (0.163)	0.5184** (0.165)	0.4955** (0.164)	0.4994** (0.164)
Female Employment	-1.5382** (0.505)	-1.4860** (0.513)	-1.5741** (0.504)	-1.5026** (0.499)	-1.5156** (0.499)	-1.4285** (0.504)	-1.3753** (0.501)	-1.3623** (0.498)	-1.3738** (0.502)	-1.3252** (0.503)	-1.3841** (0.497)	-1.4084** (0.501)	-1.3585** (0.501)
Per Capita Income	0.0000* (0.000)	0.0000* (0.000)	0.0000* (0.000)	0.0000* (0.000)	0.0000* (0.000)	0.0000* (0.000)	0.0000* (0.000)	0.0000* (0.000)	0.0000* (0.000)	0.0000* (0.000)	0.0000* (0.000)	0.0000* (0.000)	0.0000* (0.000)
Tax Rate	-0.2305* (0.098)	-0.2780** (0.100)	-0.2297* (0.101)	-0.2597** (0.099)	-0.2346* (0.100)	-0.2272* (0.099)	-0.3100** (0.103)	-0.3089** (0.103)	-0.3106** (0.102)	-0.3077** (0.104)	-0.3234** (0.104)	-0.3060** (0.102)	-0.3141** (0.105)
Constant	0.7776 (1.868)	0 (0.000)	0.2316 (1.832)	0.8351 (1.856)	0.3855 (1.825)	0.0712 (1.825)	-1.407 (1.997)	-1.3788 (1.996)	-1.4076 (1.989)	-1.7844 (2.007)	-1.7461 (2.032)	-1.476 (2.004)	-1.9606 (2.028)
Observations	2,241	2,183	2,182	2,241	2,229	2,229	2,122	2,122	2,122	2,122	2,122	2,122	2,122
Number of matrix_idx	646	634	632	646	640	640	618	618	618	618	618	618	618
Robust standard errors in parentheses (** p<0.01, * p<0.05, + p<0.1; one-tailed test for hypothesized effects, two-tail tests for controls)													

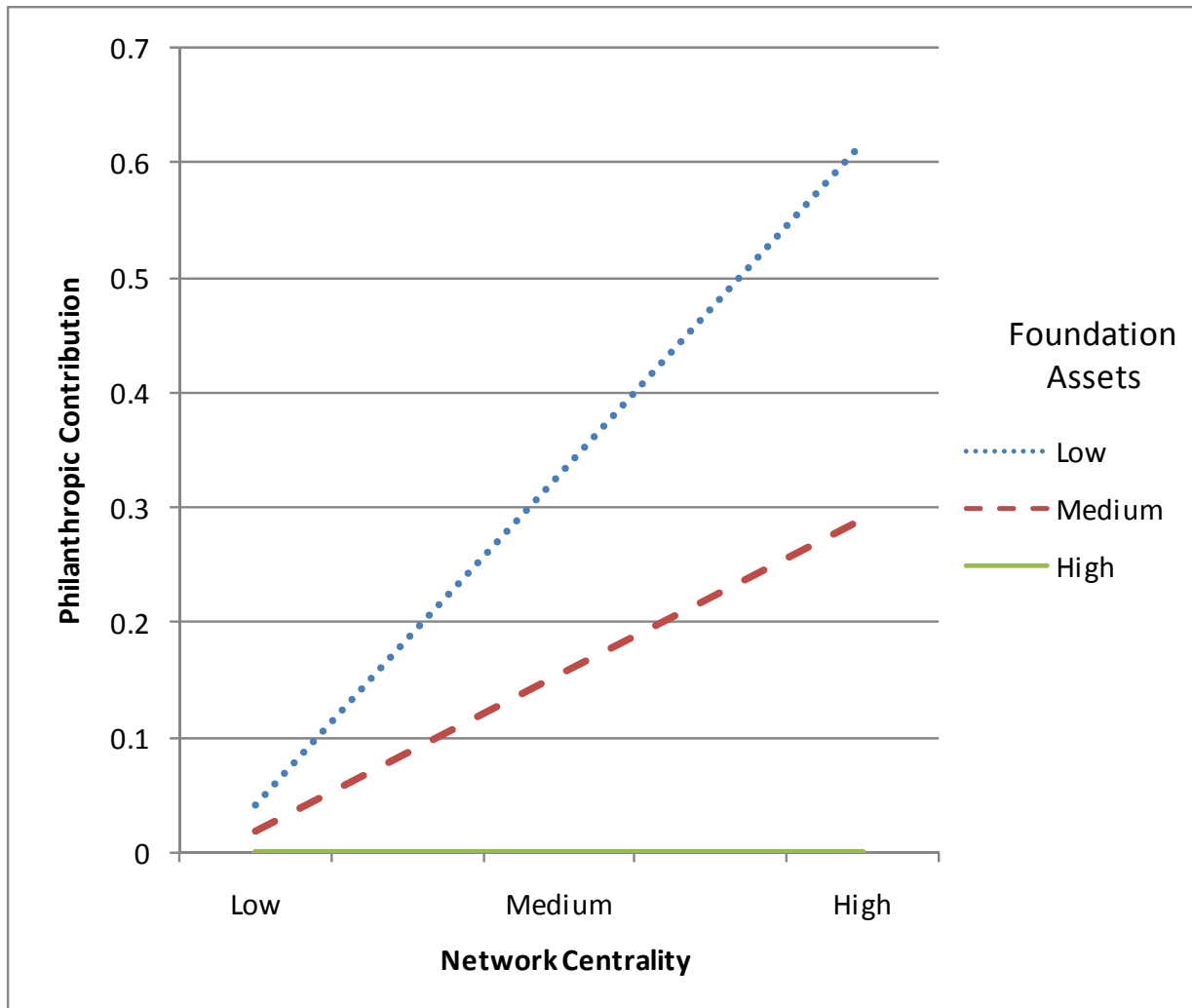
**FIGURE 1**

**Percentage of Women Senior Managers and Directors in Fortune 500 firms, 1996-2006**



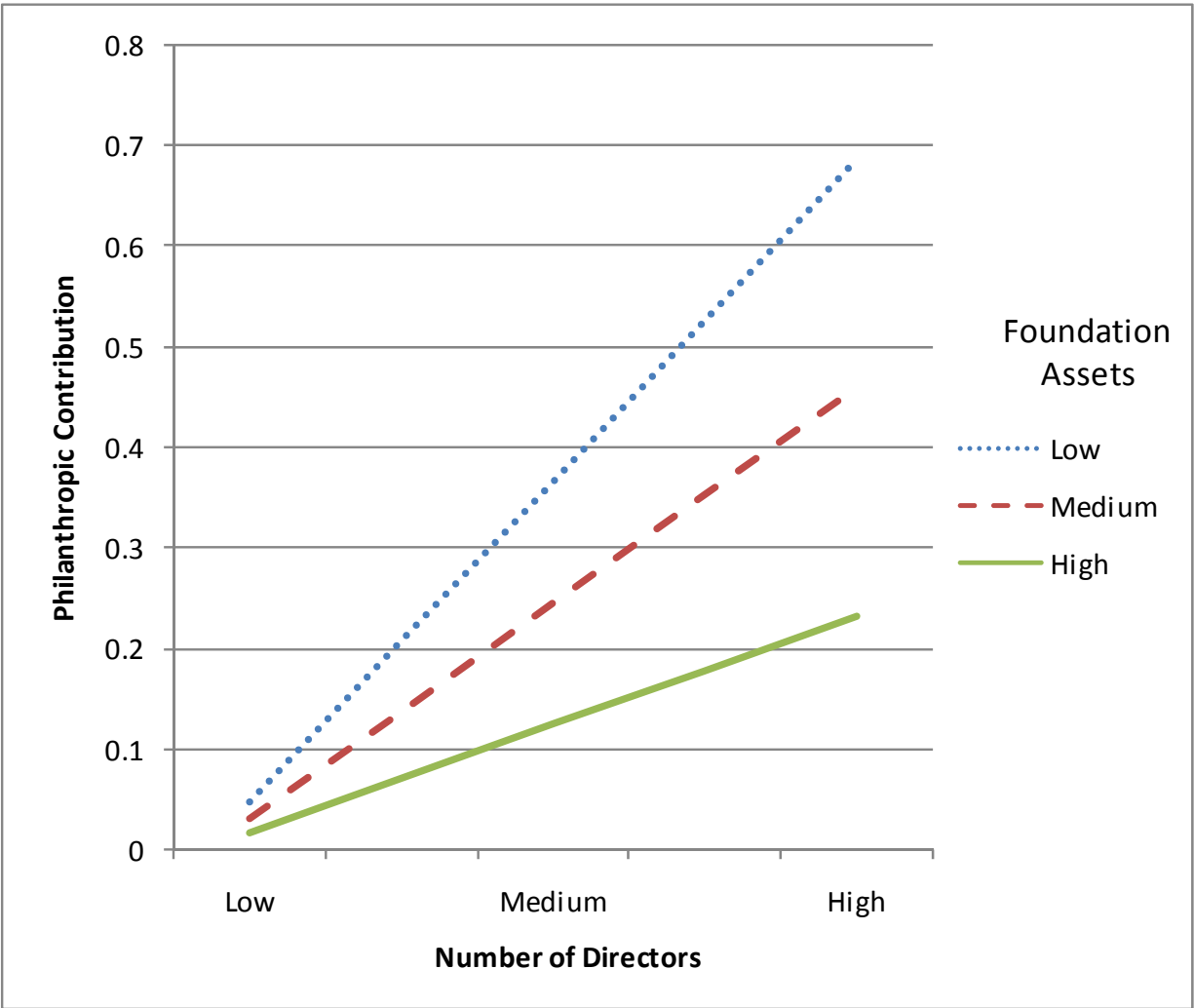
**FIGURE 2**

**Growth in Philanthropic Contributions and the Interaction between Director Network Centrality and Foundation Assets (medium=mean; low=mean-1S.D.; high=mean+1S.D.)**



**FIGURE 3**

**Growth in Philanthropic Contributions and the Interaction between Number of Directors and Foundation Assets (medium=mean; low=mean-1S.D.; high=mean+1S.D.)**



**FIGURE 4**  
**Growth in Philanthropic Contributions and the Interaction between Percentage of Women Directors and Foundation Assets (medium=mean; low=mean-1S.D.; high=mean+1S.D.)**

