

FIRM OWNERSHIP AND PHILANTHROPY

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Abstract

This paper empirically examines the relationship between firm ownership structure and corporate charitable donations. Using a panel data set of 1,017 listed Korean firms, we find that larger firms with higher advertising intensity and lower export intensity ‘give’ relatively more, suggesting that charitable donations are both strategic and discretionary corporate expenditures. In addition, the study explores the effects of ownership structure on corporate philanthropy. We find a positive relationship between charitable donations and foreign ownership. However, we do not find a significant effect of corporate philanthropy on financial performance, indicating that donations appear to be “revenue” neutral.

JEL Codes: G32, M14

Keywords: Corporate Governance, Firm Ownership, Corporate Philanthropy, Donations

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1. Introduction

This study investigates the role of corporate ownership structure in determining corporate charitable donations. Previous papers have sought to investigate charitable donations as an indicator of corporate philanthropy (Johnson 1966; Navarro, 1998). Since donations are a measurable and visible component of business social performance (Amato and Amato, 2007), many empirical studies have used this *a priori* indicator for the level of corporate philanthropy. These studies have linked corporate philanthropy to advertising (Brammer and Millington, 2004), board composition (Wang and Coffey, 1992), various stakeholders (Clarkson, 1995), visibility (Campbell and Slack, 2006), and reputation (Brammer and Millington, 2005). However, many previous empirical papers in this area suffer from sampling limitations due to the lack of accounting disclosure in corporate donations. Thus the findings from rigorous empirical analysis based on reliable longitudinal data are limited.

Our findings add to the literature in four important ways. First, by using accounting data of corporate donations, we overcome some of the potential sampling bias problems experienced in previous studies. Many existing empirical studies in the field have noted this problem as the major limitation in the field (Seifert et al., 2003; Amato and Amato, 2006). Second, we add to the literature on the strategic determinants of corporate donations by introducing a role for firms' export intensities in corporate philanthropy. Third, we explore the relationship between equity ownership and corporate philanthropy by using a unique Korean corporate ownership panel dataset. Lastly, the paper empirically examines the much debated link between corporate philanthropy and corporate financial performance.

We find, in keeping with previous studies, that larger firms with higher advertising expenditures relatively 'give' more. We also show that firms with lower export intensity give relatively more to charity. We find strong evidence of a positive relationship between foreign ownership and charitable donations. However, we do not find a significant link between corporate philanthropy and financial performance.

The remainder of this paper is organized as follows. Section 2 reviews the relevant literature on corporate philanthropy. Section 3 describes the data and outlines the empirical models used in the analysis, and Section 4 discusses the empirical results. In Section 5, the limitations of this study are discussed and suggestions for future research are given. Finally, Section 6 details the implications of these results.

2. Corporate Philanthropy, Ownership and Performance

In this section, we explore the three determinants of corporate philanthropy. Then we provide a review of both conceptual and empirical findings that link corporate philanthropy to corporate ownership structure and financial performance.

2.1. Determinants of Corporate Donations

Firm Size and Industry

Many of the empirical studies on corporate philanthropy emphasize the role of firm size on corporate donations (McElroy and Siegfried, 1985; Adams & Hardwick, 1998). Useem (1988) argues that firm size is the most important determinant of corporate giving and that large firms contribute regardless of profit levels. Useem also argues that industry differences serve as a structural determinant of corporate donations as industries with high levels of public contact such as retailing or banking typically give more than firms in low contact industries such as mining. The need for controlling for industry factors has been supported by many empirical studies including Seifert et al. (2003) and Amato and Amato (2007).

Resource Availability

Another widely accepted view in the literature on corporate philanthropy stems from the slack resource view, addressed in the works of McGuire et al. (1988) and Ullmann (1985). The argument is that profitable firms can afford to give more as shown in Waddock and Graves (1997) and that a significant and positive relationship exists between social performance and prior profitability. More recent research has extended this argument by testing for the effect of different proxies for firm resources, i.e. cash flow, profitability and the debt ratio of the firm (Seifert et al. 2003; Brammer and Millington, 2006).

Strategic Philanthropy

The term “strategic philanthropy” has been used to support the argument that corporate philanthropy is not pure charity and that corporate donation expenditures are subject to managerial discretion aimed at helping the company’s bottom line. Much pioneering research in corporate philanthropy

has argued that charitable donations are part of a strategic plan (e.g., Fry et al., 1982; Mescon and Tilson, 1987) and corporate donation is a tool to increase reputation or brand name. For example, donations may improve consumer perceptions of firms (McWilliams and Siegel, 2000) and increase reputation among peers (Brammer and Millington, 2005). These consistent empirical findings further support the views of Amato and Amato (2007) and Seifert et al. (2004) that donation serves as advertising.

2.2. Corporate Donations and Ownership

Although corporate philanthropy has been documented as an effective way for a firm to fulfil its social responsibility (Berman et al., 1999), the benefits of “strategic philanthropy” may not satisfy the interests of stakeholders. While Clarkson (1995) documents the need for the CEO to balance the interests of multiple stakeholders such as employees, customers, suppliers, shareholders, and the local community in evaluating corporate social performance, the agency theory perspective puts more weight on conflicting interests between top management and shareholders as Ullmann (1985) argues firms incur unnecessary costs by giving away shareholders’ money. Some view corporate giving as ‘social currency for the CEO’ and an attempt by executives to enhance their self-image and prestige (Harley, 1991) supporting the view that corporate involvement in philanthropy does not maximize shareholder wealth (Atkinson and Galaskiewicz, 1988).

However, more recent research has documented various stakeholder groups’ pressure to pursue corporate philanthropy. Wang and Coffey (1992), using a sample of 78 Fortune 500 firms from the year 1984, find positive relationships between charitable contributions and higher insider stock ownership, and more female and minority board members. The finding that firms with female directors engage more in charitable activities is replicated by Williams (2003) using a sample of 185 Fortune 500 firms for the 1991-1994 time period.

Brammer and Millington (2004) document that corporate donations determined by profits have weakened during the 1990s compared to earlier periods as firms have become more responsive to demands by stakeholders such as ethical fund managers in the U.K. Despite the widely recognized influence of shareholders, few studies have investigated the role of ownership structure. Graves and Waddock (1994) find that the number of institutional investors is positively related to corporate social performance, and Johnson and Greening (1999) find a positive relationship between pension fund investments and corporate social

performance. Cox et al. (2004) extend the literature by documenting that long-term institutional investment is positively related to corporate social performance, using 600 of the largest U.K. firms. Although this research uses different indicators for ‘social performance’ (measures collated by independent research companies), the results suggest investors may differ in their preferences regarding corporate philanthropy.

2.3. Corporate Donations and Firm Performance

There have been various conceptual and empirical attempts to study the relationship between corporate philanthropy and financial performance (e.g., Griffin and Mahon, 1997; Rowley and Berman, 2000). However, there is no conclusive consensus. For example, Wokutch and Spencer (1987) and Orlitzky et al. (2003) find a positive relationship between corporate philanthropy and financial performance, whereas Berman et al. (1999) and Seifert et al. (2004) do not find a significant relationship. More recent empirical findings have suggested a non-linear relationship between corporate philanthropy and financial performance (Brammer and Millington, 2008; Wang et al., 2008). However, these studies also report contradictory findings.

3. Data, Variable Measurement and Empirical Design

3.1. Data

Most of the studies in corporate philanthropy have been hindered by limited data availability. Previous studies on corporate donations have heavily relied on third-party references such as The *Taft Corporate Giving Directory*, the Foundation Center data, and the United States Inland Revenue Service (IRS) data. However, the studies that use the *Taft Corporate Giving Directories* (e.g. Seifert et. al., 2003; Wang et. al., 2008) are limited to the (about 1,000) largest corporate firms that give at least \$200,000 per year. The alternative method, using the IRS data, suggested by Fry et al. (1982), is limited to firms with \$250 million or more in total assets. For U.K. studies, firm’s “Directors’ Reports” have been used to study charitable contributions since the Companies Act of 1967 requires firms to disclose donations over £200. However, the data also contains contributions to political entities and it is difficult to distinguish between political and charitable purposes (Cowton, 1987).

Our data comes from the Korean Investors Services (KISVALUE-3) database, which reports firm profile, financial accounting, and ownership information. The corporate donations amount, the main variable of interest in our study, is sourced from the firms' annual financial statements. Having more reliable and audited corporate donations data is one of the main advantages we gain from the Korean accounting practice of reporting charitable donations as an expense in the income statement for publicly traded firms. Thus our sample includes all listed non-financial firms on the Korea Stock Exchange (KSE) and Korea Securities Dealers Automated Quotations (KOSDAQ) between 1998 and 2003.

While most of the empirical literature on the corporate philanthropy is based on cross sectional data, our longitudinal data allows us to account for the changes in the variables over time to estimate the effects of the various independent variables on corporate donations. This advantage of using panel data over a pure cross-sectional data can add value beyond the current empirical findings (Baltagi, 2005).

Our panel data is unbalanced with a minimum number of observation of 3 years and a maximum of 6. The average number of years that a firm is present in the dataset is 5.2 years. The sample size reaches the maximum of 1,017 firms in year 2001 and a minimum of 672 firms in 1998.

3.2. Corporate Donations: A First Look

Our current understanding of global corporate philanthropy trends is limited. International comparisons are difficult to make given the variation in data collection methods. However, a general trend study in the US and the UK by Campbell et al. (2002) shows that British corporate contributions are increasing but the ratio of charitable donations to profits is still lower than for American firms. Brammer and Millington (2008) report £426,000 as the average charitable donation by UK firms during 1990-1999. Meijer et al. (2006) report that in the Netherlands, 43 per cent of total estimated giving of 2.27 billion euro in 2003 was contributed by corporations.

Figure 3.1 charts the Korean corporate philanthropy trends for the period 1998–2003. The bars in Figure 3.1 show the yearly aggregate donations by all listed firms. Corporate philanthropy plays a significant role in Korean society. The average aggregate donation by corporations for the whole period was 820 billion won¹ and according to Kim (2003), 82 per cent of total charitable donations in 2003 are estimated to have come from corporations. The fluctuating line in Figure 3.1 illustrates the mean value of corporate donation

intensity calculated as the ratio of total donations to total sales. On average, publicly listed firms spent about 0.1 per cent of total sales on charitable donations.

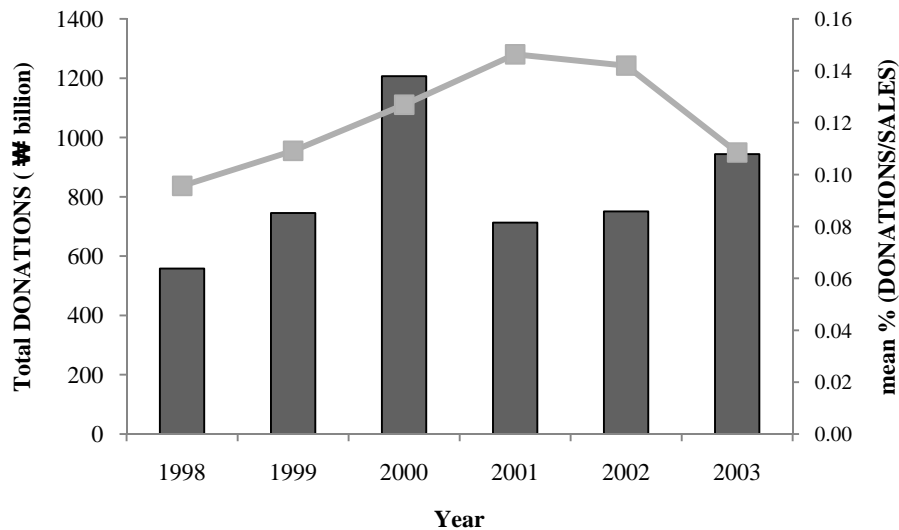


Figure 3.1. Time Trend of Corporate Donations

The figure shows corporate donations on a year-by-year basis over the period 1998-2003. The bars depict the total corporate donations of the Korean stock market, reflected on the left scale. The line in the figure shows the donation intensity measured as the ratio of total donations to total sales of the firm, reflected on the right scale.

Table 3.1 provides the yearly ranking of the top ten donors. Panel A ranks by the total amount and Panel B ranks by donation intensity which is scaled by sales. Consistent with the previous literature, larger firms generally support higher levels of giving than smaller firms (Stanwick and Stanwick, 1998). Large, global, and *Chaebol* (conglomerate) corporations dominate the rankings in Panel A. In fact, more than 50 per cent of total corporate donations come from these top ten donors. However, the rankings presented in Panel B tell a different story. For example, SK Telecom's 35.1 billion won donation ranked fourth in terms of total amount but in the relative ranking based on the donation to sales ratio, SK Telecom ranked only ninth by donating less than 1 percent of firm's sales in 1998. After controlling for the effects of firm size, many small and medium enterprises make up the top donors list. For example, Handsome Corporation, engaged in the manufacturing and sales of men and women's apparel, donated over 3 per cent of sales during the period 1999-2003.

Table 3.1. Top Ten Corporate Donors

Year	1998	1999	2000	2001	2002	2003
Panel A. List of top 10 Companies in terms of DONATIONS						
Rank	Company	DONATIONS (₩bn)	Company	DONATIONS (₩bn)	Company	DONATIONS (₩bn)
1	POSCO	171.35	Samsung Electronics	139.06	POSCO	438.51
2	Korea Electric Power	82.22	POSCO	110.69	Samsung Electronics	170.53
3	Samsung Electronics	56.03	SK Corporation	75.81	Korea Electric Power	156.17
4	SK Telecom	35.10	KT Corporation	73.74	SK Telecom	44.16
5	KT Corporation	19.97	Korea Electric Power	71.47	KT Corporation	31.75
6	Samsung SDI	19.16	SK Telecom	23.66	Hyundai Heavy Ind.	30.83
7	Daesang	8.64	Hyundai Heavy Ind.	16.15	SK Corporation	29.73
8	Korean Air	7.03	Samsung SDI	9.93	Korea Gas Corp	21.16
9	Hyundai Motors	6.48	Korean Air	9.58	Korean Air	18.28
10	Samsung Electro-Mech.	5.91	Hanjin Heavy Ind.	9.52	Kolon Ind.	10.82
Panel B. List of top 10 Companies in terms of DONATIONS/ SALES						
Rank	Company	DONATIONS / SALES (%)	Company	DONATIONS / SALES (%)	Company	DONATIONS / SALES (%)
1	Korean Airport Service	2.53	Handsome Corp	3.96	Handsome Corp	6.23
2	DSP Entertainment	2.07	Korean Airport Service	1.84	Genexel-Sein	4.12
3	Dongil Technology	1.96	Inits Corp	1.64	POSCO	3.75
4	Handsome Corp	1.66	Korea Cast Iron Pipe	1.49	Choheung Corp	2.91
5	Cheil Communications	1.65	Synopex	1.38	Green Cross Foldings	2.36
6	POSCO	1.54	Mirae Corp.	1.29	Samchundang Pharm.	2.00
7	Daeduk GDS	1.23	Asia Cement	1.26	Kyungdong Pharm.	1.96
8	Asia Cement	1.02	Bohae Brewery	1.21	Wonpung Mulsan	1.81
9	SK Telecom	0.99	Samyang Genex	1.13	Korean Airport Service	1.82
10	Samyang Genex	0.98	Wonpung Mulsan	1.12	Virtualtek Corp	1.55

3.3. Variable Measurement

Dependent Variable

Our main dependent variable (*Donations*) is the ratio of donation expenditures to sales. This measure has been widely used in previous studies to control for the effects of firm size (e.g. Williams, 2003; Wang et. al., 2008).

Independent Variable

The key independent variable is the ownership structure of the firm. *Foreign ownership* is the percentage of equity ownership held by foreign investors. During our sampling period, many firms had changes in their ownership structure as the financial market liberalization took place following the 1997 Asian financial crisis (See the discussion in Chang et. al, 1998). Therefore we can observe the effects of changes in equity ownership structure on corporate philanthropic activity.

Control Variables

Previous studies have shown that several variables can influence the level of corporate charitable donations. These include firm size (Useem, 1988), leverage (Brammer and Millington, 2006), profitability (Seifert et al., 2003) and advertising (Amato and Amato, 2007). *Firm size* is measured as the natural logarithm of total assets. *Leverage* or debt ratio is defined as the ratio of total debt to total assets. *Firm performance* is measured as return on assets (ROA). *Advertising* is measured as the ratio of total advertising expenditure to total sales.

In this study we suggest a new variable, *export intensity* which is defined as the ratio of foreign sales to total sales. Waddock and Graves (1997) and Saiia et al. (2003) allude to the fact that corporate philanthropy expenditures are geared towards close stakeholders such as local (domestic or regional) customers. Therefore we predict that firms engaged more in domestic markets (lower export intensity) are also more likely have higher *Donations*.

Institutional and cultural settings can also shape corporate philanthropy. Chang (2003) shows that *Chaebol* groups have great societal impacts given their embedded Korean industrial settings. As Brammer and Millington (2005) find a

positive relationship between the level of a firm's philanthropic expenditures and its reputation, Korean public sentiment may expect higher involvement of *Chaebol* groups in charitable engagement. *Chaebol groups* is a dummy variable that takes a value of 1 if a firm belongs to one of the top 30 business groups specified by the Korean Fair Trade Commission.

Lastly, we control for industry effects on charitable donations by using the two-digit KSIC codes.

3.4. Model Specification

As we have cross-sectional time-series data, the ordinary least squares (OLS) method is not appropriate because it does not correct for within-firm autocorrelation and cross-sectional heteroscedasticity. To control for these issues, we employ the Generalized Least Squares (GLS) random-effects estimator for panel data as a Hausman test reveals that the estimated panel error is not correlated with independent variables, an assumption necessary for use of the random-effects model.

4. Empirical Results

4.1. Determinants of Corporate Philanthropy

Table 3.2 reports descriptive statistics and correlations matrix for the main variables used in this study. *Donation* has a positive correlation with *firm size* and *advertising*, and a negative correlation with *leverage* and *export intensity*. The correlation between the level of donation and firm performance is small and not significant. A significant and positive correlation also exists between *donation* and *foreign ownership*. As a cautionary measure, we examined the variance inflation factors (VIFs) to detect multicollinearity. All of the VIF scores are below 5 and the mean VIF score was below 2 for all variables in the regression model. A commonly used rule of thumb for avoiding multicollinearity problem is to have VIF value of 10 or lower (Baum, 2006). Therefore the analysis is not affected by problems with multicollinearity.

Table 3.2. Descriptive Statistics and Correlation Matrix

Variables	Mean	SD	1	2	3	4	5	6
1. <i>Donation</i>	0.11	0.30						
2. <i>Firm size</i>	4.68	1.48	0.045 *					
3. <i>Debt ratio</i>	0.52	0.36	-0.038 *	0.046 *				
4. <i>Firm performance</i>	0.00	0.49	-0.002	0.023	-0.170 *			
5. <i>Advertising</i>	0.01	0.03	0.062 *	-0.010	-0.086 *	-0.025		
6. <i>Export Intensity</i>	0.26	0.30	-0.062 *	0.122 *	-0.002	0.009 *	-0.209 *	
7. <i>Foreign ownership</i>	5.14	11.77	0.033 *	0.321 *	-0.045 *	0.033 *	0.056 *	0.080 *

Notes: Significant at the $p < 0.05$ level; $N = 5,156$.

The main results are shown in Table 3.3. Model 1 is a basic model of the influences on corporate donations based on the previous literature. *Firm size* and *advertising* have a positive and significant effect on the level of corporate donations. However, *profitability* is not significant and *leverage* is only marginally significant (at $p < 0.10$).

Model 2 extends the analysis by including *export intensity*. As hypothesized, *export intensity* has a negative effect on the level of corporate philanthropy (at $p < 0.001$) meaning firms with more domestic sales engage more in corporate philanthropy activities, all other things being equal.

Model 3 controls for the institutional and cultural differences between *Chaebol* group firms and non-*Chaebol* group firms. *Chaebol* groups' corporate donation levels are not significantly different from the non-*Chaebol* groups. It may be that *Chaebol* groups' total contribution is higher than the other firms in absolute terms.² However, when controlling for other determinants of corporate donations, the level of corporate philanthropy by these corporate leaders was not higher than for the other firms.

Finally, Model 4 reports the effects of ownership on corporate philanthropy. The basic pattern of statistical significance for the other variables found in Models 1-3 remains controlling for firm size, leverage, profitability, advertising, export intensity, and *Chaebol* groups. Although the coefficient for the foreign ownership variable is small, the results indicate a significant and positive relationship between foreign ownership and corporate donations.

The overall statistical significance of the estimation models is tested using a Wald Chi-square test. The test shows that all models are statistically significant ($p < 0.001$).

Table 3.3. Determinants of Corporate Philanthropy

Variables	Dependent Variable: <i>Donation (Donation/Sales*100)</i>			
	Model 1	Model 2	Model 3	Model 4
Intercept	0.096 (0.062)	0.118 ⁺ (0.062)	0.092 (0.061)	0.105 ⁺ (0.061)
<i>Firm size</i>	0.014* (0.007)	0.019** (0.007)	0.024*** (0.007)	0.021** (0.007)
<i>Debt ratio</i>	-0.059 ⁺ (0.036)	-0.059 ⁺ (0.036)	-0.059 ⁺ (0.036)	-0.056 (0.035)
<i>Firm performance</i>	-0.014 (0.014)	-0.014 (0.014)	-0.014 (0.014)	-0.014 (0.014)
<i>Advertising</i>	1.137*** (0.287)	0.941*** (0.278)	0.913*** (0.281)	0.879*** (0.284)
<i>Export Intensity</i>		-0.105*** (0.020)	-0.105*** (0.020)	-0.107*** (0.021)
<i>Chaebol groups</i>			-0.043 (0.028)	-0.046 (0.028)
<i>Foreign ownership</i>				0.001* (0.000)
R ²	0.23	0.24	0.24	0.24
Wald χ^2	560.37***	647.72***	652.88***	653.00***

Notes: Industry dummy variables are included but not reported in the table (joint significance test for industry dummies is significant at $p < 0.001$ level); robust standard errors are shown in parentheses.

Significant at the ⁺ $p < 0.10$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$ level.

4.2. Does Corporate Philanthropy Add Market Value?

In the previous section, we tested for the determinants of corporate philanthropy. We found that larger firms with higher advertising and domestic sales and foreign ownership have significantly larger corporate giving levels. Some scholars have argued that “doing well on this” can lead to higher financial performance. However, as we briefly discussed in section 2.3, empirical evidence on the corporate philanthropy-financial performance relationship is inconclusive. So in this section, we attempt to test whether corporate philanthropy enhances financial performance.

The model specifications are similar to the one in the previous section, except that the dependent variable is financial performance. Corporate financial performance is measured as *Tobin's q*, a common accounting-based ratio of the market value of a company's stock to the value of a company's equity book value. *Tobin's q* was approximated as the sum of market value of equity and book value of debt divided by the sum of book value of total assets at the year end. The sample mean for *Tobin's q* is 1.08 with standard deviation 1.84.

The key independent variable is *donation*, the level of corporate philanthropy, as defined earlier. The correlation with *Tobin's q* is reported in Table 3.4.

Table 3.5 presents the results: Model 1 estimates the effects of a few basic control variables we have used in the earlier models: *firm size*, *leverage*, *profitability*, *advertising*, *Chaebol groups*. Most of the variables had the expected signs and significant coefficients. Smaller firms tended to have higher levels of *Tobin's q*. *Leverage*, *profitability* and *Chaebol group* showed positive and significant effects on *Tobin's q* and *advertising* had a marginally significant effect ($p < 0.10$) on financial performance.

In Model 2, the level of corporate giving was added to assess its possible effect on financial performance. It was found to have no significant effect on *Tobin's q*. This non-significant relationship between corporate philanthropy and financial performance is consistent with previous studies (Berman et al., 1999; Seifert et al., 2004).

In Model 3, we test for the non-linear relationship Wang et al. (2008) proposed by adding a quadratic term for giving. By adding both *donation* and its squared term, we did not find a significant relationship. In conclusion, the results of this analysis suggest that, contrary to some contemporary thinking, charitable donations do not affect financial performance.

Table 3.4. Correlations with Tobin's q

Variables	<i>Tobin's q</i>
<i>Donation</i>	-0.003
<i>Firm size</i>	-0.107 *
<i>Leverage</i>	0.265 *
<i>Profitability</i>	-0.025
<i>Advertising</i>	0.138 *
<i>Export intensity</i>	-0.033 *

Notes: Significant at the $p < 0.05$ level; $N = 5,156$.

Table 3.5. Financial Performance Models

Variables	Dependent Variable: <i>Tobin's q</i>		
	Model 1	Model 2	Model 3
Intercept	0.917 *** (0.102)	0.917 *** (0.103)	0.916 *** (0.103)
<i>Firm size</i>	-0.113 *** (0.014)	-0.113 *** (0.014)	-0.113 *** (0.104)
<i>Leverage</i>	0.655 *** (0.120)	0.655 *** (0.120)	0.656 *** (0.120)
<i>Profitability</i>	0.114 ** (0.040)	0.114 ** (0.040)	0.114 ** (0.040)
<i>Advertising</i>	9.320 ⁺ (5.514)	9.316 ⁺ (5.522)	9.301 ⁺ (5.544)
<i>Export intensity</i>	0.058 (0.118)	0.058 (0.117)	0.060 (0.116)
<i>Chaebol groups</i>	0.106* (0.047)	0.106* (0.047)	0.106* (0.047)
<i>Donation</i>		0.001 (0.013)	0.015 (0.055)
$(Donation)^2$			-0.001 (0.004)
R^2	0.26	0.26	0.26
Wald χ^2	667.47 ***	667.82 ***	664.530 ***

Notes: Industry dummy variables are included but not reported in the table (joint significance test for industry dummies is significant at $p < 0.001$ level); robust standard errors are shown in parentheses.

Significant at the ⁺ $p < 0.10$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$ level.

5. Limitations and Directions for Future Research

This study has some limitations that future research could address. First, our analysis has focused exclusively on a single aspect of corporate philanthropy: charitable donations. Firms can engage in many other forms of corporate philanthropy, e.g., community volunteering. Charitable donations may not be the optimal method for the firm to engage in corporate social responsibility. Future studies could address this issue. Second, our study uses an audited accounting measure of corporate donations. Although we believe this is a more reliable and accessible data source and prevents some of the sampling and data collection problems raised in previous research, the pitfall of using this data is that we do not know where and who received the donations. A future study which surveys corporate philanthropic activity in detail can test whether the proximity relationship exists as our findings on export intensity variable suggest.

Finally, the corporate philanthropy literature generally lacks global comparisons. As we believe this is the first comprehensive non-western corporate donation study, future research can extend this study by providing an international comparison which incorporates institutional factors such as regulatory incentives (e.g., tax benefits on donations) and the level of giving culture.

6. Conclusion

We have analyzed the relationships between firm size, leverage, profitability, advertising, export intensity, business groups, industry, and ownership structure on corporate philanthropic expenditures for a sample of 1,017 Korean firms. The aim of this study was to re-examine the theories of corporate philanthropy by conducting a robust empirical analysis. By using the most comprehensive charitable donations data set, we can confirm previous findings that larger firms with higher advertising expenditures engage in higher levels of charity.

We also contribute to empirical research on strategic corporate philanthropy by introducing the effect of export intensity. Our findings suggest that corporate philanthropy has a negative relationship with export intensity. The significant relationship between domestic sales and corporate philanthropy supports the argument that corporate philanthropy is a discretionary and strategic corporate expenditure aimed at generating local goodwill. This, in turn, creates a positive social image, induces stakeholder support and can also provide insurance-like

protection for the firm's relational assets (Fombrun et al., 2000; Goodfrey, 2005).

However, we only found a weak relationship between leverage (debt ratio) and firm giving. This finding implies that companies may engage in corporate philanthropy simply because their peers do (Galaskiewicz and Burt, 1991) or there may exist some cultural or societal level of corporate giving.

Another main contribution of this research relates to the importance of ownership effects on corporate philanthropy. We have found a positive and significant relationship between corporate giving and foreign ownership.

The positive effects of foreign ownership on corporate philanthropy can be explained by several factors. It may be that the long-term value, either financial benefit or strategic goodwill, from corporate philanthropy is valued more by long term investors such as foreign institutional investors. This finding sheds some light on the role of foreign investors. Conflicting evidence exists on corporate social responsibility (CSR) by foreigners. While Logsdon and Wood (2005) argue that global multinational enterprises (MNEs) often fail to respond effectively to CSR issues of importance in their host countries, Chapple and Moon (2005) find that globalization enhanced the adoption of CSR in Asia. The finding that foreign ownership has a positive effect on corporate philanthropy while *Chaebol* groups have no significant effect is a controversial finding for an emerging market like Korea.

Lastly, we have tested for the much debated relationship between corporate philanthropy and corporate financial performance. The hypothesis that corporate philanthropy can enhance market value was not supported.

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Notes

ⁱ ₩820 billion Korean Won is approximately equal to \$683 million (USD) (using the exchange rate quoted at the end of year 2003).

² Unreported univariate sample t-test indicates *Chaebol* firms have a statistically higher mean donations expenditures than non-*Chaebol* firms ($t=8.47$, $p=0.000$).