



Why do some US manufacturing and service firms with international operations choose to give internationally whereas others opt to give only in the United States?



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ABSTRACT

Although there have been many academic papers dealing with corporate social responsibility including charitable giving, many have focused on domestic giving. Very few papers have focused on foreign giving. We add to the emerging literature on foreign giving by examining separately the determinants of domestic vs. domestic and international giving for a sample of US manufacturing and service firms over the 2004–2010 period. Using a logit regression model, our findings show that firms with larger size and higher percentage of foreign sales tend to opt to give abroad for both manufacturing and service firms. In addition, manufacturing firms with higher debt to asset ratios tend to prefer giving *only* domestically. Service firms with higher return on assets or higher levels of free cash flow also tend to give internationally. These findings suggest that to some degree firms attempt to maximize the strategic value of foreign vs. domestic giving. Firms seem to treat corporate giving as a scarce strategic resource.

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1. Introduction

While there is extensive and detailed evidence regarding the determinants of domestic giving, there are very few papers that investigate the determinants of foreign giving.² A curious observation from examination of a sample of US firms with international operations is that while all sample firms make foreign ownership investments, only some sample firms choose to

give internationally (or both internationally and domestically) while others make the strategic decision to *only* give domestically.³ Foreign vs. domestic giving is clearly a strategic decision choice made by firms. The research question we ask in this paper is: what determinants identify US firms that give *only* domestically even though they engage in international operations? We investigate this issue separately for manufacturing and service firms motivated in part by perceptions of significant differences in giving patterns between these groups of firms (Committee Encouraging Corporate Philanthropy (CECP), 2012; Cowan, Padmanabhan, & Huang, 2013). A survey of corporate giving by CECP reveals that manufacturing firms and service firms differ in terms of their international giving in the amounts they give, the

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² As used in this paper, 'giving' falls under the broad category of corporate philanthropy or corporate social responsibility. Corporate philanthropy is defined as "... gifts or monetary contributions given by corporations to social and charitable causes, such as those associated with education, culture, the arts, minorities, health care and disaster relief..." (Wang & Qian, 2011, p. 1161). If these contributions transcend national boundaries, then they fall under the 'foreign giving' category; else are referred to as domestic giving. The precise definition of foreign giving as used in this paper is presented in the methodology and data sections.

³ Henceforth, when we refer to foreign giving by firms, we are referring to firms that either only give internationally or give both internationally and domestically. Lack of adequate sample size precluded the possibility of splitting up the sample further into cases where firms gave only internationally and where firms gave both internationally and domestically.

ways they give, and the types of causes to which they give.⁴ Using the determinants established in the literature on domestic giving and foreign giving, we first identify the key variables that discriminate between the groups of foreign givers from those that only give domestically. Using a logit regression methodology and a sample of US manufacturing and service firms making ownership acquisitions in foreign countries over the 2004–2010 period,⁵ we empirically examine the factors that influence these firms to selectively give internationally or to restrict their giving to domestic markets. We attempt to link our findings to appropriate theories well established in the giving literature (value enhancement theory, legitimacy/reputation theory, and agency theory) for both groups of firms.

Specific knowledge of the variables able to identify key attributes that differentiate between the two groups (the foreign givers vs. the domestic givers) for both manufacturing and service firms will provide useful information to academics and practitioners.⁶ For instance, from an academic perspective, knowledge of the specific attributes that differentiate between the domestic vs. foreign givers for the two groups allows an investigation of whether modifications are needed to established theories related to corporate social responsibility. The results of this study should provide insights into the relative strengths of the various theories rationalizing strategic giving behavior. From a practical perspective, knowledge of the variables that selectively discriminate between pure domestic givers and foreign givers for firms with international operations will assist new firms to strategically optimize their giving dollars. Host countries may use this research to develop strategies to attract new investments.

The paper is organized as follows. In Section 2, we present a brief literature review on the determinants of foreign giving for both the manufacturing and service groups of firms and provide a motivation for the paper. Next, in Section 3, we present a very brief description of the data bases used (US M&A database and the Kinder, Lydenberg, Domini (KLD) Socrates) since these databases have been used and described adequately in other papers (for example, Cowan, Padmanabhan, & Huang, 2013; Cowan, Padmanabhan, Huang, & Wang, 2013). In this section, the specific dependent and independent variables utilized in this study are also presented, followed by a brief description of sample characteristics and the logit regression methodology used in the study. Empirical results presented in Section 4 are followed by policy implications and concluding comments in Section 5.

2. Motivation and literature review

2.1. Motivation

Researchers have examined how CSR in general and corporate philanthropy in particular (an easily identifiable and measurable subset of CSR) aid strategic corporate decision making (see for example, Brammer & Millington, 2003; Brown, Helland, & Smith, 2006; Cowan, Padmanabhan, Huang, & Wang, 2013; Lev, Petrovits, & Radhakrishnan, 2010; Maron, 2006; Seifert, Morris, & Bartkus, 2003). With few exceptions (Blonigen & O'Fallon, 2011; Cowan, Padmanabhan, & Huang, 2013; Cowan, Padmanabhan, Huang, & Wang, 2013), this link has not been examined with global giving data. To date, prior research has focused on either the determinants of corporate giving vs. non-giving (Cowan, Padmanabhan, & Huang, 2013; Cowan, Padmanabhan, Huang, & Wang, 2013; Muller & Whiteman, 2009), or the relationship between corporate philanthropy and profits (Cowan, Padmanabhan, & Huang, 2015; Cowan, Parzinger, Welch, & Welch, 2014; LeClair & Gordon, 2000; Zhang, Zhu, Yue, & Zhu, 2010), but not on differential determinants of foreign vs. domestic givers for manufacturing and service firms. In addition, much of the prior research (for example, Petrovits, 2006; Seifert, Morris, & Bartkus, 2004; Su & He, 2010) have lumped manufacturing and service firms together in one sample. Some papers using aggregated samples also identify industry specific effects, such as Brammer and Millington (2003, 2008). However, to the best of our knowledge, none of the prior research specifically isolates the determinants of corporate philanthropy (for firms that elect to give either domestically or internationally) separately for manufacturing and service firms.^{7,8}

It is clear that the international giving patterns of firms differ significantly between manufacturing firms and service firms. First, the amount of global giving as a percentage of total giving is far higher for manufacturing firms than for service firms. Whereas the 2013 survey of CECP⁹ provides evidence that manufacturing firms gave on average 22.6% of all giving internationally during the years from 2007 to 2012, service firms gave internationally only 11.8% of total giving during this same period. Second, service firms prefer to make cash donations whereas manufacturing firms prefer to make donations in kind. Thus, we seek to further investigate the determinants of giving between manufacturing and service firms at the firm level given the substantial differences in giving patterns between the two groups. Hence, this paper addresses a very different research question than the ones posed in earlier studies.

⁴ Giving in Numbers: 2013 Edition, Center Encouraging Corporate Philanthropy, available at <http://cecp.co/research/benchmarking-reports/giving-in-numbers.html>.

⁵ It is important at the outset to point out that although we use the international acquisitions database, the paper has nothing to do with international acquisitions. Unfortunately, we do not have access to any publicly available databases that list all US firms making international investments. To this extent, the findings reported in this paper may not be generalizable across the population of US firms conducting overseas investments. In addition, we are using data for the subset of firms with international operations and who make ownership acquisitions during the study period. Hence the conclusions derived in the paper would only be generalizable across all firms if the sample firms do not behave differently than firms with international operations but who do not make ownership acquisitions during the sample time period. Henceforth, when we refer to firms with international operations, we are implicitly referring to the subset of such firms that undertake ownership acquisitions during the study period. We thank an anonymous referee for this important caveat.

⁶ However, it is important to point out that we are not making any claims of causality. We are only capturing linear association between giving and the set of independent variables without concluding that key outcomes on the set of independent variables 'cause' more giving, or vice versa. We leave the issue of causality to future research.

⁷ The Blonigen and O'Fallon (2011) paper does examine the motivations of a select group of foreign owned firms from Asia, Canada, and Europe who choose to give on the West Coast of the United States. They do not separately examine manufacturing firms and service firms. They also do not investigate foreign giving vs. domestic giving in their respective countries by these firms. In addition, they examine inward giving into the United States; we examine outward giving by US firms. However, Blonigen and O'Fallon (2011) indirectly argue that manufacturing firms are different from service firms. They suggest that "...many non-manufacturing sectors ...are non-tradeable ... and will only be oriented to local market ... (and) manufacturing firms that send their good around the world may be less likely to give locally than homeowners insurance firms that rely on their agents developing relationships with local customers..." (p. 19).

⁸ To further establish a proper research motivation for this paper, we need to clearly differentiate this study from the Cowan, Padmanabhan, and Huang (2013) and Cowan, Padmanabhan, Huang, and Wang (2013) studies. The Cowan, Padmanabhan, Huang, and Wang (2013) study investigates the determinants of the incidence of foreign giving by US manufacturing firms by comparing such cases to a sample of firms who do not give at all. The Cowan, Padmanabhan, and Huang (2013) paper investigates the determinants of international giving (international givers vs. non-givers) for service firms. In addition, the sample used in this paper is not a subset of the sample used in Cowan et al. papers cited earlier since it excludes non-givers and includes domestic givers. We thank an anonymous referee for directing our attention to this important point.

⁹ Giving in Numbers: 2013 Edition, Center Encouraging Corporate Philanthropy (2012), p. 21.

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