

 Open access • Journal Article • DOI:10.1111/J.1467-6486.2008.00827.X

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Institutions: University of Bath, University of Reading

Published on: 01 Jun 2009 - Journal of Management Studies (Wiley-Blackwell Publishing Ltd.)

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May 2008

CIBS Working Paper No. 2008-061
www.reading.ac.uk/cibs

Corporate charitable giving, multinational companies and countries of concern

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Abstract

This paper investigates the degree to which corporate charitable giving is influenced by a firm's internationalisation and/or whether it has operations in one or more *countries of concern*. For a sample of large UK firms, we find evidence of a positive effect not for internationalisation *per se*, but only for a presence in particular countries. In this connection, the salient country characteristic is a lack of political rights and/or civil liberties, and the positive impact on charitable giving is restricted to a presence in only those countries that are, according to *Freedom House* indicators, most lacking in this respect.

Keywords: Corporate philanthropy; multinationals; controversy; corruption

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1. INTRODUCTION

Corporate charitable contributions are the subject of a growing literature much of which emphasises their strategic role in the management of rising pressures on companies to demonstrate their responsiveness to a wide range of stakeholders in society (Porter and Kramer, 2002; Saiia, Carroll and Buchholtz, 2003; Brammer and Pavelin, 2005; Brammer and Millington, 2004). That many of these pressures have arisen or been intensified by the increasing geographical scope of many large and multinational businesses, the growing interdependence between national economies, and ongoing processes of globalisation has been recognised in a number of contributions (Christmann, 2004; Carroll, 2004; Caruso and Singh, 2003; Sharfman, Shaft and Tihanyi., 2004; Kostova and Zaheer, 1999; Vernon, 1998; Logsdon and Wood, 2002, 2005). For example, Hillman and Keim (2001) assert that, “globalization has increased calls for corporations to use firms’ resources to help alleviate a wide variety of social problems” (p.125), while Johnson and Greening (1999) highlight the, “emergence of a hypercompetitive global marketplace and increased contact and pressure for accountability from a multitude of external and internal stakeholders” (p.564).

In spite of growing interest in aspects of corporate social responsibility (CSR), corporate internationalisation and the links between these, systematic analyses of the relationship between corporate internationalisation and corporate social performance (CSP) are rare and existing findings are inconclusive (Strike et al., 2006; Rugman and Verbeke, 1998; Sharfman, Shaft and Tihanyi., 2004; Christmann and Taylor, 2001). For example, both Simerly (1997) and Simerly and Li (2000) found no evidence that CSP, captured using an aggregate CSP construct derived from data provided by Kinder, Lydenberg, and Domini (KLD), was related to the contemporaneously measured degree of firm multinationality within a sample of 350 US corporations in 1991 and 1996. In contrast, Strike et al. (2006) found that more international companies exhibited both significantly higher levels of positive and negative aspects of CSP, also captured through KLD data. Outside the United States, Brammer, Pavelin and Porter (2006) find, for a sample of large UK firms, a positive relationship between the two, but only for some types of social performance and only in some regions of the world. More specifically, “the geographic dispersion of a company’s activities is associated with improvements in community performance so long as operations do not extend to Eastern Europe, and improvements in environmental performance in so far as operations extend to Western Europe – in both cases the counterfactual is associated with a deleterious impact on CSP” (p.1025).

The diversity of findings present within existing studies suggests a need for further research that focuses upon dimensions of CSP and that employs improved measures of

corporate internationalisation. Concerning the latter, it is worth noting that according to a substantial body of anecdotal and conceptual research, the activities of corporations in particular countries have raised significant ethical controversies (Gnyawali, 1996; Post, 1985; Logsdon and Wood, 2005). Some notable examples are: the ethical concerns raised by corporate activities in South Africa under apartheid (Post, 2002; de Jongh, 2004); recent controversies associated with British American Tobacco, Triumph and Unocal in Myanmar; ChevronTexaco's operations in Ecuador; and Shell's conduct in Nigeria. In all such cases, the company has attracted criticism from pressure groups and significant negative media coverage. It seems that the manner in which a firm is viewed by relevant publics is, or at least can be, transformed by its presence in such a country. As a consequence, firms present in controversial countries may be subject to intensified pressures from stakeholders to demonstrate their social responsibility.¹

In this paper, we explore the significance for the level of corporate charitable expenditures of a firm's presence in foreign countries negatively associated with particular social issues. Earlier research has highlighted that the levels of charitable donations made by companies has risen substantially in recent years and that both in principle, and in practice, they can play a significant role in managing a firm's relationships with stakeholders (Brammer and Millington, 2004; Godfrey, 2005). Moreover, charitable donations are potentially more closely related to CSR strategies than many other indicators because they are not closely related to operational aspects of a company's management, and are often planned and implemented at very senior levels within donor companies. Drawing upon stakeholder theory, we develop a set of empirical models that examine the link between corporate charitable giving and multinationality within a framework that controls for other firm and industry attributes. The analysis employs a sample of over three hundred UK PLCs, derived from information drawn from published company accounts. Our study makes several distinctive contributions relative to the existing literature.

First, we extend the literature on corporate charitable giving to examine the role played by the pattern of corporate internationalisation in shaping charitable giving. This is significant in that it both furthers our understanding of the strategic nature of corporate charitable giving, and affords an insight into the relationship between corporate strategy in two important domains – the social and the international. Second, our analysis of corporate internationalisation takes into account not only the extent to which a firm is internationalised, but also whether a firm is present in a country associated with certain negative social issues, for example, a 'Country of concern' as defined in the *FTSE4Good* inclusion criteria (FTSE, 2003). We will also employ country-level indicators of political rights, civil liberties and the level of corruption derived from the independent research of *Freedom House* and *Transparency International*. Therefore, we are able to

examine whether it is a firm's multinationality *per se*, or its exposure to particular types of country-specific risks, that acts to stimulate improved corporate charitable giving.

The next section develops our hypotheses regarding the link between corporate charitable giving, internationalisation and a presence in particular sets of countries. The data and empirical method are described in section 3, and results are described in section 4. A final section offers some concluding remarks and suggestions for practice.

2. CONCEPTUAL BACKGROUND AND HYPOTHESES DEVELOPMENT

In this section we develop our conceptual model and establish our hypotheses by building upon stakeholder theory. We develop hypotheses which relate to the relationship between corporate internationalisation and corporate charitable giving. However, we first explore the impetus for charitable giving within the stakeholder view in general, before turning to the importance, in this connection, of a firm's internationalisation.

Stakeholders and corporate social performance

The stakeholder paradigm places companies within a business environment comprised of a large and diverse set of agents, each of which, "can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984, 46). This view provides for both ethical and financial imperatives for firms to consider the preferences and demands of stakeholders. We focus upon the latter (Donaldson and Preston, 1995; Jones and Wicks, 1999), such that a firm's financial success is contingent on an ability to formulate and execute a corporate strategy that manages effectively its relationships with stakeholders (Mitchell et al., 1997; Donaldson and Preston, 1995; Jones, 1995).

In our proceeding arguments, we take social responsibility to mean the extent to which corporate decision-making is undertaken with a regard for social issues (Wood, 1991). Stakeholders must decide whether to participate in the firm's activities, e.g. purchase the firm's products, work, or work hard, for the firm, purchase, or continue to own, the firm's shares. Their willingness to do so is informed by not only the private benefits received (e.g. wages from employment, enjoyment of the consumption of a product, dividends from share ownership), but is also significantly contingent upon the stakeholder viewing the firm's as sufficiently social responsible (Jones, 1995; Adams and Hardwick, 1998; Hillman and Keim, 2001). For example, recent evidence suggests that actual and potential employees place an increasing emphasis on CSR and that socially responsible investment now accounts for \$2.3 trillion of investment in the United States (SIFF, 2006; Peterson, 2004; Turban and Greening, 1997). More negatively,

numerous examples exist of firms that have suffered consumer boycotts following some perceived corporate transgression (Sen and Bhattacharya, 2001; Post, 1985)

However, and importantly, corporate social responsibility is not directly observable by stakeholders (McWilliams, Siegel and Wright, 2006; Husted, 2005; Godfrey, 2005), as it reflects the attitudes that underpin managerial decision-making. As McWilliams et al., (2006) highlight stakeholders “often find it difficult to determine if a firm’s internal operations meet their moral and political standards for social responsibility” (p.5). Stakeholders instead hold information relating to observable corporate actions, some of which may, in their judgement, reflect the social responsibility of decision-making (Jones, 1995; Wood, 1991). However, a firm’s social responsibility can be only *imperfectly* inferred from its social performance, i.e. from its observable actions and associated outcomes (McWilliams et al., 2006; Husted, 2005; Godfrey, 2005). As Wood (1991) points out, the relationship between CSR and CSP is complicated by the fact that, “results such as good outcomes from bad motives, bad outcomes from good motives, good motives but poor translation via processes, good process use but bad motives, and so on” are possible (p.693). In sum, CSR and CSP are separate, but related, corporate characteristics (Wood, 1991); the former is not directly observable; stakeholders use the latter as a signal of a company’s social responsibility (Husted, 2005).

Given that CSP is a multifaceted construct (Hillman and Keim, 2001; Waddock and Graves, 1997) embodying some outcomes that contribute positively to society (producing products consumers want, making profits for investors and *charitable giving*) and others that detract from social welfare (pollution, employee injury), information regarding any single component of CSP does not enable stakeholders to concretely evaluate the degree to which a firm is socially responsible or irresponsible. Therefore, stakeholders will, for their decision whether to participate in a company’s activities, properly draw upon all available, relevant information pertaining to the firm’s actions, and their consequences for society (Godfrey, 2005; Jones, 1995). As Godfrey (2005) argues, primary stakeholders², “will most likely consider the firm’s stock of moral reputational capital in toto; that is, they will consider a firm’s moral performance across several dimensions of organisational activity” (p.789). For example, an observable record of high levels of pollution or workplace injury will raise concerns regarding the social responsibility of corporate decision-making; whereas, generous, long-standing charitable support for community or environmental projects would, to some degree, offset such concerns by promoting a view among stakeholders that the firm formulates strategy with a regard for social welfare (Brammer and Pavelin, 2006; Williams and Barrett, 2000).³

Given this, firms have an incentive to undertake investment in their CSP in order to augment their reputation, and encourage among primary stakeholders continued involvement in the company's business activities (Hillman and Keim, 2001; Fombrun and Shanley, 1990). Furthermore, this incentive applies most acutely to those companies for which stakeholders have some information that raises concerns regarding social irresponsibility (Godfrey, 2005).⁴ Since, without some countervailing evidence, which speaks of a regard for social welfare, the firm is subject to the prospect that stakeholders will withdraw their involvement in the company's activities. In this context, withdrawing involvement can be manifested in a range of behaviours including customer boycotts (Becker-Olson, 2006), withdrawing capital invested in a company (Sparkes and Cowton, 2004), and reduced employee motivation and commitment leading to higher staff turnover (Brammer et al., 2007). By offsetting such concerns, the potentially catastrophic consequences of perceived irresponsibility (e.g. lost revenues, employee shirking, more expensive capital, damaged brands) can be avoided (Williams and Barrett, 2000).

Such stakeholder sanctions can be understood to reflect the resource-dependency relationships between the firm and key stakeholder groups (Pfeffer and Salancik, 1978). For example, the financial performance of firms is critically dependent on the nature of relationships with key stakeholders. If these relationships break down, the consequences can be greatly deleterious for a firm's financial performance, and perhaps its survival. If so, such dependency can create an imperative for firms to protect these relationships by meeting stakeholders' expectations of the firm, including any expectations regarding corporate social performance.

To summarise, the continued involvement of stakeholders with a business is to some significant degree contingent upon the stakeholders' belief that the organisation is a socially responsible company. The social responsibility of firms is not directly observable, but can be imperfectly inferred from observable corporate actions and their consequences. This brings an incentive for companies to make investments, such as charitable giving, that contribute to the demonstration to stakeholders of their social responsibility. Furthermore, in the presence of observable evidence indicative of social irresponsibility, which threatens the non-participation of stakeholder constituencies, a company has an intensified imperative to make such investments – the aim is for the latter to sufficiently offset the former to ensure that the firm is not viewed, overall, as socially irresponsible.

Geographical diversification and corporate charitable giving

Geographical diversification tends to increase the number and diversity of stakeholder pressures in the firm's external environment that arise because of social, cultural, legal, regulatory, and

economic variations between countries (Kostova and Zaheer, 1999; Sharfman et al., 2004). By entering a foreign market through local production, a firm necessarily makes foreign employees, foreign customers and foreign regulators and other government bodies, among others, salient stakeholder groups. Consequently, as firms internationalise, they make their stakeholder environment more international, diverse, and more heavily populated. Significantly, earlier studies have noted great international variation in the strength and nature of stakeholder pressures regarding corporate social performance (Sharfman et al, 2004; Hoffman, 1999; Simerly and Li, 2000; Daly, 1994; Korten, 1995; Vernon, 1992; Gladwin et al., 1995; Greider, 1997; Palley, 2002). For example, recent studies by Brammer et al. (2006) and Williams (2007) suggest that there are very significant differences across countries in the attitudes of the general public towards corporate social responsibility, with generally much greater emphasis on the significance of CSR being found in the richer western economies. Moreover, these differences are to some degree attributable to factors such as national culture and religiosity. Given this variation, the effect of internationalisation *per se* on the stakeholder demands regarding CSP faced by a firm is ambiguous, and we therefore propose the following hypothesis:

Hypothesis 1: The degree of firm-level internationalisation *per se* has no systematic effect on corporate charitable giving.

Consistent with our arguments of the previous section, corporate internationalisation would be expected to raise stakeholder demands regarding CSP if, because of some special attribute of the particular pattern of geographical diversification, it led stakeholders to intensify their questioning of the social responsibility of the company. In this connection, we will argue that one should acknowledge the potential role of a presence in particular countries of the world (Gnyawali, 1996), and focus upon the tendency for some countries to be closely associated, in the minds of stakeholder constituencies, with political, social and/or corporate behaviours widely perceived as unethical, and/or unacceptably irresponsible treatment of the local population and perhaps the environment. In this connection, we argue that the salience for a firm of such negative social issues may be increased by their presence in particular countries. If so, a presence in certain countries is liable to increase stakeholder pressure regarding those issues perceived, by the firm's stakeholder constituency, to be highly relevant to those countries. For example, some countries are closely associated with the abuse of human rights, some with a lack of political freedom, and some with political and/or corporate corruption. By undertaking operations in such countries, a firm risks association, in the minds of stakeholders, with dimly-viewed national characteristics. We argue that such a firm will tend to experience generally increased stakeholder concern regarding CSR due to the plurality of controversial issues that surround the operations

of multinational businesses in these countries, the vast majority of which reside in the developing world (de Jongh, 2004; Banerjee, 2001; Christian Aid, 2004). Notably, these heightened stakeholder pressures could arise and be responded to either within countries where such concerns are present, or in other countries (as in many of the boycott examples discussed above), or both.

A firm's presence in a country associated with negative social issues of this kind will, if it is perceived to imply that the firm's economic power is being wielded in an irresponsible manner, prompt intensified questioning by stakeholders of the organisation's social responsibility. An observed willingness to enter business environments associated with unethical practices, and/or to undertake operations that, directly or indirectly, financially support suspect political regimes, may create an impression that the firm formulates strategy with a disregard for the welfare of the wider society. Such perceptions would threaten the firm's relationships with its stakeholder constituencies – customers may boycott a firm's products; socially responsible investors may withdraw capital; and employees may seek alternative employment. Indeed, recent contributions have identified variation in the return on foreign direct investment (FDI) attributable to country-specific political risks (Click, 2005), defined as “the possibility that political decisions or political and social events in a country will affect the business climate in such a way that investors will lose money or not make as much money as they expected (Howell, 2001, 4). Other research has noted that large multinational companies may be vulnerable to law suits in their home countries for associations with controversial regimes overseas (Schrage, 2003). The point is that the ensuing prospect of being perceived as socially irresponsible ensures that, as a result of a presence in a controversial country, a firm must demonstrate a higher standard of CSP in order to address heightened stakeholder demands. Of course, this mechanism requires stakeholders to be willing to *trade-off*, at least to some degree, a creditable record of charitable giving against issues associated with the presence of a company in countries of concern. The capacity and willingness of stakeholders to engage in such trade-offs in arriving at an overall evaluation of a company is congruent with recent evidence in the reputation literature that shows that corporate giving can play a significant role in protecting the reputations of companies associated with corporate crimes or social and environmental harms (Williams and Barrett, 2000; Brammer and Millington, 2005), perhaps because such giving is interpreted by interested stakeholders as demonstrating the desire for a company to atone for negative events. Hence, we propose Hypothesis 2 to capture this possible mechanism through which the location of diversified operations may impact on corporate charitable giving.

Hypothesis 2: A presence in one or more country associated with a (set of) negative social issue(s) drives firms to greater charitable giving.

As mentioned to above, there are various social issues with which countries can be significantly associated in the minds of stakeholders. We will consider two categories of such issues. First, a presence in a country greatly associated, in the minds of stakeholders, with various forms of corruption in the business environment may infer that the firm is willing, for its own financial benefit, to itself undertake such dimly-viewed business practices. Second, a presence in a country perceived to lack civil liberties and/or political rights may provide evidence for stakeholders that the firm is willing, for its own financial benefit, to support, and contribute to the survival of, a dimly-viewed political regime. We argue that both may speak to a potential social irresponsibility in corporate decision-making, but wish to highlight a substantive difference between these two categories.

In the former case, the company's presence may be perceived to imply that they themselves carry out the nefarious behaviour, i.e. participate in the corruption. In the latter case, the presence raises questions regarding social responsibility simply because of the effect of the firm undertaking their business activities within such a country, i.e. that by contributing to economic activity, they help sustain the regime which suppresses the freedoms of the local population. A firm's presence in a country regarded as high-corruption is, given the limited information available to stakeholders, not a sure sign that the firm is guilty of participating in the corrupt practices – owing to the nature of the behaviour, parties making and/or receiving such favours will take steps to ensure that their behaviour remains out of public sight. However, a firm's presence in a country ruled by dimly-viewed regime can be taken to necessarily imply that the firm is contributing to local economic activity – that the firms operations make such a contribution (by paying taxes, facilitating the exploitation of some publicly-owned natural resource, etc.) can be directly observed. Consistent with such variation across negative social issues in the character of the information conveyed by a presence in an associated country, we propose the following hypothesis:

Hypothesis 3: The relationship outlined in Hypothesis 2 is stronger if the relevant country or countries in which the firm is present is/are associated with a lack of political rights and/or civil liberties *rather than* high levels of corruption.

Other Determinants of Corporate Charitable Giving

While the focus here is upon the nature of the relationship between corporate charitable giving and both internationalisation and a presence in controversial countries, it is important to

recognise that these contributions are determined by many factors, and control for these factors accordingly. Drawing upon the conceptual framework outlined previously and the findings of previous empirical studies, we will consider a range of firm attributes as influences on corporate giving. For example, earlier studies have found that more profitable companies tend to have better social performance, suggesting that it is important to control for measures of financial performance (Waddock and Graves, 1997; Orlitzky, 2001; McGuire, Sundgren and Schneewiess, 1988; Adams and Hardwick, 1998). Similarly, earlier research has highlighted that larger companies tend to give more, perhaps reflecting their greater visibility to relevant publics; hence it is important to control for firm size (Waddock and Graves, 1997; Orlitzky, 2001; Adams and Hardwick, 1998). Existing studies have also identified links between strong social performance and product differentiation strategies indicating that it is necessary to include advertising and research and development (R&D) intensities in our models. Reflecting the possibility that social performance might be evidence of agency problems, we also control for the composition of share ownership in sample companies (Johnson and Greening, 1999; Ryan and Schneider, 2002). Lastly, it may be that, even controlling for these firm attributes, charitable giving varies systematically across industrial sectors, and we accommodate this prospect in our model specifications.

3. DATA

The starting point for our sample is the FTSE All-Share index, a market capitalization weighted index of the largest companies listed on the London Stock Exchange (LSE) which includes over 98% of the total capitalization of the LSE. A lack of data for some variables, principally relating to firm-level internationalisation (see below) reduces our final sample to 305 companies which are drawn from a wide range of industrial sectors, and includes around a half of FTSE All-Share companies.

Corporate Charitable Giving

Firm-level charitable giving is reported in the Annual Report of each company. The measure we employ is the natural logarithm of the figure reported in 2002. Following Adams and Hardwick (1998), the dependent variable is defined as the natural logarithm of corporate charitable expenditures. We choose to transform charitable donations in this manner to reduce statistical problems related to heteroscedasticity and to facilitate comparison with earlier work. In this connection, other options include the ratio of donations to sales or pre-tax profits. However, given the common absence of either sales figures (for many banks and financial services

companies) or positive profit figures (for loss making companies), the use of such ratios would have led to less representative sampling.

Internationalisation and Controversial Countries

The firm-level degree of internationalisation is measured as the proportion of turnover that derives from overseas. To test Hypothesis 2, we require a list of countries for which operations by sample companies are associated with negative social issues. We will employ the *Countries of Concern* list given in the *FTSE4good Index Series: Inclusion Criteria* (FTSE, 2003).⁵ The FTSE4Good index (now a family of indices) was launched in July 2001 in order to facilitate socially responsible investment by identifying companies that meet globally recognised corporate responsibility standards, such as those produced by the Global Reporting Initiative, and International Labour Organisation. In order to be listed, companies are required to satisfy a series of criteria relating to the areas of CSR including environmental sustainability, stakeholder relations and attitudes to human rights. The Countries of Concern list relates particularly to the last of these aspects of CSR and is “drawn up and reviewed each year by EIRIS in the light of human rights developments using a variety of sources. EIRIS uses the latest Freedom House list of 'not free' countries to identify those with significant levels of corporate investment and then amends that list in the light of further information including the annual reports from Human Rights Watch and Amnesty International.” (FTSE, 2003) The twenty-seven countries of concern (as of March 2003 – the list for 2002 is no longer available) are:

Afghanistan, Algeria, Angola, Brunei, Burma, Cameroon, China, Colombia, Democratic Republic of Congo, Egypt, Iraq, Iran, Kazakhstan, Libya, North Korea, Oman, Pakistan, Rwanda, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates, Vietnam, Yemen and Zimbabwe.

We identify the pattern of a firm’s geographical diversification from its list of principal subsidiaries given in its 2002 Annual Report, typically in the notes to the accounts. A binary variable, ‘Countries of concern: Binary’, codes each firm that has one or more subsidiaries listed as operating (or being incorporated) in a country of concern with a one, and all other firms with a zero. A continuous variable, ‘Countries of concern: Count’, records the number of these countries in which each firm is present.

In order to measure the degree of controversy associated with the most controversial country in which the firm is present, we employ country-level indicators for 2002 supplied by the independent bodies: *Freedom House* and *Transparency International*. The former provide two indicators, of political rights and civil liberties (Freedom House, 2003), each on a scale of 1 to 7

with larger numbers indicating a lack of the relevant rights or liberties. The latter provides an indicator of the level corruption on a scale of 0 to 10 (The Corruption Perceptions Index; Transparency International, 2002), with smaller numbers indicating more rampant corruption. We first use these indicators to generate two variables: ‘Political rights’ and ‘Corruption’; both of which take the value on the relevant scale associated with the worst rated country in which the firm is present. The first of these records, for each firm, the worst rating (highest value) observed across both *Freedom House* indicators for any country in which the firm is present. The second requires the *Transparency International* indicator to be inverted and normalised on a 1 to 7 scale, so that 7 indicates the most rampant corruption – harmonising the scaling of this indicator with those of *Freedom House*. ‘Corruption’ then records, for each firm, the worst rating (highest value) observed for the normalised indicator across the countries in which the firm is present. A more general variable, ‘Controversy’, records, for each firm, the maximum value across both ‘Political rights’ and ‘Corruption’.

A final aspect of our analysis explores whether there are threshold effects in the relationship between corporate giving and exposure to countries with poor political rights and civil liberties. In order to explore this possibility, we constructed a set of five dummy variables which represent *hurdles* of ascending heights for country political and civil rights. Each binary variable takes a value of one if the firm is present in at least one country that attracts a sufficiently poor rating (i.e. a sufficiently high value of either the Freedom house political rights or civil rights indicator), and zero otherwise. For example, the variable ‘Political rights: Binary (at least 3)’ takes a value of one if the firm is present in at least one country that attracts a value of 3 or more on the Freedom house political and civil rights ratings, and zero otherwise. Since, the UK is rated 2 for civil liberties and all sample companies are active in the UK, this is the lowest critical value that we can usefully employ. Similarly, ‘Political rights: Binary (at least 4)’ takes a value of one if the firm is present in at least one country that attracts a value of 4 or more; ‘Political rights: Binary (at least 5)’ takes a value of one if the firm is present in at least one country that attracts a value of 5 or more; ‘Political rights: Binary (at least 6)’ takes a value of one if the firm is present in at least one country that attracts a value of 6 or more; ‘Political rights: Binary (at least 7)’ takes a value of one if the firm is present in at least one country that attracts a value of 7.

Other Firm Characteristics

A measure of each firm's size (the natural logarithm of the value of total assets), principle business activity (approximately equivalent to the three-digit NACE industry), firm profitability

(measured by the ratio of pre-tax profits to total assets) and corporate leverage (measured by the ratio of total debt to total assets) were extracted from accounting data courtesy of *Datastream*. Using the *Datastream* industry classification, we allocated each firm to one of seven sectors: Construction; Consumer manufacturing; Consumer services; Energy and water; Finance; Producer manufacturing; Producer services. Research and development intensity is measured as the ratio of R&D expenditures to total assets. Existing research has noted both the relative difficulty in measuring firm advertising intensity in the United Kingdom where, relative to the US, firms face much weaker disclosure requirements concerning advertising expenses (Shah and Akbar, 2008), and the highly skewed distribution of such expenditures with the largest advertisers accounting for the vast majority of overall advertising spending (Chauvin and Hirschey, 1993). Therefore, to capture advertising intensity, we use the best publicly available data available in the UK and construct a dummy variable on the basis of identification, by *Marketing* magazine in 2002, of a firm as one of the ‘Top 100 Advertisers’ or as an owner of one of the ‘Biggest Brands’ in the UK. Given the skewed distribution of advertising expenditures across companies, we are confident that this method captures the distinction between those companies for which advertising is a significant competitive tool and other companies. Ownership data were drawn in June 2002 from a share ownership analysis database managed by one of the UK’s largest company registrars. Derived from records of share trading on the London Stock Exchange, the database disaggregates share ownership according to 32 different types of beneficial owner. Following, Ryan and Schneider (2002) and Johnson and Greening (1999), we employ a variable that equals the sum of the proportions of firm equity held by long-term institutional investor groups, i.e. pension funds, insurance companies and life assurers.

4. RESULTS

We present OLS regression results for econometric models of corporate charitable giving that incorporates the explanatory variables described in the previous section. Table 1 presents descriptive statistics and a correlation matrix for key variables. Tests for econometric problems – a Durbin-Wu-Hausman test for simultaneity in the relationship between corporate financial performance and social performance (as suggested in Davidson and MacKinnon, 1993); Breusch-Pagan tests for heteroscedasticity; and the use of variance inflation factors (VIFs) for all model specifications, which are all below 2.6, to detect multicollinearity – provide no evidence of their presence. Nevertheless, as a precaution against undetected heteroscedasticity, we employ White’s method to correct for any associated bias in statistical inference.

INSERT TABLES 1, 2 AND 3 ABOUT HERE

The Effect of Internationalisation and a Presence in Countries of Concern

In regression 1 (see Table 2), we find that aggregate corporate charitable giving is significantly positively associated with firm size ($p=0.000$) and long-term institutional ownership ($p=0.017$), is significantly negatively associated with the degree of leverage ($p=0.006$), and also tends to vary across industrial sectors. However, consistent with our previous discussions and Hypothesis 1, there is no significant effect associated with internationalisation *per se*. Indeed, this finding is replicated in all subsequent regressions, as are those listed above for firm size, long-term institutional ownership, the degree of leverage and cross-sector variation.

In regressions 2 and 3 (see Table 2), we investigate the influence on charitable giving of a presence in countries of concern, by employing two measures. In regression 2, we find a significant positive effect to be associated with a presence in one or more of these countries (Countries of concern: Binary; $p=0.042$), but in regression 3 we find no such significant effect for the number of these countries in which a firm is present (Countries of concern: Count; $p=0.231$). Thus, consistent with Hypothesis 2, we find a presence in controversial countries to be associated with greater charitable giving. However, there is no significant tendency for a presence in more of these countries to bring greater charitable giving. That the former model specification outperforms the latter provides evidence that the effect of multiple presences in the controversial countries is not significantly additive.

Given this, we next investigate in regression 4 (see Table 2) whether the relevant characteristic of a firm's geographical diversification is the degree of controversy associated with the most controversial country in which the firm is present. To do so, we include the variable 'Controversy' in the model specification but we find no significant effect associated with this variable ($p=0.171$). In regression 5 (presented in Table 2), we replace 'Controversy' with 'Political rights' and 'Corruption' in order to permit controversy derived from different types of social issues to act differently upon corporate charitable giving. Consistent with Hypothesis 3, we find that the former exerts a significant positive effect ($p=0.019$) and the latter exerts no significant effect ($p=0.255$). Thus, there is evidence that the poor performance of our general variable, 'Controversy', is due to the differential effects of the two components indicators. Specifically, it appears that the salient feature of a country in this connection is a lack of political rights and/or civil liberties, rather than a presence of high levels of corruption.

Discussion: How much concern is too much?

So, our findings suggest that corporate charitable giving is influenced by the attributes of the country in which the firm is present that is associated with the most acute lack of political rights and/or civil liberties. To investigate how acute this lack must be in order for the foreign presence to exert a significant influence on charitable giving, we present regressions 6 to 10 in Table 3. Each specification employs a different binary indicator of a firm's presence in a controversial country. In each case, the set of controversial countries is defined according to the *Freedom House* indicators of political rights and civil liberties. In regression 6, a country is considered controversial if it is classified as at least a 3 in either or both indicators – as the UK is classified as a 2, this is the minimum level one can apply. In regressions 7, 8, 9 and 10, a country is considered controversial if it is classified as at least a 4, 5, 6 and 7, respectively. We find that 'Political rights: Binary (at least 7)' performs best – a positive significant effect ($p=0.006$) – and indeed that no alternative variable is statistically significant. Therefore, we find that the effect on corporate charitable giving operates only at the highest degree of controversy, and specifically that associated with a lack of political rights and/or civil liberties. The relevant coefficient estimate in regression 10 is 0.544 (see Table 3). Starting with the average level of charitable giving across our sample of firms, approximately £43,700 (taking the antilog of 3.778, as reported in Table 1), if we add the effect of a presence in one or more of these countries, the predicted increase in donations is roughly £31,600, up to a total of approximately £75,300 (taking the antilog of 4.322, i.e. $3.778 + 0.544$) an increase of over 70%.

5. CONCLUSION

An existing body of literature investigates the influences on corporate charitable giving and highlights the importance of a range of firm-specific and business environmental factors (Graves and Waddock, 1994; Rowley and Berman, 2000). Consistent with this research, our study supports the notion that charitable giving plays an important role in corporate responses to pressures that arise in their business environments, and demonstrates the importance of firm size and industry conditions in determining charitable giving. This paper extends the literature by investigating the influence on corporate charitable giving exerted by a firm's international business environment. Drawing upon stakeholder theory and utilising data on a sample of large UK firms, we develop a set of empirical models that examine the degree to which corporate charitable giving is influenced by the extent to which a firm is internationalised and/or whether it has operations in one or more controversial countries. Through this, we shed light on the

longstanding debate relating to the impacts of corporate international diversification on social justice and environmental protection.

We find no evidence of a significant and positive contemporaneous link between corporate charitable giving and a firm's multinationality. Controlling for other factors, multinational companies make similar levels of charitable contributions as their unimational counterparts. However, we find evidence of a positive effect on charitable expenditures of a presence in these controversial countries. That it matters not for charitable giving whether a firm is multinational but rather whether it is in this set of countries, provides evidence that the heightened pressures on MNCs to demonstrate strong social performance relates particularly to the reputational effects associated with operations in countries of concern.

Our analysis goes on to explore whether the type and intensity of the association with negative social issues faced by companies play an important role in shaping corporate charitable giving, finding that a presence in a country with very poor political/civil rights attributes stimulates charitable giving, whereas similar exposure to severe corruption does not. A firm's presence in the former type of country induces questioning of whether the firm's strategy is unethical and seeking to profit from an association with a foreign economic and/or political system viewed by key stakeholder groups as unacceptably compromising human rights. It seems that firms with such operations react to heightened stakeholder pressure by making more charitable donations than other firms. Our findings, therefore, provide further support for the growing body of research that suggests that corporate charitable giving plays an important strategic role for many businesses. Distinctively, our study suggests that there is a close relationship between two domains of corporate strategy – the social and the international. Internationalisation exposes corporations to a variety of social, political and economic risks and our evidence suggests that higher levels of charitable expenditure play an important role in managing these risks for multinational companies.

Perhaps this evidence suggests that, contrary to discussions of a race-to-the-bottom among multinational companies, such companies tend to make significant contributions to charitable and community organisations. However, our evidence does not necessarily imply that multinationals generate significant net contributions to social welfare in host countries (or, of course, that they do not). As we are unable to disaggregate corporate giving by country, it is not possible to determine whether the higher levels of donations (made by companies active in countries with political and civil rights difficulties) are made in home or host countries. In this connection, it is worth noting our finding that the level of corporate giving is not increasing in the number of countries of concern in which a company is active. This finding is perhaps

indicative of relatively token responses to corporate exposure to political and civil rights issues rather than significant attempts to address, or atone for, these issues through giving aimed at impacted communities.

Concerning other influences on the propensity for companies to engage in charitable giving, our study, consistent with earlier research (e.g. Brammer and Millington, 2004; Brown et al., 2006), highlights that the very significant degree of variation across industries in the tendency to make charitable donations. Specifically, our findings suggest that firms in consumer-oriented industries typically give more to charity, indicating that charitable donations may be an important part of the competitive armoury of firms in these industries. This finding is consistent with a growing body of research (e.g. Saiia, 2001; Saiia et al., 2003; Porter and Kramer, 2002) that emphasises the strategic roles performed by corporate philanthropy, and other aspects of corporate social performance, and the consistency of firms engaging in such activities with the central goal of maximizing shareholder value. Our study also confirms the finding identified elsewhere that larger companies are more prone to give to charity, perhaps suggesting that larger organisations are subject to greater degrees of public scrutiny and that charitable donations play an important role in their responses to such scrutiny.

This study suffers from a number of limitations that could be addressed in future work: our analysis is cross-sectional, the charitable giving data we analyse does not describe any variation across countries in the firms' giving; and our measures of geographical diversification do not describe the type of business activities (e.g. research, sales, manufacturing, or head office functions) carried out by a firm in each country. In response to these observations, future work may seek to extend our analysis in several directions. For example, a longitudinal study of the link between charitable giving and the geographical diversification of firms would delve deeper into the relationship between social performance and the process of corporate internationalisation. Also, improved data concerning the global distribution of both charitable giving and a firm's activities would allow further investigation of the degree to which companies tailor their charitable giving in response to local, rather than general or exclusively domestic, stakeholder and institutional pressures. Similar analyses sampling companies from a variety of countries would shed further light onto the importance of domestic cultural factors in influencing the global social responsiveness of multinational companies.

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NOTES

1. While the socio-historical genesis of particular countries' association with various forms of corruption or a lack of political rights and/or civil liberties lies beyond the scope of the paper, it is worth noting: the potential clash between the western conception of civil liberties and the religious doctrine influential in much of the Middle East and some African countries; and the historical concentration and lack of communist regimes in Eastern and Western Europe, respectively.
2. It seems reasonable to suggest that single-issue stakeholders, such as environmental advocate groups, are an exception. These stakeholders focus upon corporate performance in relation to a relatively narrowly-defined, and often institutionally-restricted, set of social and/or environmental issue.
3. This discussion echoes the distinctions between organisational identity, image, and reputation made by Whetten (1997). Identity refers to the firm's self perception; image refers to how corporate managers desire external agents to view the company; and reputation refers to how stakeholders actually think of the firm. In this context, charitable giving might be interpreted as expenditures intended, consistent with either the firm's identity or desired image, to enhance or protect a firm's reputation in the eyes of stakeholders.
4. For our argument, we require that CSR, as previously argued, cannot be directly observed or perfectly deduced from observed behaviour.

5. This list of countries exhibits a limited similarity to a set of countries found by Click (2005) to be associated with relatively high degrees of political risk. However, very few of the countries of concern listed above were included in that study, presumably owing to the countries in our list being uncommon destinations for FDI by US firms.

TABLE 2

Regression Results to Investigate the Impact of a Presence in 'Countries of Concern' and that of a Presence in Countries that are Controversial with Respect to Political Rights, Civil Liberties and/or Corruption

Variable		Model specification				
		1	2	3	4	5
		Dependent variable: Charitable giving				
Constant		-9.176 **	-9.070 **	-9.070 **	-9.243 **	-9.193 **
Firm size		0.940 **	0.934 **	0.932 **	0.932 **	0.942 **
Financial performance		0.010	0.009	0.010	0.010	0.009
Leverage		-0.013 **	-0.013 **	-0.013 **	-0.013 **	-0.013 **
Institutional ownership		0.025 *	0.023 *	0.025 *	0.023 *	0.021 *
Advertising intensity		0.520	0.502	0.512	0.483	0.479
R&D intensity		0.021	0.022	0.022	0.022	0.019
Industrial sectors	Consumer manufacturing	0.497 *	0.495 *	0.489 *	0.536 *	0.537 *
	Consumer services	0.653 **	0.712 **	0.685 **	0.700 **	0.714 **
	Construction	-0.459 *	-0.454	-0.475 *	-0.404	-0.453
	Energy and water	0.504	0.440	0.462	0.509	0.454
	Finance	0.127	0.122	0.132	0.148	0.063
	Producer manufacturing	0.348	0.277	0.325	0.338	0.307
Internationalisation		-0.001	-0.002	-0.002	-0.003	-0.002
Countries of concern: Binary			0.439 *			
Countries of concern: Count				0.174		
Controversy					0.068	
Political rights						0.135 *
Corruption						-0.100

1: N=305; df=292; Adjusted R-squared=0.627.

2: N=305; df=291; Adjusted R-squared=0.631.

3: N=305; df=291; Adjusted R-squared=0.628.

4: N=305; df=291; Adjusted R-squared=0.628.

5: N=305; df=290; Adjusted R-squared=0.632.

* and ** denote significance at the 95% and 99% level of confidence, respectively.

TABLE 3

Regression Results to Investigate the Critical Value of 'Political rights'

Variable		Model specification				
		6	7	8	9	10
		Dependent variable: Charitable giving				
Constant		-9.066 **	-9.118 **	-9.098 **	-9.049 **	-9.188 **
Firm size		0.931 **	0.936 **	0.934 **	0.931 **	0.945 **
Financial performance		0.009	0.010	0.009	0.009	0.009
Leverage		-0.013 **	-0.013 **	-0.013 **	-0.013 **	-0.013 **
Institutional ownership		0.023 *	0.023 *	0.023 *	0.023 *	0.022 *
Advertising intensity		0.481	0.471	0.467	0.492	0.503
R&D intensity		0.020	0.021	0.020	0.022	0.022
Industrial sectors	Consumer manufacturing	0.549 *	0.551 *	0.562 *	0.509 *	0.500 *
	Consumer services	0.697 **	0.705 **	0.729 **	0.700 **	0.697 **
	Construction	-0.407	-0.420	-0.407	-0.446	-0.433
	Energy and water	0.488	0.479	0.473	0.470	0.485
	Finance	0.110	0.104	0.096	0.133	0.147
	Producer manufacturing	0.329	0.355	0.357	0.308	0.291
Internationalisation		-0.003	-0.002	-0.003	-0.002	-0.002
Political rights	Binary (at least 3)	0.303				
	Binary (at least 4)		0.271			
	Binary (at least 5)			0.345		
	Binary (at least 6)				0.352	
	Binary (at least 7)					0.544 **

6: N=305; df=291; Adjusted R-squared=0.629.

7: N=305; df=291; Adjusted R-squared=0.628.

8: N=305; df=291; Adjusted R-squared=0.630.

9: N=305; df=291; Adjusted R-squared=0.629.

10: N=305; df=290; Adjusted R-squared=0.632.

* and ** denote significance at the 95% and 99% level of confidence, respectively.