SOCIAL ORGANIZATION OF AN URBAN GRANTS ECONOMY

A Study of Business Philanthropy and Nonprofit Organizations

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To my funders,
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of course.

PREFACE

In the best traditions of sociologized inquiry, this research once again uses the city as a laboratory to study the social organization of modern life. The study of elites, corporate wealth, and human service organizations is not new; however, to study these actors as participants in an urban grants economy is novel. Whether our efforts have been successful is, of course, up to our readers to decide. We hope they look kindly upon us.

This monograph was written with two audiences in mind. The first is the academic social scientist who has an interest in the problems of collective action and resource allocation in an economic order where neither a market mechanism nor a public authority effects a distribution of resources. We address the role of exchange and gift-giving in these arenas of action as well as attempts to economize transaction costs through the use of agency roles. Because political scientists, economists, psychologists, anthropologists, and historians, as well as sociologists, have looked at these topics, we hope that the findings presented here will contribute to a number of disciplines.

The second audience is the interested citizen who wants to know more about the third, or nonprofit, sector. The nonprofit organization and the institution of charity are highly cherished in American culture, and many hold dear the values which the third sector represents—idealism, volunteerism, and mutual self-help. We hope the material in this book can provide some insight into how this sector functions.

We recognize at the start that there are limitations to the case-study approach. Problems become more acute when one's case may be especially deviant from the norm. Our case community—Minneaplolis–St. Paul—has a national reputation for having a very generous and active corporate community, and it would be unwise to infer that processes

elsewhere mirror those in the Twin Cities. The Twin Cities were chosen because it was a case that worked, and, to be honest, because the author is situated at the University of Minnesota, Twin Cities campus. Still, if one were to pick a laboratory to study a grants economy, the Twin Cities would be at the top of most researchers' list. In the tradition of case studies in sociology, anthropology, and business, it took 6 years to complete the project from beginning to end. We hope that the reader will agree that what we discovered about this grants economy was well worth the time and attention that we gave to this case.

Acknowledgments

There are so many people who have helped in this research that it is very difficult to thank them all. The most important, of course, are the participants in the study, who gave so freely of their time. Executives, politicians, journalists, nonprofit staff, and various others in Minneapolis and St. Paul gave the project their full attention and cooperation. Interview after interview, respondents and informants sat patiently and answered our questions. The people of the Twin Cities are truly decent human beings who taught me a great deal.

The original grant that got the project on its way came from the Center for Urban and Regional Affairs at the University of Minnesota, with the help of Tom Scott and Tom Anding. This was followed by a grant in 1980 by the National Science Foundation (SES 800-8570) to fund the interview with the nonprofit organizations and the local community elite. In 1981 the Program on Nonprofit Organizations at Yale University provided funding for the interviews with the corporations and business leaders. John Simon, Paul DiMaggio, and Scott Boorman were most helpful in securing these funds. The National Science Foundation augmented its original grant in 1982. I must also acknowledge the Graduate School at the University of Minnesota for intermittent funding of research assistants. Its support came at critical times and kept the project afloat. Finally, throughout the research and the writing of the monograph, the Department of Sociology has been most helpful in providing facilities and preparing manuscripts. I would like to thank Don McTavish, Dan Cooperman, John Clark, and David Ward, all of whom served as Chair at one time or another during the period of this research.

Intellectually, there are a number of individuals to whom I am greatly indebted. My long-standing association with Edward O. Lauman has been invaluable. Our conversations over the years contributed greatly

to the endeavor. My interest in collective action stems directly from seminars I took in graduate school with James S. Coleman and Terry N. Clark; my concern about the legitimation of social action and social control comes from the lectures and writings of Morris Janowitz; and my appreciation of transaction costs analysis came from reading the work of Oliver Williamson. My association with Ronald Burt and Peter V. Marsden has also greatly influenced the way I look at social organization.

Three colleagues at the University of Minnesota have been a great help to me. Stanley Wasserman, who is now at the University of Illinois–Champaign, has been a constant source of new ideas on research methodology. Joan Carothers was the first to make me aware of how prestige processes can be so effective in motivating action. John Delany introduced me to the economics literature on altruism and donative transfers. The monograph would be considerably less than it is without our conversations. I would also like to thank Paul DiMaggio, Clarke Chambers, Andy Van de Ven, Barbara Lukermann, James Lincoln, David Knoke, Susan Mondale, Jackie Ries, Judy Martin, Amos Martin, Bill King, Donald Imsland, and Carol Pine for reading and commenting on various chapters.

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Finally, I would like to thank my wife, Rosemarie, and my father (now deceased), mother, sisters, and nephews for their patience and understanding during some very difficult years for our family. Their tolerance has allowed me to complete the monograph and for that I am greatly indebted to them.

INTRODUCTION

I have heard so much about the City of Minneapolis, about its Chamber of Commerce, about the public spirit of its business community, about your remarkable Five Percent Club–that I feel a bit like Dorothy in the Land of Oz. I had to come to the Emerald City myself to see if it really exists.

The Emerald City

John D. Rockefeller III delivered this little panegyric to a meeting of the Minneapolis Chamber of Commerce on June 30, 1977, and the local and national press have been repeating it ever since. It was not, however, an isolated incident or a paternalistic gesture to the locals. Between 1976 and 1981, articles about the social responsibility of Minneapolis–St. Paul firms appeared in *Fortune* ("Minneapolis Fends Off the Urban Crisis," January, 1976), *The Wall Street Journal* ("A Midwestern City Where Fine Arts Flourish," September 15, 1977), *The Chicago Tribune* ("A Club That Means Business," June 26, 1979), *The Boston Globe* ("Where the Arts Flourish: Minneapolis," May 4, 1980), *The New York Times* ("Minnesota a Model of Corporate Aid to Cities," July 27, 1981), and even the *Harvard Business Review* ("In Minnesota, Business Is Part of the Solution," July–August, 1981). Most recently, "Minneapolis, Inc." was cited as the best example of the M-form society in action by noted business author William Ouchi (1984). In the last decade no other business community has come close to getting this much attention nationally, and the attention is all very positive.

The cities of Minneapolis and St. Paul and the state of Minnesota have shared the spotlight with their companies. In another *Wall Street Jour-*

nal article ("A Northern City That Works: How Minneapolis Manages It," August 5, 1980), it was reported that Chicago is no longer the city that works, and that Minneapolis has taken its place. Among other proclamations, the article cites a 1978 report by the Congressional Budget Office that ranked 39 cities by social need. Only Dallas and Seattle scored better. In 1980 the *Chicago Tribune* ("Our Cities: Some Bests and Worsts," April 4, 1980) did an extensive analysis of the quality of life in 11 American cities. Minneapolis was cited as having the best municipal government, the best city planning office, the best civic leadership, the best downtown mall, and the best innovation in urban living (the downtown skyway system). In 1984 *Time* magazine printed a feature article ("Minnesota's Magic Touch," June 11, 1984) praising the partnership between government, business, labor, and educational leaders that has worked to develop new high-technology enterprises in the state of Minnesota. Whether we can trust the results of these surveys and reports is a moot point; what is important is that Minneapolis, St. Paul, Minnesota, and their business communities have received very good press in the last few years.

A skeptic would want to see some objective, "hard" data before accepting the Emerald City label that John D. Rockefeller III offered back in 1977. Nationally, companies gave $2.9 billion in 1981 and $3.1 billion in 1982 (American Association of Fund-Raising Counsel, 1983:28). The Minnesota Council on Foundations (1982, 1983) estimates that total corporate giving by Minnesota companies was $62.3 million in 1981 and $63.4 million in 1982. As a state, Minnesota had only 4.11 million people in 1981 and 4.13 million in 1982, or 1.8% of the nation's population in both years (*Statistical Abstract of the United States*, 1985:11).

The Council for Financial Aid to Education and the Conference Board compile annual statistics on corpoate contributions for 21 metropolitan areas. Based on company giving as a percentage of pretax net income, Twin Cities companies ranked first in 1977, 1979, and 1980. In 1978 and 1981 they ranked second, and in 1982 they ranked fourth (*Corporate Support of Higher Education*, 1978, 1979, 1980, 1981, 1982, 1983). The authors of the 1982 study indicated that statistics for that year were somewhat misleading because earnings were so low in cities like Baltimore, Detroit, and Pittsburgh. They suggested that a more reasonable strategy would be to look at long-term trends. For example, looking at contributions to higher education as a percentage of pretax earnings, they noted that only Minneapolis–St. Paul firms were in the top third of the list for the past 5 years.

A claim that is often heard is that more firms give at the 5% limit in the Twin cities than in any other area of the country. This claim was given

credibility by a *New York Times* article in 1978 ("Philanthropy, the Business of the Not-So-Idle Rich," July 23, 1978), which stated that "some 33 corporations there [Minneapolis] give five percent of their income to philanthropy, out of a nationwide total of 37 who reportedly do so." While it is not clear where the *Times* got their information on firms elsewhere, it is true that there has been a "Five Percent Club" in Minneapolis since 1976. In 1976, 23 firms were in the "club"; in 1982, 62 companies were members. Among the more noteworthy 5%-givers in 1982 were Dayton–Hudson, Munsingwear, and H. B. Fuller's. Among 2%-givers were Honeywell, General Mills, Pillsbury, International Multifoods, Peavey, and Bemis. We should note that in 1982, 14.8% of the 534 companies responding to the Conference Board survey gave 2% or more of their pretax profits to charity, and only 4.3% gave 5% or more (Troy, 1984:19).

This research then is a case study of a corporate community that works. However, as a case study limited to one time period, there are certain limitations that should be acknowledged at the start. First, without comparable data on other metropolitan areas we can never identify the variables that explain why giving was so much greater, and civic culture so much better, in the Twin Cities. That is, one cannot know why successful communities work so well without knowing something about cities that do not. Second, the use of cross-sectional data limits our capacity to identify the true causal order among the variables we analyze. While we often speculate on causal effects, the reader must always remember that it is impossible to draw hard and fast conclusions from cross-sectional data. The period we examined is from 1979 to 1981. Obviously companies' contributions budgets and their disbursements in these years were the product of decisions and events that spanned probably a decade. At best we can only hope that our exploratory study will uncover social processes that, in turn, give future researchers some insight into the variables that explain fully why company philanthropic activity was so impressive in the Twin Cities of Minneapolis–St. Paul in the late 1970s and early 1980s.

Twin Cities: History and Current Character

The Minneapolis and St. Paul business communities grew as their cities grew. St. Paul incorporated in 1854 and Minneapolis in 1856, but not much of this part of the country was settled before 1850. According to Blegen (1975), the area only became attractive with the development of river transportation that opened up the region and the forest for

exploitation. In the mid-1800s nearly 70% of the state was covered with forest, but just 70 years after forestry had begun, the state was virtually denuded of its trees (Larson, 1979:32). The first permanent settlements in the area were sawmills at Marine on the St. Croix (1839), Stillwater (1844), and St. Anthony (1848). The latter became the largest water-power site west of Niagara and eventually merged with the city of Minneapolis in 1872. Two important entrepreneurs of this era were Frederick Weyerhaeuser and Thomas B. Walker. Both realized their fortunes in the late 1800s, and their legacies live on in the state. Descendents of Weyerhaeuser still live and work in St. Paul, and the family office was still located there in the late 1970s (Dunn, 1980). Walker's prominence lives on in connection with the Walker Art Center of Minneapolis, whose 1982 board still included 10 members of the family—only 2 of whom still live in the Twin Cities.

As the lumber industry grew, St. Paul gained importance as a transportation center. As the geographers Abler, Borchert, and Adams (1976) point out, St. Paul was a natural transfer point before the Mississippi River entered a gorge upstream and became impassable at St. Anthony Falls. The best-known entrepreneur from St. Paul was James J. Hill, whose railroad empire grew into the present Burlington–Northern. With this, St. Paul's future seemed guaranteed as the railroad replaced the river barge as the nation's principal means of transportation. The Hill legacy can be seen in the Twin Cities today as well. Though Burlington–Northern corporate headquarters were moved to Seattle in 1981, the Twin Cities still count the Hill Reference Library, the Northwest Area Foundation, and the old Hill mansion as testimony to the great robber baron.

St. Anthony Falls was key in the development of Minneapolis. Abler et al. tell us that "by 1869, there were fifteen sawmills at or near the falls that produced over 100 million board feet of lumber annually. But the real windfall for Minneapolis was flour milling" (1976:17). Larson (1979:56) argues that had the railroads not been in place nor the forest cut down, the grain industry could never have developed. In 1870 farmers grew nearly 20 million bushels of wheat. By 1890 they were producing over 50 million bushels annually (Larson, 1979:57). During this period many prominent names in Minneapolis's history first appeared on the scene. In 1865 the Cargill brothers (William, James, and Sylvester) began to build their empire in Austin, Minnesota, by buying or building grain elevators and warehouses throughout the upper Midwest. In 1884 they added a 100,000-bushel warehouse in Minneapolis, and a few years later located their headquarters there. Their company grew to be one of the largest privately owned companies in the United

States today, with estimated revenues of $28 billion in 1982 (*Corporate Report Factbook, 1983 Edition*, 1982:526). Another grain dealership was started by Frank Peavey during this period. Originally from Sioux City, Iowa, in 1884 Peavey relocated to Minneapolis where he found many more opportunities for expansion. During this era two other famous men, both from the East, were playing similar roles in the important flour milling industry—Cadwallader Washburn, who started a company that eventually became General Mills, and Charles A. Pillsbury, founder of the firm that still carries his family name (Larson, 1979).

The period between 1860 and 1890 was one of incredible growth for Minneapolis–St. Paul as the population of the cities increased from 13,000 to 300,000, with the bulk of this increase resulting from immigration. Abler et al. point out that "in 1860 native-born persons comprised two-thirds of Minnesota's residents, most of whom had come from the Midwest, New York, Pennsylvania, and New England. By 1880 native-born residents constituted less than one-third of the state's population. Most newcomers had come from Scandinavia, Germany, Canada, and Ireland" (1976:16). Never since then has there been such rapid growth, and this era had a lasting impact on the character of the city.

There were also important developments in the period between 1890 and World War II. The output of lumber production peaked in 1900, and by 1915 it was all but over, the local timber having been exhausted. At the same time the milling industry in Minneapolis had become consolidated. Abler et al. (1976:18) tells us that in 1876 there were 17 different milling firms in business, and by 1890 four companies owned almost nine-tenths of the city's milling capacity. C. A. Pillsbury and Company was the largest, with the Washburn–Crosby Milling Company (later General Mills) a close second. The Twin Cities' emminent position in trade slipped in 1914 with the opening of the Panama Canal, and in 1922 things became worse, with revised railroad tariffs making it cheaper to ship wheat than flour to the East (Abler et al., 1976:19). By the 1920s Buffalo and Kansas City were outcompeting Minneapolis as milling centers, and St. Paul had been all but devastated by the canal.

With transportation, lumber, and milling on the wane, it is no wonder that *Fortune* magazine found itself compelled to write an obituary for the Twin Cities. In April 1936, it highlighted the violent labor conflicts of 1934 that plagued Minneapolis and the organized crime that had overridden St. Paul. In describing the labor problems, *Fortune* reporters told of the murdered C. Arthur Lyman who, along with 800 other businessmen and socialites, had engaged teamsters in hand-to-hand combat over a paralyzing strike. It also told of police firing into crowds

of workers. In analyzing the riots, *Fortune* concluded that it was not "Communist infiltrators" or downtown "fat boys" that had caused the outbreak. It was rather that "the city had outgrown the Northwest, from which it must live, and now that the days of expansion are over its classes are fighting among themselves for what is left." Compounding the problem was the fact that "socially and financially Minneapolis is still dominated by the New England families that settled it, and, with three or four exceptions, there are no Scandinavians (the dominant working class group) in positions of importance outside of politics." Furthermore, strikers had a friend in Minnesota Governor Floyd Olson, who ran on a platform in 1934 that "capitalism has failed and immediate steps must be taken to abolish it." Olson's open sympathy towards the socialist Left gave Minneapolis "the clearest Left-Right alignment of any city in the land" (*Fortune*, 1936).

St. Paul was portrayed in an even worse light. It was characterized as "a city economically obsolete" and plagued by "social and industrial rigor mortis," with an elite that had become "decadent." Its upper class was singled out as being "complacent" and indifferent to the corruption around it. Gangsters, who had been harbored from 1900 to 1920, turned on the city, kidnapping some of St. Paul's leading citizens (e.g., William Hamm, Jr., and Edward G. Bremer) and making a great nuisance of themselves. Infamous celebrities such as Doc Barker, Baby Face Nelson, and John Dillinger frequented the city. Although the city did purge itself of much of this element by 1934, it still, according to *Fortune*, had little going for it. The article concluded that "if there were a great upheaval of the hills upon which St. Paul is built and the entire city slipped into the Mississippi and disappeared, it would hardly make a ripple in the economic life of the United States of America."

In retrospect this caricature of the Twin Cities was a bit overdrawn and shortsighted. Several high-technology firms were in their formative stages during these years and would breathe life into the Twin Cities after World War II. Minnesota Mining and Manufacturing (now commonly known as 3M) was founded in 1902 in Two Harbors, Minnesota, and bought by St. Paul businessman Lucius P. Ordway in 1905. With the capable assistance of William L. McKnight and Archibald G. Bush, this sandpaper manufacturing firm grew steadily through the first half of the twentieth century. McKnight, in fact, accumulated in excess of a half-billion dollars personally before he died in 1978 (Larson, 1979:23). The legacy of these magnates lives on today in the McKnight and Bush Foundations (in 1981 the 19th and 25th largest private foundations in the United States) and the Ordway Theatre in downtown St. Paul (*The Foundation Directory*, 1983).

In 1889 William R. Sweat became involved as an investor in the Electric Thermostat Company, which turned out to be the predecessor of the current-day Honeywell, Inc. He struggled with the company until 1905, at which point there were only 12 full-time employees. But by 1916 sales were at $300,000 a year, and the company—now called Minneapolis Heat Regulator Company—was on its way. In 1927 it merged with the Honeywell Heating Specialities Company of Wabash, Indiana, and became Minneapolis-Honeywell Regulator Company. Other companies that got their start in the late 1800s and the early 1900s were Super-Valu, Northern States Power, Land O'Lakes, American Hoist and Derrick, Dayton's, Northwest Bank Corporation, and First Bank System—all of which were on the 1982 Fortune 500 or Fortune 50 lists. While the first third of the twentieth century had seen the decline of the older industries, a fully diversified economic infrastructure had been spawned by the earlier industrial activity and prepared the way for growth and development after World War II.

From 1950 to 1980 there were shifts in the demography, economy, and polity of the Twin Cities and the state of Minnesota, but these were not drastic. For example, the increase in the state's population during this period was only 36.7%, as compared to 49.7% nationally (*Statistical Abstract of the United States*, 1981:10). The population of the cities had declined between 1950 and 1980 as it had elsewhere—a 28.9% decrease in Minneapolis and a 13.3% decrease in St. Paul (*Statistical Abstract of the United States*, 1970:21; 1981:22–23). The percentage of blacks in Minneapolis had increased from 1.6% to 7.7% percent of the population, and in St. Paul from 2.0% to 4.9% (*Census of Population 1950, Vol. 2*, 1952:23–65; *Statistical Abstract of the United States*, 1981:22–23). The median family income of Minnesotans in 1959 ranked 25th nationally; in 1969 it ranked 17th; and in 1979 it ranked 13th (*Statistical Abstract of the United States*, 1985:450).

It is a little more difficult to compare the economy of the 1950s to that of the 1980s. The percentage of unemployed has remained consistently below the national figures. Minnesota weathered the recession of 1973–1974 very nicely; however, the state suffered considerably in the recession of 1981–1982. Four of the state's five largest publicly held manufacturers in 1960—3M, Honeywell, General Mills, and Pillsbury—were among the five largest publicly held companies in 1980. The same two newspapers were the state's top metropolitan dailies. In 1960 Minnesota ranked 13th in the number of Fortune 500 firms (and 18th in population); in 1980 it ranked 12th (and 21st in population).

However, there were important changes in the leadership of the largest corporations between 1970 and 1980. Looking at Table 0.1 we learn

Table 0.1

List of Twin Cities Fortune 800 Firms from 1970 through 1980 (excluding cooperatives), CEOs (or Presidents), and Their Birthplaces [a]

	1970 Rank	CEO (birthplace)	1975 Rank	CEO (birthplace)	1980 Rank	CEO (birthplace)
Manufacturers						
Honeywell	49	S. Keating (Minnesota)	67	E. Spencer (Illinois)	79	E. Spencer (Illinois)
3M	63	H. Heltzer (Ohio)	56	R. Herzog (N. Dakota)	52	L. Lehr (Nebraska)
General Mills	116	J. Summer (Texas)	84	J. McFarland (S. Dakota)	89	E. R. Kinney (Maine)
Pillsbury	175	T. Hanold (Minnesota)	173	W. Spoor (Colorado)	125	W. Spoor (Colorado)
Control Data	208	W. Norris (Nebraska)	170	W. Norris (Nebraska)	141	W. Norris (Nebraska)
International Multifoods	271	W. Phillips (Ohio)	233	W. Phillips (Ohio)	290	W. Phillips (Ohio)
Bemis	286	J. Bemis (Massachusetts)	318	J. Bemis (Massachusetts)	397	H. Curler (Wisconsin)
Hoerner-Waldorf	390	J. Myers (Minnesota)	382	J. Myers (Minnesota)	(Acquired by Champion International in 1977)	
Green Giant	449	C. J. Tempas (Wisconsin)	408	T. Wyman (Missouri)	(Acquired by Pillsbury in 1979)	
American Hoist & Derrick	452	J. Carroll (Minnesota)	434	R. Fox (Minnesota)	459	R. Fox (Minnesota)
Peavey	(Not listed among Fortune 500)		361	F. Corrigan (N. Dakota)	373	W. Stocks (Minnesota)
Economics Labs	(Not listed among Fortune 500)		500	E. Osborn (Minnesota)	455	F. Lanners (Minnesota)
Commercial banks						
First Bank System	19	D. Grangaard (Minnesota)	20	D. Grangaard (Minnesota)	20	D. Grangaard (Minnesota)
Northwest Bankcorp	20	H. Rutledge (Minnesota)	18	H. Rutledge (Minnesota)	18	C. Lind (S. Dakota)

Life insurance companies						
Northwestern National	40	H. Atwood (Minnesota)	42	J. Pillsbury (Minnesota)	44	J. Pearson (Minnesota)
Minnesota Mutual	42	C. Bloomfield (Canada)	41	C. Bloomfield (Canada)	37	C. Bloomfield (Canada)
Utilities						
Northern States Power	31	E. Ewald (Minnesota)	28	D. F. McElroy (Indiana)	45	D. McCarthy (Minnesota)
Retailing companies						
Gamble Skogmo	16	J. A. Watson (Minnesota)	22	B. Gamble (Illinois)	(Acquired by Wickes in 1980)	
Dayton Hudson	22	K. Dayton (Minnesota)	20	W. Andres (Iowa)	16	W. Andres (Iowa)
Transportation companies						
Burlington Northern R. R.	8	L. Menk (Colorado)	10	L. Menk (Colorado)	6	R. Bressler (Nebraska)
Northwest Airlines	19	D. Nyrop (Nebraska)	18	D. Nyrop (Nebraska)	14	M. J. Lapensky (Minnesota)
Soo Line R. R.	42	L. Murray (Illinois)	48	L. Murray (Illinois)	29	T. Beckley (Minnesota)
North Central Airlines/ Republic Airlines	48	B. Sweet (Ohio)	49	H. Carr (Missouri)	48	B. Sweet (Ohio)
Diversified financial companies						
St. Paul Companies	(No Fortune ranking for category)		20	C. Drake (Minnesota)	25	C. Drake (Minnesota)
Investors Diversified Services	(No Fortune ranking for category)		28	C. Orem (Tennessee)	(Acquired by Alleghany in 1979)	

[a] Data on the Fortune 500 and 50 rankings were taken from *Fortune* (May, 1971; May and July, 1976; May and July, 1981). Data on corporate officers were taken from the *Corporate Report Factbook* (1970–1971, 1976 and 1981 editions). Data on executives' birthplaces were taken from the *Corporate Report Factbook* (1983, 1984, and 1985 editions), *Standard & Poor's Register of Corporations, Directors, and Executives* (1971, 1976 and 1981 editions), *Who's Who in America* (1970–1971 edition), and *Who's Who in Finance and Industry* (1972–1973 edition).

that between 1970 and 1975 there was a noticeable decrease in the percentage of Fortune firms whose CEO was born in Minnesota: 47.6% in 1970 and 30.4% in 1975. By 1980 the percentage was back to 42.9%. While the 1970s saw an increased number of out-of-towners in key corporate posts, between 1975 and 1980 four firms reversed the pattern and replaced out-of-towners with CEOs who were from Minnesota. Also in this decade three firms hired a nonfamily professional manager as CEO, replacing the founder or his progeny. This was true for Bemis Company, Dayton-Hudson Corporation, and Northwestern National Life Insurance. Also three firms were acquired by out-of-state interests: Hoerner-Waldorf (acquired by Champion International in 1977), Gamble-Skogmo (acquired by Wickes in 1980), and IDS (acquired by Alleghany in 1979). Green Giant was also acquired during this time but the locally based Pillsbury Company was the buyer.

In sum, 38.1% (8) of the 21 firms on the 1970 Fortune lists either were acquired by extra-local interests, had a family member replaced by a professional manager as CEO, or had a professional manager born in Minnesota replaced by a professional manager born elsewhere. While it is difficult to say if the changes in the Twin Cities were that much greater than elsewhere, it is true that local corporate leadership, at least, went through some radical changes.

Politically, the Democratic-Farmer Labor (DFL) party was highly influential in the state from the 1950s through the 1980s. After a string of Republican governors from 1939 to 1954, the governorship passed back and forth between parties until 1970, when Democrats took hold until 1978. In 1978 Republican Albert Quie was elected, but Democrat Rudy Perpich replaced Quie in 1982. In presidential elections from 1932 to 1984, Minnesotans voted Democratic in all but the Eisenhower elections and the Nixon landslide in 1972 (Scammon, 1965:7–23; Scammon and McGillivroy, 1983:13–19). This liberal Democratic tradition has produced a number of national political figures, including Hubert Humphrey, Eugene McCarthy, and Walter Mondale.

The DFL rule in the 1970s also produced one of the highest individual and corporate income tax schedules in the country. In 1981 Minnesota ranked first in the percentage of income going to state taxes (Boyer & Savageau, 1981). Not surprisingly, state expenditures per capita have been well above the national average; in 1960, 1970, and 1980 Minnesota ranked 13th, 13th, and 6th, respectively (*Statistical Abstract of the United States*, 1963, 1973, 1983).

It is also noteworthy that in the late 1960s and into the 1980s the Twin Cities have witnessed several quasi-political demonstrations against

local corporations and their business policies. For example, in 1969 the Honeywell Project first demonstrated against the manufacturing of cluster bombs by Honeywell, Incorporated. This initiated a continuing protest against the company, which has lasted into the mid-1980s. The Project's activities have included demonstrations at corporate headquarters and at stockholders' meetings, leafletting at plants, trespassing, and hosting public forums. In the 1960s–1970s there was continuing neighborhood opposition to the redevelopment of the West Bank area adjacent to the University of Minnesota by Heller-Segal, Inc., and later Cedar Riverside Associates. At one point or another several local financial institutions were involved in financing the project, including Northwestern National Life Insurance, the First National Bank of St. Paul, and Northland Mortgage. Citizen activities have included lawsuits, creation of a citizens' advisory board, sit-ins, rent strikes, and the creation of an alternative community development corporation. In 1975 an urban redevelopment project in the Stevens Square neighborhood in Minneapolis, which was financed principally by General Mills, also came under attack. Initially the issue was the use of nonunion labor for renovating apartments. In 1978 the Stevens Court Tenants Alliance formed to protest rent increases. There was a rent strike and leafletting of the prestigious Minneapolis Club. In 1979 residents filed suit against General Mills and its partner after being evicted for renovation purposes. The Alliance then sued to have more units built for low income people. Other demonstrations against specific companies include protests against the construction of a nuclear power plant by Northern States Power in 1971, violent civil disobedience against the construction of a high voltage transmission line through outstate Minnesota from 1974 to 1983, and demonstrations and vandalism against Sperry Univac for the manufacturing of military wares in 1983. Although the long-term impact of these demonstrations is difficult to assess, and we have no way of knowing if the antibusiness sentiment was more virulent in Minnesota than elsewhere, these protest activities were highly visible and received considerable local media attention.

Data on the structure of the nonprofit community are more difficult to come by. Unfortunately, there are no longitudinal data on the number and size of nonprofits; however, some descriptive statistics are available for the current period. To begin with, in 1977 the Minneapolis–St. Paul metro area ranked ninth in the number of nonprofit organizations (NPOs) per capita among the 100 largest U.S. metropolitan areas (*1977 Census of Service Industries, Vol. II*, 1981). Cities like Washington, Seattle, and Pittsburgh had more NPOs per capita. The *Cumulative List of*

Organizations (1979), published by the Internal Revenue Service, listed 1,601 nonreligious 501(c)(3) organizations, or public charities, in the Twin Cities area. Roughly 32% provided health or welfare services, 20% provided educational services, 2% provided legal services, 7% provided primarily recreational services, 11% rendered cultural services, 8% were involved in organizational development, 4% were primarily scientific, 6% focused on housing and urban development, and 11% were involved in other types of activities (Galaskiewicz, 1982b). Considering only the nonprofit organizations that engaged in fundraising in Minnesota in 1982, we found 105 organizations with annual incomes greater than $1 million (*Charitable Organizations*, 1982).

Outline of the Study

Chapter 1 begins with a discussion of gifts and gift-giving. The theoretical questions that guide our inquiry are simple: What are the social institutions that support an economy of donative transfers, and how do these institutions influence who gives, who gets, and who gives to whom? In particular, we focus on belief systems that rationalize corporate contributions, boundary-spanning agency roles that help to reduce transaction costs, and selective incentives that are used to elicit participation in this economy.

Chapter 2 examines the effects of the firm's market position and the executive's social position in the community on the volume of corporate charitable contributions. In this chapter we introduce a set of local business people reputed to have been very active in promoting corporate contributions locally. This chapter also describes peer pressure as exercised by corporate leaders and how it can motivate contributions. The effects or consequences of corporate giving are examined as well. In particular, we examine the public-relations and social rewards that companies can win if they contribute more money to charity.

Chapter 3 explores the ideologies that firms have offered to rationalize contributions. Different themes are identified from interview data. We then try to explain why some firms rationalize contributions as enlightened self-interest. The market position of the firm and the social position of the executive are examined, along with the social rewards that companies can win if they support elite efforts at institutionalizing an ethic of corporate responsibility.

Chapter 4 looks at agency roles that have recently evolved within corporations to help overcome some of the uncertainty inherent in making contributions to nonprofits. We describe the role of contribu-

tions professionals and the characteristics of the people who assume these roles. Chapter 4 also examines why some corporations have professionalized their staffs while others have not and looks at the public relations gains that companies can win as a consequence.

Chapter 5 focuses on the nonprofit organization's effort to secure corporate contributions, including several features that can enable it to attract corporate contributions: boundary-spanning fundraising roles, referents of organizational prestige, and contact or affiliation with the corporate philanthropic leadership. This chapter also evaluates the influence of corporate contributions staff on the amount of money that nonprofits are able to secure from companies.

Chapter 6 considers the corporate donor and the nonprofit donee concurrently. The goal of this chapter is to see who gives to whom. To better understand how resources are allocated in economies of donative transfers, the chapter includes a review of the interorganizational literature on exchange processes and a review of efforts on the part of decision-makers to reduce uncertainty in their relationships with other organizations.

The final chapter summarizes the main findings of the earlier chapters and tries to put the results of this study into a broader context. An evaluation of this book's contribution to the theoretical literature on gift-giving is included, along with an assessment of how historical events can explain the way the Twin Cities corporate grants economy evolved.

1

THE GRANTS ECONOMY

Introduction

Gift-giving deserves special attention, because it appears to be foreign to rational, modern man. At least in the West, political and economic behavior is viewed as being narrowly self-interested. Logrolling, barter, self-interest, trade—these are the words that describe how the contemporary world works. In Maine's words, we are *contract societies*. In Tonnies' terms, we are *Gesellschaft*. Where then does a grants economy come in? What about gifts and gift-giving? Perhaps because contemporary society is so accustomed to egoistic behavior, sociologists, anthropologists, psychologists, and economists have been fascinated with examples of gift-giving and other forms of allegedly altruistic behavior.

Sorting Out Self- and Other Interests

From a cursory inspection of the social-science literature, it appears that sociologists and economists are determined to reduce what look like gifts to mere investments that are calculated to realize some future return for the donor. For example, Mauss' classic work, *The Gift* (1967), has been reinterpreted this way (e.g., Homans, 1958:598; Sahlins, 1972). Nominalists argue that primitive people almost always gave gifts with the expectation of being repaid in some way. Thus what might

appear to have been an act of generosity was simply an extension of credit that the recipient was supposed to match (see also Heath, 1976).

In sociology, research on power-dependence relationships has contributed to the thesis that gift-giving can be reduced to self-interest. Working from the assumption that actor *A*'s power over *B* is directly proportional to *B*'s dependence upon *A* for the resources *B* needs, Emerson (1962) and Blau (1964) outline the conditions under which *A*'s power over *B* can be increased or decreased. One condition is that *A*'s power over *B* will increase to the extent that *A* continues to supply *B* with resources and *B* is unable to reciprocate in turn (see also Homans, 1961:319). Schwartz (1967) takes the concepts developed in the resource dependency literature and reinterprets what appears to be selfless gift-giving as a strategic move to extend power and control over others. Whether the donor intends it or not, a condition of nonreciprocity gives rise to a situation where *B* is somehow beholden to *A* and thus under the latter's control. The norm of reciprocity can essentially act to extend one actor's control over another. Feeling the cultural pressure to pay back the donor, but being unable to, the only option left for the donee is to extend deference to the donor.

Caplow (1982:391–392), in his study of Christmas gift-giving in Middletown, also attempts to unmask the self-interest underlying the gift. He argues that gifts will be typically offered to persons or collectivities whose goodwill is needed but cannot be taken for granted. In many respects Caplow's argument is similar to other nominalists (e.g., Blau and Homans) in that a gift is given to elicit a sense of obligation or gratitude on the part of the recipient. In the case of gifts to affinal kin, the wife is seeking to forestall in-law interference in her marriage; in the case of gifts to offspring, the parent is seeking to "buy off" their children's affection and deference.

Many economists who have addressed the problems of gifts and gift-giving have also tried to identify the benefits that accrue to the donor. Many economists have simply treated the gift as part of an instrumental exchange process, which parallels the work of the exchange theorists in sociology. A gift made in the context of a larger exchange process, wherein it will eventually be repaid, has been called *cooperative egoism* (Hammond, 1975; Wintrobe, 1983). The *serial reciprocity* of the Kula ring among the Trobriand Islanders is another example of how gifts are eventually reciprocated (Boulding, 1973:26).

Another strategy has been to talk about the *intertemporal social contract* that Ego strikes with future generations of prospective do-gooders (see Hammond, 1975; Kurz, 1978). Supposedly, indulging in altruistic behavior today increases the probability that the person helped, or some

other person, will be of assistance or otherwise reciprocate in the future (Kennett, 1980:188). Alternatively, donors and donees can have *interdependent utility functions* (Hochman & Rodgers, 1969). If this is the case, then it is possible that some gift-giving on the part of Ego will be advantageous for both Ego and Alter. For example, Tullock (1971:381) suggests that it would be in the long-range interest of the wealthy to support the poor in a most generous manner in exchange for their political support against progressive taxation and governmental redistributive policies. Tullock argues that both the wealthy and poor would be better off. Indeed, Tullock's example is overly simplistic, as he readily admits, yet it does provide an example of how ostensibly charitable behavior can be motivated by interdependent selfish interests.

An even simpler approach is to equate Alter's utility with Ego's (see Boulding, 1973; Alchian & Allen, 1973). If one recognizes the possibility that Ego can completely identify with the well-being of Alter, then Alter's utility becomes paramount in the mind of Ego. Boulding (1973:Chapter 2) argues that the dynamics of the economic system in such a situation are relatively straightforward. Ego will make a grant to some Alter under two conditions: if Ego identifies with the welfare of the recipient and Ego perceives that this particular Alter benefits the most, given the costs that Ego must bear. Thus, in choosing between donees, Ego weighs not only his feeling toward Alter but also how much benefit Alter will subsequently enjoy, given Ego's expenditures of effort and resources.

Caplow (1984:1318–1319) reminds us that whereas nominalist theory has focused on the individualistic orientations of distinct actors in an action arena, the social sciences have also viewed gift-giving in more collectivist or functional terms (see also Ekeh, 1974). For example, when Mauss (1967), Levi–Strauss (1969), and Gouldner (1960) discuss gift-giving and the norms of reciprocity that often accompany it, the emphasis is more on the contribution that this activity makes to the maintenance of the larger social system. Caplow (1984:1319) sees gift-giving as especially important for maintaining group solidarity and as a symbolic language to define the network of close social relationships within the system and thus to reinforce group boundaries (see also Titmuss, 1971:Chapter 13).

As one can imagine, the sentiments attached to gift-giving within the framework of functionalist theory are much different than those within the framework of rational self-interest and power-dependency models. Instead of loathing the possibility of being identified as a recipient of a gift, functionalist theory would have the prospective donee fear being excluded from the gift-giving network. Instead of the gift being viewed as an act of aggression on the part of the donor, challenging the capacity

of the donee to reciprocate (Schwartz, 1967:5), the gift would be seen as an opportunity to establish a long-term social relationship — that is, solidarity with other actors in the community. This was Simmel's argument (Wolff, 1950:388 – 392). Instead of always trying to ensure equity in a social relationship, actors are comfortable with debt, because it is a sign of their membership in a group or solidarity with another.

Gifts and Collective Action

This study relies more on the nominalist than the functionalist framework. We recognize the value of the functional approach, however, and at times will digress to discuss how gift-giving networks can contribute to the social integration of the larger community. However, the bulk of our theory is based on the assumption that in their natural states, both individual and corporate actors are basically selfish and out to further their own ends. While many who read this study will object strenuously to this assumption, we still find it an attractive foundation upon which to build a theory of action. Thus, like many of our predecessors, we too will focus on the donor, donee, their interests, and their relationships.

The main goal of this study is to go beyond earlier research to demonstrate how social (as opposed to legal) institutions can get otherwise selfish actors to contribute a share of their own resources for the benefit of the collectivity and of their fellow human beings. In this study we focus on gift-giving for the production of public or collective goods. For the time being we will not consider personal gifts to relatives and friends. Boulding (1973:8) defines a public good as follows: "A public good is one that cannot be appropriated (by any single actor in the community) and that can be enjoyed by any member of the community, whether in fact he contributes to its provision or not" (see also Samuelson, 1954:387; Olson, 1965:14 – 15). We would argue that there are two different types of collective or public goods that philanthropy or charity can provide (see Ireland, 1973). We can identify contributions that provide first-order collective goods, the benefits of which can be enjoyed directly by the donor, although others have equal and direct access to these benefits as well. We also recognize contributions that provide second-order collective goods, the benefits of which are directly enjoyed only by a few, but indirectly benefit all.

First-order collective goods produced through private philanthropy are familiar enough. Fresh air, clean water, scientific knowledge, music, art, neighborhood safety, and so forth are the results of nonprofit organizational activities supported by gifts from donors. They qualify

as collective goods because no one actor exercises exclusive ownership rights over these outputs, they are available to all members of the community, and no one actor can be excluded from consuming them without considerable expenditure of effort by others, even though that individual did not contribute to their provision.

Second-order collective goods are also familiar. Income transfers, free health care for the indigent, food shelves for the hungry, subsidized education for the young, shelters for battered women, and so forth are also the products of private gift-giving efforts. The main difference between this set of outputs and first-order collective goods is that direct consumption is reserved for certain prespecified categories of consumers. Not everyone is eligible. Also, the consumption of the service by one consumer precludes consumption by another. (For example, there are only so many minority student fellowships, beds in a women's shelter, and student discount theater tickets). One is almost tempted not to regard these as public or collective goods at all.

We would argue, however, that these outputs qualify as public goods, because without them everyone in the community would have to suffer the negative externalities of community members being poor and hungry (begging and rioting in the streets), sick (spreading disease throughout the population), ignorant (making irresponsible personal life decisions), and so forth. One could even argue that second-order collective goods are strategies to solve the personal problems of the few before they become the problems of all community residents. If aid to the disadvantaged is not provided by the more fortunate members of the community, then eventually all members of the community will have to suffer the negative consequences of some community members being undersatisfied.

Obviously, both first-order and second-order collective goods are provided by governments as well as by private philanthropy, or grants in Boulding's terms (1973:6). In fact, according to the economists, this is one of the few legitimate roles for government (Olson, 1965; Samuelson, 1954). Our focus, however, is on the private sector and its efforts through its own institutions to provide first- and second-order collective goods (Douglas, 1983; Weisbrod, 1977). While we do not view private efforts to provide collective goods as being in competition with government, these institutions do function parallel to one another.[1]

The Problems Endemic to Collective Action

Regardless of whether collective goods are first- or second-order and administered through private or public institutions, there are free-rider problems (Olson, 1965; see also Douglas, 1983). Rational (i.e., self-serv-

ing) actors will withhold their contributions to the effort as long as they are not barred from consuming the fruits of others' labors. In other words, if the goods or services will be available anyway, it is more strategic to withhold one's resources, wait for someone else to contribute, and reap the benefits of the generosity of others. Even if all other actors in the community assume a similar posture, and it is clear that no output is forthcoming, the proportionate return on the investment a donor makes in a corporate effort will still not be enough to motivate his participation.

The disincentives for participating in collective action in a community of natural (i.e., noncorporate) persons are great enough, but they become formidable when prospective donors are corporate actors who are in competition with one another in the marketplace. In a community of natural persons, the donor may resent the chiseler, but he gets to enjoy the fruits of his own contribution nonetheless, along with everyone else, and loses only that which he contributed to the collective effort. However, where voluntary gifts are provided by corporate actors, who are in competition with those who decide not to give, donors find themselves at a distinct disadvantage. Everyone benefits, but the chiseler now has unspent resources that it can use to gain a market advantage over its competitors who made a contribution. "The businessman who chooses voluntarily to spend till it hurts on the environment, on the training of the handicapped, or in support of higher education is likely to find that he is vulnerable to the chiseler without a social conscience who, by avoiding such outlays, can supply his outputs more cheaply" (Baumol, 1975:49).

One way to overcome free-rider problems in voluntary collective action is to have all members of the community believe that their self-interest is one and the same as the collective interest (i.e., what is good for America is good for General Motors). We see this manifest in Ouchi's (1980) clan, in which an allegiance to collectivist values is very effective in eliciting outputs of energy and the cooperation of members. Individual and group interests are one and the same. Goal congruity is the central mechanism of control that insures the continued input of resources from members. That goal congruity can motivate cooperation is evident in a wide range of social groups—from communes (Kanter, 1972) to industrial organizations (Ouchi & Jaeger, 1978) to political action groups (Knoke & Wood, 1981). If individual donors can be made to believe that their individual interests are served if the collective interest is served, then contributions to the collective action should be readily forthcoming without any overriding concern about chiselers. Such fully socialized donors are, of course, rare and, as Lindblum (1977:2766–2778) points out, a society that relies on the full socializa-

tion of all members into collectivist values must expend extraordinary amounts on indoctrination and socialization. Yet free-rider problems are solved if individual and collective interests are defined by members as one and the same.

In lieu of conversion to an ethic of communitarianism, or at least before the conversion is complete, an alternative is to rely upon selective incentives. Organizers in a grants economy, unlike governments, cannot rely on coercion, nor can they offer a quid pro quo to potential supporters because of the special nature of their outputs.

Whereas incentives might take any number of different forms, Olson argues that a common incentive is the desire to win prestige, respect, or friendship. He describes the following scenario:

> If a small group of people who had an interest in a collective good happened also to be personal friends, or belonged to the same social club, and some of the group left the burden of providing that collective good on others, they might, even if they gained economically by this course of action, lose socially by it, and the loss might outweigh the economic gain. Their friends might use "social pressure" to encourage them to do their part toward achieving the group goal, or the social club might exclude them, and such steps might be effective, for everyday observation reveals that most people value the fellowship of their friends and associates, and value social status, personal prestige, and self-esteem. (Olson, 1965:61)

The attractiveness of prestige or esteem as a selective incentive is that it can distinguish among individuals: "the recalcitrant individual can be ostracized, and the cooperative individual can be invited into the center of the charmed circle" (Olson, 1965:61). The prospects of receiving some sort of payoff for participation offsets the costs that the donor now has to bear, and the promise of becoming a member of the community offsets the irrationality of paying for something that one could have gotten for nothing.

It is important to remember, however, that recognition and esteem as media of exchange are not like other commodities. Goode (1978) points out that the bestowal of recognition and esteem must be voluntary, not obligatory. A prospective donor does not negotiate for a given amount of applause, praise, or fellowship. It would be difficult to quantify these payoffs and thus to draw up any sort of meaningful contract. More importantly, this would violate the nature of the transaction. Applause, esteem, and fellowship are accorded to those who have exhibited certain valued behaviors or traits above and beyond the ordinary. One becomes a hero when one's actions go beyond the call of duty; an audience applauds an actress when she gives an extraordinary performance. Admission to the theater is contingent upon one's buying a ticket —not upon promising to applaud the performance. Therefore, if the

performers get several curtain calls, it is a bonus. The norms surrounding this are so strong that a performer who attempts to buy praise, esteem, fellowship, or applause (e.g., by purchasing and playing a tape of people applauding) is ridiculed as a fraud.

Whereas the conferral or withholding of these social commodities sounds like a reasonable solution to free-rider problems, there are certain prerequisites for Olson's selective incentives to work. First, prior to the collective action there must exist a network of existing social relations among prospective participants. People must at least know one another before they can either exercise social pressure or be pressured. Second, those conferring the recognition and esteem must be *social gatekeepers* in that community. In other words, recalcitrant participants must be dependent upon this core group of actors for social rewards. Still, we suspect that using selective incentives of this kind to motivate participation in collective action is a short-term strategy at best. If reluctant participants do not soon internalize a belief in the collective action or become committed to the benefits that will accrue to the common good, status games will grow stale, and the collective action will fail.

Transaction Costs and Collective Action

Just as in other economies, efforts at collective action must face the problem of transaction costs. Most of the organizational literature has focused on transaction costs associated with problems of uncertainty, inflexibility, opportunistic behavior, and alternative styles of economic organization to reduce these costs. Recent work by Williamson (1975, 1981), Ouchi (1980), and Williamson and Ouchi (1981) discuss how markets, hierarchies, and clans are alternative organizational forms to reduce transaction costs under different environmental conditions. In all three cases the emphasis is on overcoming the limits on rationality in the system and reducing uncertainty for either or both parties. Simply put, the bottom line is to improve efficiencies in the network of transactions.

Schmid (1978) distinguishes three types of transaction costs specifically related to collective action: contractual costs, information or uncertainty costs, and policing costs. Contractual costs are the costs of reaching an agreement with another party. Lawyer fees, brokerage fees, and bargaining time are cases in point (Schmid, 1978:88). These costs are what it takes for actors to come to a satisfactory agreement on contingencies surrounding their transaction. In large-scale collective action, the time and energy to negotiate satisfactory agreements among

all parties could be considerable. Information costs are the costs that actors must incur as they gather the information they need to make an informed decision on the collective action. Actors need to know what they must invest in the collective action and what they will receive in return for their contributions. Policing or exclusion costs are the costs incurred to block consumption of the collective good by actors who decided not to contribute to its production. These opportunists are, of course, Olson's free riders. In situations where one has an inexhaustible supply of some collective good, policing is motivated by a sense of fairness and equity. In situations where the supply is limited (e.g., in the case of the "commons"), policing becomes critical for the survival of the collectivity. As Schmid (1978:88) notes, transaction costs could very easily exceed the benefits that the collective action could produce.

A common strategy to reduce the transaction costs associated with collective action is to create agency roles (Mitnick, 1980a). Agency is the institution in which one actor, the agent, is at least nominally seeking to benefit another, the principal. In the case at hand, the principals are the participants in the collective action.[2] Mitnick argues that

> the costs of agency — e.g., costs of specification of which acts the group wants the agent to perform, costs of monitoring and policing the agent, and so on — are less than the costs of dispersed collective action — e.g., costs of subdividing tasks and coordinating action, opportunity costs from delay, and so on. (1980a:276)

In other words, it may be cheaper in the long run to retain the services of agents who can reduce transaction costs associated with collective action than to let each principal solve these problems on his or her own.

More specifically, agents acting on behalf of principals can absorb contractual costs. It is they who will do the necessary, concentrated work of coordinating collective action. They will negotiate the contracts, distribute selective incentives, and perform the specialized work of group advocacy. Furthermore, agents can also police free riders. In the public sector regulatory bodies act on behalf of the state, hence on behalf of the people, to prevent chiselers from abusing and/or overconsuming the outputs of the state and to extract compensation from those who abuse the commons (Mitnick, 1980b, 1982). In the private sector agents can police the behavior of group members by maintaining a *social memory*. Ouchi defines this as "the ability to remember what group has been flexible in the past and what group has been unreasonably selfish" (1984:9). The idea is that a network of actors in the community (i.e., agents) grant or withhold cooperation to those actors who have cooperated or refused to cooperate in the past. We argue that this is a policing function inasmuch as the memory knows who made the con-

tributions to the group effort and keeps track of those who consumed but did not contribute. As noted earlier, it is difficult to keep chiselers from consuming collective goods; however, a social memory keeps track of just who the chiselers are.

Finally, agents also help to reduce information search costs. Mitnick (1983, 1984) notes that boundary-spanning roles are often used to process information for principals and to advise them.[3] Aldrich (1979:248) points out that boundary-spanning roles both monitor and inform the environment (see also Aldrich & Herker, 1977). These roles have the responsibility of scouring the environment for information that might be of use to the organization as it conducts transactions. They also search for opportunities to communicate to others about their principals. The routine functioning of these roles should increase the intelligence of all actors in the social arena, not only communicating intentions and expectations but learning about others as well.

Alternatively, agents can act as free-standing intermediaries in interactional fields relaying information to and from clients (see Aldrich & Whetten, 1981). In the organizational literature considerable attention has been given to the *interorganizational organization* (e.g., the United Way, the Chamber of Commerce, the Health Planning Board) and the information-processing functions they perform.[4] Rather than every actor in the system having an agent, one or two agents act on behalf of several principals, communicating their positions to the larger environment while linking them to one another.

The Institutions of a Grants Economy

Having conceptualized the grants economy as a private-sector effort to provide collective goods, it is now time to identify the real-life institutions long operative in the world of charity and to interpret their functions in light of our theoretical discussion. As we shall see, using historical and comparative data, there have clearly been efforts (1) to provide selective incentives in order to motivate reluctant members of the community to contribute their fair share to charity, (2) to demonstrate to prospective donors that their long-range self-interests are served when they make charitable contributions, and (3) to institutionalize agency roles to reduce transaction costs associated with philanthropic giving.

In the pages that follow we focus on the use of prestige or esteem as an incentive for participation in a charitable economy. We suspect that the prospect of winning the recognition, esteem, and friendship of actors in the community may prompt prospective donors to contribute funds to

charitable organizations. As long as gifts are truly voluntary and do not result in direct benefit to donors, audiences are very likely to applaud donors for their generous acts. Weber (1947), for one, noted that such gestures as gift-giving are important rituals that establish one's status or social position in a group.

We also focus on the beliefs that have evolved in charitable circles that try to fuse individual and collective interests. Giving for collectivist purposes has often come to be defined as somehow benefiting the donor indirectly or in the long run. The uniqueness of these ideologies lies in the absolute nature of their assertions. The arguments are made categorically with little or no reliance on empirical proof or logic. Rationalizations for giving are based on untestable assumptions about how the world works and the role that donors play. We would argue that the primary function of these beliefs is to allay the fears of donors that they are somehow "suckers." But even if they are suckers, their being suckers is legitimate and reflects either their moral superiority or their capacity to foresee future payoffs more clearly than do their chiseling peers.

Third, we focus on elites, nonprofit organizations, brokerages, contributions professionals, and fundraisers/public-relations staff that function as agents to reduce transaction costs surrounding charitable contributions. Elites have often absorbed the contractual costs associated with collective action. They take the time to solicit prospective donors for different causes, they organize fundraising campaigns, and they work out beforehand the appropriate amounts that different donors should contribute. They take it upon themselves to coordinate the action. Furthermore, elites often absorb policing costs. It is the elite that keeps the social memory. They know who have cooperated in fundraising efforts and who have shirked their responsibilities.

Nonprofit organizations are also agents that absorb contractual costs for donors. The charitable organization has the unique capacity to search out the truly needy for donors and thus to reduce the chances of donors being cheated or wasting their money. In this capacity the charitable organization saves the donor considerable search costs. The philanthropic organization can also assume the responsibility for aggregating resources so as to provide collective goods for the community (e.g., a new stop sign, a block party, or a new stock of books for the public library). In this capacity it becomes the trustee for the principals.

We view brokers, contributions professionals, and fundraisers/public-relations staff as agents who primarily absorb information search costs. Marsden (1982:206) defines a broker as an intermediary who mediates a transaction between two principals. Brokers such as the

United Way or Consolidated Fund Drive can considerably reduce the uncertainty for both donors and donees. First, a brokerage relieves the donor of the difficult task of evaluating the request of every charity that asks it for a contribution (see Galaskiewicz, 1982a).[5] As Rose-Ackerman argues: "in the absence of the United Fund, [donors] must either spend time finding out about charities, rely on charities to provide information as part of their fundraising efforts, or simply remain uninformed. A United Fund . . . [reduces] solicitation costs and permits donors to delegate a difficult resource allocation task to someone else" (1980:3).[6] Second, the broker performs auditing and monitoring functions that assure donors that the donee is providing the service they paid for. Third, brokers reduce solicitation costs for donees inasmuch as there is only one donor to approach instead of several hundred. And fourth, the differential visibility of nonprofits is neutralized. Nonprofits that do not have a public relations or publicity staff can become as visible as those organizations that do (Galaskiewicz, 1982a:240–241).

Finally, contributions professionals and fundraisers/public-relations staff are boundary-spanning personnel for donors and donees who both gather information on the environment and dispense information to the environment. Whether the boundary-spanner is an agent for a donor or a donee, he or she has to worry about the flow of information to and from the principal. The contributions professional must gather information on the donee community so that the principal makes an informed decision, but at the same time must be responsible to the donee community and communicate donor preferences and priorities to them. The fundraiser/public-relations staff must not only tell prospective funders about all the good things their principals do, they must also filter information to their organizations. That will enable their principals to adjust their behavior so as to be more in line with donor preferences.

Prestige as a Selective Incentive in Gift-Giving Situations

The following brief review will focus on three cases in which the selective incentives of prestige, esteem, social status, and recognition have been effectively used to pry resources from wealthier members of the community for the use or benefit of the entire community. In two of the cases discussed below, the gift is eventually reciprocated by the donee. However, the primary motive for making the gift in the first place is to establish one's position in the status hierarchy of the community rather than to initiate an economic exchange. Our cases include

the potlatch found among the Indians of the Pacific Northwest, the Big-Man feasts found in the New Guinea highlands, and status competition among nouveaux riches in the United States and Great Britain.

Potlatch

The potlatch was an elaborate ritual practiced into the middle of the twentieth century by various Indian tribes of the Pacific Northwest. The essence of the potlatch was the bestowal of gifts by one chief or clan upon some invited guest who was typically from another clan or village. At times, feasts accompanied the potlatch, along with speeches, contests, and theatrical displays. At many potlatches, gift-giving was accompanied by conspicuous destruction of durable goods such as blankets, copper pots, and canoes. The destruction of goods drew considerable attention to the potlatch and even resulted in laws being passed by the Canadian government that made potlatching illegal until 1952 (Drucker & Heizer, 1967:27–34).

Potlatches were usually held in connection with house-building, funerals, or life-cycle events (Murdock, 1936). In general, only chiefs (the heads of a household or village) were expected or allowed to hold a potlatch, whereas commoners and slaves were prohibited from doing so. The definition of a chief, however, was liberally interpreted so that in some tribes (e.g., the Haida), chiefs commonly outnumbered commoners nine to one (Murdock, 1936:18). Not all chiefs, of course, could afford to hold a potlatch and in the nineteenth century, among the southern Kwakiutl tribes at least, only the most prominent chiefs held them (Drucker & Heizer, 1967:36). As the wealth of this tribe became greater, it became common for chiefs of lesser rank to hold potlatches as well.

Ethnographers agree that the manifest function of the potlatch was to establish the social standing of the donor in the community (see Benedict, 1934:188–193; Piddocke, 1965:245). The prestige of one's household was dependent upon the size and quality of the gifts bestowed upon the guests, the degree to which the guests were embarrassed by the display, and the number of potlatches that were held. Ethnographers, however, disagree on the details. For example, Murdock (1936:17–18) found among the Haida tribes that an individual could not establish himself as a noble solely through a potlatch. The only way to become a noble was to have your parent give a potlatch. Others, for example J. W. Adams (1973:114–115), see it as a mechanism that established chiefs used to ensure their own social position by helping each other to reaf-

firm their status and maintain the status quo. Ringel (1979:350) and Benedict (1934) see it as a way the host laid public claim to hereditary privileges. Still others see the ritual not as a means so much to establish the donor's social position but, because the value of the gifts was often directly proportional to the status of the guests, as a means of establishing or reaffirming the status of guests. Regardless of the particulars, there is general agreement that the ritual's principal function was to confer status on the participants.

For our purposes, it is important to remember that in these tribes, gift-giving rather than simple wealth was the basis of social status. Drucker and Heizer note that among the southern Kwakiutl tribes "an Indian might be entitled by birth to a noble name, a name that defined his position in native society as one entitled to honor and respect. Yet he could never use that name or any of the accompanying privileges unless he gave a potlatch at which he testified publicly to his hereditary right to assume it" (1967:33). Before the young Indian could assume his social position in the community, he had to make a potlatch—literally to make a gift. Some anthropologists, including Sahlins (1972), focus on the social obligations of guests to reciprocate with bigger and more lavish potlatches in the future, thus reducing the gift to an investment. However, J. A. Adams (1973:119) notes that his Gitksan informants insist that the tit-for-tat calculations that this suggests are absent from the minds of the donor. The Indian's giving is expected to be motivated by an ethos of altruism. If we can take Adams's informants at their word, then the status of the chieftain is truly a function of his generosity rather than simply of the amount of goods he accumulates (see also Curtis, 1915:143).

Pig Feasts and Big Men

In the highlands of New Guinea and in the Solomon Islands, ethnographers have discovered a stratum of individuals whom the indigenous people have labeled "Big Men." These individuals derive their status not from their office or family background but by virtue of their own talents and achievements. "The indicative quality of big man authority is everywhere the same: it is personal power . . . the attainment of big man status is the outcome of a series of acts which elevate a person above the common herd and attract about him a coterie of loyal, lesser men" (Sahlins, 1968:20). In most cases big men are bigger, stronger, more hard-working, and better warriors than others in the village (Morauta, 1973:146; Read, 1946:113). In some cases the big man is believed to have control over unpredictable events and supernatural forces (e.g.,

Hayano, 1974:18). At times, ethnographers have likened big men to the "free enterprising rugged individual of our own heritage" (Sahlins, 1963:289).

In most areas of New Guinea and among the Siuai of the Solomon Islands, the big man affirms his status in the community through elaborate and extravagant gift-giving. Morauta (1973:147) argues that big men come to prominence by realizing or attempting to realize "[local] ideals of behavior," and generosity is one trait that is highly valued.

There are numerous ethnographic accounts of these elaborate feasts, but one of the most vivid is provided by Oliver (1955:364). In his account of the Siuai in the Solomon Islands, he describes several different occasions for these feasts, such as life-cycle rituals or the repayment of unsolicited favors. But the most relevant for the aspiring big man is the *muminai* or *mumi-honoring* celebration in which an ambitious man singles out a real or potential rival and showers gifts of pork and shell money upon him to honor him but also to test his capacity to reciprocate. If the guest is humiliated by the lavishness of the gift and cannot repay, the host's status is greatly enhanced.

Although there is an element of one-upmanship in the ritual, it is also clear that the donor must display a genuine altruism and generosity in his feast-giving, as is often reflected in the speeches at such occasions (Oliver, 1955:393). Any hint of niggardliness or narrow calculation of self-interest would go far to destroy any prestige that the donor might win.[7] In other words, the donor's not expected to anticipate the gift which he may eventually receive from the donee. He is to be satisfied with the esteem he wins from peers which affirms his status in the community.

High Society in Britain and the United States

The history of British and American philanthropy contains frequent references to status competition among the nouveaux riches and the importance of good works in sorting out the "deserving" rich from the simply rich. Unfortunately, however, there have not been systematic inquiries into status competition in the West that compare with studies of the potlatch and big men.

In Victorian Scotland Checkland notes that social standing in the community was directly related to the part a person played in the charitable world.

> Men and women were flattered to be invited to collect subscriptions, serve on committees, inspect homes and hospitals. . . . Those who were keen to spend a

> considerable proportion of their time in these ways were often those newly established in a level of society where free time (i.e., conspicuous leisure in Veblen's sense) was the ultimate achievement. Leisure was indeed a philanthropic hallmark as well as necessity. Much of the giving thus confirmed social success. (Checkland, 1980:5)

Owen paints a very similar picture of Victorian London. By the 1830s philanthropy had become a social imperative among the upper- and upper-middle classes, "a convention observed by those who were, or wished to be, anybody. . . . Those who wished to rise in the world of society had best exhibit a decent interest in good works" (Owen, 1964:165).

In the United States one finds comparable examples of status competition. Bremner notes that just prior to the Civil War, charitable enterprises were becoming a "recognized form of social diversion and a mark of high social status" (1980:32). McCarthy notes that by the twentieth century, "charitable giving and cultural patronage had been reduced to rungs in the social ladder, and the urge to do good inspired by the prospect of having one's good deed immortalized in the society pages" (1982:169). Zorbaugh (1929:51) notes a similar pattern in his study of Chicago's upper class.

The ritual of earning a place in high society by contributing to charitable endeavors and particularly by patronizing the arts continues into the twentieth century. For example, access to the highest social circles in Philadelphia is associated with patronage of the Philadelphia Orchestra (Arian, 1971) and in Chicago, with patronage of the Lyric Opera, the Chicago Symphony, and the Art Institute (Zolberg, 1974). In the latter case particularly, this is a way for the nouveaux riches to rub shoulders with older wealth and to become socialized into upper-class culture.

Discussion

The one striking parallel between the Pacific Northwest, the Melanesian islands, and the United States is the lack of a hereditary-based, hierarchically organized stratification system. The distinctive egalitarian character and achievement orientation of Melanesian society and the absence of hereditary office is highlighted by Sahlins (1963) in his comparison of Melanesian and Polynesian social systems. The liberal definition of chieftain and the fluidity of leadership within and across Indian tribes of the Pacific Northwest convince us of the openness and highly segmented character of these societies.

In these circumstances the gift is an initiative that wealthier members

of the community take freely. After giving the gift, the donor is then recognized by the community and achieves a certain status. It is not surprising that in the Pacific Northwest, the Melanesian islands, and the United States rank is determined in competitive gift-giving situations. Without a genealogy and hereditary chart to keep track of who is ahead of whom socially, the community forces the social climbers to go one-on-one with each other. Only then can entrepreneurs be reasonably stratified. When there are no prescribed rules or norms that pigeonhole members of the group, competition is necessary, and the social respect and prestige one enjoys is the product of how well one has done in competitive gift-giving.

Still, the method of stratifying members of society is marked by conspicuous waste and invidious comparison (Veblen, 1919:75). For example, the potlatch and big-men feasts are ostentatious demonstrations of the social climber's wealth, and there is more than a little aggression as a donor tries to embarrass and humiliate the donee. The whole process is intentionally visible and brash—all in all, great sport but not particularly ennobling.

Collectivist Values

In American philanthropy three ideologies have been useful in melding the self-interests of the wealthy with the collective interests of society. These are: the *stewardship of wealth*, the *gospel of wealth*, and *enlightened self-interest*. Although each of these belief systems is usually associated with a particular epoch, it would be wrong to believe that each is exclusively found in that epoch alone. In the eighteenth and nineteenth centuries we find fragments of enlightened self-interest even as notions of stewardship persist in the twentieth century. Another error would be to take our inventory as exhaustive. Rationalizations for philanthropic and charitable endeavors among religious minorities are often very different from those reviewed here (see Faris, Laune, & Todd, 1930; Frisch, 1924).

Stewardship of Wealth

Stewardship as a religious belief can be traced directly to Calvinism and the Protestant Reformation. It can be thought of as the social-action component of Calvinist thought. The ethic argues that it is right for people to be wealthy as long as they acknowledge that they hold their

riches in trust from God and are willing to return some of their wealth to help with the Lord's work (Griffin, 1960:49). Unlike Catholic and Lutheran theology, which looked askance at economic activity and gain, Calvin was much more tolerant of capital accumulation. Wealth, however, was not to be squandered or valued for its own sake; it was to be used to spread the kingdom of God on earth (McLoughlin, 1969). One's purpose on earth was to be a steward—to work, accumulate wealth, and practice charity for the sake of God's kingdom.

According to Calvin, wealth and the practice of good works can be taken as a sign that someone is a member of the elect and of the kingdom of God (Weber, 1958:112). For Calvin, mankind was divided into two separate groups: the elect and the damned. One did not earn membership in the elect through good works; rather, membership in the elect was predestined and wealth and good works just reflect that fact. Man is helpless in the face of God and has no power to redeem himself. The only path to redemption is to be selected by God. If indeed one is a member of the elect, it then follows that one will spread the kingdom of God on earth through good works. This is God's will, and the elect have no choice in the matter (Weber, 1958:108). If one is a member of the elect, then charity will inevitably be his way of life (Weber, 1958:117). The entire life of a saint would understandably revolve around salvation and doing God's will.

However, all people, even the damned, must be made to lead a moral life. Not being a member of the elect does not excuse one from living a good life. According to Calvin, it is God's will that He shall have a kingdom on earth as well as in heaven and that His elect shall make sure that their less fortunate brethren fulfill God's behests. "A minority of men were stewards of the Lord. Theirs was the duty of modeling other men's lives through the use of both persuasion and governmental power" (Griffin, 1960:5). Thus not only do the elect perform good deeds; they are their "brother's keepers" as well.[8]

More importantly for our purposes, Calvinism and its self-righteous doctrine of stewardship was able to motivate those who had the means to act in the interests of the poor, reform, and the larger society. The direct manifestation of Calvin's thought were the colonial theocracies in the United States, but more important offspring were the various reform movements that spread across the country in the eighteenth and nineteenth centuries (Griffin, 1960:xi). In these movements religious reformers again attributed poverty to a lack of virtue (Griffin, 1960:51). If pressed as to why some people were poor, these reformers often responded that such people did not have the virtues, habits, or ascetic values needed to accumulate wealth. The steward of the eighteenth

century, just as the elect of the seventeenth century, had the responsibility of showing the poor man how to "pick himself up" and improve his lot in life. Gone were notions of predestination; however, Calvinist beliefs about the virtue of wealth and the legitimacy of inequalities lived on.

In Bremner's (1960) accounts of the early-nineteenth-century evangelical reform movement and the late-nineteenth-century Charity Organization Society movement (see also Woodroofe, 1962:90–93, and Curti, 1961:147), we again encounter remnants of stewardship and Calvinistic thought. In the former, we find efforts to "moralize" and "sober up" the poor—necessary ingredients in the pursuit of a useful and prosperous life (Bremner, 1960:60; see also Mohl, 1970:77, and Watson, 1922:77–78). In the latter, we encounter the "friendly visitor" whose charge is to go to the homes of the poor and teach them through example how to live more upright lives (Bremner, 1960:99).

The legacy of stewardship was alive and well in the nineteenth century. Inequalities were unfortunate but necessary. Those who attained wealth were more virtuous than those who did not. Luckily for the poor and unfortunate, the wealthy were virtuous beings who listened to a God who expected them to extend His kingdom on earth (see also McCarthy, 1982; Saveth, 1980).

Gospel of Wealth

Unlike Calvinism, which had its origins in the Reformation, the gospel of wealth had its origins in social Darwinism. The most prominent architect of this new philosophy was not a clergyman but a millionaire, Andrew Carnegie. Rather than addressing a congregation of farmers and middle-class entrepreneurs, the gospel of wealth addressed the new millionaires spawned by the Industrial Revolution.

According to Carnegie, trusteeship or stewardship devolved upon the wealthy because they were the fittest to exercise it (Bremner, 1960:106). Unlike the Calvinists, Carnegie believed that the great ones did not owe their distinctions to peculiar arrangements ordained by God.

> He attributed the eminence of the millionaire class to fitness to survive and triumph in the competitive struggle. The trusteeship Carnegie proposed to us differed from traditional doctrines of stewardship. The millionaire, a product of natural selection, was an agent of the public, of the forces of civilization, rather than a servant of God. . . . In the exercise of this trust he was responsible only to his own conscience and judgment of what was best for the community. (Bremner, 1960:106)

In Carnegie's words the duty of the wealthy was to consider all surplus revenues . . . as trust funds, which he is called upon to administer . . . in the manner in which, in his judgment, is best calculated to produce the most beneficial results for the community—the man of wealth thus (would become) the mere trustee and agent for his poorer brethren, bringing to their service his superior wisdom, experience, and ability to administer, doing for them better than what they would or could do for themselves. (Kirkland, 1962:25; see also Heald, 1970:17)

Rather than having a religious origin, Carnegie's theory was the child of Herbert Spencer's evolutionary thought. Carnegie acknowledged that "laboring for the good of one's fellows was the essence of Christ's teaching" (Bremner, 1960:107), but his ideology was spawned by a secular philosophy. The positions of different actors in society are functions of competition, with the fittest coming out ahead. They have the most because they deserve the most.

It is not surprising that the gospel of wealth was uninterested in service to the poor and in remedying inequalities.

> according to the gospel of wealth, philanthropy was less the handmaid of social reform than a substitute for it. Wise administration of wealth was an antidote for radical proposals for redistributing property and a method of reconciling the poor and rich. . . . Like his mentor, Herbert Spencer, he [Carnegie] thought that it would take eons, an overturn of natural laws of economics, and an almost inconceivable revolution in human nature to erase that inequality. He believed it was a waste of time to challenge evolutionary processes. (Bremner, 1960:170)

Instead philanthropy should focus upon and foster human excellence in the arts and sciences, and should support those who are most apt to excel in those areas.

> Although Carnegie preached and practiced giving on an undreamed of scale he did not propose that philanthropy should shoulder the whole burden of welfare. Far from it. Recognizing the responsibility of the state to care for the destitute and helpless, he urged the millionaire class to concentrate its philanthropic efforts on the able and industrious. (Bremner, 1960:108)

The sorts of projects favored by Carnegie were libraries, schools, parks, museums, concert halls, and institutes. He called these agencies "ladders upon which the aspiring can rise" (quoted in Bremner, 1960:109).

The legacy of Carnegie's interest in the "excellence of mankind" probably lives on best in the large foundations that he, Ford, Rockefeller, and other millionaires founded at the turn of the century. The role of these new foundations was not to "moralize" the poor or to redistribute wealth; rather, their goal was the advancement of knowledge and the human condition (Bremner, 1960:117).

Enlightened Self-Interest

Enlightened self-interest differs from the other belief systems in that it rationalizes charitable giving in terms of the long-term benefits that the donor might realize. At one level, philanthropy or charity is like earnest money that the wealthy and business interests of a society pay in order to demonstrate their good will and thereby help to legitimize their privileged positions in society. At another level, philanthropy or charity is viewed as an investment that the donor makes in a community or society that, in the long run, will yield an economic return to the donor.

Thinkers as early as Cotton Mather and John Winthrop recognized the link between philanthropy and the maintenance of social hierarchies (McCarthy, 1982:3–4). Jordan (1961:404–406) argues that the Tudors were aware of the connection as early as the late-sixteenth and early-seventeenth centuries. Woodroofe (1962:12) notes that the threat of poverty to the state and to those owning private property was clear in Victorian England as well. However, in the United States giving as a strategy to maintain class position did not become fashionable until the late-nineteenth and early-twentieth centuries.[9] McCarthy argues that it was the rallying cry of the Progressive movement: "Although the wealthy were still urged to honor their responsibilities, the critics' injunctions were frankly tinged with the implied threat that, if the rich failed to bestow, the poor would rise up and take what was rightfully theirs" (1982:99). The roots of class-based giving in the very late nineteenth and early twentieth centuries are discussed in great detail in Arnove (1980).

It is not surprising that this ethic surfaced at that time. Such events as the Haymarket riot (1886), the Homestead strike (1892), and the Ludlow massacre (1914) all took place in this era (Brown, 1969). There were more politically related deaths per capita between 1879 and 1908 than in any other 30-year period of American history (S. Levy, 1969). In 1913 the Pujo Committee began its investigation of interlocking directorates and trust activity (Fennema & Schijf, 1979). Finally, in 1915 the Walsh committee began its investigation of the newly spawned private foundations (Howe, 1980). The wealth of the Gilded Age was under attack, and it was not unreasonable for the captains of industry to feel that if they did not voluntarily divest themselves of their riches and make them available for the collective good, then the people—or, more accurately, their government—would wrest their riches from them by force.

As the control of wealth passed from individuals to corporations in the twentieth century, the onus of social responsibility passed to the firm and the professional manager.[10] Companies now had duties and obliga-

tions to the larger society just as did any individual citizen. Thus corporations, just as any other societal actor, had the option to contribute to the public good or face ostracism. At the time of the Pullman strike, Jane Addams made that point quite clear: "a large manufacturing concern has ceased to be a private matter; not only a number of workmen and stockholders are concerned in its management, but that the interests of the public are so involved that the officers of the company are in a real sense administering a public trust" (1905:142–143). This image of the corporation as a public trust was echoed by prominent individuals like Theodore Roosevelt and President Arthur T. Hadley of Yale University who took it upon themselves to educate business as to its responsibilities to the public interest (Heald, 1970:28–29).

This ethic had its spokesmen in the business community as well. B. C. Forbes developed the notion of the corporation as a public trust and a citizen in a series of Forbes articles between 1915 and 1920 (Heald, 1970:46–48). Cyrus McCormick echoed these sentiments in a 1931 publication:

> I believe that every company or organization of men doing business in any community, no matter where or how removed from the central office, is in duty bound to do something to help build that community, aside from the things required by law or the things beneficial to itself. The Harvester Company is a citizen of every community in which it sells a machine, and it is not a good citizen if it does not perform some service in that community, the same as any citizen who lives there would be expected to perform. (McCormick, 1931:277, quoted in Heald, 1970:53)

To stay in business, then, and to keep their citizenship, corporations must earn a reasonable return on equity (to satisfy the interests of the investor) and behave in a socially responsible way (to serve "the people" collectively). If they fail their investors, corporations go out of business. If they fail to meet the expectations of "the people," the citizenry will mobilize the machinery of the state and effectively put business out of business (see also Jacoby, 1973:189).[11]

At another level, enlightened self-interest means that philanthropy or charity can help the individual donor realize some benefit in the long run. Being responsible to customers, employees, shareholders, and the community is not something that business should undertake simply because it has an obligation; rather, such actions are just good business. A contented labor force and a buying public are essential to the kind of community that business needs; the poor, unemployed, sick, and uneducated are not equipped to join either. The existence and persistence of poverty, illiteracy, and high morbidity threatens business interests

(Karl, 1982:33). Because of the interdependencies of social, economic, and political life, the executive must realize that what is good for America is good for business. Business can only survive if the society survives. Rationality itself has to be redefined so as to reason in terms of the survival of the social system instead of the individual firm (Lodge, 1975).

As one might imagine, there are extremes to which this brand of enlightened self-interest can be taken. For example, Koch (1979:3) quotes Louis Lundborg, former chairman of the Bank of America, as follows:

> Happily, there are corporations whose top officers have not lost their perspective, and whose sense of sound responsibility tells them that neither the company nor its products are the final corporate goal. They see that the quality of life, the condition under which people live, and the things that give meaning to their lives are the ultimate concern of all organized activity, corporate or otherwise. (Lundborg, 1974:129)

This position is obviously extreme.

More tempered outlooks are offered by H. Brewster Atwater, Jr., chairman and chief executive officer of General Mills, and James Bere, chairman and chief executive of Borg-Warner Corporation. Atwater argues:

> Corporations are classed as citizens under U.S. law, and they enjoy both the privileges and duties of citizenship. This broad concept of corporate citizenship may stem from the view that no citizen can prosper in an unhealthy society. . . . [T]he question for modern corporate managers of publicly held companies is not whether they can give away corporate profits but rather how prudently and effectively they exercise this power, to the benefit of both society and the company. (1982:17)

Bere is much more straightforward: "As businessmen, we understand that corporations and society are tightly interwoven. Unless we intensify our long-term social efforts, our own viability may be threatened" (1982:19).

Indeed, not all business people or firms espouse a philosophy of enlightened self-interest, for the focus, even in its milder forms, is away from short term, profit-oriented planning to the survival of a business enterprise or the free enterprise system generations into the future.[12]

Discussion

In sum, enlightened self-interest may sound harsh compared to the stewardship of wealth and the gospel of wealth, but this is due to the fact that it is a rationale trying to convince a corporate entity (i.e., an estate or business) that giving is in its own self-interest as opposed to motivating

natural persons to divest themselves of their riches for the benefit of a neighbor. The crux of the matter is that these corporate actors are agents themselves who have a legal obligation to further the interests of those whose resources they control. They may be legal persons but they have no soul to save or ego to feed (Coleman, 1974).

Furthermore, until 1953 (A. P. Smith Manufacturing Co. v. Barlow), corporations were legally prohibited from making contributions that did *not* result in direct benefit to them (Fremont–Smith, 1972:Chapter 1).[13] The Smith case not only made philanthropy "permissible within the range of corporate enterprise, but quite possibly a condition of public responsibility" (Karl, 1982:135). The court stipulated that companies no longer needed to demonstrate "direct benefit" and that contributions need only contribute to "the survival of the corporation in a free enterprise system" (Karl, 1982:135). Although a broader interpretation of the duties and obligations of the corporation to society had surfaced as early as 1900 in the creation of the National Civic Federation (Heald, 1970:22) and in 1917 in the series of *Forbes* articles mentioned above, and had been popularized in the business press of the 1940s (Heald, 1970:Chapter 10), not until the Smith case were such sentiments institutionalized. In retrospect, then, we see that the mandate to serve exclusively the shareholders' interests came first, and only later were institutional constraints loosened to allow for a more expansive, broader corporate philanthropy and notion of charity. Thus, the institutional environment in which corporate giving evolved made it more likely that the philosophy rationalizing corporate giving would highlight the benefits that the donor would realize from giving.

In sum, it is important to remember that these rationalizations are not carefully crafted philosophies or ideologies but folk beliefs that emerge out of the experiences of those involved in philanthropic activity in a given era. That is, they are the ways in which donors come to grips with the realities they face and the need for some response. That they may not always be logically consistent or based on empirical fact is of little concern to us. As long as they are meaningful for participants in the social action, they are important facts that we need to pay attention to. In essence, these belief systems are the social constructions of reality that actors pieced together for themselves from their own experiences.

Managing Transaction Costs

Throughout the history of American and British philanthropy four types of agency roles have been used in grants economies to reduce transaction costs: elite or leadership roles, the nonprofit organization as

charity provider, brokerages, and the boundary-spanning roles of almoner and fundraiser. As noted above, elites are most critical because they absorb both contractual and policing costs associated with philanthropic activity. The nonprofit service provider is also an organizer, specifically linking donors with the truly needy. In contrast, brokerages, almoners, and boundary-spanning personnel act as agents to absorb information-search costs associated with philanthropic endeavors.

Leadership Roles

The history of philanthropy in England and the United States shows that the business elite has almost continuously provided the leadership in philanthropic endeavors since the Reformation. Jordan (1959:147) states that the involvement of the business class in charitable affairs in England can be traced back to the end of the sixteenth century. In the Middle Ages it was believed that the church was the proper intermediary for the dispersal of alms and that donors should give through it. By the time of the Tudors, the merchant class with its new wealth was frustrated by this arrangement; so when the Reformation stripped the church of its power, wealthy merchants jumped at the opportunity to supplant this church function.

Jordan (1959:148) argues, however, that giving was not motivated exclusively by religious sentiment. With the beginnings of the industrial and agricultural revolution there emerged a new and marginal class of men set adrift by changes in the economy and susceptible to cyclical unemployment. Although influenced by the teachings of Calvinists, the merchant class also recognized the threat that this situation posed to the stability of the social order. The Crown also recognized the threat, but it was the business class and not the state that assumed responsibility for social welfare. The Poor Laws of 1601 were an important step in institutionalizing this pattern. They ensured that charitable needs would be met on a local level rather than on the state level. Thus in the late-sixteenth and early-seventeenth centuries it was the merchant class and the landed gentry who assumed the leadership in philanthropic arenas, rather than the Crown or the churches of the Reformation.

The centrality of merchants, the landed gentry, and, later, industrial magnates in charitable and philanthropic activities has continued into the twentieth century. We see the business class assuming leadership roles in Elizabethan England (Jordan, 1959:402), Victorian England (Owen, 1964:164–166), the American colonies (Mohl, 1970:72), the Jacksonian era (Bremner, 1960:46–57), the Civil War era (Bremner,

1980:39), Reconstruction and the American Industrial Revolution (McCarthy, 1982), and the Gilded Age (Arnove, 1980).

Examples of business leadership in the affairs of nonprofits in the twentieth century are more than abundant (see Banfield and Wilson, 1963:245–246). Baltzell (1958) almost casually refers to the continuing participation of the upper class in the affairs of Philadelphia's civic organizations. He has found members of the upper class actively involved in hospitals, libraries, art galleries, schools, and colleges. The University of Pennsylvania is particularly favored by "proper Philadelphians." Arian's (1971) study of the Philadelphia Orchestra shows that this organization is also the domain of the elite. His interviews with board members verified this as, time and again, they alluded to the importance of "background," as opposed to expertise or even fundraising ability, in the choice of board members.

Studies elsewhere have come up with similar findings. Hunter's (1953) classic study of Atlanta found a significant number of business leaders in civic organizations. Studying Chicago, Zolberg (1974) found upper-class and business interests well represented on the boards of the Art Institute, the Chicago Symphony, and the Lyric Opera. Zald (1967) in his study of YMCAs in Chicago found again a pattern of business representation. Furthermore, business interests have been well represented on hospital (Pfeffer, 1973) and college/university boards (Hartnett, 1969; see also Ostrander, 1980).

Researchers have also found that the more influential and powerful businessmen tend to sit on the boards of civic organizations. Ratcliff, Gallagher, and Ratcliff (1979) found that bank directors who were on boards of St. Louis civic organizations tended to be from the largest banks in that city, to have ties to the largest local corporations, and to be members of exclusive clubs and organizations. Furthermore, Useem (1978, 1979) in his studies of a national corporate elite found that the more corporate boards directors were on, the more likely they were to be on the boards of community organizations, business associations, and colleges and universities. Both Ratcliff et al. and Useem suggest that there exists an inner group within the capitalist class, and that this inner group is found on the boards of local as well as national civic organizations. In other words, it is the more powerful economic actors among businessmen who involve themselves in the affairs of nonprofit organizations (see also Fenn, 1971).[14]

Although it is difficult to pinpoint motives, some researchers have argued that this involvement in charity is rooted in an attempt by the business class to create an elite subculture among its members. Baltzell (1958) characterized this subculture as a residual noblesse oblige. Moore (1961) found evidence of it in her study of upper-class hospital

boards. Domhoff (1970) alluded to it in his discussion of the upper-class woman. DiMaggio and Useem (1978a; 1978b) suggest that the upper class may totally coopt certain organizations in the community for this purpose. In their discussion of upper-class involvement in cultural organizations, they describe how patrons use an institution as a vehicle to strengthen class solidarity (see also Arian, 1971, and Zolberg, 1974). The organization becomes a facility to train upper-class youth in the appreciation of fine art and thus to instill in them proper cues that will enable them to signal their class identity in later years. By providing a set of rituals of inclusion, celebrating the shared culture of the elect, and claiming distinction on the basis of cultivated aesthetic instincts and sensitivities to fashion, the wealthy and powerful legitimate their superiority and assert themselves as worthy, marking themselves off as a deserving elite in contrast to those who are merely wealthy and powerful.

The Charitable Organization

Alms-giving was the predominant style of charity in seventeenth-century England and nineteenth-century urban America. Dormant in the Middle Ages when the Catholic church assumed the role of dispersing alms to the poor, after the Reformation alms-giving by the newly emerging merchant classes became quite the fashion (Jordan, 1959:147). Owen (1964:11) notes that this sort of person-to-person charity dominated philanthropy throughout the seventeenth century. In that era alms-giving took on varied patterns. One popular form was a benefaction in a will. Specific households would be named to receive a certain share of an estate upon the death of the donor. The purpose of such alms was to sustain a worthy family that was suffering because of some misfortune such as temporary unemployment or personal catastrophe (Jordan, 1959:40–41).

In the American colonies and well into the nineteenth century, the way neighbors most commonly ministered to the needy was through voluntary benevolent organizations. Trattner, writing of the era of the American Revolution, observes:

> Groups were formed for every imaginable purpose—to assist widows and orphans, immigrants and Negroes, debtors and prisoners, aged females and young prostitutes; to supply the poor with food, fuel, medicine, and employment; to promote morality, temperance, thrift, and industrious habits; to educate poor children in free schools and in Sunday schools; to reform gamblers, drunkards, and juvenile delinquents. (1974:37; see also Bremner, 1977:93)

Mohl (1970:74) found evidence of a number of these mutual benefit

associations in colonial New York: the Scots Charitable Society (1744), the Society of House Carpenters (1767), and the Marine Society (1769). From Watson (1922:22) we learn about the Philadelphia Society for alleviating the miseries of public prisoners (1787), the Massachusetts Charitable Free Society (1794), the New York Dispensary organized for the care of the sick and poor (1791), and in the same city the Society for the Relief of Poor Widows with Small Children (1798).

McCarthy (1982) reports that Chicago's wealthy, as late as the 1850s, not only gave money to charities but also actively participated in the various agencies set up to help the poor. McCarthy argues that this was true for both men and women. For example, the board members of the Chicago Orphan Asylum between 1849 and 1868 "made the clothes and bedding themselves, purchased supplies, investigated and admitted inmates, hired and fired staff, nursed the children, placed them, taught them, mothered them, and when necessary buried them as well" (McCarthy, 1982:8). In another example, the Chicago Relief Society in 1850 was designed to render temporary aid, advice, and care to the worthy poor. Its strategy was to partition the district, and volunteers were entrusted to investigate applicants, record their names and nationalities, and "endeavor to discourage vicious habits, procure the education of children, and promote industry, cleanliness, economy, and virtue" (Chicago Relief Society, 1851:7). In mid-nineteenth-century Chicago it was not uncommon for the wealthy themselves to visit the homes of the poor regularly.

Charitable organizations, agencies, and professional caretakers became common only as cities grew in size, heterogeneity, and complexity. A central thesis in Owen's (1964:11) history of English philanthropy is that the late-seventeenth century ushered in a revolution in philanthropic endeavor with the *philanthropic association*. Instead of charity being an interpersonal affair, it became more of a collective effort. The best examples of associated philanthropy were the charity schools and new hospitals. Associated philanthropy matured in the eighteenth century with the active participation of physicians in the founding of hospitals. The significance of the physician's input was that it made the philanthropic association a professional organization (Owen, 1964:40).

The charity school and hospital were only the beginning. Other examples of associated philanthropy include orphanages, asylums, relief efforts to pay off unfortunates' debts, and homes for penitent prostitutes. Owen (1964:64) concluded that with increased urbanization, by the nineteenth century it had become totally unreasonable for philanthropists to search out those with the greatest needs. "The consequence was, of course, to stimulate the growth of charitable societies

serving as intermediaries between individual philanthropists and beneficiaries" (Owen, 1964:64).

Since colonial days there have been agencies to house the poor and unfortunate in the United States, but there were no professional services for the indigent and ill until the 1870s (see Bremner, 1960:98; Woodroofe, 1962:86). Mohl (1970:67) notes that most of the relief for the poor in seventeenth-century New York consisted of outdoor relief—aid to the indigent and needy in their own homes. However, by the 1730s the need for permanent institutional facilities for the city's poor had become clear (Mohl, 1970:69), and the city built its first Poor House/ House of Corrections. At about the same time, religious groups in the city were starting charity schools (Mohl, 1970:73) for the poor and the immigrants. Institutionalization, however, really did not become commonplace until the early nineteenth century when local municipal authorities started and maintained prisons, alms houses, and asylums (Rothman, 1971). By the mid-1800s, states began maintaining prisons and asylums paralleling local efforts (Bremner, 1980:82). The proliferation of these institutions and their shabby conditions were spotlighted in the reform activities of Dorothea Dix in the 1840s and 1850s (Bremner, 1960:68–70).

In the 1870s private relief agencies and institutional care of the unfortunate underwent a profound transformation. Several events mark this transition. In 1874 the first National Conference of Charities and Corrections was convened (Woodroofe, 1962:86). Between 1877 and 1882, 22 Charity Organization Societies were organized across the nation to coordinate and facilitate charity activity locally (Woodroofe, 1962:91). In 1889 the first settlement house was introduced in America (Seeley, Junker, Jones, Jenkins, Haugh, & Miller, 1957:16). By the 1890s those who worked with the poor started to receive professional training in separate institutions or through the auspices of the Charity Organization Societies (Woodroofe, 1962:97; see also Bremner, 1960:102). Finally, while the wealthy ladies of the Gilded Age were often among the "friendly visitors" going into the homes of the needy, they were now being trained and supervised by professional staffs. By the twentieth century, alms-giving had all but been replaced by the professional charity organization.

The Federated Drive

The earliest efforts at consolidated fundraising in the United States were aimed at providing relief services to those who had experienced large-scale catastrophes. For example, during the Civil War a number

of private relief organizations acted as brokers that aggregated resources from local societies and organized the distribution of support services to soldiers in the field (e.g., the Sanitary Commission and the Christian Commission) (Bremner 1980:44–45, 57–60). After the war a number of organizations coordinated fundraising for the widows and orphans of the war, both in the North and in the South. After the Chicago fire, the Relief and Aid Society had the task of receiving and dispensing contributions to fire victims (Bremner, 1980:192). In 1881 the American Red Cross was founded by Clara Barton. At the outbreak of World War I this organization was joined by the Commission for Relief in Belgium as well as some 130 other relief agencies in the U.S. alone. As the war went on, it became evident that these brokers needed a broker themselves and in 1918 the United War Work campaign was inaugurated and raised $200 million (Bremner, 1960:127–133).

Although consolidated fundraising for community and benevolent associations was first proposed in Philadelphia as early as 1829, the first truly successful campaigns were not until 1879 in New York and 1887 in Denver (Seeley et al., 1957:17). There were also campaigns in Boston and Cincinnati in 1896 among Jewish charities and in Cleveland in 1913. Many of these early efforts were part of the Charity Organization Society movement.

A major breakthrough took place during World War I when some 300–400 cities organized *war chests*. Seeley et al. (1957:20) note that some of these war chests included in their appeals the provision of funds for local welfare work as well as war work, and later many of these drives developed into local *community chests*. Bremner (1960:140) adds that between 1919 and 1929 the community-chest movement spread from 40 cities to about 350. In 1930 local chests raised a total of nearly $76 million for charities across the country (Seeley et al., 1957:21).

With the coming of World War II there was another effort to consolidate fundraising for the numerous relief organizations working at home and abroad. This time, however, the National War Fund went out of its way to raise funds for both the major war-related service and relief agencies as well as local nonwar charities, thus joining together with the local community chests. Bremner (1960:170) reports that in 3 years the National War Fund raised a total of $750 million.

After the war, community chests continued to flourish, totaling 772 in 1945 and 1,318 in 1950, but they were soon to be challenged by a growing number of national one-cause charities that were soliciting at the community level as well (Seeley et al., 1957:27). Between 1950 and 1955 there emerged a compromise, the United Fund Drive, which combined

in one huge campaign the appeals of all the local charities administered by the community chests and the national charities. Several national groups at first resisted the new effort but gradually responded (Seeley et al., 1957:27).

After the war there also emerged several other efforts at consolidated fundraising for other nonprofit groups. In 1948 the first cooperative fundraising effort by private liberal-arts colleges was conducted in Indiana (Seeley et al., 1957:26). In 1946 American Jews collected $105 million for the United Jewish Appeal with the bulk of the funds going to aid displaced persons and the new state of Israel (Bremner, 1960:172–173). In 1949 Cincinnati and Louisville held the first consolidated United Arts fund drive followed by Binghamton and Fort Wayne in 1955, Winston-Salem in 1958, and St. Paul in 1959.[15]

Almoners as Boundary-Spanning Roles

As early as the Middle Ages, there existed the role of almoner. Payton (1983:73–74) describes the bishop's almoner in the Middle Ages, whose duties were to search out the poor of the diocese and disperse church funds. He argues that comparable agency roles could be found in early Judaism and the early Christian church as well. Thorndike (1974:37) adds that every medieval monarch and great feudal lord had his own almoner. In early eighteenth-century London the most famous person in philanthropy was Thomas Firmin. Firmin's claim to fame was that he served as almoner for many of the wealthy who used him to give money directly to the poor. His title was Almoner General for the Poor. Owen refers to him as a one-man "common-good fund" (1964:17).

Firmin's eighteenth-century counterpart in America was Anthony Benezet. Bremner (1960:26) characterizes Benezet as one of the first humanitarian reformers who took it upon himself to instruct the wealthy on how to divest themselves of their charitable dollars. Benezet, like Firmin, was not a wealthy man himself and, also like Firmin, often doubled as a fundraiser.

The most famous almoner in American philanthropy was the Baptist clergyman Frederick T. Gates. Gates was hired by John D. Rockefeller in 1891 at the height of the oilman's career. Rockefeller had found himself spending as much time investigating prospective donees as he did running his business. Gates' duties were to interview applicants, make inquiries, and suggest action. E. Brown (1980) details some of the special health-related projects that Gates started, including the Rockefeller Institute for Medical Research (1901), the public-health programs in the southern United States (1909), and the China Medical Board and

Peking Union Medical College, which brought Western scientific medicine to China (1921). Gates' most important contribution was his development of so-called *scientific philanthropy*, which sought to bring rationality to the contributions process (Howe, 1980:27).

Mendicants (Fundraisers) as Boundary-Spanning Roles

From the Middle Ages, fundraisers, or professional mendicants, have also played an important role in philanthropy (Payton, 1983:73). In the seventeenth century, as noted above, Thomas Firmin was a fundraiser as well as a popular almoner (Owen, 1964:17). Firmin raised money for hospitals, schools, and special relief funds from London's well-to-do. The evolution of fundraising as a role in philanthropy can be seen in McCarthy's (1982) history of Chicago philanthropy. In the 1850s and 1860s, volunteers not only worked in orphanages, hospitals, and asylums, they actively solicited door-to-door for various causes (McCarthy, 1982:11). After the Chicago fire of 1871 and through the 1890s, the wealthy of Chicago's Gilded Age favored the large-scale charity benefit over door-to-door solicitation (McCarthy, 1982:30). Finally, by the 1920s, professional fundraisers had come to assume primary responsibility for fundraising (McCarthy, 1982:160).

To gain some understanding of the style of the professional fundraiser, we can look at the efforts of one John Price Jones, whom the University of Chicago retained in 1924 to manage their $17 million endowment campaign. In contrast to earlier campaigns, Jones expanded the scale of the effort well beyond the tried-and-true inner core of supporters who had previously been the university's mainstays of support. He wanted to reach out and engage the masses and segments of the wealthy whose ties to the university were marginal at best. The idea was to "sell the university to the public in Chicago and throughout the country" (McCarthy, 1982:160), stressing the quest to make the school one of the great universities of the world. In his effort, he utilized the mass media to the fullest (McCarthy, 1982:160–163).

The distinguishing trait of the modern fundraiser has been his emphasis upon scientific methods and his faith in manipulating the environment of the donor (i.e., appealing to the donor's self-interests). For example, in the campaign described above, trustees were strategically placed so as to exploit fully the nouveaux riches' craving for contact with the city's established families; prospective donors were told of all the tax benefits they could realize; neighborhood people were told of real-estate benefits that a healthy university would bring them; be-

reaved parents were given an opportunity to build a memorial to a son lost during World War I; and contributions to science were encouraged because of the practical payoffs in the form of new marketable technology (McCarthy, 1982). As Bremner (1960:140) points out, from the 1920s on, the professional fundraiser completely changed the character of philanthropy in this country.

Discussion

Although agency roles supposedly reduce transaction costs associated with collective action, they also introduce a considerable amount of alienation into the system (see Coleman, 1982). For one thing, solicitation is separated from consumption. Nonprofit service providers insulate the donor from the solicitations and problems of the poor and the unfortunate. The nonprofit organization solicits on behalf of clients, audiences, students, patients, and so on. The distance grows even greater when professional fundraisers and grant writers are introduced. At this point, the donor becomes insulated even from those directly involved in providing services.

Furthermore, in a world of agents, ownership is separated from control. With almoners empowered by donors to make gifts on their behalf, the latter forfeit their control over the gift. When the donor is itself a corporate actor (as in the case of corporate philanthropy), the situation becomes even more complex. The corporation becomes the agent of its investors, further removing control from those who have ownership rights. When finally an elite or brokerage comes on the scene, the agency network becomes even more convoluted inasmuch as an elite or brokerage will find itself dealing neither with donors nor donees, nor even with corporate actors, but only with the agents of these corporate actors—almoners and fundraisers.

To use Coleman's (1982) terminology, in an effort to reduce transaction costs associated with philanthropic or charitable activity we have gradually moved from a grants economy that involved two natural persons to a grants economy involving two corporate actors, to a grants economy involving agents of corporate actors, to a grants economy involving an intermediary (either an elite or brokerage) between two agents. Quite often one hears that in the charity world "people give to people." However, from our discussion it is clear that the people involved in the transaction are neither the ones who own the resources nor those who need help but rather the agents of corporate actors that represent the principals.[16]

Summary and Discussion

In this first chapter we have tried to conceptualize donor support of nonprofit organizations as a form of collective action. We argued that the various outputs of the public charity are a type of public or collective good. The critical difference between the collective goods produced by government and those produced by private nonprofit organizations lies not in the way in which they are consumed but rather in that the former reflect the preferences of a majority, whereas the latter reflect the preferences of a minority (see Weisbrod, 1975; Douglas, 1983).

Viewing philanthropic activity as a form of collective action, we are sensitized to some of the problems endemic to the endeavor. Motivating participation is a critical issue. Olson (1965) suggests that selective incentives are often necessary to prod reluctant donors who need to feel that they are somehow going to benefit directly from their contributions. He goes on to suggest that prestige, esteem, and fellowship are the sorts of social commodities that groups can use to elicit cooperation from reluctant participants. In our review of the literature, we cited examples of how these selective incentives have been very effective in eliciting contributions from wealthy members of communities as diverse as those of the Pacific Northwest, the South Sea Islands, Elizabethan and Victorian England, and the United States.

Alternatively, actor participation in collective efforts can be secured if individual interests and collective interests are one and the same. Free-rider problems can be overcome if individuals see their own interests being served at the same time as everyone else's interests are being served. Our review of the literature reveals three ideologies that have tried to meld the interests of the individual donor with the interests of the larger collectivity. The stewardship-of-wealth argues that a generous disposition is a sign of one's own moral superiority; the gospel-of-wealth argues that wealth and generosity are signs of natural superiority; and proponents of enlightened self-interest promise either that the individual donor will someday reap some as yet unspecified benefit or that maintenance of the social order is essential for the donor's own well-being.

In this chapter we also discussed various transaction-cost problems that surround collective action and the various agency roles that have evolved to address these problems. First, we argued that leadership roles are key in coordinating the collective action, absorbing contractual costs, and policing free riders who choose not to cooperate in the action. Although our review of the literature can not demonstrate empirically the functions that the elite perform in philanthropy, there is a

preponderance of the very wealthiest community actors in elite or leadership roles in philanthropy. Second, we argued that nonprofit organizations as service providers are also important in coordinating and organizing the collective action. Our review of the literature focused on the emergence of the professional service agency and the demise of almsgiving. As urban life became more complicated, the nonprofit service organization became a vehicle to match up donor and donee. Third, we argued that brokerages and boundary-spanning roles are useful in reducing information-search costs. Our review focused on the growth in popularity of federated giving and the emergence of contributions and fundraising professionals. As the number of service providers multiplied and the collective action became more encompassing, structures evolved to check up on service providers.

We concluded the discussion of agency roles by noting that the greater the social distance between donor and donee, the greater the alienation as new agency roles are introduced to reduce various transaction costs. People may still give to people, but the people are now typically agents for corporate actors representing the principals rather than the principals themselves.

Notes

1. The relationship between private-sector initiatives at providing collective goods and governmental initiatives is intriguing. Historians Karl and Katz (1981), Bremner (1960), and Nielsen (1979) argue that private philanthropic efforts have often preceded government in the provision of certain types of public goods and services. Once need and feasibility is established by private-sector actors, the public sector has come in to expand on their initiatives.

The parallel between philanthropic and government activities has been highlighted in the legal literature as well. The crux of the argument is that both philanthropy and government exist to serve the public interest. For example, Williams and Moorehead (1977:2112) remind us that the basic legal rationale for allowing tax-deductible contributions to public charities is that these organizations perform functions that otherwise would have to be performed by government. Furthermore, Hopkins (1983) argues that for nonprofit organizations to qualify as charities, they must demonstrate that they will serve the general public or community interest (1983:62) and that their purpose is not contrary to public policy (1983:66). Even in the case where only a limited number of individuals benefit from an organization's activities, the organization must establish that somehow the community as a whole is benefiting as well (1983:62). Finally, the nondistribution constraint is the institutional safeguard that ensures that charitable organizations serve public interests rather than private interests. Treusch and Sugarman (1983:Chapter 4) note that charities can lose their exempt status if the IRS decides that private individuals —be they shareholders, trustees, managers, or contributors — are deriving private benefit from the organization. While the charitable organization does not have to operate exclusively for public (i.e., exempt) purposes, it must establish that the net earnings are not

being diverted to such an extent that the exempt function suffers and private interests are served (see also Hansmann, 1980).

Some readers may still be uncomfortable with the idea that charitable contributions are a way of providing collective or public goods inasmuch as the method is, for the most part, highly decentralized and almost anarchistic. That is, there are many independent small donors making donations to a large number of independent donee organizations. There is nothing, however, in the collective-action or public-goods literature that requires that collective goods (or services) be produced by a single, centralized producer such as a government. For a further discussion of these issues, see Weisbrod (1975).

2. The pioneering work on agency roles has been done by Mitnick (1974, 1976) and Ross (1973). See also Jensen and Meckling (1976), Coleman (1982), White (1983), Harris and Ravin (1978), Zimmerman (1979).

3. Obviously the particulars of boundary-spanning activities can get quite complex (see J. S. Adams, 1976, 1980). For example, Mitnick (1984) reviews several studies that note how boundary-spanning personnel often select, interpret, and reformulate the information they receive. They act as important information filters or gatekeepers for their principals (see J. S. Adams, 1980). Furthermore, we should remember that not all boundary functionaries are paid employees. Boards of directors, often made up of volunteers, are often expected to round up information on the environment and to spread the good news about the organization. Mitnick (1984) notes that agency roles can also look inward as well as outward. In other words, the agent retained by an organization to survey some public outside the organization can end up representing that public within the organization. Mitnick (1984) says that this is quite feasible, because boundary-spanning personnel are often recruited from those publics that organizations need information on. It is then not unreasonable to find that these newly hired informants may still have some loyalties to their previous associates and thus represent their interests to the new employer.

4. See Laumann, Galaskiewicz, and Marsden (1978); Rogers and Whetten (1982); Litwak and Hylton (1962); Phillips (1960); Warren (1967); and Pfeffer and Salancik (1978).

5. It is very difficult to know the demand for a nonprofit's services. In the for-profit sector, demand is established by the fact that consumers are willing to pay for goods and services with their own dollars. In the public sector, demand supposedly is established by the citizenry's willingness to pay for services with their votes. Nonprofits may have body counts they can parade before potential contributors as indicators of need but, essentially, NPOs have no reliable means by which to establish the demand for their products or their services. On the one hand, large body counts may simply reflect a free-rider problem — that people will exploit an opportunity to get something for nothing or at a reduced cost (such as public radio or television). On the other hand, low utilization may reflect the fact that people really do not know what is good for them (for example, exposure to ballet).

6. Once a donor makes a contribution, it is extremely difficult to hold the nonprofit accountable or even to know if the funds were spent as intended. There is seldom anything even approaching a contract. Granted, few market transactions entail a written contract (see Macaulay, 1963), but when individuals purchase commodities for themselves, they have a pretty good idea whether it was a wise or foolish decision (see Hansmann, 1980:853). In contrast, when one voluntarily pays for a service that another consumes, there is almost no way to learn if the consumer's needs were satisfied. The consumer (i.e., the client) knows whether he or she is satisfied, but the buyer (i.e., the donor) does not. As we mentioned earlier, the nondistributions constraint should alleviate some of the donor's anxiety. But even without a profit motive, funds could still be used in a way inconsistent with donor values. For example, professional norms could lead staff to spend the money as they see fit. Staff could feel that donors really do not

know what the client needs most and that it is their professional responsibility to reorder priorities, even though this may go against the wishes of the donor.

7. Ethnographers speculate that the skill and cunning it takes to put together a network large enough to hold a feast that would do a big man honor may contribute as much to the prestige of these men as their generosity (Sahlins, 1963:291). Sahlins (1968:89) describes the process, as do Strathern (1969) and Oliver (1955). Often the process of building this network does not stop at the clan or even village boundaries but extends across the region (see Meggitt [1973]).

8. As Weber (1958:128) argued, Calvinism and its doctrine of predestination had an extraordinarily powerful psychological effect on its adherents. It offered a sanction that compelled a methodical rationalization of life among the elect and the asceticism that Weber saw as so important for the development of capitalism.

9. In contrast to our position, Rothman (1971) and Mohl (1973) argue that the element of social control was always present in American philanthropy. Especially during the Jacksonian era with increased numbers of immigrants threatening the established order, attitudes toward the poor, insane, and criminal hardened and the issue of social control came to the forefront. Our own review of the literature, however, did not find this theme as an overriding concern in eighteenth- and nineteenth-century America although, of course, it could have certainly been a latent purpose behind all giving. We would like to thank Professor Clarke Chambers for alerting us to both sides of this debate.

10. Coleman (1974) presents an excellent review of the history leading to corporate actors attaining legal status as "persons" before the law.

11. Shifting attention away from the role of capitalists in society to the role of corporate capitalism was a major development. The focus shifted to a set of corporate actors—publicly held joint stock companies—and away from the privileges of class. With more and more wealth concentrated in corporations, it became more essential to ensure that corporations acted responsibly than to ensure that the wealthy acted responsibly. Social unrest was more likely to result from the abuses of corporate power than from the comparatively harmless, petty, conspicuous consumption of the rich. If social order was to be preserved, an ethic that somehow constrained or sensitized the corporation was of the utmost importance. Reforming upper-class culture became less critical than changing corporate culture.

12. Over the course of its history, enlightened self-interest has been criticized by conservatives as well as by liberals. For example, Milton Friedman (1982:133) believes that the primary responsibility of business is to use its resources to engage in activities designed to increase profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud. Friedman (1982) argues further that if businessmen begin to act like civil servants (i.e., looking out for the collective good), they will eventually become civil servants chosen by popular elections or political appointment. In their efforts to serve the larger public, the private sector will destroy itself.

Friedman (1982:120) goes on to say that business may have only itself to blame for the onus of social responsibility. As an economy becomes glutted with monopolies, economic actors become visible and very powerful, and it is easy to argue that they should discharge power not solely to serve their own interests but to further socially desirable ends as well. The problems of externalities become formidable. The consequences of every transaction and market move are monumental as communities, workers, investors, and customers must adjust. Furthermore, without competition the monopolist does not have to face the rigors of the marketplace and consequently decisions must be rationalized according to some other criteria, and a balance of stakeholders' interests are as good as any.

The only way out of this dilemma is to return to a free (i.e., free of governmental control) and competitive economy. Otherwise business will find itself becoming more and more like bureaucracies in Galbraith's (1978) new industrial state.

13. Not until 1917 did some states pass permissive legislation that allowed corporations to give anything at all to charity. Major congressional action did not take place until 1935 when the Internal Revenue Code was revised to permit deductions to charitable contributions from federal corporate taxes in "an amount which does not exceed five percentum of the taxpayer's net income" (Fremont-Smith, 1972:8). The only major legislative change since then was The Economic Recovery Act of 1981, which increased the maximum charitable deduction allowable for corporations to 10% of taxable earnings.

The important developments took place in the courts. Until the 1953 decision by the New Jersey Supreme Court in the case of *A. P. Smith v. Barlow*, the courts required that publicly held corporations demonstrate "direct benefit" to the donor corporation. Fremont-Smith (1972:10) argues that all cases of corporate contributions prior to this should probably be characterized as commercial contributions rather than charitable gifts.

14. There has even been comment in the literature on how civic organizations themselves are stratified by prospective board members and how wealthier and more powerful actors seek out more prestigious nonprofits. Banfield and Wilson (1963:249) note that people who have great inherited wealth or who are the heads of large corporations tend to be trustees of universities, hospitals, and museums. In contrast, Jewish and Catholic businessmen or lawyers and second-level corporate executives are active in race relations or interfaith activities. Religious Protestant businessmen tend to get involved in good-government activities. Finally, bankers, real-estate men, department-store owners, and other local businessmen become involved in business promotion, construction, and planning activities. It is thus apparent that Banfield and Wilson envision a division of labor whereby the most powerful business interests have a claim on the most prestigious civic organizations.

15. This information was obtained through a personal communique from the American Council for the Arts, New York, and Linda Hall's (1978) study of the St. Paul-Ramsey United Arts Council.

16. For an extended discussion of the problems of agency in a historical setting, see McCarthy (1982:164-171). Noting the increased role of professionals in social welfare and the functioning of community chests and trusts in the early twentieth century, she argues that money was the only real tie that the wealthy had to charity. The wealthy could still make a gift and professional fundraisers could use their connections, but they were no longer central to the enterprise. With the advent of the automobile in the 1920s, the wealthy began to move away from the city, and the physical distance between residence and agency made it even more difficult to maintain contact. McCarthy goes on to argue that the entrenchment of the professionals and the tenuous ties of the elite to the social-welfare agency may be one reason why there was so little resistance to New Deal initiatives during the 1930s and beyond.

2

SELECTIVE INCENTIVES FOR CORPORATE CONTRIBUTIONS*

Coauthored by Wolfgang Bielefeld

Introduction

In Chapter 1 we argue that charitable or philanthropic activity should be viewed as a type of collective action with all the accompanying problems of motivation and management of transaction costs. In this chapter we commence our case study of Minneapolis-St. Paul companies and their giving to nonprofit organizations.[1] We focus on the role that leadership has played in organizing this collective action, providing selective incentives of prestige, esteem, and fellowship to motivate participation, and policing members of the philanthropic community through its social memory. We will also show that the intervention of the elite had a significant impact on the amount of money that corporate donors gave to charity in the Twin Cities between 1979 and 1981.

Contributions as Public Relations

It is well substantiated in the literature on formal organizations that many corporate actors have an interest in winning prestige, respect, and esteem from others in their institutional environment. The issue is

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typically phrased in terms of organizations striving to enhance their legitimacy before various publics. For example, to win applause and approval, organization personnel create legitimating myths (Kamens, 1977; Meyer & Rowen, 1977), manipulate external referents of prestige (Lee, 1971; Perrow, 1961), attempt to identify with cultural symbols and/or legitimate power figures (Miles, 1982; Pfeffer & Salancik, 1978), or imitate other organizations in their environment (DiMaggio & Powell, 1983). A concern about organizational legitimacy can be traced directly to Parsons' (1956, 1960) early work on the various functions that organizations can serve and how their functionality determines, in turn, their legitimacy. Curiously, Parsons would probably not view many of the strategies described above as truly legitimating, nor would he see organizational myths as genuinely making sense of an organization's situation. Yet the bottom line is to legitimate the organization's activities to both members and outsiders alike.

Most research has viewed charitable contributions by business organizations as a strategy to co-opt, neutralize, or otherwise win over problematic elements in the environment. For example, Burt (1983:197–221) suggests that corporate contributions to nonprofit organizations are but another example of organizational cooptation strategy. To test his thesis, he hypothesized that the market position of the firm determines the level of contributions to charitable organizations. Using industry-level data, he found that the amount of industry-wide contributions measured in absolute dollars, per capita dollars, or as a proportion of profits was directly associated with the percentage of sales to households. This association held when controlling for both income and the price of a contribution. Essentially, Burt views contributions as just another marketing strategy that companies use to gain a competitive edge in consumer markets. Indeed, one of his most interesting findings is a parallel set of associations between expenditures on advertising and market position.

Fry, Keim, and Meiners (1982) present further evidence that contributions are motivated by the need to "sell" the firm. In summary they find: (1) that marginal changes in advertising expenditures and marginal changes in contribution expenditures are significantly related, (2) that firms with more public contact spend more at all income levels on advertising and contributions than do firms with little public contact, and (3) that changes in contributions and changes in other business expenses usually considered to be profit motivated (such as officer compensation, dividends, and employee benefits) are highly correlated (1982:105). Levy and Shatto (1978, 1980) report comparable findings. Looking at the 1971 corporation tax returns of 56 Standard Industrial

Classification (SIC) industries, they found that expenditures for advertising were highly correlated with the level of giving when controlling for both net income and net investment (Levy & Shatto, 1978:22). They also looked at the philanthropic activities of America's 55 largest investor-owned electric utilities. Here they found a strong correlation between philanthropic giving as a percentage of gross income and expenditures on advertising and customer services (Levy & Shatto, 1980). These findings lead them as well to conclude that corporate philanthropy is part of a company's overall marketing strategy.

Ermann (1978) and Miles (1982) focus on companies' use of contributions to legitimate themselves for public-opinion purposes. More specifically, Ermann (1978) argues that contributions to the Public Broadcasting System (PBS) between 1972 and 1976 were efforts by upwardly mobile companies to produce good will for themselves among the national elite and the general public. He cites PBS literature that suggests repeatedly that a gift to PBS is an investment that can produce important public-opinion gains. Although his research design did not allow him to assess whether elites felt more positively toward firms that had donated to PBS, he did find that many oil companies and firms that had recently increased their profits were among the biggest contributors. Miles (1982) shows how the tobacco industry, when challenged by the Sloan-Kettering Commission and the Surgeon General's Report on smoking's health hazards, immediately responded by funneling millions of dollars to universities and research institutes that did work on cancer-related topics. Indeed, this put the tobacco companies in touch with research that was of immediate interest to them, but the contributions also gave a signal to the public that the industry wanted to do all it could to support research on the hazards of cigarette smoking.

Nelson (1970) also views contributions as related to market position but focuses on the good will that philanthropy can win from workers. Studying manufacturing industries in the 1954 economy, he found that an industry with 10% more employees gave 2.7% more in contributions, when controlling for sales, profits, and officers' compensation. Contributions are thus like a fringe benefit that the company pays indirectly to workers; it supposedly supports nonprofit organizations that workers utilize in their communities.

Finally, there is some evidence that companies tend to give a larger proportion of their contributions budget in the community where their headquarters are located (White & Bartolomeo, 1982:41). This reflects the sensitivity of company giving to still another constituency: the local community. Here company giving is a way to demonstrate its citizenship to local residents and local elites. This interest in pleasing one's

neighbors could be rooted in loyalty to locale. Alternatively, giving at a higher rate to local charities may be a political strategy to win the good will of local influentials. This might, in turn, be useful when local officials and citizen groups deliberate over zoning ordinances, taxes, environmental regulations, disclosure, affirmative action, and other matters affecting business in the community.

Essentially, the contributions-as-public-relations argument states that company contributions, relative to net earnings, should be greater if the firm has a greater perceived need to co-opt natural persons in its market or societal environment. The more the firm has to worry about being perceived as legitimate by these natural persons—be they customers, workers, or local elites—the more likely firms will demonstrate their good will by making larger and larger corporate contributions to community service or charitable organizations. By giving money away, they demonstrate how they too contribute to the production of public or collective goods and thus serve the environment in which natural persons live.

If corporate contributions allegedly have some public-relations payoff, we should also find that companies that give more are viewed as being "more responsible" or "better corporate citizens" by relevant publics and that this good will results in superior market performance. For example, the good will generated among consumers should increase sales, and the good will generated among workers should lead to decreased labor costs. If a firm is highly dependent upon consumers or workers and these stakeholders have a positive image of the firm, the company should subsequently realize higher earnings.

Research on the relationship between company giving and stakeholders' opinions is scanty and inconclusive. In fact, the only research we have found is a study by Yankelovich, Skelley, and White (A. White, 1980). Here a large sample of Americans was asked which industries were most socially responsible. The authors then correlated these rankings with Conference Board data on level of corporate giving by industry and found a positive, although not perfect, relationship (see also Brooks, 1976).[2] There have been many more studies of the relationship between socially responsible behavior and profitability, but the results are inconclusive. In their review of seven studies, Aldag and Bartol (1978:172) conclude that the poor measures of social responsibility coupled with discrepant findings preclude any firm statement about the size and magnitude of the relationship between social responsibility and corporate economic performance. Preston (1981:9) in his review of the literature comes essentially to the same conclusion as do Arlow and Gannon (1982:240) in their review of seven studies published between

1975 and 1979. A more recent article by Cochran and Wood (1984:55) presents the same sorry conclusion, that there was neither a positive nor negative relationship between social-responsibility indicators and company financial performance for the firms they studied.[3]

Hypotheses

In sum, we can capture the contributions-as-public-relations argument in a set of hypotheses that we will test later in this chapter. First, we hypothesize that the level of contributions for a given firm, i, is a function of its dependency upon the local community for employees as well as its overall dependency upon consumers for sales and employees for labor power.[4] We will also take into account the price of giving. The price of giving has been cited as an important factor by economists who argue that as contributions become more costly (taxwise), they should decrease proportionately (see Nelson, 1970). Sociologically it is not a terribly interesting variable, but we include it as a control variable nonetheless. Thus,

$$cc_i = f(de_i, h_i, l_i, tx_i, e_i) \qquad (2.1)$$

where cc_i is the amount of contributions for a given company, de_i is the dependency upon the local community for employees, h_i is a company's dependence upon consumers/households for sales, l_i is a company's dependence upon labor power, tx_i is the complement of a firm's marginal tax rate or the price of giving, and e_i is the pretax net income of the company.

Furthermore, we hypothesize that companies that give more money to charity will be viewed by more members of their community's elite as being generous in their support of nonprofit organizations.[5] That is,

$$gc_i = f(cc_i, e_i) \qquad (2.2)$$

where gc_i is the extent to which the community elite think a company is generous in supporting charity organizations, cc_i is its level of corporate contributions, and e_i is the company's pretax net income.

Contributions as Social Currency

Alternatively, we can conceive of corporate contributions as a strategy on the part of business firms to win the esteem and respect of business elites in the community. This respect is the compensation that the company receives for making a contribution. It is the selective

incentive that a philanthropic elite bestows upon corporate actors for their contribution to charity. Although donors cannot expect to realize any direct, divisible benefits from nonprofits they support, they can win respectability from the elite.

Certainly not all publicly held firms are equally eager to earn the respect and good will of local philanthropic elites. We suspect that it depends upon the personal background characteristics of the chief executive officer (CEO). On the one hand, if the CEO has local roots, he/she should have a greater interest in having his/her firm well regarded by the local business community. That is, if someone had been born in the community, she or he may very well have a special interest in local status games. Research tells us that professional managers tend to come from middle- or upper-middle-class families in which the father was also a businessman (Diamond, 1970; Burck, 1976; Lipset & Bendix, 1959). If so, and if the professional manager was also born and raised in the area, she/he might well be very anxious to win the applause of the elite with whom his family has had a long but perhaps socially distant relationship. If giving his firm's money to charity will enhance his company's reputation in the local business community—and thus his own—then we might expect him to authorize the contribution. Corporate contributions thus become a way to fulfill the CEO's own status aspirations.

On the other hand, if the CEO is active in the social networks of those organizing philanthropic activities, she should be under considerable peer pressure to have her company contribute more. We would argue that to maintain social standing in the networks of local philanthropic leaders, executives must live up to the expectations of those leaders. From Sheehan (1966:148) and Useem (1984:123–24) we learn that giving is an expected thing to do in these circles. There may even be a veiled threat that nongivers will lose status in the network if they do not give. One gives if one wants to stay in good standing. Giving is the norm in the subculture of the philanthropic elite, and those proximate to this subculture will be under considerable social pressure to give more.[6]

Regardless of what spurs the executive to give more, the ultimate factor in explaining giving is the promise of recognition or esteem after the gift has been made. Thus far we have speculated that some CEOs will be more motivated than others to win elite recognition or at least not to lose it. The bottom line, however, is that when a company gives more, it is viewed as being more generous or socially responsible, and perhaps even as being a more successful business venture than firms that give less.

Recognition as a generous company flows naturally from the fact that

more money is going to nonprofit organizations. However, we also think that giving can lead to the perception that a company is a successful business venture. A review of the literature on status competition in other cultures instructs us that simply having wealth is not as critical as giving it away in establishing one's position in a status hierarchy. Gift-giving demonstrates that the donor has a sense of responsibility to the collectivity, and thus it is worthy of recognition. However, gift-giving can also be a means of legitimately displaying one's pecuniary success. By making a gift the donor not only makes a statement about his loyalty to the collectivity, he also makes a statement about his own capacity to give. Thus we suspect that the corporate contribution that the executive authorizes can contribute not only to his firm's reputation as a socially responsible company (and, in turn, his reputation as an enlightened executive) but also to his firm's reputation as a successful business (and thus his reputation as a successful manager).

Hypotheses

In sum, we can capture the contributions-as-social-currency argument in a second set of hypotheses that we also test later in this chapter. First, we hypothesize that the level of contributions for a given firm, i, is a function of the chief executive officer's background and his/her social networks. That is,

$$\mathrm{cc}_i = f(\mathrm{br}_i, \mathrm{nt}_i, \mathrm{e}_i) \tag{2.3}$$

where cc_i is the amount of contributions for a given company, br_i is the birthplace of the firm's CEO, nt_i is the degree to which the CEO is in the exclusive clubs and networks of the philanthropic elite, and e_i is the pretax earnings of the company.

Furthermore, we hypothesize that the level of contributions will have a positive effect on how the elite evaluates the philanthropic performance of the firm. Thus,

$$\mathrm{gp}_i = f(\mathrm{cc}_i, \mathrm{e}_i) \tag{2.4}$$

where gp_i is the extent to which the philanthropic elite think a company is generous in supporting charity organizations, cc_i is the level of contributions, and e_i is the pretax net income of the company.

Finally, we would expect that a company's reputation among the philanthropic elite for being a successful business will be a function of

its net income, its performance relative to peers, and its level of corporate contributions. To illustrate,

$$sp_i = f(e_i, p_i, cc_i) \tag{2.5}$$

where sp_i is the extent to which the philanthropic elite think a company is a successful business, e_i is pretax income, p_i is a performance indicator based on earnings and scaled to industry and size of the firm, and cc_i is the level of corporate contributions.

Measurement

Information was gathered in 1981 and 1982 on 150 publicly held companies in the Minneapolis–St. Paul metro area (see Appendix A). In the course of interviews with corporate executives and managers, respondents were asked for their company's total tax-deductible contributions in fiscal years, 1979, 1980, and 1981. Because of yearly fluctuations we averaged, where possible, across the 3 years (X_{cc}).[7] From *Standard and Poor's Stock Report Index* (1982), *Moody's Investors Fact Sheets* (1983), and firms' 10-K reports, we recorded the pretax net income for 1979, 1980, and 1981. To arrive at an overall indicator of a firm's profitability during this period, we again averaged across the 3 years (X_e). Dependency upon the local community was measured by having corporate representatives estimate the percentage of all their employees who lived in the metro area in 1980 and 1981 (X_{de}). To measure a firm's dependency upon household or consumer sales, we asked company representatives to estimate the proportion of sales in 1980 and 1981 that went to households or consumers as opposed to other business corporations (X_h). Dependence upon labor power was measured by dividing the total number of employees in a firm (1980) by total assets (1980) and multiplying by a constant (X_l). Finally, we measured the price of a contribution by taking the complement of the firm's marginal tax rate averaged across 1979, 1980, and 1981 (X_{tx}). This measure is consistent although not identical to Burt's (1983) and Nelson's (1970).

In the course of our research we also surveyed a sample of 80 members of the Twin Cities community elite. The selection of the sample is described in Appendix B. To identify the leaders who had taken upon themselves the responsibility of organizing corporate philanthropic activity in the Twin Cities, respondents were asked to tell us the names of local people who had been very instrumental in raising the level of corporate contributions in the Twin Cities. Respondents were free to

name as many people as they wished. The result was that 30 men received three or more votes and were dubbed the *corporate philanthropic elite*. The 28 individuals who were living at the time of our study were approached for interviews, and 26 met with us.[8] Their names, primary organizational affiliations, and the number of votes they received are listed in Table 2.1.[9]

During the interviews with the 26 corporate philanthropic leaders, we handed them each a list of the 209 publicly held companies in our study and asked them to check off the firms in which they knew personally an officer or a board member — that is, someone they knew on a first-name basis and whom they could call for lunch, drinks, or golf. We then tallied the number of philanthropic leaders who checked a given firm, and this was used as an indicator of elite–corporate linkage. A firm's executives were thought to be integrated into the elite network if more philanthropic leaders cited the firm.

To get a second measure of corporate-elite linkages we scanned the rosters of the area's three major metropolitan clubs (the Minnesota Club, the Minneapolis Club, and the Women's Club for 1978 through 1981) and the two most prestigious country clubs (Woodhill Country Club and Somerset Country Club for 1978 through 1981) for the names of our elite, company CEOs, or their wives. We did the same for the boards of the eight most prestigious cultural organizations (the Guthrie Theatre, the Minnesota Orchestral Society, the Society of Fine Arts, the Children's Theatre, the Walker Art Center, the St. Paul Chamber Orchestra, Minnesota Public Radio, and the Minnesota Opera for 1978–1981) and of the 21 Fortune 500 or Fortune 50 firms (excluding cooperatives, for 1980) headquartered in the Twin Cities metro area. This allowed us to construct a 28 × 209 matrix where the rows represented the 28 living members of the corporate philanthropic elite, the columns represented the 209 CEOs, and the entries the number of clubs or boards that a CEO and a member of the elite (or the spouse) were both affiliated with. We then computed a second indicator of elite corporate linkage by tallying down each column. The zero-order correlation between our two measures of company contact with philanthropic elites was .717 for the 98 firms with 200 or more employees. This led us to do a principal-components analysis combining these two variables in a single construct. This analysis was done only for these 98 firms. The eigenvalue for the principal factor was 1.72 and explained 85.9% of the variance in our data. The loading for each variable was .926. We then assigned factor scores to each firm (X_{nt}).

The origin of a company CEO is simply his or her birthplace. Drawing on the *Corporate Report Factbook: 1983 Edition* (1982) and *Standard and*

Table 2.1
List of Corporate Philanthropic Elite with Primary Institutional Affiliation and Number of Citations by General Community Elite (Maximum = 80)

Name	Primary institutional affiliation (1982)	Number of citations as corporate philanthropic elite (total)
Kenneth Dayton	Chairman of the Executive Committee, Dayton–Hudson Corporation (former President and Chairman of the Board, Dayton–Hudson Corporation)	14
Elmer L. Andersen	Chairman of the Board, H. B. Fuller Company (former Governor of Minnesota)	12
John Cowles, Jr.	President, Cowles Media Company (former President, Chairman of the Board, Minneapolis Star and Tribune Company)	11
Bruce Dayton	Consultant (former CEO, Chairman of the Board, Dayton–Hudson Corporation)	9
William C. Norris	President, Control Data Corporation	8
Atherton Bean	Chairman of the Executive Committee, International Multifoods Corporation (former CEO and Chairman of the Board, International Multifoods Corporation)	7
Judson Bemis	Retired (former CEO, Chairman of the Board, Bemis Company)	6
Donald Dayton	Retired (former Chairman of the Board, Dayton's)	6
Stephen F. Keating	Chairman of the Board, Toro Company (former President and Chairman of the Board, Honeywell)	6
John S. Pillsbury, Jr.	Retired (former CEO and Chairman of the Board, Northwestern National Life Insurance Company)	6
William H. Spoor	CEO, Chairman of the Board, Pillsbury Company	6
William L. McKnight	Deceased (former Chairman of the Board, 3M Company)	5

(Continued)

Table 2.1 *(Continued)*

Name	Primary institutional affiliation (1982)	Number of citations as corporate philanthropic elite (total)
Philip H. Nason	Retired (former Chairman of the Board, First National Bank of St. Paul)	5
James P. Shannon	Executive Director, General Mills Foundation	5
Curt Carlson	President, Chairman of the Board, Carlson Companies	4
Harvey MacKay	President, MacKay Envelopes Company	4
John H. Myers	Retired (former CEO, President, Hoerner–Waldorf Corporation)	4
Jay Phillips	Retired (former President, Ed Phillips and Sons)	4
George Pillsbury	Senator, State of Minnesota	4
Archibald Bush	Deceased (former Chairman of the Executive Committee, 3M Company)	3
Harold Cummings	Retired (former CEO, Chairman of the Board, Minnesota Mutual Life Insurance Company)	3
Carl Drake	CEO, Chairman of the Board, St. Paul Companies	3
N. Bud Grossman	President, Chairman of the Board, Gelco Corporation	3
Raymond H. Herzog	Retired (former CEO, Chairman of the Board, 3M Company)	3
Norman Lorentzen	Retired (former CEO, Chair of the Executive Committee, Burlington–Northern)	3
James McFarland	Retired (former CEO, Chairman of the Board, General Mills)	3
John Morrison	CEO, Chairman of the Board, Northwest Bancorporation	3
Robert J. Odegard	Executive Director, University of Minnesota Foundation	3
Raymond Plank	CEO, Chairman of the Board, Apache Corporation	3
James Reagan	President, American National Bank	3

Poor's Register of Directors and Executives: 1981 (1981), we coded CEOs as having been born in Minnesota or elsewhere (X_{br}).

To arrive at prestige scores for our firms we asked both the general and corporate philanthropic elite to check off the firms that they believed were outstanding in their support of nonprofits. Each firm was then assigned a score depending upon the number of votes it received (X_{gc}, X_{gp}). Corporate philanthropic leaders also checked off the firms that they believed were extraordinarily successful business ventures. Each firm was again assigned a score depending on the number of times it was checked (X_{sp}).

To derive performance indicators for each firm, we computed the ratios of net income (after taxes) to total revenues, assets, and equity for 1979 and 1980 and averaged each ratio across the 2 years. This gave us three performance ratios for each company. The next step was to identify the primary industry at the four-digit level of each of our firms, which was available in either *Standard and Poor's Register* (1981) or the *Million Dollar Directory: 1981* (1980). We then went to *Dun and Bradstreet's 1981 Industry Norms* (1981) and examined the same three ratios for firms of comparable size (based on assets) in a company's primary industry and coded our companies as being above the norm, at the norm, or below the norm.[10] As one might expect, all three performance indicators were highly correlated, with Spearman correlations of .688 or above. We then did a principal-components analysis of the three variables on only the 98 firms with 200 or more employees. The eigenvalue here was 2.49, and the principal construct explained 83.1% of the variance. The factor loadings for the three performance indicators were .901, .931, and .902 respectively. We then assigned factor scores to our firms (X_p).

Because we were missing data on pretax net income and contributions for several smaller firms (those with fewer than 200 employees)(see Footnote 7), we did the following analysis for only firms with over 200 employees. Of the 150 firms that were in our study, 69 had 200 or more employees.

Contributions as Public Relations: Analysis

We tested each of the hypotheses outlined above using simple regression analysis. In Equation 2.1 we argue that the level of contributions for a given firm is a function of different market position variables as well as of the price of giving. In a preliminary analysis, however, we noticed that the price indicator was proving problematic. From Table

Table 2.2

Means, Standard Deviations, and Pearson Zero-Order Correlations for Variables in Equations 2.6–2.10

	ln X_{gc}	ln X_{gp}	ln X_{sp}	X_h	X_{de}	X_l	ln X_e	X_{tx}	X_p	X_{br}	X_{nt}	Mean	SD	N
Average annual total contributions 1979–1981 (ln X_{cc})	.719***	.696***	.689***	.095	−.183	−.340**	.505***	−.303**	.232*	−.138	.732***	11.28	3.03	69
Reputation as a generous company: community elite (ln X_{gc})	—	.930***	.727***	.101	−.264*	−.327**	.385***	−.228*	.089	−.111	.797***	1.35	1.32	69
Reputation as a generous company: philanthropic elite (ln X_{gp})		—	.775***	.081	−.303**	−.331**	.437***	−.240*	.136	−.023	.831***	1.20	1.26	69
Reputation as a successful company: philanthropic elite (ln X_{sp})			—	.112	−.250*	−.469***	.571***	−.424***	.320**	−.049	.709***	1.78	1.10	69
% Sales to households, 1980–1981 (X_h)				—	−.004	.050	.034	.049	−.062	−.053	.092	25.28	35.93	66
% Employees from local area, 1980–1981 (X_{de})					—	.050	.041	−.112	.211*	.196	−.269*	40.30	29.26	69
Employees/total assets, 1980 (X_l)						—	−.224*	.088	.058	.077	−.419***	.03	.03	69
Average annual pretax earnings (ln X_e)							—	−.727***	.552***	−.030	.413***	14.77	6.38	69
Average annual price of contributions (X_{tx})								—	−.491***	−.050	−.140	.14	.35	69
Profit performance index (X_p)									—	−.045	.017	.07	.96	66
Birthplace of CEO (X_{br})										—	−.024	.51	.50	67
Elite network index (X_{nt})											—	.22	1.02	69

*** $p \leq .001$.
** $p \leq .01$.
* $p \leq .05$.

2.2, we see that the correlation between the average annual pretax net income (ln) and the average price of making a contribution was −.727.[11] This, of course, was due to the fact that the marginal tax rate for a given firm was based on its pretax net income. We might add that both of these variables were correlated with our contributions variables (ln X_{cc}): pretax net income (ln) and contributions correlated .505, and our price indicator and contributions correlated −.303. Both of these correlations were as expected. However, when we computed the partial correlation between contributions and our price indicator, controlling for pretax net income, the association between these two variables reversed itself: $r_{\ln X_{cc} X_{tx} \cdot \ln X_e} = .376$. In other words, controlling for net income, it appeared that firms that were in a lower tax bracket tended to contribute larger sums of money than did firms in a higher tax bracket.

We can explain this anomaly by looking more closely at those 9 firms that had a lower average marginal tax rate (i.e., were paying a higher price for their contributions). Of the 69 firms with over 200 employees, 60 paid the minimum price on a contribution ($.54 on a dollar) in all 3 years; the 9 who did not had experienced losses (negative pretax net income) in 1979, 1980, or 1981, which lowered their *average* tax rate. As might be expected, 7 of the 9 companies made contributions to charity in years when they made a profit, *but they also reported charitable deductions in negative earnings years.* Evidently they anticipated carrying over these amounts until they had income to tax.

It appears that this variable is of limited use to us. The 60 firms that had pretax net income for 1979, 1980, and 1981 all had earnings in excess of $100,000 and thus all paid the same price for their contribution; most of the remaining 9 firms made contributions even in years when they suffered losses. We can thus conclude that the price of giving had no effect on contributions in our sample, and we thus eliminate this variable from further consideration.[12]

Eliminating the price indicator, we devised the following equation:

$$\ln Y_{cc} = a + b_{de}X_{de} + b_h X_h + b_l X_l + b_e \ln X_e + u \qquad (2.6)$$

where Y_{cc} is average annual expenditures for company contributions, X_{de} is the percentage of employees working in the Twin Cities, X_h is percentage of total sales to households, X_l is the ratio of employees to assets, and X_e is average annual pretax net income. We computed the natural logarithm of Y_{cc} and X_e, because these variables, untransformed, were highly skewed. When a company had lost money in a given year, X_e was coded 0; and whenever X_e or X_{cc} took on the value of 0, the natural logarithm of these was also set equal to 0. As is our practice throughout

Table 2.3

Regression Analysis for Equations 2.6 and 2.7 Testing the Contributions-as-Public-Relations-Thesis[a]

PANEL A

Dependent variable
Average annual total contributions, 1979–1981 ($\ln Y_{cc}$)

Independent variables[b]	b	S.E.	Sig.	Beta	R^2	Sig.
% Sales to households, 1980–1981 (X_h)	.008	.009	.385	.090		
Employee/total assets, 1980 (X_l)	−24.313	11.073	.032	−.233		
% Employees from local area, 1980–1981 (X_{de})	−.020	.011	.070	−.190		
Average annual pretax earnings 1979–1981 ($\ln X_e$)	.218	.050	.000	.458		
					.354	.000

PANEL B

Dependent variable
Reputation as a generous company: Community elite ($\ln Y_{gc}$)

Independent variables	b	SE	Sig.	Beta	R^2	Sig.
Average annual total contributions, 1979–1981 ($\ln X_{cc}$)	.306	.043	.000	.704		
Average annual pretax earnings, 1979–1981 ($\ln X_e$)	.006	.020	.770	.029		
					.518	.000

[a] N = 69.
[b] b = Unstandardized regression coefficient; S.E. = standard error; Sig. = significance; Beta = standardized regression coefficient; and R^2 = percentage of variance explained.

this monograph, pairwise deletion for missing data is in effect unless otherwise noted.

Table 2.3, Panel A, presents the results of our analysis of Equation 2.6. Several findings run counter to our expectations. For example, we see that labor intensity is inversely related to the level of corporate contributions (i.e., high-tech firms are giving more). Also firms that had a higher percentage of their employees working in or near the Twin Cities tended to give less. Thus neither being dependent upon employees nor having a higher percentage of employees in the local area

prompted companies to give more money to charity. Furthermore, dependence upon consumers for sales had no effect at all on the level of contributions. However, consistent with our expectations, the best predictor of company giving is the company's average annual pre-tax net income.

In Equation 2.2 we argue that company contributions can enhance the local community elite's regard for a corporation. In other words, companies can improve their public image by making more contributions. This hypothesis was tested by using the following equation:

$$\ln Y_{gc} = a + b_{cc} \ln X_{cc} + b_{e} \ln X_{e} + u \qquad (2.7)$$

where Y_{gc} is the number of times the company was cited by the elite as being generous to nonprofits, X_{cc} is the average annual expenditures for contributions, and X_e is the average annual pretax net income. Again, log transformations were necessary because of skewedness. When Y_{gc} took on the value of zero, the natural logarithm was coded as zero.

From Table 2.3, Panel B, we learn that, as hypothesized, contributions and not pretax net income had a strong and significant effect on a firm's reputation for generosity among the elite. The more that companies gave, the more members of the elite recognized them as being generous to local nonprofits. Whether they intended to or not, firms received the applause and recognition of the local elite for their gifts to charitable organizations.

Contributions as Social Currency: Analysis

We now turn to the propositions derived from the contributions-as-social-currency thesis. In Equation 2.3 we argue that the level of contributions for a given firm is a function of background characteristics of the CEO as well as of the exposure of the CEO to peer pressure. To incorporate the findings from our analysis above and to test this proposition, we estimated the following equation using, again, ordinary least squares:

$$\ln Y_{cc} = a + b_{br} X_{br} + b_{nt} X_{nt} + b_{e} \ln X_{e} + b_{de} X_{de} + b_{e} X_{e} + u \qquad (2.8)$$

where Y_{cc} is average annual corporate contributions, X_{br} is a dummy variable indicating whether the CEO was born in Minnesota or elsewhere, X_{nt} is the factor score combining organizational and informal network contacts with the philanthropic elite, and X_e, X_{de}, and X_e are defined as before.

Our results are presented in Table 2.4, Panel A. Unexpectedly, CEO origins had no statistically significant effect on contributions; having a

Table 2.4
\nalysis for Equations 2.8 Through 2.10 Testing the Contributions as Social-Currency Thesis[a]

PANEL A

able
al total contributions, 1979–1981 (ln Y_{cc})

riables	b	SE	Sig.	Beta	R^2	Sig.
CEO (X_{br})	−.685	.501	.176	−.114		
index (X_{nt})	1.853	.301	.000	.622		
al pretax 979–1981,	.115	.043	.010	.241		
total assets,	−1.723	9.396	.855	−.016		
from local 1981 (X_{de})	−.000	.009	.975	−.003		
					.599	.000

PANEL B

able
a generous company: Philanthropic elite (ln Y_{gp})

riables	b	SE	Sig.	Beta	R^2	Sig.
ual total ns, (ln X_{cc})	.264	.042	.000	.637		
ual pretax 979–1981	.023	.020	.261	.115		
					.494	.000

PANEL C

able
s a successful business: Philanthropic elite (ln Y_{sp})

riables	b	SE	Sig.	Beta	R^2	Sig.
ual total ns, (ln X_{cc})	.197	.036	.000	.540		
al pretax 979–1981	.048	.020	.021	.274		
nance 0 (X_p)	.049	.119	.679	.043		
					.543	.000

Minnesota-born CEO did not result in greater contributions as hypothesized, our elite contact variable had a very cl(contributions, as did pretax net income. We also should : negative effects of labor intensity and dependency upon the cal area for employees on contributions are no longer sign

In Equation (2.4) we argue that company contributions the philanthropic elite's image of the corporation as being nonprofits. This hypothesis was tested by estimating th equation:

$$\ln Y_{gp} = a + b_{cc} \ln X_{cc} + b_{e} \ln X_{e} + u$$

where Y_{gp} is the number of philanthropic leaders who view pany as being generous to nonprofits, X_{cc} is the average annu contribution, and X_{e} is the average annual pretax net inco

From Table 2.4, Panel B, we learn that contributions an net income had a significant effect on a firm's reputation fo among the elite. The more that companies gave, the more the philanthropic elite recognized them as being very gene nonprofits.

Finally, in Equation 2.5 we argue that companies that cont to charity should also be perceived as more successful busin philanthropic elite, independent of their actual earnings. ing equation was estimated for these effects:

$$\ln Y_{sp} = a + b_{cc} \ln X_{cc} + b_{e} \ln X_{e} + b_{p}X_{p} + u$$

where Y_{sp} is the number of philanthropic leaders who viewe having achieved extraordinary business success, X_{cc} is the nual corporate contribution, X_{e} is the average annual pretax and X_{p} is the factor score based on a firm's earnings perfor pared to the performance of peer companies.

From Table 2.4, Panel C, we learn that both average annua income and average annual contributions had statistically effects upon a firm's reputation as a successful business. our factor scores measuring organizational performance ha cant effect on a firm's reputation.

Evaluating the Two Theses on Giving

In sum, we find only limited support for the contribution relations thesis. Decomposing the theory into two emp

ments, we tested each statement using our data on 69 locally based Twin Cities corporations.

First, the market position of a firm had little effect on the level of corporate contributions. Neither dependency upon consumers (percentage of worldwide sales to households/consumers) nor dependency upon labor power (ratio of employees to total assets) nor dependency upon the local area for employees had a statistically significant positive effect on the amount of corporate contributions donated to charity. Only the amount of pretax net income had a significant positive effect on contributions; in other words, the more money a company made, the more it was able to give away. We interpret this variable as essentially tapping a firm's *capacity* to give.

Second, the amount of contributions given by a firm did enhance the community elite's image of the firm as being generous to nonprofits. Controlling for a firm's capacity to give (pretax net income), we found that the more money a firm gave to charity, the more members of a broad cross section of the community elite recognized it as being generous to nonprofits. If companies gave more to charity, the public, which in our study was made up of prominent citizens of Minneapolis–St. Paul, did discriminate and evaluate firms positively.

In evaluating the contributions-as-public-relations thesis we have, at best, mixed results. Members of the local community elite recognized firms that gave more money to charity, so there was a public-relations payoff. However, firms that gave more were not those that were particularly dependent upon people for their economic survival, as earlier studies had found, nor were they dependent upon the local area for employees.

Clearly we found more empirical support for the contributions-as-social-currency thesis. Again we tested the thesis by constructing and then testing empirical statements derived from the theory using data on 69 Twin Cities corporations.

First, we found that firms that made larger contributions to charity had executives in closer social proximity to business leaders active in corporate philanthropy. Apparently, contributions were very sensitive to company and/or executive contacts with philanthropic leaders. Drawing on our earlier theoretical discussion, we would argue that our findings are consistent with the thesis that companies give more when their officers and/or directors are subject to peer pressure and are immersed in a subculture in which giving is the norm. When executives are in a one-on-one situation in which one peer is requesting funds from a fellow executive, we suspect that it is very difficult to refuse for fear that one will lose face, insult the solicitor, or even be excluded from elite

networks. In contrast, the CEO's birthplace (Minnesota versus elsewhere) had no significant effect on contributions. We had thought that firms whose CEOs were from the area might be giving more in order to fulfill the CEOs' aspirations of winning acclaim from the local philanthropic elite.

Second, the amount of contributions given by a firm did enhance the image of the firm as being generous to nonprofits. That is, the more money a firm gave to charity, the more philanthropic leaders recognized it as doing an outstanding job in supporting nonprofits. And third, the amount of contributions given by a firm also enhanced the image of the firm as being a successful business venture. The more money that a firm gave to charity, the more philanthropic leaders thought of that firm as having achieved extraordinary business success, independent of actual average annual pretax earnings and performance indicators.

We interpret these findings as strong evidence for the contributions-as-social-currency thesis. Companies gave because they were pressured to give by philanthropic leaders, and they anticipated that these business leaders would recognize them not only as socially responsible companies but as successful business ventures in return. In other words, the recognition and acceptance they expected to receive was the selective incentive that motivated them to give and, just as Olson (1965) would have it, we found that this recognition was indeed bestowed upon those who decided to give.

The Elite as Agent

The above findings cry out for verification. We found that companies whose executives were in closer social proximity to reputed philanthropic leaders tended to give more money to charities and that firms that gave more money to charity were viewed by more members of the philanthropic elite as very generous in their support of nonprofits and as very successful business ventures. We take these results as evidence that giving was spurred by the personal solicitations of an active philanthropic elite and the promise, which was fulfilled, that this elite would recognize the company as generous and as a very successful business venture. This is how we have interpreted the way in which peer pressure worked.

Yet a number of nagging questions remain. Was this the way that participants in the social system viewed peer pressure? Why was it that executives valued the respect and esteem of this elite so much? Why was the elite willing to absorb the costs of organizing this action sys-

tem? And finally, was there any way to institutionalize peer pressure and the allocation of selective incentives so that the community would not be so dependent upon the good graces of a philanthropic elite?

The Meaning of Peer Pressure: As Seen from Above

In the course of the interviews with the corporate philanthropic elite, we asked two questions in order to learn what peer pressure meant to them. We first asked them to describe peer pressure for us. Then we asked what companies and their executives would lose if they repeatedly refused solicitations from peers.

In describing peer pressure as an institution, respondents portrayed the practice in different ways. First, a minority described it as "back-scratching" or "logrolling." One respondent said that "the fact of the matter is that they [the CEOs of other companies] give you a fair reception and hearing because they expect to get a fair reception and hearing when they have a cause." Another said: "[Peer pressure] is when you go to friends and ask them to support something of mutual interest and they come back and ask you when they need support." Still another said: "Peer pressure is responding to friends. Essentially, if you don't go along with their requests and pet projects, they won't support yours." A similar theme was voiced by still another: "A fund drive looks over all the organizations in the country and sets a dollar amount that it wants from different firms and people. Then it calls on the CEO, and he's supposed to give. He usually does, because he knows that he will want a contribution for one of his causes down the line." Another former CEO said, simply: "[Peer pressure] is reciprocity. You give and I'll give."

This theme of reciprocity also came through when we asked what executives lose if they refuse to give. Of the 26 respondents, 5 said that executives lose the opportunity to solicit their peers in the future if they are not responsive to solicitations in the present: "He builds up resistance for future favors. He simply lowers the probability that the solicitor will respond favorably to his solicitations." "When he seeks money, he'll be turned down." "He just won't get contributions for his pet projects." "He'll lose his ability to call in his chips." "He'll lose the opportunity to get money for projects he's interested in."

The emphasis again is on the opportunity to establish a network of debts that will enable the solicitee to tap his solicitors for future fund-raising efforts of his own. The implication is that Ego will not be favorably disposed toward Alter if Alter has refused to cooperate with him at an earlier date. From these accounts it does not appear that companies give to earn respect; rather company executives give to keep their places

in the network. In the portrayal of peer pressure as back-scratching, the essential element is reciprocity—". . . You give and I'll give." Among peers, one way of getting cooperation on a pet project is to "deal" with a little credit for the future. Ego responds to the solicitations of Alter with the understanding that now he has the right to solicit Alter on a future occasion for some pet project of his.

For a network of this sort to be sustained, turnover in the executive ranks must be minimal as Alter must feel confident that he will be able to "cash in his chips" at a later date. Because an executive will probably head up a major fund drive only once in his career, it is very important that both Ego and Alter are around long enough so that Alter can reciprocate and pay Ego back. In addition, there also needs to be an elaborate accounting mechanism to keep track of all the debts that various actors owe one another. Ouchi (1984) would refer to this as a collective memory. Somewhere, somehow, actors in the system have to be reminded of the debt matrix and to be assured that others in the system will "pay up" at some point in the future.

More commonly, executives portrayed peer pressure as a sort of ritual whereby people are integrated into the business community and attain social standing. For example, being solicited is a sign that one is part of the group. Responding to a solicitation indicates that one accepts membership. As one respondent said, "[Peer pressure] is part of the process of being part of the team, being a respected member of the community." Another added: "In order to be one of the gang, you have to participate." One executive said that peer pressure is especially important for new executives:

> It [peer pressure] is developing a habit or custom of giving among new executives. About the third year here they are approached to head up a fund drive or the United Way . . . and they better do it. To put it simply, if you want to join the "club," you have to do it.

Evidently the ritual of giving and soliciting is part of the dues that one pays for doing business in the Twin Cities.

The process whereby actors become integrated into the business community is imitation, not exchange. Several executives cited the importance of the "leadership gift." One firm would make a gift to a nonprofit and then would turn to its peer companies and ask that they follow suit. The appropriate response for the second firm is to jump on the bandwagon and make a suitable contribution. As one respondent put it, "People want to imitate [the leader]; this is the way they become part of the community." Another echoed this sentiment: "People *want* to meet norms and expectations of leadership. To be regarded around here as 'first rate,' they have to play that ballgame." One gets the image

of collective behavior. "It's amazing. If you can get one company like 3M to put in $100,000 in something like Junior Achievement, 16 other companies in St. Paul will fall right in line. . . . They'll just imitate 3M." One individual even referred to these leadership companies as "lead cows."

This theme of membership, belonging, and status in "the club" was evident when the elite talked about what executives could lose if they refuse to give. Of the 26 respondents, 19 made some reference to the fact that individuals would either lose face before their peers in the business community or would be excluded from certain community events. The vocabulary used to describe anyone who consistently refused to respond to solicitations was colorful and to the point. Such a person would gain a reputation for being "niggardly," a "tightwad," a "skinflint," "tight," or "irresponsible." One individual expressed it more poignantly: "If you continue to say no, you develop a reputation as a son of a bitch, and people know this." Several others talked about individuals losing esteem, respect, and standing among their business peers.

Several respondents cited the social costs of not participating when solicitated:

> Everyone has a right to refuse; but if you never give to anything, it is a different story. In this community you will never be accepted. You will not be thought of as being responsible. You will always be on the outside looking in. For example, when interesting outsiders come to town and they have some meeting or business session, you won't be invited.

Another echoed these sentiments:

> If you say "no" too often, you are ostracized. You feel the regard of your peers. Before you know it, you don't receive invitations to social gatherings, golf dates, celebrity events, or civic affairs. When you go to these things, you look to see who isn't there rather than who is there. . . . Look, it's like being in a fraternity; you can go through college without one, but it affects how you feel about yourself.

A third was also quite articulate on this point:

> If you say "no" you may risk losing the esteem of others. People start believing that you have bad judgment or that your priorities are all screwed up. You also risk losing a certain amount of companionship in agreeable enterprises. When a fundraising project goes well, it's because it's been fun doing it. If it's not fun, you don't want to do it. Now the guy who says "no" risks not being asked to dance in the future and he becomes isolated from fun things in the community. Ostracism is not the word. It's just more fun to march in the parade than to sit on the sidelines.

Others alluded to being "excluded," "left out of things," "moving to

the fringe of the community," or even "forgotten" by the community. One individual said, "You simply become persona non grata."

We noticed in all of these responses that the individual who says "no" loses the respect of the philanthropic elite and is excluded from community or civic events. Interestingly, only one respondent said that individuals are excluded from dinner parties, country clubs, or other types of social events. In fact, several went out of their way to say that this type of exclusion did not happen very often. It appears that refusing to cooperate jeopardizes one's status in the business community, which for all practical purposes seems equivalent to a civic culture. This, in turn, implies that this civic culture is separate from the private worlds, families, and hobby networks of individual businesspeople. One is excluded from groundbreaking ceremonies, receptions for visiting artists, parties on opening day at the Metrodome, task forces, and fundraising events. One loses the respect of business leaders and business peers; however, one's private life remains intact.

Here it is clearer that company executives give to win the respect, recognition, and fellowship of their peers, and this is consistent with our interpretation of our findings. By responding to solicitations, executives play out roles that give them a community status that is different from their role as chief executive officer or president of a local company. By "going along," "playing ball," or "riding herd," executives demonstrate their willingness to become part of the business community, to follow the leaders. Their reward lies in their companies' being regarded as responsible and even successful. Whereas peer pressure is ostensibly a vehicle to elicit the contributions that support charitable organizations, it is also a community-building strategy whose latent function is the integration of the firm and its executives into the civic culture of the Twin Cities.

Profile of the Elite

Still it seems strange that executives would be so interested in being respected and accepted by this particular set of philanthropic leaders. An important assumption that Olson makes is that those who are offered prestige, esteem, or recognition for their participation will value the prestige, esteem, or recognition of those making the offer. That Twin Cities executives apparently gave more because they were asked by the philanthropic elite to give, and valued the respect they won from this elite, suggests that this elite was very attractive to local executives. Unless local executives held these men in special esteem, it would be difficult to understand why they would be so responsive.

When we examine the background of this elite, it is more understand-

able why local businessmen were so responsive to these business leaders. Comparing the philanthropic elite to the executives of the 98 firms with over 200 employees, we find that the elite had considerably better business and social credentials than the CEOs. For example, 56.7% of the elite had been the president, CEO, or chairman of a Fortune 500 or 50 firm as compared to only 20.4% of the 98 CEOs. Furthermore, the philanthropic leader, on the average, belonged to 4.36 elite clubs or boards as compared to the average CEO, who belonged to only 1.65. Finally, 46.6% of the philanthropic elite had attended Ivy League schools, Oxford, or Stanford as undergraduates, compared to only 14.6% of 89 CEOs (9 cases are missing).

But why would members of this elite take it upon themselves to lead these charitable endeavors? Another assumption that Olson makes is that there will be a set of agents on hand to organize the collective action and allocate selective incentives. In Chapter 1 we note that the time and energy spent on organizing is not trivial and that those agents who do this sort of thing are absorbing significant transaction costs that other principals in the network (i.e., corporate donors) will consequently not have to bear. Yet it is difficult to understand why any set of actors would voluntarily assume agency roles, especially if they are not compensated monetarily. We can now understand why individual donors would participate in the collective action—they receive selective incentives from the philanthropic elite—but why do members of the elite organize the action in the first place?

The roots of the elite's seemingly altruistic behavior may be traced to something as simple as their places of birth. A remarkably high percentage of the 30 philanthropic leaders (60.0%) were born in Minnesota, and 76.7% were born in Minnesota, Iowa, or the Dakotas. Even more importantly, of the 17 men who were chief executives of fortune firms, 13 were born or raised in Minnesota or the Dakotas and 3 had lived in the Twin Cities since 1921, 1942, and 1946 respectively. Their altruism, then, may have been rooted in their personal ties to the region. Their families had lived in the region for generations and their offspring may continue to do so. That these men had corporate and social clout to boot may have enabled them to follow through on their own natural inclinations to protect and enhance home and hearth.

Institutionalizing Peer Recognition

The system that we have been describing is premised on the assumption that there is a prestigious elite motivated to exert peer pressure on business executives in order to stimulate contributions and to applaud or hiss as firms heed or ignore their solicitations. It is a very informal system in which only insiders know the rules of the game and can play

to win. Even members of the corporate philanthropic elite during our interviews spoke disparagingly of peer pressure as a form of cronyism or an example of an old boy network. The stakes are very high—a company's reputation and participation in civic culture—and the game is limited to those who have contacts among the elite.

The continuing dependence upon a philanthropic elite could, however, be problematic for this community. First, in 1981 the average age of the 28 living elite was 64.6 as compared to 55.6 among the 90 CEOs with 200 or more employees (8 missing cases). Second, as we note in the Introduction, by 1980 38.1% of the 21 Fortune 500 or 50 firms listed in 1970 either had the founder or progeny stepping down as CEO, had managers with local roots being replaced by managers from outside the area, or were acquired by out-of-state companies.

Furthermore, it appears that the successors to the older philanthropic elite may not have the same credentials and interests as do their predecessors. In the course of the philanthropic-elite interviews, we asked respondents to give us the names of the five or six individuals they believed would be instrumental in increasing corporate contributions in the next decade.[13] Those who received two or more votes were deigned the *new corporate philanthropic elite*.[14] Table 2.5 indicates that the new elite includes a slightly smaller proportion born in Minnesota, a smaller proportion of entrepreneurs and founders, and a larger proportion of professional managers. Also, we should note that in both the old and new elite 10 individuals were the sons or sons-in-law of the founders of their companies. However, in the old elite, 9 of the 10 progeny were executives of Fortune 500 or 50 firms, but only 3 of the 10 younger progeny were executives of Fortune 500 or 50 companies.

In what may be queer testimony to the effectiveness of peer pressure in the past and its gloomy prospects for the future, the Minneapolis Chamber of Commerce held its first annual awards luncheon for companies that reported contributing 5% of their pretax profits to charity in 1976. Ever since then, chamber of commerce members who verify that they are giving at the 2% or 5% level are recognized by the chamber of commerce as being in the Two or Five Percent Club, invited to a civic luncheon, and given an award in front of a public audience with press and political officials present. After a lunch and remarks by distinguished speakers, new members of this club are introduced and given a momento.

The circumstances surrounding the creation of the Five Percent Club are of special interest, because representatives of the corporate philanthropic elite were directly involved in the process. The principals included David Koch, CEO and chairman of the board of Graco Incorporated and president of the Minneapolis Chamber of Commerce from

Table 2.5
Background Characteristics of Old and New Corporate Philanthropic Elites

	Old philanthropic elite		New philanthropic elite	
	f	%	*f*	%
Occupation[a]				
Entrepreneur/Founder	10	33.3	2	7.2
Progeny	10	33.3	10	35.7
Professional manager (CEO)	8	26.7	13	46.4
Lawyer	0	0.0	1	3.6
Foundation officer	2	6.7	1	3.6
Educator	0	0.0	1	3.6
	30	100.0	28	100.0
Place of birth				
Minnesota	18	60.0	16	57.1
Elsewhere	12	40.0	12	42.9
	30	100.0	28	100.0
Institution of undergraduate degree				
Ivy League college, Oxford, or Stanford	14	46.7	13	46.4
Other	14	46.7	13	46.4
No undergraduate degree	2	6.6	2	7.2
	30	100.0	28	100.0

[a] The occupations of the older philanthropic elite were based on last full-time employment. The occupations of the new elite were based on 1982 employment.

1975 to 1976; Charles Krusell, executive director of the Minneapolis Chamber of Commerce; Wayne Thompson, senior vice president of environmental development of Dayton–Hudson Corporation; and Bower Hawthorne, vice president of public affairs of the Minneapolis Star and Tribune Company. The latter two principals are key because their respective superiors at that time were Kenneth Dayton and John Cowles, Jr., both of whom were in the philanthropic elite and widely recognized as leaders in philanthropic affairs (see Table 2.1). The idea for the Five Percent Club came from Krusell and Thompson, whose own company, along with the Minneapolis Star and Tribune Company and Graco, were already giving at 5%. David Koch has said that "the goal of the effort was to give visibility to the success stories in the community (i.e., successful companies). It was good for business for the citizens and voters to take notice of what we do. We also wanted to justify a publicly held company doing this sort of thing. . . . Another

goal was to spur on contributions that would increase dollars available in the community."[15]

In the fall of 1975, the chamber of commerce sent letters to members asking if they were giving at the 5% level; 23 companies responded that they were giving at the 5% level, and some of these firms were quite large (e.g., First National Bank of Minneapolis, Northwestern National Bank of Minneapolis, Dayton–Hudson Corporation, the Minneapolis Star and Tribune Company, and the Carlson Companies). In the spring of 1976, the chamber of commerce made its first awards.

By giving public recognition to companies that were giving at the 5% level (and later at the 2% level), any firm in the community could win the applause of significant others in the business community and share the spotlight with guest speakers who were brought in for the occasion (e.g., John D. Rockefeller, Juanita Kreps, John Filer, and Walter Haas). Now every firm had the opportunity to be applauded, and thus every firm had some motive to give. Furthermore, by printing the names of the Five Percent and Two Percent Club members and releasing the list to the metropolitan press, the chamber of commerce made peer giving a public event.

The transformation of peer recognition into public recognition effectively took social control out of the locker rooms and club rooms and put it in the domain of public opinion. Elites will still acknowledge the especially generous company, but now the larger community will be applauding as well. There is no second-guessing what will win a firm some applause; everyone can qualify for the honor, and the recognition one wins is citywide and extends well beyond the business subculture.

Summary and Discussion

The purpose of this chapter was to identify factors associated with company giving to charitable organizations. Two perspectives explaining company contributions were offered. First, we suggested that the level of contributions was a function of a firm's market position. In an effort to legitimize itself before various "stakeholders" (e.g., customers, employees, local elites), firms made contributions to charity. Second, we offered that the level of company contributions was a function of executives' social position in the business community. Contributions were made in the hope of winning the esteem and recognition of local business elites.

We found considerably more support for the Contributions-as-Social-Currency thesis than for the Contributions-as-Public Relations thesis.

we found that labor-intensive firms and firms heavily de-
n the local area for employees did not give more money to
firms that sold primarily to households/consumers gave
same amounts to charity as firms whose customers were
rate actors (e.g., firms, governments, nonprofit organiza-
However, we found that a firm's average annual pre-tax
its executives' proximity to the philanthropic elite were
sociated with the amounts donated to charity. Our inves-
uncovered certain social rewards that companies came to
y made greater contributions. Companies that gave more
arity were viewed by more members of the community elite
anthropic elite as being very generous in their support of
ganizations. In addition, companies that gave more money
ere also viewed by more members of the corporate philan-
as being extraordinarily successful business ventures.
dings prompted a further investigation into the role of the
ic elite as agents who organize and police this collective
e meaning of peer pressure became clearer after reviewing
ata from the elite. Two themes emerged. First, our respon-
norms of negative reciprocity; if one refused a solicitation,
had the right to reciprocate and refuse his solicitation some-
future. Second, and more commonly, respondents saw
d contributing as rituals that helped to integrate business-
e local civic culture of the Twin Cities. It was a means
siness executives could attain social status or social stand-
isiness community.
cer pressure works only when prospective donors are inter-
ning the recognition, esteem, and respect of the solicitors.
e superior social and corporate credentials of the elite in
he CEOs of the firms in our study, it became clear why the
is elite was so attractive to company executives. Further-
ccess of peer pressure depended upon continued elite inter-
izing and policing the collective action. The elite that was
g the period of this study had deep roots in the local area.
en were aging, and the next generation of philanthropic
not appear to have the same mix of social and corporate
of the old elite. This called into question the continued
the action as we found it.
section of this chapter examined efforts to institutionalize
e in the framework of a voluntary association, the Five-Per-
hose purpose was to bestow public recognition on firms that
heir net income to charitable organizations. We noted how

an organization like this made recognition accessible to companies in the community even if they were not in the the elite. Essentially the business community constructe ally equivalent substitute for the old boy network, which a may actually replace peer pressure as a way to provide in giving and thus prompting greater contributions from loca

Notes

1. There are several excellent publications on corporate contributions is encouraged to examine these (see Useem, 1985; *Corporate Philanthr* mont-Smith, 1972; Harris & Klepper, 1976; Troy, 1982b). At the time of ou 1981) corporations were allowed to deduct upwards of 5% of their pr charitable contributions. The Tax Reform Act of 1981 allowed for a ceiling law took effect after our study was completed. In the *Annual Survey of Co Edition* (Troy, 1983), the Conference Board reports that corporations in th gave 1.24% of their pretax net income to charities in 1981.

2. A. White (1980) cites another of his studies in which 43% of those pe favorable impression of a company said that they would buy the comp without giving serious consideration to competitive products. He take along with the ones cited above and argues that giving money to cha significant impact on sales; however, he never demonstrates this empirica ment, of course, is consistent with Burt (1983), Fry et al. (1982), and Levy a 1980)

3. The lack of any association may be due to the crudity of indica social responsibility. Many studies (e.g., Cochran & Wood, 1984, and Stu 1977) used a reputational measure generated by Moskowitz (1974, 19 number of firms as "outstanding," "honorable mention," or "worst" i corporate responsibility, taking into account a number of different crit 1975, and Alexander & Buchholz, 1978). Another reputational measure by the National Association of Concerned Business Students who had stud administration express their views on the social responsibility of For Another general strategy has been to do a content analysis of firm publica the annual report. Research using this type of indicator has been done Haire (1975) and Abbott and Monsen (1979). No studies that we found us section of public opinion, opinions from a segment of a firm's consumer opinions.

4. Given that all of the firms in the study are headquartered in the c they all should be interested in improving public relations locally. Howe that firms with a higher percentage of their labor force employed locally more interested in currying local public opinion. Local good will might during labor disputes or in discussions of workman's compensation and h standards in local legislative arenas.

5. It would also be interesting to see if companies that gave more m were viewed by a larger percentage of their employees or customers a responsible in their support of human service organizations. Unfortuna data on firms' customers and/or employees was impossible, given our lin

6. Our conceptualization of elite networks and their role in spurring corporate contributions is much different than Useem's (1984:121–127). Useem indeed found that U.S. and British firms that were more integrated into elite corporate networks tended to be more generous to nonprofit cultural organizations. However, Useem interprets his results much differently. He views networks of corporate interlocks as the infrastructure of an upper class that is following a prespecified class-based political agenda. Companies give more because their officers and directors are more tightly integrated into upper-class structures. For us, membership in these networks does not signal class affiliation but only proximity between a set of leaders and company executives in the community. That executives are in this network and want to stay in the network simply means that they enjoy being near those who can confer prestige or esteem—even legitimacy—upon them and says nothing about their allegiance to class-based ideologies. Companies and their executives are still autonomous rational actors interested only in furthering their own self-interests.

7. Of the 69 companies in our study with more than 200 employees, only 2 made no contributions in any of the 3 years. Of the 81 firms in our study with less than 200 employees, 28 made no contributions in either 1979, 1980, or 1981, and 10 refused to provide information on contributions.

8. Of our nonrespondents two were deceased, another was extremely ill, and the other simply refused to meet with us.

9. Six of the 30 corporate philanthropic leaders were also CEOs of publicly held companies in 1979 (*Corporate Report Factbook: 1980 Edition*, 1979).

10. Dun and Bradstreet presents ratios at the 25%, 50%, and 75% percentile for 1980. To assess the performance of each firm in our study, we compared its ratios to the industry's ratios, controlling for firm size. If the firm was at the 75 percentile or above for a given ratio, we assigned a value of 3 to our performance measure; if it was between the 25th and 75 percentile, we assigned a value of 2; and if it was below the 25th percentile, we assigned a value of 1.

11. The marginal tax rate structures for 1979, 1980, and 1981 were the same. These rates were taken from *Prentice Hall Federal Taxes* (1981:3201).

12. This price indicator has never proven to be a useful predictor of corporate contributions using cross-sectional data. For example, Burt (1983:209) finds that price had no unique effect on the level or rate of corporate philanthropy expenditures in 1967. He also notes a close association between industry net income and price. However, price has been shown to have an effect using longitudinal data in which the marginal tax rate can vary year by year (see Nelson, 1970:72).

13. Of the 26 philanthropic-elite respondents, only 21 offered us any names. Thus we must interpret the list generated by this method with some caution.

14. There was some overlap between the two elites. Of the 28 new philanthropic leaders, 7 had been members of the older philanthropic elite.

15. Personal interview with David Koch, March 31, 1983.

3

FROM SELF-INTEREST TO ENLIGHTENED SELF-INTEREST

Introduction

In Chapter 1 we argue that an alternative to selective incentives is a conviction on the part of prospective donors that the benefits that accrue to the collectivity are as important as the benefits that they themselves might accrue. If prospective donors came to this point in their thinking, there would be no need to entice contributors with selective incentives. Individual and collective goals would be one and the same; actions taken to realize one goal would spontaneously realize the other. Here we examine the effects of these collectivist sentiments on corporate giving and the efforts to institutionalize these values in the Minneapolis-St. Paul business community.

Enlightened Self-Interest

The business press and the management literature indicate that an ethic of enlightened self-interest is alive and well in American business circles today. In 1984 the *Wall Street Journal* declared that enlightened self-interest now guides corporate decisions in making donations. No longer are contributions "based on the whims of top officers, on country club connections and on tradition" (Wall, 1984:1). Firms give so that

their long-term interests will be served. In 1981 an article in *Fortune* stated that "few corporations engage in philanthropy because others need money, as though a corporation were a well-heeled uncle who should spread his good fortune around the family. For the most part, corporations give because it serves their own interests—or *appears* to" [italics added] (L. Smith, 1981:121). The argument is familiar.

> Society expects business to accomplish a variety of social goals, and it must accomplish these goals if it expects to profit in the long run. The firm which is most sensitive to its community needs will, as a result, have a better community in which to conduct its business . . . a better society produces a better environment for business. (Davis, 1973:313)

The watchword is: "What's good for society is good for our company" (Hay & Gray, 1974:140).

More systematic surveys of company executives confirm that enlightened self-interest is a dominant ideology rationalizing contributions and other forms of corporate social responsibility. In their review of the literature on corporate social responsibility, Arlow and Gannon (1982:235–236) cite a number of studies that demonstrate how enlightened self-interest dominates the thinking of corporate executives. For example, Bowman (1977) studied executives' attitudes toward socially responsible behavior with respect to the environment. Business executives in his sample felt it was necessary to do more than required by law, even if it meant a short-term reduction in profits, because otherwise government will impose regulations that will hurt the entire industry (see also Ostlund, 1977). Sacrifices need to be made in the short term so that the industry can prosper in the long term. In an earlier study, Harris and Klepper (1976:17) found that 49% of 309 chairmen and presidents of major U.S. corporations surveyed justified a contributions program and other public-service activities on the grounds that public service is necessary for long-range survival (i.e., enlightened self-interest).

The most impressive survey of the ideologies related to company giving was conducted by White and Bartolomeo (1982) for the Council on Foundations. After intensively questioning respondents, they concluded that corporate giving is clearly an expression of enlightened self-interest:

> About 7 in 10 claim to be motivated by a desire to help the needy in the communities in which their company has plants/locations and by a desire to do what is ethically correct. But 2 out of 3 also emphasize the goals of improving local communities in order to benefit their own employees and of protecting/improving the environment in which to work and do business. Then, too, about a third hope to improve their company's public image; and about a quarter expect that

> their corporate giving effects will result in increased revenues/profitability and in an enhanced ability to recruit quality employees. The more self-interested goals are especially important to CEOs of Fortune 1300 companies. (White & Bartolomeo, 1982:62–63)

White and Bartolomeo argue that corporate giving surely has a double agenda — one altruistic and the other selfish. They also note that business is very candid about this, suggesting this is now a very acceptable and legitimate way to rationalize corporate giving programs.

Although the rhetoric of enlightened self-interest has emphasized the benefits that individual firms might realize in the future, some skeptics in the management literature have correctly pointed out that it is still almost impossible to measure these benefits and that espousing this ethic is still irrational from an economic point of view. For example, McGuire struggled with the problem of measuring and evaluating the profit effect of enlightened self-interest. He finally had to conclude that enlightened self-interest at best represented "a crude blend of long-run profit and altruism" (1963:143). Keim (1978) concentrates on the unresolved free-rider problems. He cites Wallich and McGowan (1970), who argue that firms may rationalize enlightened self-interest on the basis that stockholders now have diverse portfolios and thus a broad interest in the benefits that a large group of firms, even an industry, might realize if companies acted in a socially responsible way. "Thus investment decision criteria for any firm should be expanded to include consideration of a social or group rate of return in addition to a private return" (Keim, 1978:34). However, as Keim points out, in actuality investors hold stock in more than one but not in every corporation. Thus for them to advise managers to use a social or group rate of return for criteria in decision-making is irrational. "If investors have less than completely diversified portfolios, clearly owners would always prefer a company in which they had little or no interest to bear the cost of social investments with public or non-excludable benefits" (Keim, 1978:35).

Business Leaders and the Ethic of Enlightened Self-Interest

As an ideology to rationalize either corporate contributions or other types of socially responsible behavior, enlightened self-interest is seemingly most popular among business leaders and executives of the largest corporate enterprises. Looking at the White and Bartolomeo (1982:71) results, we find that larger companies, in terms of sales, tended to rationalize giving as being in their long-term self-interest more often than did

smaller companies. Smaller firms were more likely to rationalize giving on the basis that business has an ethical responsibility to make contributions. Useem (1984:124–125, 1985) similarly found that enlightened self-interest was a popular theme among big business and offers an explanation for this:

> The centralization of American capitalism, Mills (1956:121–123) observed, has created a set of corporate managers who not only move beyond the parochial concerns of their own firms to general industry concerns, but also "move from the industrial point of interest and outlook to the interests and outlook of the class of all big corporate property as a whole." This class stratum is generated in part by the movement of private capital from investment in a single company to a range of firms and, in part, by the related spread of the interlocking directorate among nearly all major corporations. Those whose investments span a range of firms are sensitized to the general welfare of corporations. (1980:62)

Business leaders and "big business" tend to view business interests more broadly than small businessmen, because their investments are greater and more broadly distributed.

In explaining why some firms espouse a philosophy of enlightened self interest and others do not, we might expect that those firms that have a bigger stake in the survival of other businesses and of the economy as a whole should have a special interest in whatever can be done to ensure the survival of the entire free-enterprise system. This stake could be measured in terms of a firm's volume of sales. Alternatively it could be based on the company's systemic dependency — the extent to which the firm sells its goods and services to a broad range of industries or buys products and services from a broad range of producers. If a firm is larger and more dependent upon a variety of sectors for its survival, the odds of it espousing an ethic of enlightened self-interest are that much greater.

Alternatively, enlightened self-interest could be simply viewed as a variant on the traditional ideology of the noblesse oblige found in upper-class subcultures. Rather than trying to make business-sense out of contributions, as Wallich and McGowan (1970) and Useem (1980) do, enlightened self-interest can be seen as a set of moral values that those in privileged class positions are expected to espouse as part of their status. These values are learned in boarding schools, fraternities at college, kinship networks, and later in life in national business associations (e.g., the Business Council, Business Roundtable, Committee for Economic Development, and Council on Foreign Relations), exclusive metropolitan clubs, and corporate board rooms. In other words, these

values could be part of the upper class subculture of those who own and/or manage wealth.

Empirically, we would expect that peer group processes would be important in socializing executives into an ethic of enlightened self-interest. Assuming that business leaders believe in enlightened self-interest, executives who are proximate to this elite may be pressured into adopting the same ideology as the elite. Just as executives learn that it is appropriate, if not required, for firms to support charitable organizations, they learn that it is appropriate, if not required, for them to embrace an ethic of enlightened self-interest. The network essentially perpetuates a value system in its subculture.

If company executives are pressured by business leaders, we would also expect that those who think like the elite will be applauded accordingly. Although we do not expect that firms will be recognized as successful business ventures, we do expect that they will be seen as being generous to nonprofits if they espouse an ethic of enlightened self-interest. Just as giving is a sign that a company is socially responsible, so is embracing an ethic of enlightened self-interest — regardless of the level of giving.

Alternatively, attitudes toward contributions could be a function of company participation in institutionalized efforts to socialize firms into an ethic of enlightened self-interest. As Frederick (1983:154 – 155) argues, a comprehensive institutional structure in which enlightened self-interest can be given full expression can be very important in promoting the ethic. And just as the national business subculture has its Business Roundtable and Council on Foreign Relations, a local community could have comparable institutions at the local level dedicated to the education of business executives. Through participation in local programs, seminars, and the like, company executives could come to learn what the "true interests" of business are, and how those interests can best be served.

Hypotheses

We can summarize the contributions-as-enlightened-self-interest thesis in the following theoretical statements. First we argue that beliefs can have an independent effect on contributions. If firms espouse an ethic of enlightened self-interest for whatever reasons, they may well contribute more money to charitable organizations. The identification with the broader, long-term interests of the business community leads

them to willingly make contributions for goods and services that they may never directly benefit from themselves. For example,

$$cc_i = f(nt_i, e_i, q_i) \tag{3.1}$$

where cc_i is average annual corporate contributions, nt_i is network contact with the philanthropic elite, e_i is average annual pretax net income, and q_i is the set of beliefs that rationalize corporate contributions.

Next we argue that the systemic dependency and size of a company, proximity to philanthropic elites, and formal participation in local educational programs could be at work in shaping attitudes of firms toward contributions. Thus,

$$q_i = f(a_i r_i, nt_i, m_i) \tag{3.2}$$

where q_i is the belief rationalizing corporation contributions, a_i is a measure of the firm's dependency upon other industries for sales and purchases, r_i is firm revenues, nt_i is proximity to the philanthropic elite, and m_i is participation in local educational programs.

Third, if peer pressure is at work in prompting a conversion to enlightened self-interest, then firms should be receiving some recognition from the elite as a "kickback." To illustrate,

$$gp_i = f(cc_i, e_i, q_i) \tag{3.3}$$

where gp_i is the number of philanthropic leaders who view the company as generous to nonprofits, cc_i is average annual contributions, e_i is average annual pretax net income, and q_i is the belief or ideology rationalizing contributions.

Measurement

Several of the variables that we analyze in this chapter are introduced in Chapter 2, and thus we do not reintroduce them here. The new variables presented here include: the beliefs rationalizing contributions of both the companies in our study and the corporate philanthropic elite, firm participation in local educational efforts to promote an ethic of corporate responsibility and enlightened self-interest, and a measure that captures the degree to which firms are systemically dependent upon other sectors of the economy.

Company Rationales for Corporate Contributions

In the course of the corporate interviews we asked our respondents, "Why do you believe your company gives money to nonprofit charitable organizations?" We also asked, "How important are contributions/ foundation activities for realizing corporate objectives? Explain."[1] Table 3.1 summarizes the answers of our respondents. We identified 27 different reasons why companies gave money to charity.

Giving as a Corporate Business Strategy Those who see contributions as a business strategy anticipate the direct positive effect that corporate contributions could have for the company. The benefits that individual firms hope to realize include "improved public relations in the community as a whole," "improved employee relations," "improved customer relations," "good will among business peers," "improved shareholder relations," "better access to business contacts who also support charitable causes," "stimulated sales of products," and "tax benefits." Here donors are rationalizing the gift in terms of benefits that they expect their companies to realize in the short term.

Arguments for how contributions should benefit the firm directly are typically succinct and to the point. A vice president of a locally headquartered brokerage house said, "take a company or CEO whom we are working for. If he comes and puts the arm on us, we are likely to give. Or if a customer comes and asks us to give, we again are likely to comply. Look, you do business with friends and you are friends with those whom you do business with." Another brokerage executive concurred: "giving helps us to get business. We'll get more business from other businesses if we give to charities." In one company the policy of translating every charitable contribution into some tangible return to the company is part of the very philosophy of the firm. The public-relations director of a Fortune 500 firm said:

> Business must show that it can solve society's problems and meet its needs. But [our chairman] differs from others in that he doesn't believe in the dole. Rather, he believes that for business or anyone to make progress in the area of meeting human needs, there must be a profit some place. Profits and people seeking profits are what have made this country what it is. Profits have motivated people to make great strides, great progress. Any large-scale effort to meet human needs must allow profits to be made. . . . In this company, then, there are no real gifts or contributions. Everything is supposedly ultimately tied to sales. Nothing is spent without an eye to the future sales. We are trying to develop product lines.

Table 3.1

Reasons Cited by Corporate Representatives for Corporate Contributions to Charitable Organizations

Questions: "Why do you believe that your company gives money to charitable organizations?" "How important are contributions/foundation activities for realizing corporate objectives? Explain."	Percentage of companies that gave this reason among other reasons (N = 104)	
1. Corporate business strategy	45.2	
Improve public relations/public image in the community		22.1
Improve employee relations/help employees		13.5
Improve customer relations/use as a marketing strategy		13.5
Appease business peers		13.5
Get business through charity contacts		1.9
Stimulate sale of products		1.0
Improve shareholder relations		1.0
Tax benefits		1.9
2. Enlightened self-interest	29.8	
A better community helps to attract and retain employees		7.7
A better community means better business for us and others		9.6
Investing in NPOs could have payoffs that benefit all of business		14.4
Corporate citizenship could be threatened		2.9
3. Moral obligation/social responsibility	67.3	
Civic duty/social responsibility to the community		34.6
Improves community environment for everyone		10.6
NPOs do good things and are a value to the community		12.5
It's the morally right thing to do		4.8
Giving is good for people		1.9
An obligation to pay back community where we got profits		10.6
Altruism		4.8
4. Noblesse oblige	9.6	
The wealthy have obligation to help the less fortunate		1.9
It's a tradition		7.7
The upper class has an obligation to participate in community affairs		1.0
5. Miscellaneous	35.6	
It's better for the private sector to support NPOs than public sector		6.7
It's more efficient for the private sector to support NPOs than public sector		2.9
Executives use company contributions to support their favorite charities		13.5
Religious commitment of CEO		5.8
To get solicitors off our backs		6.7
6. No real rationale for giving	7.7	

> Initially, some gestures may appear to be a contribution but, in actuality, it is an attempt to get our wares some visibility with the hope of eventually turning it into sales. Nothing is done without a quid pro quo.

It was common for our respondents to cite peer pressure and the desire to "keep face" among peers as a factor in their contributing funds to charity. Describing how peer pressure worked on his company, one vice president of a Fortune 500 firm said, "If you're not doing it [contributing money to nonprofits], in this community you'd be looked upon as an outcaste and schmuck." The president of a medium-sized holding company was a little more vehement.

> We give out of self-defense; most is given so that we don't get recorded as not giving. Seldom do I give because I'm fired up about a project. I'm usually blackmailed into this—just don't want to get a reputation as a nongiver. I'd be blackballed. If you don't give, you'll call attention to yourself as not being willing to carry your weight. It is negative PR before your business peers.

The chief financial officer of a medium-sized manufacturer said:

> We feel the need to participate nominally to establish or maintain a reputation within the community. If solicitation comes from an executive peer in another firm, we give to get the guy off our back. We don't have any overwhelming sense of social responsibility. There is simply a public-relations value to it. If we refuse to listen to a pitch, we'll be viewed negatively as a community citizen.

Approximately 45.2% of our respondents made some reference to benefits that their individual company hoped to realize or liabilities they hoped to avoid by making contributions.

Giving as Enlightened Self-Interest The enlightened-self-interest approach takes a broader perspective and views contributions as a strategy to further the long-range interests of business in general. Respondents discussed how "to build a better community helps to attract and retain employees," "a better community means better business for us and for all of business in the long run," "investing in NPOs can produce technology and innovation which we could all use." Another angle is that "the franchise for doing business will be withdrawn if business doesn't do more for society than just earn a profit."

As we go through the arguments, it becomes clear that they are very similar to those offered by most large businesses. For example, an executive of a local retailing company noted that "A better community means better business. If you have a town that has a high median family income and low unemployment, it's better for all retailers."

These sentiments were echoed by an executive of a Fortune 500 firm: "If you strengthen the social, economic, and political structures of a community, the chances for business success are that much greater." A vice president of a bank holding company said, "Contributions: We view those dollars strictly as an investment in the community. We take money out and then reinvest the capital; we are definitely looking for a return—and can calculate it. We give only so that we can improve the markets we are in." He added later on: "The existence of the Guthrie, Science Museum, Orchestra Hall, and private education contributes to the town's image, it is a sign that people around here care. This is particularly important when we try to recruit personnel and especially executives who want the cultural facilities." The director of public relations in a medium-sized high-tech firm said:

> We give money to higher education, especially to the university. We have an interest in what's happening in the academic community because they develop the manpower we need. Our goal is to use the money to impress those who are teaching the young people and, in turn, we want them to encourage kids to pursue stuff that is in the interest of our company and to steer some of the good ones to our company.

The underlying premise of enlightened self-interest is that contributions produce some tangible benefits for business as a whole, with the individual donor perhaps benefiting in the process. Apparently, it makes little difference that other businesses besides the donor are going to benefit as well, as long as the donor feels he's getting a fair return on his investment. As one of the executives put it: "As long as these guys feel that they get their own money's worth, they don't care that much that others are benefiting, although they aren't contributing anything." A member of the corporate philanthropic elite echoed this sentiment: "To hell with the free riders. There'll be plenty of benefits to go around."

But proponents of this viewpoint are also aware that they will seldom be able to measure, in any sort of rigorous way, the return on their contributions dollar. The former chair of a Fortune 500 firm said: "There are a lot of things in business that we cannot calculate to the penny. In the old days we even did this with pricing. Who knows what the market will do; you just throw a price out there. . . . Same holds true for contributions." The community-relations director of another Fortune 500 firm said, "We'll never be able to calculate the return on our contributions dollar, never. You never know for sure." These sentiments were echoed by the CEO of a medium-sized high-tech firm. "The key issue is really whether we'll ever benefit directly from our support of these ventures. For example, will we ever hire someone who

is trained at the University of Minnesota, or will a key person move here because of the schools? At this point I cannot prove to my shareholders that gifts will have any payoff to them. I don't think anyone can." The vice president of a major retailing firm added: "Our company never really measured the effectiveness [on sales] of its giving program and will never really ever be able to calculate the return on its contributions."

Only 29.8% of our respondents made arguments based on enlightened self-interest.

Giving as Moral Obligation Here contributions are rationalized on moral grounds. Whether or not to give is discussed in terms of right and wrong. A review of the different rationales offered by our respondents gives us a good sense of this. Companies give because executives and directors believe it to be part of their "civic duty," "citizenship," and "social responsibility." There is a sense that "companies have an obligation to pay back communities where they took their profits" or that "the wealthy have an obligation to help the less fortunate." Others just see giving as "the morally right thing to do" or as just "being good for people." Others rationalize gifts on the basis of their "own sense of altruism and philanthropy." Still others talk about the importance of "improving the community environment for everyone" or, more specifically, of "supporting nonprofits which do good things and are of value to the community."

It is difficult to give a full illustration of this set of responses, because there are so many variations on the same theme. For example, one airline vice president said simply, "We believe that we have an obligation to meet basic needs. The President and I were discussing this the other day—about poverty and deprivation all over the world. We also recognize that we have an obligation to meet basic human needs here at home, as well." An executive of a Fortune 500 firm echoed these sentiments: "[We give] because of the needs of the community and a conviction that we ought to be a good corporate citizen. In addition to the jobs and services we purchase in the community, we give money. It's just right—actually sort of altruistic." A manufacturing executive said, "Those who have profited have an obligation to share with those who are less fortunate. They have a responsibility to society to share good fortune and promote education, arts, medical research, et cetera for everyone." The president of a high-tech firm put it very simply: "We generate profits from that community and we want to put some of it back."

This group of corporate donors is quite large: 67.3% of those respond-

ing made some sort of moral argument to rationalize contributions. We should remember, however, that these sentiments were often expressed by the same people who gave very pragmatic reasons for giving, thus reminding us that the same donor will rationalize giving on very different grounds.

Giving as Noblesse Oblige In this case, company contributions are defined in terms of traditional upper-class responsibilities. Respondents mentioned that "the wealthy have an obligation to help the less fortunate," "we give because of our tradition in the firm," or "this is part of the obligation which the upper class has to participate in community affairs." This was a minority viewpoint; only 9.6% of our sample of executives rationalized contributions this way.

Miscellaneous In addition, several other reasons were cited by our respondents. Reading through some of these narratives gives us a flavor of how differently contributions come to be regarded within companies.

One interesting theme was that companies should give, because if they do not, public moneys will co-opt the Third Sector and introduce all sorts of inefficiencies into the delivery of human services. The president of a small manufacturing firm said it most succinctly: "I believe somebody has to support these types of organizations (NPOs), and if the private sector doesn't do it, then the public sector will take over. I would much prefer the private sector." The efficiency argument was also addressed by a vice president of a large manufacturing firm: "We believe that it is a more efficient way to distribute charitable dollars, because you don't have to collect taxes and funnel them through a bureaucracy. We believe that we can get more services for less money [by contributing directly to NPOs]."

Some of the other rationales were much less ideological. In these cases the companies have no real interest in the gift, nor is it serving some larger purpose. It is just a practice that they have come to accept.

Some respondents were quite frank in describing their companies' situations. The president of a small investment company said that "more often than not we give so that [the NPOs will] leave us alone. There is no real love, no charity in this. We shouldn't mail a check just to get rid of somebody . . . but we do." An officer in a small holding company echoed this view: "[We give] probably because we are solicited. We don't have a program and there really is no philosophy behind it." A senior management person in an air-transportation firm stated:

> In the past we began to give to certain organizations and we continue to give out of habit. This honestly is the reason why we support the ones we do. No one in the company looks at our gifts and says that we should do more or less in the area of contributions. It just isn't handled this way.

Descriptions of how executives manipulate and control contributions in a company so as to further their own interests were offered as well. An executive of a Fortune 500 firm said:

> People have favorite charities and executives take ego trips. For example, one guy is on the board of the Guthrie [Theatre] and he wants to show up his peers. He increases his social prestige if he can get his company to come up with big contributions. It's a game of outdoing one another.

A vice president of another Fortune 500 firm said, "Key officers of the company sit on NPO boards and they enjoy delivering the goods. This entitles them to their social position on the board." A CEO of a very small manufacturer said:

> The money given for the arts is given because I like the arts. I believe in the arts, and I believe in private support of the arts. I see this as my prerogative as CEO. I use my position in the corporation to further my own personal interests. I know it.

In each of these cases the corporation is viewed in a passive role. Its executives view it as pressured by outside forces and do not have a clear purpose in mind for its contributions. Miscellaneous reasons for making contributions were cited by 35.6% of our respondents.

Finally, we should acknowledge the few lonely respondents (7.7%) who said they didn't think their companies had reasons for giving. As one put it, "from what I've seen around here, there doesn't appear to be any great plan. It appears haphazard; maybe he [the CEO] has some idea."

In the discussion above, we identify four general value orientations rationalizing contributions: a corporate business strategy (x_{q_1}), enlightened self-interest (X_{q_2}), moral obligation (X_{q_3}), and noblesse oblige (X_{q_4}). In analyzing these data, we have several options. We could either identify the main rationales of each organization; summarize the stated rationales by creating some index; create a taxonomy of organizations using cluster algorithms; or treat each of the four rationalizations as a dichotomous variable, with a "1" indicating that a particular rationalization has been reported by an organization and a "0" indicating that it has not. We rejected the first option because we cannot rank rationales given the open-ended format that we used, the second because these rationalizations are not additive in nature, and the third because we

believed we would lose too much information on each organization. The fourth option has the special advantage of allowing firms to have different and sometimes apparently contradictory rationales. As the zero-order correlations among these value items indicate (see Table 3.2), rationales in a given firm often have little relation to one another.

Philanthropic Elite Rationales for Corporate Contributions

We also wanted to learn the attitudes of the corporate philanthropic elite toward giving. In the course of the philanthropic elite interviews, we asked an open-ended question: "What is your current thinking on corporate philanthropy? Is it still a good idea for business? Why?" Respondents were given as much time as they needed to answer this question. The interviewer recorded the response verbatim.[2]

From the responses of the business elite, we note that there is a wide variety of opinions on why philanthropy is a "good idea" for business. Approximately 27% of the elite emphasized the benefits that the particular corporation can accrue if it gives money to support local nonprofit organizations. For example, the philanthropy scene provides contacts for the ambitious, networking businessmen, and contributions can bring about good public relations. Some respondents also saw it as a marketing tool or as a way to advertise products.

Approximately 54% of the elite made some reference to serving the interests of business in general. The most popular image was that of a social contract between business and the larger society. One respondent was very articulate on this point:

> the citizens are the ultimate authority in society. They create the government and elect those who have authority. The government, however, has no means to generate revenues and is inherently inefficient. To solve their revenue problems, they allow for the institutionalization of corporations and partnerships. Now this has worked out very well and society has prospered. However, business has to do more than just produce goods and services to legitimate its franchises. It has to do more to impress citizens of its usefulness. If it doesn't the citizenry will elect representatives to government, which will rescind business's privilege to operate. Thus, if there is PR in corporate philanthropy, it is to improve the image of business in general rather than to increase sales of a particular firm. The whole idea is to sell ourselves to the average guy, to show them that if business does well, they will do well. The more responsible business is to the general needs of the community, the more responsive the community will be to business.

Other respondents embellished this point of view by noting that "business has to realize that it doesn't exist by divine right . . . it exists to

Table 3.2

Means, Standard Deviations, and Zero-Order Correlations for Variables in Equations 3.4, 3.5, and 3.8 and in the Discriminant-Function Analyses

	X_{q_2}	X_{q_3}	X_{q_4}	$X_s \ln X_r$	X_m	$\ln X_{ge}$	$\ln X_e$	$\ln X_{cc}$	$\ln X_{nt}$	Mean	SD	N
Rationalization as a corporate business strategy (X_{q_1})	−.025	−.185	−.076	.078	−.071	.001	−.110	.020	.032	.538	.502	65
Rationalization as enlightened self-interest (X_{q_2})		−.004	−.110	.228*	.283*	.156	.140	.317**	.209*	.354	.482	65
Rationalization as a moral imperative (X_{q_3})			−.007	−.059	.035	.145	.005	.166	.154	.785	.414	65
Rationalization as noblesse oblige (X_{q_4})				.146	.165	.096	.134	.096	.104	.138	.348	65
Industry systemic dependency indicator ($X_s \ln X_r$)					.181	.259*	.301**	.387***	.308**	15.295	1.977	69
Participation in MPCR (X_m)						.615***	.378***	.485***	.490***	.435	.499	69

*** $p \leq .001$.
** $p \leq .01$.
* $p \leq .05$.

serve society" or "even if corporations would withdraw their funds gradually, people would bring the wrath of God on us."

Some 50% of the elite felt that larger social and moral purposes are served by corporate philanthropy. Several executives said they sincerely felt an obligation to pay back some of the benefits that the community has provided to their companies. Some tied it to religious convictions. Others said that contributions can be rationalized simply by the "good things" that nonprofits do for the people in the area. Nonprofits are important and must be aided, especially as federal dollars disappear.

Finally, a minority argued that the private sector should assume responsibility for much of what the public sector is doing today, or that it is just more efficient for the private sector to provide human services locally. About 15% of the philanthropic elite expressed opinions of this sort.

In comparing the rationalizations offered by the philanthropic elite to the values of corporate leaders in the community, we see clearly that the elite were much more likely to rationalize contributions in terms of enlightened self-interest that were local corporate leaders. Approximately 54% of the elite, compared to only 29.8% of the company respondents articulated this philosophy. In contrast, 27% of the elite and 45.2% of the company leaders in our study rationalized gifts in terms of the short-term benefits the individual company could realize.

Institutional Efforts at Perpetuating an Ethic of Enlightened Self-Interest

Since 1978 there has existed a forum in the Twin Cities where corporate leaders can come together to discuss issues of corporate responsibility with each other and with people outside of business. The name of the venture is the Minnesota Project on Corporate Responsibility (MPCR).[3] In 1982 the goals of MPCR were (1) to provide educational programs for executives of Minnesota corporations on the changing nature of corporate responsibility; (2) to conduct forums for the exchange of ideas on issues affecting various corporate stakeholders (e.g., employees, consumers, stockholders, communities, and governments); (3) to serve as a catalyst to foster greater cooperation among business, government, and community organizations; and (4) to encourage private-sector initiatives and the formation of public–private partnerships wherever appropriate.

The early stimulus for the MPCR came in 1976 at a conference for

business and community leaders at Itasca State Park near Bemidji, Minnesota. At this conference George Lodge of the Harvard Business School lectured on a "new ideology"—an ideology of communitarianism—that was allegedly sweeping across the country, and on business's failure to come to grips with and interpret this ideology in its own terms. Lodge was subsequently brought back a couple of times to meet with an informal group of senior executives. A second catalyst was a conference in the fall of 1977 that featured Henry Schacht of Cummins Engine. Business and community leaders from the Twin Cities met to discuss the responsibilities of business in a changing society and to foster effective initiatives and possible programs that would reflect these responsibilities. This resulted in the creation of the MPCR steering committee headed by Thomas Wyman, then CEO of Green Giant. Wyman took a special interest in the MPCR and went about securing a director and instituting the program. Wyman stayed on as a principal in the project until 1980, when he joined CBS in New York, where he is now CEO. The first letters to invite companies to join the MPCR were sent in June of 1978. Of the 55 companies invited, 46 joined. The project was intended to operate only 18 months; it has sponsored programs every year since.

The curriculum of later seminars has continued to echo the early themes. Corporate responsibility goes beyond simply obeying the law and engaging in philanthropy. In the words of Henry B. Schacht, chair and CEO of Cummins Engine, "[I]t all adds up to something we call 'stakeholder responsibility.'" In order to remain legitimate, business has to recognize that its existence is dependent upon the consent of the various individuals and groups whose lives it affects. Being responsible means being responsible to their demands and needs.

From 1978 until 1982 MPCR's core curriculum consisted of a base course and several electives. Until 1981 executive seminars were conducted mainly at the Spring Hill Conference Center approximately 15 miles west of downtown Minneapolis. The base course was a 2-day seminar that focused on the fundamentals of corporate responsibility using the corporate stakeholder concept as a framework for discussion. Electives were 1-day seminars and were more topical. They addressed such subjects as corporate culture, public/private partnerships, and international business responsibilities. Special CEO programs were offered from time to time, and once each year chief executives gathered for a day-long session to discuss a major corporate responsibility issue.

From its inception, a number of very prominent business leaders have been associated with MPCR, including Fortune 500 and Fortune 50 executives. For example, John S. Pillsbury of Northwestern National

Life Insurance, Judson Bemis of Bemis, Inc., and James A. Summer of General Mills attended the 1976 Itasca Seminar, and Bruce Dayton of Dayton–Hudson Corporation, Thomas Wyman of Green Giant, and Edson Spencer of Honeywell all subsequently met with Lodge on his later visits to Minneapolis.

The budgets for 1980–1981, 1981–1982, and 1982–1983 were $198,000, $199,000, and $214,000, respectively. There were no corporate contributions; 100% of the budget was covered by fees that corporations paid directly to MPCR. There were no full-time employees; however, Don Imsland served as director-on-contract. Since its inception in 1978, the six chairs of its policy committee have been chief executive officers of local publicly held corporations. Among the 11 Fortune 500 firms in 1981 (excluding cooperatives), only 3M, International Multifoods, and American Hoist and Derrick were not members of MPCR in 1982; among the nine Fortune 50 firms in 1981, Super Valu, Northwest Airlines, and Republic Airlines were not members in 1982. Altogether, 60 businesses and law firms were members in 1982.

For our analysis, we created a variable that was a simple binary measure with a "1" indicating that a firm had sent representatives to a MPCR meeting in 1982, or was a member of MPCR, and a "0" indicating that it had not or was not (X_m). In 1982, 34 of the 209 publicly held companies in our study were supporters/participants of MPCR.[4]

Systemic Dependency Upon the Economy

To measure a firm's dependency upon other sectors for sales and purchases, we consulted the input-output table for the 1977 economy (U.S. Department of Commerce, 1984). After identifying each firm's primary industry, we measured the extent to which the firm's principal product was distributed to one or several industries and the extent to which companies in a firm's principal industry purchased goods and services from one or several suppliers.[5] We regard a firm as more systemically dependent if its primary products are sold to a relatively wide variety of industries and if firms in its industry purchased a relatively wide variety of goods and services from other industries.[6]

More specifically, we focused on the so-called "use table" that records the dollar value of a product line purchased by firms in 77 different industries. These 77 sectors are aggregations across the four-digit standard industrial classification (SIC) codes. The entries in this 77 × 77 product-by-industry matrix, f_{ij}, indicate the dollar value of different goods and services (i) sold to industry j in 1977.

We then computed a measure of market transaction for each combination of product and industry according to:

$$t_{ij} = \left(\frac{f_{ij}}{f_{i+}}\right)^2 + \left(\frac{f_{ji}}{f_{+i}}\right)^2$$

where t_{ij} is a measure of how much sector *i* is dependent upon sector *j*. Note that f_{ij}/f_{i+} is the proportion of i's total sales that go to *j*, and f_{ji}/f_{+i} is the proportion of i's total purchases that comes from *j*. The more that *i* sells to *j* and the more that *i* buys from *j*, the more that *i* is dependent upon *j*. The maximum value for t_{ij} is 2, and the minimum is 0.

To arrive at a simple summary measure of i's systemic dependency, we computed a_i:

$$a_i = \left[2 - \sum_{j=1}^{77} (t_{ij})\right] / 2$$

where a_i is the degree to which product *i* is dependent upon a wide or limited number of industries for its survival, and t_{ij} is our measure of how dependent *i* is upon *j*. As the reader can see, we compute a_i in such a way that the less dependent *i* is on any one industry, the more that *i* is dependent upon the system as a whole. Also we should note that the maximum value is 1 and the minimum value is 0.

Moving to the level of the firm was straightforward. The systemic dependency score for firm *k*'s primary industry was simply assigned to $k(X_a)$. We then weighted X_a by total revenues for firm *k* in 1977 ($X_a \ln X_r$).

Contributions as Enlightened Self-Interest: Analysis

In Equation 3.1 we argue that the level of contributions made by a given firm could be a function of the ideology of that firm, independently of the funds available for contributions and network ties to the philanthropic elite. Looking at the zero-order correlations in Table 3.2, we see that only firms which rationalized giving as enlightened self-interest were larger contributors to charity. The correlation was significant at the .01 level. Thus this was the only ideology variable that we included in our subsequent analyses. We tested our hypothesis by means of the following regression equation:

$$\ln Y_{cc} = a + b_{nt}X_{nt} + b_e \ln X_e + b_{q_2}X_{q_2} + u \qquad (3.4)$$

Table 3.3

Regression Analysis for Equation 3.4 Testing the Contributions-as-Enlightened-Self-Interest Hypothesis[a]

Dependent variable Average annual total contributions, 1979–1981 ($\ln Y_{cc}$) Independent variables	b	SE	Sig.	Beta	R^2	Sig.
Elite network index (X_{nt})	1.795	.265	.000	.603		
Average annual pre-tax earnings, 1979–1981 ($\ln X_e$)	.111	.042	.010	.234		
Rationalization as enlightened self-interest (X_{q_2})	.995	.516	.058	.158		
					.610	.000

[a] $N = 69$.

where Y_{cc} is average annual expenditures for company contributions, X_{nt} is the factor score measuring contact with the philanthropic elite, X_e is average annual pretax net income, and X_{q_2} is a dummy variable indicating whether the firm's executives rationalized contributions as enlightened self-interest.

The results, presented in Table 3.3, are as expected. Just as reported in Chapter 2, the greater the average annual pretax net income and the more network ties to the philanthropic elite, the greater the average annual contributions. Furthermore, the effect of the dummy variable (rationalizing contributions as enlightened self-interest) was statistically significant at the .06 level. Those firms whose executives rationalized giving as enlightened self-interest gave more money to charity independently of their earnings or social ties to the elite.

In Equation 3.2 we hypothesize that rationalizations based on enlightened self-interest might be explained by the systemic dependency and size of the firm, the proximity to the philanthropic elite, and exposure to educational seminars aimed at socializing executives into an ethic of enlightened self-interest. Because our measure of enlightened self-interest is a dichotomous variable, we used discriminant-function analysis to identify the relative impact of the independent variables on corporate ideology. The discriminating variables used in the model include the measure of systemic dependency at the industry level

Table 3.4

Stepwise Discriminant Function Testing the Enlightened-Self-Interest Hypothesis[a]

Dependent variable
Rationalization as enlightened self-interest (Y_{q_2})

Independent variables	F to remove	F to enter	Sig.	Discriminant function coefficient
Systemic dependency index ($X_a \ln X_r$)	2.395	—	<.10	.573
Elite network index ($\ln X_{nt}$)	—	.150	NS[b]	—
Participation in MPCR (X_m)	4.360	—	<.05	.762
Wilks lambda				.886
Chi squared				7.525
Sig.[c]				.023

[a] N = 69.
[b] NS = not significant.
[c] Sig. = significance.

weighted by the firm's 1977 total revenues ($X_a \ln X_r$), the factor score measuring both informal and organizational contact with the philanthropic elite (X_{nt}), and participation in the Minnesota Project on Corporate Responsibility (X_m).

Table 3.4 presents the results of this analysis. The relative impact of each of these variables is reflected in the size of its standardized discriminant-function coefficient. Because we wanted to assess the relative impact of each discriminating variable on enlightened self-interest, we employed a stepwise procedure.[7] The results of this analysis show that participation in MPCR programs had the strongest effect on rationalizations of enlightened self-interest, with the effect of the systemic-dependency index somewhat weaker. Curiously, contact with the philanthropic elite had no effect on rationalizations of enlightened self-interest.

In Equation 3.3 we speculate that espousing ideological positions that are similar to the elite's may result in firms winning the respect and recognition of the elite, just as corporate contributions did. We tested this hypothesis by means of the following equation:

$$\ln X_{gp} = a + b_{cc} \ln X_{cc} + b_e \ln X_e + b_{q_2} X_{q_2} + u \tag{3.5}$$

Table 3.5

Regression Analysis for Equation 3.5 Testing the Contributions-as-Enlightened-Self-Interest[a]

Dependent variable Reputation as a generous company: Philanthropic elite (ln Y_{gp})						
Independent variables	*b*	SE	Sig.	Beta	R^2	Sig.
Average annual total contributions, 1979–1981 (ln X_{cc})	.456	.052	.000	.786		
Average annual pretax earnings, 1979–1981 (ln X_e)	.018	.018	.314	.087		
Rationalization as enlightened self-interest (X_{q_2})	−.274	.211	.199	−.105		
					.642	.000

[a] N = 69.

where X_{gp} is the number of corporate philanthropic leaders who recognized the firm as being generous to nonprofits, X_{cc} is average annual contributions, X_e is average annual pretax net income, and X_{q_2} is a dummy variable indicating whether the firm's spokespersons articulated an ideology of enlightened self-interest.

The results, presented in Table 3.5, are contrary to our hypothesis. Although, as before, average annual contributions had a significant effect on a firm's reputation, espousing an ethic of enlightened self-interest had no statistically significant effect on the number of philanthropic leaders who viewed companies as being especially generous to nonprofit organizations.

In sum, we found that ideology had a positive independent effect on corporate contributions, controlling for network contacts with the elite and a firm's capacity to give. We would argue that this is evidence that an ideological commitment to the collective interests of business is enough to wrest greater contributions from companies. Peer pressure is also effective, but ideology can suffice. This, we believe, is a very significant finding. We also found that an ethic of enlightened self-interest tended to be expressed by executives of firms that patronized the programs of the Minnesota Project on Corporate Responsibility. This finding suggests that educational efforts at redefining the interests of

business and businessmen are effective in changing corporate culture. We also found that larger firms that did business in a broad range of product industries tended to articulate an ethic of enlightened self-interest as well.

Somewhat to our surprise, we did not find that businesses whose executives were socially proximate to the corporate philanthropic elite espoused an ethic of enlightened self-interest. That this ideology was so prevalent among our elite made this finding all the more surprising. Furthermore, firms whose spokespersons espoused this ethic received no special attention as being generous to nonprofits. Evidently, the same social processes — peer pressure and the promise of recognition — that prompted greater contributions were not at work in prompting an ethic of enlightened self-interest. Peer pressure may be able to loosen the corporate pocketbook but appears to fall short of changing corporate culture.

Contributions as Enlightened Self-Interest: Another Look

The inability of the network variables to explain the ethic of enlightened self-interest bothered us. In looking at the way in which the elite rationalized contributions, we found that 54% had made some reference to contributions serving the long-term interests of business. Also, select members of the elite — Judson Bemis, John S. Pillsbury, and Bruce Dayton — had been very active in the founding of the Minnesota Project on Corporate Responsibility. Furthermore, reviewing the data in Table 3.2, we noted that the zero-order correlation between proximity to the elite ($\ln X_{nt}$) and an ideology of enlightened self-interest was .209 ($p = .047$). Evidently proximity's direct effect on ideology weakened when either participation in MPCR or systemic dependency was introduced into the equation.

This prompted us to investigate whether the effect of peer pressure on ideology might not have been indirect — through participation in MPCR programs. In other words, peer pressure might have been important in getting firms to participate in MPCR programs, but for a firm to change its philosophy, its leaders may have had to undergo a resocialization process. To summarize these ideas:

$$m_i = f(nt_i, e_i) \quad (3.6)$$

Table 3.6

Discriminant Function Testing the Revised Enlightened-Self-Interest Hypothesis[a]

Dependent variable
Participation in MPCR (X_m)

Independent variables	F to remove	Sig.	Discriminant function coefficients
Elite network index (X_{nt})	12.296	$<.001$	.784
Average annual pretax earnings 1979–1981 ($\ln X_e$)	3.396	$<.05$	.438
Wilks lambda			.722
Chi squared			21.458
Sig.[b]			.000

[a] N = 69.
[b] Sig. = significance.

and

$$gp_i = f(cc_i, e_i, q_i, m_i) \tag{3.7}$$

In other words, participation in the MPCR (m_i) may have been a function of proximity to the elite (nt_i) and a firm's potential or capacity to give (e_i). Furthermore, if companies did participate in the seminars (m_i), they may consequently have been recognized by more philanthropic leaders as being generous to nonprofits (gp_i), independent of their level of contributions (cc_i), their capacity to give (e_i) or their philosophy toward giving (q_i). All in all, we are simply arguing that the same social processes may have been at work eliciting the participation of companies in educational seminars like the MPCR as were at work eliciting contributions.

To test our revised theory, we again did a discriminant-function analysis, this time with participation in MPCR as the dependent variable (X_m) and the factor score for proximity to the philanthropic elite (X_{nt}) and average annual pretax net income ($\ln X_e$) as the independent variables. From an inspection of the standardized discriminant-function coefficients (see Table 3.6), it is clear that proximity to the philanthropic elite had a major impact on companies' participation in MPCR, as did average annual earnings. Choosing a stepwise procedure, we found that proximity to the elite was significant at the .001 level and that pretax net

Table 3.7
Regression Analysis for Equation 2.8 Testing the Revised-Contributions-as-Enlightened-Self-Interest Hypothesis[a]

Dependent variable Reputation as a generous company: Philanthropic elite ($\ln Y_{gp}$)						
Independent variables	b	SE	Sig.	Beta	R^2	Sig.
Average annual total contributions 1979–1981 ($\ln X_{cc}$)	.220	.043	.000	.529		
Average annual pretax earnings 1979–1981 ($\ln X_e$)	.009	.019	.646	.044		
Rationalization as enlightened self-interest (X_{q_2})	−.325	.228	.159	−.124		
Participation in MPCR (X_m)	.949	.242	.000	.377		
					.600	.000

[a] N = 69.

income was significant at the .05 level.[8] Thus the companies that participated in MPCR programs tended to be companies whose executives were in the social networks of the corporate philanthropic elite.

Finally, if the processes at work here were the same as those we report in Chapter 2, then we should also see that firms were recognized as more generous by the elite if they decided to participate in MPCR programs. We tested this hypothesis by means of the following equation:

$$\ln X_{gp} = a + b_{cc} \ln X_{cc} + b_e \ln X_e + b_{q2} X_{q2} + b_m X_m + u \qquad (3.8)$$

where X_{gp} is the number of corporate philanthropic leaders who recognized the firm as being generous to nonprofits, X_{cc} is average annual contributions, X_e is average annual pretax net income, X_{q_2} is a dummy variable for espousing an ideology of enlightened self-interest, and X_m is a dummy variable for participation in MPCR programs.

As we hypothesized, companies that participated in MPCR programs were recognized by more members of the elite as being very generous to nonprofit organizations, independently of their actual levels of giving, their capacity to give, and their ideology for rationalizing contributions (see Table 3.7). If firms participated in programs that promulgated the philosophies of many of the philanthropic leaders, they were viewed by more of this elite as being very generous to charity.

Summary and Discussion

The purpose of this chapter was to examine the impact of ideology on corporate contributions to charity. Indeed, we found that Twin Cities companies whose executives publicly rationalized contributions as necessary for the long-term survival of business gave more money to charity during the period from 1979 to 1981, controlling for their capacity to give and for their elite contacts. We found no other philosophical position with as great an impact on company giving in our study as this one. If companies viewed contributions in terms of the long-term interests of the business community, they appear to increase their expenditures on charity.

Furthermore, we found that companies whose managers espoused an ethic of enlightened self-interest tended to be firms that participated in educational seminars promulgating this point of view. This effect is especially impressive because it occurred independently of the size or market position of the company. Obviously self-selection might explain this association. However, it could also be true that corporate philosophies are not predestined by market position but are amenable to manipulation and change. Contrary to the opinions of skeptics, participation in forums to broaden executives' views of the world and of their businesses may help to change corporate culture.

When we turned our attention to the effect that elite contacts may have had on participation in the Minnesota Project on Corporate Responsibility, we speculated that the same processes that were at work getting firms to give more may also have been at work in getting firms to support the MPCR. We found that the more contacts a firm's executives had with the philanthropic elite, the more likely it was to participate in MPCR's programs. Also, those companies that participated in MPCR programs were judged by more members of the philanthropic elite as being especially generous to nonprofit organizations—independently of their actual levels of giving. In other words, firms whose executives were proximate to an elite that strongly believed in enlightened self-interest tended to send their people to MPCR seminars and, interestingly, were recognized by the elite as being generous companies apparently for that reason alone.

However, we did not find that proximity to the elite was associated with firms espousing an ethic of enlightened self-interest, or that firms that espoused this ideology were viewed as generous to nonprofits by a larger number of the elite. Differences in ideological position were thus not directly associated with proximity to the elite or with elite recognition. It appears that peer pressure had no direct effect on the ways that

companies rationalized their contributions. Peer pressure may have been important in bringing firms into the MPCR, but it was firms within the MPCR that tended to espouse an ethic of enlightened self-interest. Those firms whose market position did not lead to enlightened self-interest may have needed a prodding to participate in a program that would expose them to such values. However, our data suggest that it was exposure to the programs of the MPCR that influenced how companies rationalized their contributions.

Notes

1. As the respondent gave his or her answers to these two items, the interviewer (who in all cases was the principal investigator) wrote down as much as possible verbatim. Immediately after the interview, the responses were checked for accuracy and edited. Of the executives from 150 corporations we interviewed, 104 answered this question. Because 38 companies gave less than $100 to charities in fiscal year 1981, their managers were not asked this question, and respondents from 6 additional organizations said they did not have time to go into the matter. Replies to our question vary in length from roughly 12 words to 650 words. Most responses are between 25 and 150 words.

Coding these responses posed a challenge. We wanted to catch the main thrust of the respondent's rationale while remaining sensitive to his or her particular point of view. The principal investigator read through all the responses and then reread them to identify the main theme that ran through each response. In responding to both questions, 66 of the 104 respondents cited more than one reason why their firm gave money to charities. Each company then received a separate code for each reason it offered. To ensure accuracy and to overcome any bias that the principal investigator may have introduced, the process was repeated by a research assistant who coded responses on her own. Where there were discrepancies, both the principal investigator and the research assistant coded the item together. Where there was still disagreement, the research team called the respondent to find out exactly what he or she had meant by the answer.

2. We recognize that this question is biased. Instead of asking simply why corporate giving is "a good idea," we asked the respondent to tell us why it is a "good thing for business." In other words, we asked the question under the assumption that philanthropy somehow benefits business. In all likelihood this discouraged responses that might rationalize philanthropy in terms of Christian stewardship or the gospel of wealth, and probably precluded any discussion of higher responsibilities or civic duty. It really only allows the respondent to rationalize giving either in terms of the short-term or long-term interests of business. Therefore, we should not be surprised to find that most of the responses are phrased in these terms.

3. For a very provocative discussion of the Minnesota Project on Corporate Responsibility and other business organizations in the Twin Cities, see Ouchi (1984).

4. In the course of our research we discovered two other organizations concerned with the issue of corporate responsibility, both of which served the community during the period of our study: the Itasca Seminar and Project Responsibility.

As of 1982, the purpose of the Itasca Seminar was twofold: to provide an opportunity for a cross section of community leaders in the Twin Cities area to examine issues of the day in a serious and straightforward manner and to enable leaders of different institutional

sectors to mingle and become acquainted with one another and with their respective points of view. From its inception in 1971 until 1982, the seminar was held at Itasca State Park in northern Minnesota, far removed from the Twin Cities. Since 1975 it has been organized by the Minneapolis Foundation. Before that, it was sponsored and organized by Northern States Power, a local utility company.

At the time of our study (1982), the seminar took place in the fall and lasted 5 full days. Every day and evening there was a blend of speeches, small and large group discussions, reflection and recreation. Each year a theme had been selected that had national or global significance, and also had practical importance for persons involved in planning, policy, or decision-making roles in the Twin Cities area. A sample of themes includes: "corporate social concern" (1973), "perspectives on America's future" (1975), "the value of urban life" (1977), "the nature of leadership in a changing society" (1979), and "reindustrialization: its impact on our future" (1981). Speakers from across the country were brought in, including Barry Commoner, Michael Harrington, George C. Lodge, Neal R. Pierce, John H. Filer, Louis B. Lundberg, Julian Bond, and Amitai Etzioni.

Participants in the seminar were chosen by corporations who acted as cosponsors of the seminar. In 1982 the fee was $3,600 and there were 15 cosponsors. Once the topic had been chosen, each company selected 3 people from its own ranks and two from the community. The intent was to bring together a diversity of backgrounds, viewpoints, and attitudes, represented by participants from business, labor, government, education, religion, and community organizations.

The Itasca Seminar began in 1971 as part of an educational program of Northern States Power for senior management types. At the time, the utility was being attacked by critics for constructing large transmission towers in the metropolitan area, constructing a nuclear power plant, and being insensitive to customers. The company had always been well regarded in the area and this criticism was difficult for its executives, particularly its chairman, Earl Ewald, to accept. It got to the point where people were sending dead birds to the corporate headquarters. The response of the company was unique. The staff, with Ewald's encouragement and with the aid of a consultant, instituted the Itasca Seminar to sensitize NSP personnel to environmental and ecological issues then being addressed by the scientific community. The first seminar was attended by 50 NSP managers and 25 outsiders, some of whom were NSP's critics. After this successful inauguration, other companies wanted to send their executives. In 1974 representatives from other companies attended. The popularity of the seminar increased and by 1975, when the Minneapolis Foundation became the organizer, it had become a community institution.

In 1981 the goals of Project Responsibility were to create an understanding among corporations of what their responsibilities were to the community; to communicate these responsibilities, and how companies were fulfilling them, to various publics in the St. Paul area; and to encourage companies to act in a more responsible way. Project Responsibility started officially in 1973 as a special project of the St. Paul Chamber of Commerce and lasted until 1981 when many of its programs were taken over by the Community Affairs Department of the Greater St. Paul Chamber of Commerce.

Project Responsibility was as much interested in educating the larger community as in inculcating an ethic of social responsibility among companies, and this was reflected in its activities. Over its 7-year history, it sponsored press conferences by corporate leaders with the editors of local high-school publications, developed a brochure on business support of cultural activities, sponsored programs for teachers to work as interns in local corporations, conducted a survey of St. Paul area students and teachers to measure their understanding of business and the economic system, sponsored conferences to help companies in their giving programs, hosted seminars for business communicators on the role

that business plays in the community, and set up the Institute for Community Leadership where potential leaders from various sectors of the community came together once a month to explore a specific area of community life, such as education, health care, business, or the arts.

The initiative for Project Responsibility came in response to a chamber of commerce survey that showed considerable skepticism toward business among St. Paul residents. The idea was first suggested in 1973 by Lyle Fisher, vice president for labor relations at 3M and then president of the St. Paul Chamber of Commerce. A task force was formed that included corporate officers from Burlington-Northern, 3M, Northwest Airlines, the St. Paul Companies, Minnesota Mutual Life Insurance, Economics Laboratory, Hoerner-Waldorf Corporation, and the three largest banks in St. Paul. The chair of the task force was Norman Lorentzen, who was then president of the Transportation Division of Burlington-Northern and later became president and CEO of Burlington-Northern. Financial support came from the corporate community, including at the outset a $25,000-a-year pledge for 3 years from 3M.

MPCR, the Itasca Seminar, and Project Responsibility all had a great deal in common. Each arose from a challenge to the business community: the Itasca Seminar from populist attacks on NSP, the MPCR from Lodge's attack on the narrow self-interest of business, and Project Responsibility from the 1973 survey of St. Paul residents. Each was initiated by executives of Fortune firms in the area: the Itasca Seminar by NSP; MPCR by Green Giant, Northwestern National Life Insurance, Dayton-Hudson, and Bemis and others; and Project Responsibility by 3M and Burlington-Northern. Finally, each had an educational component and publicly promoted the idea that the survival of the American business community is dependent upon its more open and relevant response to public needs.

There were, though, important differences. For example, Project Responsibility had many more public-relations/community-relations people in its initial task force than did the Minnesota Project on Corporate Responsibility. MPCR had many more CEOs involved. The Itasca Seminar was originally an educational program only for NSP managers, while MPCR and Project Responsibility were community-wide efforts from the start. Project Responsibility was much more interested in educating the larger community about business, whereas the MPCR and the Itasca Seminar were more interested in educating business about the larger community. And finally, only MPCR had a well-developed conceptual framework that it presented to executives, whereas Project Responsibility and the Itasca Seminar were more eclectic and topical in their program activities.

We considered coding participation in all three arenas in either 1981 or 1982. However, we decided this was unnecessary. From the description of Project Responsibility, it clearly did not have a central ideological theme related to enlightened self-interest. Nor, for that matter, did the Itasca Seminar. Furthermore, in 1981 Project Responsibility was scaling down its operations, and all of the publicly held firms that sent representatives to the Itasca Seminar in 1982 were also participants in MPCR programs that same year.

5. Four-digit Standard Industrial Classification (SIC) codes of firms' primary industries were taken from *Standard and Poors Register of Corporations, Directors, and Executives: 1981* (1981), the *Million Dollar Directory: 1981* (1980), and the *Corporate Report Factbook: 1980 Edition* (1979).

6. Burt (1982) addresses a similar issue, and we borrow heavily from his discussion. However, instead of focusing on systematic dependency, he focuses on the autonomy of industries. The main difference is that Burt takes into account the degree to which other industries are concentrated or centralized, and we ignore this. Burt needs these additional data to get a better measure of an industry's power over another (i.e., one industry is

constrained by another if the former is highly dependent upon the latter for sales and purchasing *and* the latter is highly concentrated). Burt codes an industry as autonomous if it could avoid being narrowly dependent upon highly centralized sectors of the economy. For our purposes, these concentration ratios are not important. We are not concerned about the power of one industry over another and are only interested in an industry's dependency upon a wide or narrow range of sectors.

7. Our procedure was to compute a partial F ratio for each variable, taking into account the discriminatory effect of all other independent variables. We employed a very modest criteria for inclusion (minimum $F = 1.0$), which ensured that only the very weakest variables would be excluded from our analysis. The significance level for our F statistics was based on degrees of freedom of 2 and 62.

8. The significance level for our F statistics was based on degrees of freedom of 2 and 66.

4

CUTTING TRANSACTION COSTS THROUGH AGENCY

Introduction

In Chapter 1 we argue that agents can reduce the information search costs associated with making a donation to a charitable organization. In such circumstances, the terms of a donors' contributions are often unclear; they often do not learn how their donations are actually spent or whether goods or services are provided as expected; often they have no idea whether there is even a demand for the goods or services they are purchasing. By delegating these information search problems to agents — whether to brokers or boundary-spanning personnel — donors relieve themselves of a heavy burden and free up their own time and energy to engage in other activities. The theory is that the costs of retaining an agent are more than offset by the time and energy donors save.

Brokers and boundary-spanning personnel are very different types of agents, however. The brokerage is a separate corporate entity that has an organizational identity of its own. It is a corporate actor that acts as a fiduciary for its members; that is, it solicits resources from participants in the system and allocates them to various projects, causes, and groups that it believes to be worthy. In contrast, the boundary-spanning staff person is an in-house employee or consultant who is responsible for monitoring the contributions of a single donor. The information gath-

ered by this functionary is provided directly and only to his or her employer or client. This role sometimes is given the authority to make grants on behalf of the employer/client; more often it simply provides information services to the donor.

Corporations and Brokerages

Some data suggest that especially among the largest companies in the United States, brokerages today are less popular than they have been in the past and firms are now turning to the professional, in-house almoner to help disburse their charitable dollars. In their survey of 255 firms with sales of at least $25 million, White and Bartolomeo (1982:25) found that 17% of all cash contributions went to the United Way, whereas the remaining 83% was distributed directly to soliciting organizations and groups. The Conference Board reports a similar pattern in its 1980 and 1982 surveys of 786 and 534 companies respectively; 17.1% of the contributions went through federated health and welfare drives in 1980 and 14.2% in 1982 (Troy, 1984:32). More importantly, Conference Board data show that giving through federated drives as a percentage of total giving has steadily decreased since 1972, when 26.6% of all contributions went to federated health and welfare drives. Although federated fund drives for the arts are a much newer phenomenon, the Conference Board data shows that dollars given to these drives have accounted for only .7% to .8% of all contributions to charity from 1975 to 1982. And although the absolute amount of corporate contributions to the United Way has increased from $280.3 million in 1975 to $448.6 million in 1982, the proportion of United Way dollars from corporations has decreased from 27.4% to 25.2% (*Profile of Campaign Performance*, 1975, 1982). (See also D. Smith, 1977:355 and Rabinowitz, Simmeth & Sperro, 1979:278).

Many commentators have theorized about the recent problems of federated giving. For example, Rose-Ackerman (1980:329-341) speculates that the drop in popularity may be traced to donors' disillusionment with the way that federations such as the United Way allocate their charitable dollars. Although donors would want their fiduciary to strictly control and monitor member agencies, most federations simply cannot. On the one hand, with federal and state funding agencies often have bargaining power vis-à-vis the federation and can threaten to withdraw if the federation attempts to set priorities for them. To illustrate, Pfeffer and Leong (1977) studied the United Fund, and each Fund's agencies, in 66 cities. Looking at the same type of agency in each city,

they found a positive correlation between outside funds raised and resources received from the United Fund (see also Provan, Beyer, & Kruytbosch, 1980). To the extent that agencies have alternative sources of support, the federation is dependent upon them to stay in the federation. Not only will the federation then shy away from setting priorities, it will also find itself giving these agencies higher allocations. On the other hand, Rose-Ackerman (1980:330) notes how difficult it is to evaluate the services provided by many agencies: "Cost-benefit techniques are difficult to apply to social services designed to increase people's sense of well-being, especially since even professionals do not always agree about service goals or output measures." Thus, even if the federation had complete power over the agency, it would still be very difficult to provide the type of monitoring that donors are accustomed to in their other economic transactions. (For a discussion of these and related issues, see also Hansmann, 1980.)

Another problem that federations face is the general perception that they are "welfare cartels" or "monopolies." Whether or not these charges are true is a moot point; more importantly, this perception is expressed in publications as varied as *The Nation* (Dinerman, 1970), *Business and Society* (D. Smith, 1978), *Social Work* (Wenocur, 1975), and *Forbes* (J. Cook, 1979). Rose-Ackerman (1980:338-339) notes that this reputation can be traced to the power that United Ways have often exercised in excluding more controversial agencies from membership and to their privileged access to payroll deductions in the workplace that puts them at the mercy of business interests. There is the perception that company management uses its control over workplace solicitation to force out agencies whose ideologies may be incompatible with their own. Although it may at first seem strange that federation contributions as a percentage of total contributions would decrease, given that federations supposedly protect corporate political interests, we would suggest that the public criticism that federations such as the United Way have been subject to, and the spillover onto donors, may offset any benefits that companies might realize.

Clearly no one has shown convincingly why federated giving has decreased in popularity. As seen above, one set of explanations focuses on the lack of control that brokerages can exercise over member agencies, whereas another set argues that the federated fund drive is too powerful and is the lackey of business interests. More empirical research is needed before we can draw any firm conclusions. It is clear, however, that brokerages are at best holding their own as agents through which companies support nonprofit organizations.

Corporations and Contributions Professionals

The literature and research on corporate contributions professionals, or corporate almoners, is much less developed. We have the impression that contributions staff came into being and grew as contributions budgets grew after World War II, with the increased profits of very large corporations (Klepper, 1982:46). Previously, contribution-budget and allocative decisions were made by the chief executive officer, one of his staff, or another high corporate executive (Bertsch, 1982:7). Now decisions are more committee or staff functions.

The most thorough analysis of the contributions function and staffing was reported by the Conference Board in 1982 (Troy, 1982b). The Conference Board requested information on contributions from the 1,450 largest U.S. corporations and received information from 435 companies. Individual profiles on 524 giving professionals were returned.

In order to understand the role of the corporate-contributions professional, it is important to understand just how the contributions function is organized. Conference Board (Troy, 1982b:3) findings indicate that contributions were dispersed either through a company foundation (18%), a direct-corporate-giving program (52%), or through both a foundation and a giving program (30%). In 70% of the cases, direct-giving programs were governed by contributions committees, and all foundations had a board. In about 80% of the cases, committees and boards had a primary role in budget review and approval. Where they existed, contributions professionals served as staff members. About 70% of those firms with direct-giving programs and 80% of those with foundations indicated that they had professional contributions staff. Staff sizes were generally small; the median count was two to three people, consisting of a general administrator, an analyst, and a secretary or clerk.

According to the Conference Board, a staff person was considered to be a "professional" if she or he worked full time (51% or more of his or her time) on contributions or had a contributions or foundation title.[1] Troy notes that:

> The most basic responsibilities of the contributions officer are screening requests, executing grant approval, and handling related correspondence, payment procedures, and record keeping. As budgets grow, budget preparation and administration, development of policy and procedures, and coordination of the work of the contributions committee and foundation board are added responsibilities.
>
> As time and staffing permit, those in fully professionalized functions develop a long-range contributions plan, and designate a part of their budget for develop-

> ment of projects which they investigate and initiate. They develop a process for using the expertise of other corporate personnel in planning, proposal screening, and evaluation, and institute a program for communicating the contributions story inside and outside the corporation. (Troy, 1982b:3)

The autonomy and status of contributions professionals studied by White and Bartolomeo (1982) appeared to increase with company size. Responding to a question about how much influence various groups had on the level of company cash giving to nonprofit organizations, 36% of the CEOs in their sample of Fortune 1300 firms said that the corporate-giving staff had "virtually total" or a "large degree of influence" over funding levels as compared to 18% in firms of $50 – 100 million in sales, and 4% in firms of $25 – 49 million in sales. A similar distribution was found in response to an item that asked how much influence various groups have on which organizations receive cash gifts (White & Bartolomeo, 1982:49 – 50).[2]

Agency Roles

The focus of this chapter is on why some companies rely heavily on brokerages and/or contributions professionals to disburse their charitable contributions. Our strategy is to examine the organizational literature on brokerages and boundary-spanning personnel in an attempt to learn why organizational actors have used different agents in the past. Later in the chapter we propose specific hypotheses that we tested for our Twin Cities companies.

In Chapter 1 we argue that one type of broker in organizational fields is the interorganizational organization. Examples include the coordinating agency, the community decision organization, the cartel, the joint venture, the coordinating committee, and the federation (see Galaskiewicz, 1982a). The one thing that these organizational forms all have in common is that they are agency forms that aggregate resources from member organizations and allocate those resources for the achievement of some group aim or collective purpose.

Mitnick (1984:22) reviews the various factors that have lead organizations to create or join these interorganizational organizations. For example, interorganizational units are created because of uncertainty that can be traced to turbulence in the environment and/or scarcity of resources (see Pfeffer & Salancik, 1978:285 – 286); conditions in which there is a high level of interdependence and moderate standardization of behavior (see Litwak & Hylton, 1962); substantial external pressure from elements in the environment (see Provan, 1983:81); or when orga-

nizations have either an internal need for resources (Van de Ven, 1976:28–29) or a positive attitude toward coordination (Whetten, 1981:14–18). Mitnick (1984) argues that another important stimulus for joining interorganizational organizations is the interest of boundary-spanning personnel in those organizations. To the extent that these agents have something to gain from joining the brokerage, their organizations may be brought in by their coattails.

There are, however, very few studies that try to explain why or when organizations turn to boundary-spanning personnel as agents. Aldrich (1979:256–257; see also Aldrich & Herker, 1977) speculates that boundary-spanning roles prove functional under conditions of environmental concentration, heterogeneity, instability, or leanness. However, to date no research has systematically tested these propositions, and the little work that has been done has turned up few results. In his study of labor relations between fire-fighter locals and city governments, Kochan (1975) concludes that environmental complexity and change had no significant effect on the power of the boundary personnel he studied. In their study of 12 work groups in a health and welfare organization, Leifer and Huber (1977) conclude that the perception of environmental uncertainty by decision-makers may actually have been the result of boundary-spanning activities rather than the cause. Thus, although one would expect boundary-spanning roles to be a sensible response to greater environmental uncertainty, there has been no empirical evidence to support this proposition.

A Theory of Agency Usage

To discover why some firms turn to brokerages and/or boundary-spanning personnel, we may ultimately have to develop a theory that is more specific to the type of interorganizational transactions that we are studying here — corporate contributions. This is not to deny the utility of the above literature in helping us to formulate a theory, it is just to say that we should not be so naive as to think that there is one theory of agency that can explain its emergence across a number of different organizational settings and situations.

For instance, the use of agents—whether they be federated fund drives or contributions professionals — to administer contributions may simply be a function of the volume of contributions. As expenditures begin to approach a certain level, donors find that the time and energy it takes to gather all the information they need to make a responsible decision is excessive and that only by delegating some agent to absorb

those transaction costs can the donor continue to contribute at that level (see Aldrich & Whetten, 1981). Agency roles are created as structures are needed to facilitate the flow of dollars from donor to donee. However, once a commitment to these agency roles has been made, it may effect the level of future contributions. In other words, the relationship between the level of contributions and the use of agents may be reciprocal. In an effort to economize on transaction costs, agency roles are embraced; but once they are embraced, donors feel more confident about giving money to charitable organizations. With either brokerages or contributions professionals available to absorb transaction costs, ever-greater contributions are possible.

The decision to use either a brokerage or a contributions professional could hinge on a firm's market position. The contributions-as-public-relations thesis argues that contributions are often seen as a strategy to enhance the legitimacy of the donor in the eyes of its stakeholders (e.g., customers, employees, and local elites). To the extent that companies are in market positions that motivate them to win the accolades of these publics, they should be interested in making their giving as visible as possible. Because of their interest in the good will of others, they would want to make gifts that these stakeholders can appreciate and that make the company look good.

If firms are in positions in which the favor of customers, employees, or local elites is especially important to them, they should prefer contributions professionals over brokerages. The reason is simple: Giving through federated drives is often invisible to outsiders. First of all, the gift is given through a third party, the broker, increasing the social distance between the donor and donee. Companies may make donations to a United Way, but it is the United Way and not the company that presents the checks to agencies. Therefore, the company is not seen by others in the environment as doing anything distinctive or special. Thus, it cannot be given special recognition. Second, brokerages often have a policy of keeping donors' gifts anonymous. If audiences cannot even see the amount given to a broker, it is difficult for a firm's significant others to know about all the good deeds the company is doing for the community. A firm could be extraordinarily generous to a broker or very cheap; still no one would know.

Third, when giving through a broker, the donor loses control over where the money is spent. As the brokerage gets larger, this loss of control becomes even greater (see Coleman, 1973). If the brokerage has a professional staff, control problems multiply (see Michels, 1949). It could turn out that contributions are going to some low-visibility human-service agency instead of being given to an organization that

gets much media coverage. Because the impact of the gift allegedly has bottom-line implications for donors dependent upon people, optimal allocation of resources to produce the most visible effects becomes a central concern.

The appeal of a professional for a company interested in high-visibility giving is that this role can make the donor an "angel" in the eyes of the community. True to the model in which the donor is the buyer of a service, the nonprofit is the seller, and the donee (e.g., client, student, audience) is the consumer, the professional almoner literally has the responsibility of shopping around on behalf of the donor for something that will meet the needs of those in the community. The donor through its almoners is now engaged in proactive giving. The almoner selects that item or service that will do patients, audiences, or clients the most good and recommends that the patron buy it for them. At this point the donor becomes the protector or guardian of the community. The donor is no longer simply reacting to outside solicitations or the demands of fellow executives; its almoner now gives it the capacity to take the initiative.

At the same time, the professional almoner has the time to select beneficiaries whose support can win his or her company the good will of significant stakeholders in the environment. The surest avenue to praise and recognition is to support those nonprofit causes that significant others think ought to be supported, that are highly valued by those whose good graces one seeks. This, however, takes research. Clients, customers, workers, and local community leaders need to be consulted. The professional almoner provides a company with the facility to search out the special needs of the community and the preferences of significant company stakeholders.

Hypotheses

Our hypotheses can be summarized in a set of simple equations. First, we speculate that the relationship between the level of corporate contributions and the degree of professionalism is reciprocal. Higher levels of contributions should give rise to greater professionalism, and greater professionalism should give rise to larger contributions. We also argue that firms that can realize some benefit by winning the approval of customers, employees, or the local elite will tend to professionalize their staff to ensure the most effective presentation of their contri-

bution. These associations can be captured succinctly in the following equations:

$$cc_i = f(nt_i, e_i, al_i) \quad (4.1)$$

$$al_i = f(cc_i, l_i, h_i, de_i) \quad (4.2)$$

where cc_i is average annual contributions, e_i is average annual pretax net income, al_i is a measure of contributions professionalization, l_i is a measure of labor intensity, h_i is proportion of sales to households/consumers, and de_i is dependence upon the local community for employees.

If professionalism is being prompted by a need for better people relations, we expect there to be some public relations payoff for the firm that professionalizes its contributions function. Contributions should somehow be more effective, and the firm should be more highly regarded by significant others in its environment, for example, local elites. Thus,

$$gc_i = f(cc_i, e_i, al_i) \quad (4.3)$$

where gc_i is the number of community elite members who recognize the firm as being generous to nonprofits, and cc_i, e_i, and al_i are defined as above.

The arguments explaining the utilization of brokers are similar to those explaining the utilization of corporate almoners. For instance, we again expect the relationship between contributions and the use of brokerages to be reciprocal. However, we expect firms that are less dependent upon labor power, consumers, or the local community to prefer brokerages as their agencies for giving. To illustrate:

$$cc_i = f(nt_i, e_i, z_i) \quad (4.4)$$

$$z_i = f(cc_i, l_i, h_i, de_i) \quad (4.5)$$

where z_i is the percentage of donations given through brokerages, and cc_i, e_i, l_i, h_i and de_i are defined as above.

We expect as well that using brokerages may actually have a negative effect on a company's reputation as a generous company among the community elite. The "quiet gift" to a brokerage may mask the true generosity of a company and therefore lessen the firm's visibility in the general community. Thus:

$$gc_i = f(cc_i, e_i, z_i) \quad (4.6)$$

where gc_i, cc_i, e_i, and z_i are defined as above.

Measurement

Many of the variables discussed above are introduced in previous chapters, and we need not reintroduce them here. These include: the number of community elite members who view the company as especially generous to nonprofits (X_{gc}), average annual pretax net income for 1979 through 1981 (X_e), average annual contributions for 1979 through 1981 (X_c), the ratio of 1980 employees to 1980 total assets (X_l), the percentage of 1980 – 1981 sales to households/consumers (X_h), and the percentage of employees living in the Twin Cities metro area (X_{de}).

Professionalization of Contributions Staff

To measure the degree to which companies have professionalized their contributions staffs, we computed an index that included three variables. The first is the total number of individuals who spent 50% or more of their time on contributions activities. The second is the total number of individuals who have contributions or foundation job titles. And third is a tally of the number of professional associations to which each company's contributions staff belonged.

The Organization of a Contributions Program To understand the role of the almoner, we must understand a little better the process whereby contributions are made to nonprofits by our Twin Cities companies. As we might expect, not every company retained the services of an almoner. In the course of our interviews with Twin Cities companies, we asked them to "Identify the committees, staff positions, boards, et cetera, that have input into the decision-making process surrounding contributions . . . for your foundation, your parent-firm contributions program, your division/unit/plant contributions program, and your trust." To impart a flavor of the decision-making process and the role of the contributions professional, we briefly summarize below the responses for companies in four different size categories.

Among the 10 companies having fewer than 25 employees and making contributions of $100 or more in fiscal year 1981, the description of the process was quite straightforward. None of these firms had foundations, and nine made contributions only through their headquarters. In these cases the president typically made the decision alone, although

not always. For example, in one high-technology firm the president made all decisions on arts and civic organizations; however, a marketing person was consulted when medical professionals approached the company for a research grant. Because these requests were often made by customers and could enhance sales later on, special expertise was needed.

In companies with 25 to 200 employees, there was more variation. Here 28 firms made contributions of $100 or more in 1981. In 13 of these cases, the president or chairman of the board just looked through the pile of requests and decided whether or not to give to each, usually without consulting anyone else in the company. In the other 15 cases, either the president reviewed the requests with one or two other senior officers and made decisions with them, or responsibility was delegated to an officer who, for all practical purposes, had the authority to grant gifts. In just one case, a formally constituted contributions committee involved senior and middle-management types and had the authority to decide on contributions. And only one firm in this size group had a foundation.

In this size category, only the firm with a contributions committee and the firm with a foundation had anything resembling a contributions professional. Both were women. In the former, the title was "manager of corporate relations" and the incumbent devoted only 15% of her time to researching and evaluating grant requests. In the latter, the title was "research analyst," and only 25% of her time was spent researching and recommending grants. Both women had been hired just a few months prior to our interviews in late 1981, and both had the principal responsibility for setting up more elaborate and responsive corporate giving programs for their companies.

Among companies with more than 200 but fewer than 1,500 employees (of which 29 companies had given more than $100 in 1981), even more variation occurred. It was virtually impossible to identify a typical decision-making process. For example, in one case the CEO and the vice president of human resources looked over all requests and simply decided everything themselves. In another, there was a formally constituted contributions committee made up of officers from marketing, manufacturing, and administration. In a third, the executive committee of the board set broad policy guidelines, but the vice president of personnel and the treasurer actually decided upon specific grants. In another firm, the donations decisions were made by a contributions committee composed of the president, executive vice president, and four senior vice presidents, but a local community foundation was

under contract to do research on the grant request. Still another company had a contributions committee with seven voting members and two nonvoting members—the manager of corporate contributions and a corporate planner. One company just had the wife of the president (who had no formal corporate title) decide on contributions.

In this size category we found five bona fide contributions professionals. Two held titles in their company's foundation—president and executive director—but spent only 5% and 15% of their time respectively on contributions activities. Both these individuals reviewed and prepared grant applications for their foundation's board of directors, and both were voting board members. A third contributions professional held the title of manager of the Contributions Committee and spent about 50% of his time on contributions activities. His duties were to research grant applications and set the agenda for the corporate contributions committee. However, he had no voting privileges on the committee. The other two contributions professionals were consultants, retained on a contractual basis by different companies. Both consultants spent 50% to 100% of their time on contributions activities for different companies and were responsible for reviewing grants requests, conducting site visits, and making recommendations.

The situation among the 37 companies that had 1500 or more employees and gave more than $100 in 1981 is equally complicated. Again a wide variety of strategies were used, and no typical decision-making process can be identified. There are, however, two unique features of giving within this stratum of firms. First, in only one of these companies did the CEO or chairman review requests and make decisions on his own. Twenty of these firms had foundations, and donations decisions were made either by a board of trustees or by a committee. Also, decisions made with respect to direct contributions were group decisions, even though there was not always a formal committee constituted for such a purpose.

Second, we found that contributions professionals played a considerably more important role in the process in this largest size category. Of the 37 companies, 19 (51.3%) had one or more persons who either spent 50% or more of their time on contributions or had contributions responsibilities identified in their job titles. The power of the contributions professional varied considerably. In one corporation the president of the foundation had a staff of two full-time people and could authorize grants up to $50,000 on his own. Although this was an extreme case, it was not uncommon for the contributions staff person to be an officer of the company foundation (e.g., secretary) with discretionary authority over grants of $1,000 or $2,000. Other staff members worked as re-

Table 4.1
The Means by Which Companies Disburse Funds to Charitable Organizations

	1–25 Employees	26–200 Employees	201–1500 Employees	1500+ Employees
1. Foundation/trust only	0	0	1 (3.7%)	0
2. Direct contributions from headquarters only	9 (90%)	21 (75.0%)	14 (51.9%)	7 (19.4%)
3. Contributions from divisions/units/ plants only	1 (10%)	0	1 (3.7%)	0
4. Foundations/trusts and headquarters contributions only	0	0	1 (3.7%)	0
5. Foundations/trusts and divisions/units/ plants contributions only	0	0	1 (3.7%)	2 (5.5%)
6. Headquarters and divisions/units/ plants contributions only	0	6 (21.4%)	9 (33.3%)	10 (27.8%)
7. Foundation/trust, headquarters, and divisions/units plants contributions	0	1 (3.6%)	1 (3.7%)	14 (38.9%)
Total responding	10 (100%)	28 (100%)	27 (100%)	36 (100%)
Gave $100 or less to charities in FY1981	21	22	3	0
Did not know	0	0	0	0
Refused to answer	0	0	2	1
Total in size category	31	50	32	37

searchers who made sure that files were complete, did site visits, and made recommendations on the funding of specific grant requests.

In sum, among Twin Cities firms there was a strong association between the method used to give away money and the size of the company. Table 4.1 indicates that the most common strategy used by the largest companies was to disburse funds through several different channels at once: foundations/trusts and direct giving through branches/units/subsidiaries and from headquarters. In contrast, smaller companies tended to give only through direct-giving programs from

Table 4.2
The Department in Which the Company Contributions Program Is Located

	1–25 Employees	26–200 Employees	201–1500 Employees	1500+ Employees
Board	1 (10.0%)	0	0	0
Chairman, CEO, president	7 (70.0%)	14 (50.0%)	5 (18.6%)	2 (5.6%)
Treasurer, finance, accounting	2 (20.0%)	1 (3.5%)	1 (3.7%)	2 (5.6%)
Personnel, industrial relations	0	0	4 (14.8%)	0
Public relations, community affairs, corporate communication	0	1 (3.6%)	2 (7.4%)	15 (41.6%)
General administration	0	7 (25.0%)	6 (22.2%)	4 (11.1%)
Other	0	0	0	3 (8.3%)
Free-standing, none	0	5 (17.9%)	9 (33.3%)	10 (27.8%)
Total responding	10 (100%)	28 (100%)	27 (100%)	36 (100%)
Gave $100 or less to charities in FY1981	21	22	3	0
Did not know	0	0	0	1
Refused to answer	0	0	2	0
Total in size category	31	50	32	37

headquarters. Only five companies with less than 1,500 employees had foundations. Table 4.2 shows that the community-relations or public-affairs departments administered contributions in 41.7% of the companies with 1,500 or more employees. In 55.3% of the companies with fewer than 200 employees the president, CEO, or chairman of the board performed this function himself. In only one of our companies were contributions administered by the marketing or advertising departments. People from marketing were often on contributions committees, but the contributions function was almost never a part of that department.

Profile of the Contributions Professional In the course of our interviews with Twin Cities corporations, we obtained background information on full-time and part-time contributions people. In none of the companies with fewer than 200 employees did we find people who devoted at least

50% of their time to contributions or had contributions or foundation titles. Therefore, the following discussion only refers to the 69 participating companies that had more than 200 employees in 1980. Of these, we obtained information from only 59 firms on the percentage of time devoted to contributions by those individuals most involved with donations. Full-time staff (≥ 50% time) were found in 32.2% (19) of those firms.[3] We obtained information from 67 firms on the job titles of those primarily responsible for contributions. Staff with contributions or foundation titles were found in 29.9% (20) of these firms. In 34.8% (24) of the 69 participating firms with over 200 employees, there were 32 people who either were working full time on contributions or had contributions or foundation titles.

Summarizing the differences between the professional and nonprofessional staff, the contributions professional was more likely to be a woman ($\chi^2 = 9.54$, $p = .002$), to live in the inner cities ($\chi^2 = 8.74$, $p = .012$), and to have previously worked for a nonprofit organization ($\chi^2 = 5.05$, $p = .024$), for the government ($\chi^2 = 5.05$, $p = .024$), or in the direct delivery of human services ($\chi^2 = 6.23$, $p = .012$). Furthermore, the contributions professional was more likely than the nonprofessional to belong to professional associations related to contributions activities ($\chi^2 = 24.21$, $p = .000$) and to attend conferences on these topics ($\chi^2 = 20.24$, $p = .000$). We might also add that of the 32 contributions professionals, 19 had worked for their companies less than 2 years before they assumed responsibilities for contributions and 12 had come directly into their contributions positions from nonprofit or governmental employment. It should be noted, however, that 4 of the 12 who had come directly from non-business employment were retained as consultants rather than as full-time employees by their firms.

Professional Associations At the time of our study (1979–1982), there were three formal organizations that served the needs of corporate contributions professionals. The first was the Minnesota Council on Foundations, a nonprofit organization which was organized in 1969 and incorporated in 1975. In 1982 its goals were to enhance and strengthen private philanthropy and to promote responsible and informed giving. Its 1982 activities included holding two public meetings to make the work of foundations and corporate giving programs better understood; publishing a newsletter about resources, upcoming legislation, meetings, and views of people in the grant-making field; working with government to inform and represent the concerns of the grant-making com-

munity; publishing data on grant-makers; and holding meetings and seminars where members learned about changing community needs and how to deal with special management problems. The Council sees itself as an association of grantmakers committed to responsible and informed giving. More than 100 members represent private, corporate, operating, and community foundations as well as corporations with contributions programs. In 1982 the council had a budget of $142,000, with 83.5% coming from corporate/foundation membership dues and 4.6% coming from corporate or foundation grants.

The Business Action Resource Council (BARC) began in 1976 as the Council on Corporate Responsibility and became part of the Minneapolis Chamber of Commerce shortly thereafter. In 1982 its goals were to encourage social responsibility in business, to act as a forum where people who are responsible for corporate contributions can share information with one another, and to inform corporate donors of community needs and encourage their cooperation in meeting these needs. Its 1982 activities included cosponsoring the Minnesota Keystone Awards ceremony with the St. Paul Chamber of Commerce, hosting monthly forums for contributions people examining the role of contributions professionals, hosting monthly roundtables where members could share information or listen to a guest speaker, and handling inquiries about the Two Percent and Five Percent Clubs in Minnesota. Since BARC is part of the Chamber of Commerce, it has no separate budget and thus receives no contributions or grants per se.

In 1982 Women and Foundations/Corporate Philanthropy—Minnesota Network was an unincorporated group of men and women who were themselves contributions professionals or trustees of private foundations. The network came together in 1979 in response to a national organization of the same name formed within the National Council on Foundations. In 1982 its goals were to increase the amount of money for programs on behalf of women and girls and to enhance the status of women as decision-makers within private philanthropy. Activities were planned and organized by a steering committee. During their 1982–1983 year, the group held a panel discussion on women in leadership, a brainstorming session that brought together donors and nonprofits with programs focusing on women's concerns, a session on career planning, a seminar on professional development, and informal breakfast meetings, and it created a Task Force on the Needs of Single Parents and Low Income Women. The 1982 budget was only $686, all dues that members or their employers paid.

Comparing these groups, we noted a number of similarities. The

groups specifically targeted people who were contributions professionals, and they provided program activities that allowed these professionals to get to know one another and community problems better (e.g., breakfasts, conferences, seminars). The latter two in particular saw themselves as associations of a newly emerging profession. They were formed within the same time period (1976, and 1979), were started by contributions professionals, and have remained under their control. The Business Action Resource Council grew out of an informal group called the Council on Corporate Responsibility. This group included the director of the Apache Corporation Foundation (who later became the director of the Minneapolis Foundation), the president of the Dayton–Hudson Foundation, the director of community/governmental relations at International Multifoods, the vice president for urban affairs at the First National Bank of Minneapolis, and the director of programs at the Minneapolis Chamber of Commerce (who later became director of community/public affairs at H. B. Fuller). As might be expected, the chairman of this committee has always been a contributions or community-affairs specialist. The founders of the Women and Foundations/Corporate Philanthropy—Minnesota Network were also staff people from local corporations and foundations. The organizer of the group was a programs associate at the Northwest Area Foundation, and the 1982–1983 steering committee included only contributions professionals.[4]

Of the 32 contributions professionals, 25 belonged to the Minnesota Council on Foundations, 11 belonged to the Business Action Resource Council, and 12 belonged to Women and Foundations/Corporate Philanthropy in 1981. For each firm we tallied the number of these three professional associations that either full-time, part-time, titled, or untitled contributions people belonged to. The mean was .75 with missing data on six cases.

For the 69 participating firms with more than 200 employees, the zero-order correlation was .821 between number of full-time staff and number of titled personnel, .787 between number of full-time staff and memberships in professional associations, and .687 between number of titled personnel and memberships in professional associations. Because of the high intercorrelations, we did a factor analysis to extract a summary measure of professionalism. A single principal component was derived; its eigenvalue was 2.53 and explained 84.4% of the variance in our data. The loadings of our three variables were: .948 for full-time staff, .910 for titled staff, and .896 for memberships in professional associations. Firms were then assigned factor scores (X_{a1}).[5]

Brokerages

The proportion of contributions given through brokerages was obtained from the interviews with corporate representatives. We first asked them to tell us the proportion of their total giving that went to Twin Cities area charities in 1981 and then multiplied this by their total contributions in 1981.[6] We next asked them to tell us the amounts they gave in 1981 to five principal brokerages in the metro area as well as to any other local brokerages, and added the resulting amounts together.[7] We then divided this total by the total amount of money given to Minneapolis–St. Paul charities in 1981 (X_z). We would caution that the total number of responses for this variable was a disappointing 52.

Giving Through Contributions Professionals

In Equation 4.1 we argue that the level of corporate contributions will increase if the firm has corporate contributions professionals or almoners in place to oversee the contributions process. We tested our hypothesis by means of the following regression equation:

$$\ln Y_{cc} = a + b_{nt}X_{nt} + b_e \ln X_e + b_{al}X_{al} + u \qquad (4.7)$$

where Y_{cc} is average annual corporate contributions; X_{nt} is the factor score for network contacts with the philanthropic elite; X_e is average annual pretax net income; and X_{al} is our professionalism index based on the number of full-time staff with contributions responsibilities, the number of titled staff, and staff memberships in professional associations. Again we used regression analysis and pairwise deletion of missing data.

The zero-order correlation for the new variables introduced in this chapter are in Table 4.3. The results from the regression analysis in Table 4.4, Panel A, are as expected. Average annual pretax net earnings and proximity to the corporate philanthropic elite still had strong, positive effects on the level of contributions. Our measure of professionalism also had a strong positive effect on the level of contributions, statistically significant at the .001 level. Thus, the more professionalized the staff, the greater the level of contributions.

Table 4.3

Means, Standard Deviations, and Pearson Zero-Order Correlations for Variables in Equations 4.8–4.14.

	$\ln X_{mc}$	X_z	$\ln X_{cc}$	$\ln X_e$	X_l	X_h	X_{de}	$\ln X_{gc}$	Mean	SD	N
Professionalism index (X_{al})	.655***	−.282*	.637***	.332**	−.174	.271*	−.246*	.696***	−.021	.991	65
Total metro area contributions, 1981 ($\ln X_{mc}$)		−.425***	.971***	.506***	−.434***	.128	−.245*	.785***	11.207	2.304	55
% Metro area contributions through brokerages, 1981 (X_z)			−.396**	.027	.246*	.158	.333**	−.236*	37.430	27.880	52

*** $p \leq .001$.
** $p \leq .01$.
* $p \leq .05$.

Table 4.4
Regression Analysis for Equations 4.8–4.11
Testing the Giving-Through-Almoners Thesis[a]

PANEL A

Dependent variable
Average annual total contributions, 1979–1981 (ln Y_{cc})

Independent variables	b	SE	Sig.	Beta	R^2	Sig.
Elite network index (X_{nt})	1.437	.276	.000	.483		
Average annual pretax earnings, 1979–1981 (ln X_e)	.096	.040	.019	.201		
Professionalism index (X_{al})	.961	.274	.001	.314		
					.655	.000

PANEL B

Dependent variable
Professionalism index (Y_{al})

Independent variables	b	SE	Sig.	Beta	R^2	Sig.
Average annual total contributions, 1979–1981 (ln X_{cc})	.196	.034	.000	.601		
Employees/total assets, 1980 (X_l)	.914	3.517	.796	.027		
% Sales to households, 1980–1981 (X_h)	.006	.003	.034	.212		
% Employees from local area (X_{de})	−.005	.003	.170	−.137		
					.469	.000

PANEL C

Dependent variable
Reputation as a generous company: Community elite (ln Y_{gc})

Independent variables	b	SE	Sig.	Beta	R^2	Sig.
Average annual total contributions, 1979–1981 (ln X_{cc})	.197	.049	.000	.452		
Average annual pretax earnings, 1979–1981 (ln X_e)	.005	.019	.801	.023		
Professionalism index (X_{al})	.534	.138	.000	.400		
					.613	.000

[a] N = 69.

In Equation 4.2 we offer the proposition that the use of professionals by companies is tied to two sets of factors: the market position of the firm and its volume of contributions. The equation we used to test this hypothesis is as follows:

$$Y_{al} = a + b_{cc} \ln X_{cc} + b_{l}X_{l} + b_{h}X_{h} + b_{de}X_{de} + u \quad (4.8)$$

where X_{al} is the factor score from our professionalism index, X_{cc} is average annual contributions, X_{l} is the ratio of employees to assets in 1980, X_{h} is the proportion of sales to households/consumers, and X_{de} is the percentage of employees living in the Twin Cities.

The results in Table 4.4, Panel B, show that the level of contributions and the percentage of sales to households were both significantly related to the degree of professionalism in the contributions staff. These findings are consistent with our hypotheses. However, neither our measure of labor intensity nor dependency upon the local area for employees had any significant effect on the professionalization of staff.

In Equations 4.3 and 4.4 we argue that firms can win the recognition of a cross section of the community elite by professionalizing their contributions function, regardless of net income and the level of giving. We tested these hypotheses using the following equations:

$$\ln Y_{gc} = a + b_{cc} \ln X_{cc} + b_{e} \ln X_{e} + b_{al}X_{al} + u \quad (4.9)$$

where Y_{gc} is the number of community elite respondents who recognized a company as being very generous to nonprofits, X_{cc} is average annual contributions, X_{e} is average annual pretax net earnings, and X_{al} is the factor score on our professionalism index.

Panel C of Table 4.4 shows that our hypothesis is correct. Independently of the level of giving, the more professionalized the contributions function, the more community leaders recognized the firm as being very generous to nonprofit organizations.

Giving Through Brokerages

In Equation 4.4 we argue that firms that gave larger proportions of their charity dollars through federated fund drives should be giving more money overall to charity. Again, the agent (i.e., the brokerage) is the facilitator of greater contributions. To test this hypothesis we used the following equation:

$$\ln Y_{mc} = a + b_{nt}X_{nt} + b_{e} \ln X_{e} + b_{z}X_{z} + u \quad (4.10)$$

where Y_{mc} is total corporate contributions to Minneapolis–St. Paul area

charities in 1981, X_z is the percentage of 1981 Twin Cities area contributions given through brokerages, X_{nt} is the measure of contact with the philanthropic elite, and X_e is average annual pretax net income. Due to the large number of cases with missing data for the dependent variable Y_{mc}, we used listwise deletion in all the following analyses.

As shown in Table 4.5, Panel A, our measures of network contacts with the elite and pretax net earnings were positively related to the level of Twin Cities area contributions, but the percentage of funds given through brokerages was negatively related to contributions. The larger the proportion of contributions given through brokerages, the smaller the company contributions to local charities. This latter finding was just the opposite of what we expected.

In Equation (4.5) we speculate on the factors that might lead a company to give a larger percentage through brokerages. Again we focus on the volume of giving and the market position of firms. Essentially we expected that larger contributions, a smaller proportion of goods and services sold to households/consumers, and less dependence upon people power would result in greater usage of brokers. Thus,

$$Y_z = a + b_{mc} \ln X_{mc} - b_h X_h - b_l X_l - b_{de} X_{de} + u \qquad (4.11)$$

where Y_z is the percentage of Twin Cities area contributions donated through federations, X_{mc} is the total given to Twin Cities charities in 1981, X_h is the proportion of sales to households/consumers, X_l is the ratio of employees to assets (1980), and X_{de} is the percentage of employees living in the area.

Table 4.5, Panel B, presents the results. None of our hypotheses were confirmed, and some results directly contradicted our expectations. For example, the larger the contribution to charity, the smaller the percentage of local contributions that went through brokerages. The proportion of sales to consumers and the percentage of employees living in the Twin Cities had a positive effect on our dependent variable, although they were only significant at the .10 level. Furthermore, there was no association between our measure of labor intensity and giving through brokerages.

Finally, in Equation 4.6 we speculate on the proposition that giving through brokerages may actually hurt a firm's reputation as a generous supporter of nonprofit organizations. Thus the greater the reliance on brokerages, the fewer community elite members would recognize the company as giving generously to nonprofits. Thus:

$$\ln Y_{gc} = a + b_{mc} \ln X_{mc} + b_e \ln X_e - b_z X_z + u \qquad (4.12)$$

where Y_{gc} is the number of community elite members who recognized

Table 4.5
Regression Analysis for Equations 4.12–4.14
Testing the Giving-Through-Brokerages Thesis[a]

PANEL A

Dependent variable
Total metro area contributions, 1981 (ln Y_{mc})

Independent variables	b	SE	Sig.	Beta	R^2	Sig.
Elite network index (X_{nt})	1.407	.167	.000	.643		
Average annual pretax earnings, 1979–1981 (ln X_e)	.104	.030	.001	.258		
% Metro area contributions through brokerages, 1981 (X_z)	−2.525	.592	.000	−.300		
					.775	.000

PANEL B

Dependent variable
% Metro area contributions through brokerages, 1981 (Y_z)

Independent Variables	b	SE	Sig.	Beta	R^2	Sig.
Total metro area contributions, 1981 (ln X_{mc})	−.048	.017	.008	−.397		
% Sales to households, 1980–1981 (X_h)	.002	.001	.081	.226		
Employees/total assets, 1980 (X_l)	.342	1.196	.776	.039		
% Employees from area, 1980—1981 (X_{de})	.002	.001	.062	.243	.302	.002

PANEL C

Dependent Variable
Reputation as a Generous Company–Community Elite (ln Y_{gc})

Independent Variable	b	SE	Sig.	Beta	R^2	Sig.
Total metro area contributions, 1981 (ln X_{mc})	.504	.065	.000	.898		
Average annual pretax earnings, 1979–1981 (ln X_e)	.698	.472	.146	.148		
% Metro area contributions through brokerages, 1981 (X_z)	−.020	.024	.412	−.087		
					.644	.000

[a] N = 52.

that company as being generous to nonprofits, X_{mc} is total contributions to Twin Cities charities in 1981, X_e is average annual pretax net earnings, and X_z is the percentage of local contributions donated through brokerages.

Again contrary to our expectations (as shown in Table 4.5, Panel C), we found none of the hypothesized effects. Giving through brokerages neither broadened the visibility of a firm's giving nor limited it. Thus giving through brokerages apparently did not make one's giving less visible to local elites.

Summary and Discussion

In sum, we found that there was a reciprocal effect between the level of contributions and the professionalism of the staff. In this chapter, we presented evidence that the higher the level of contributions, the more likely a firm will professionalize its contributions function, irrespective of its market position. At the same time, as a predictor of contributions, the more professionalized the staff, the greater the amount given to charity irrespective of the firm's earnings or network contacts with the philanthropic elite.

We interpret these findings as support for the argument that firms will professionalize staff in response to the increased uncertainty and workload associated with greater contributions. Obviously, without longitudinal data it is impossible to verify the causal ordering of this effect; however, our findings are suggestive. It appears that once a certain level of giving is attained, firms institutionalize roles within the company to monitor and oversee contributions to charitable organizations in order to economize on transactions costs. We suspect that greater professionalism reduces the probability that embarrassing gifts will be made or that donees will act opportunistically.

We can also interpret these findings as evidence that once professional staff are in place, the firm will subsequently find itself giving more to charity. A number of arguments can be offered to explain this pattern. Earlier in the chapter we suggested that a larger professional staff insures that gifts will be made more effectively; therefore, companies feel more at ease in pouring money into the effort. Alternatively, once a staff function has become professionalized, there is someone in the firm who has a direct stake in ensuring that contributions grow year after year. Because the job security of the contributions professional is directly tied to an ever-expanding contributions budget, charitable contributions now have a strong advocate or lobby within the firm. With

someone pressing for greater contributions and reminding the firm of its social responsibility to nonprofits, companies would tend to increase their charitable contributions. Again, because we lack longitudinal data we unfortunately cannot untangle these complex effects here.

We also found that greater dependency upon consumers did increase the likelihood that companies would professionalize their staff; however, dependency upon labor power or upon the local labor market had no effect on professionalism. That firms that would benefit by favorably impressing consumers were drawn to professionalize staff is, we believe, a major finding. In Chapter 2 we reported no relationship between dependency upon consumers and total contributions, but now we learn that this market position variable may have an indirect effect on contributions, leading firms to professionalize and then having greater professionalism lead to greater contributions. The contributions-as-public-relations thesis is still intact but now somewhat modified.

The next set of propositions was tied to the previous set. We pursued the idea that firms gave in order to impress stakeholders. If firms had professionalized their contributions staff they, in turn, should have realized public-relations benefits among the community elite. In fact, we did find that firms with professionalized staffs were recognized by more members of the community elite as being generous to nonprofits — regardless of their level of giving. Evidently, greater professionalization of staff gave rise to greater visibility and extended the reputation of the firm as being very generous to nonprofit organizations.

In interpreting these findings, however, we must be cautious. First, it could be that professionals chose more effective contributions. Because these functionaries usually had work experience in the nonprofit and government sectors, routinely attended conferences on corporate giving and/or responsibility, and belonged to professional associations that taught them how to improve their company's giving, they should have been making recommendations on funding that were more thoughtful and beneficial to the community and, that at the same time, gave the company more visibility.

Indeed, if nothing else, the professionalization of the contributions staff often meant that the process of administering grants became more routinized and formalized. We constructed a simple additive index, taking into account whether or not there was an annual contributions report (separate from the company's annual report), whether published guidelines for prospective grantees were available, whether the company had a set of written policies governing grants decision-making, whether the prospective grantees were required to fill out application

forms, whether the company had a policy of acknowledging the receipt of a grant application or written proposal, and the number of grants that were formally evaluated.[8] Our index was simply the sum of these six items. For example, if companies followed all five procedures and evaluated most or all of their 1981 grants, they received a score of "6"; if they followed none of the procedures and evaluated none of their 1981 grants, they received a score of "0." The Pearson zero-order correlation between this formalization index and the factor scores on the professionalization index was .619 ($p = .001$; $N = 64$). Thus it appears that professionals made an effort to make company giving more impartial, rational, and accountable.

Alternatively, simply having a contributions professional could be a signal to the elite that the firm is taking contributions seriously. Professional contributions people are visible in the press, at community events, in task forces, and at community luncheons. They are always identified by the firm they represent and are themselves good PR for the community. That company managers are willing to absorb the costs of having one of their people tending to these matters may be taken as a sign that the firm is socially responsible. Again more than one interpretation of our findings is possible, and we must wait for future research and more refined study designs to resolve the issue.

The theory that we offered to give meaning to companies' use of brokerages proved to be far less adequate. Our results made it clear that companies with smaller contributions budgets tended to give larger proportions of their donations through brokerages. Given that firms with larger budgets tended to have professional contributions staffs, it appears that firms of all sizes utilized one type of agency form or another to reduce transaction costs surrounding contributions. Companies with smaller budgets used brokerages, whereas firms with larger budgets used contributions professionals. Indeed, the zero-order correlation between dependency upon brokerages and use of professionals was $-.282$ ($p = .024$; $N = 50$). Almost every firm used agents of one type or another. The basic strategy was the same; only the style differed.

We had thought that the relative invisibility of giving through brokerages and the loss of control over contributions would drive away companies that might be interested in using their contributions to enhance customer, employee, or community relations. However, neither our measure of labor intensity, the proportion of sales to consumers, nor the percentage of staff employed locally was negatively related to the percentage of local contributions given through brokerages. In fact, there was a slight tendency for firms that sold more to consumers and employed more people locally to give more through Twin Cities brokerages. Finally, we saw that giving through brokerages had no significant

negative effect on the number of community elite types who viewed the firm as being generous to nonprofits. Giving through brokerages apparently neither increased nor decreased the visibility of giving.

These results suggest that our thinking about brokerages was way off base. Just because a firm had an interest in retaining control over contributions to impress various stakeholders did not mean that the firm gave less through federated drives. One problem may have been that we failed to recognize the shrewdness of those who organize brokerages. The problems of decreased visibility and loss of control may be very real, but those who organize brokerages may have taken steps to overcome these problems. For example, they may have institutionalized formal review committees with donor participation, put business people on the board, and recruited business people to be president or chairman of the brokerage. This would offset some of the drawbacks of giving through brokerages cited earlier.

Table 4.6 presents some interesting data relevant to this thesis, wherein we list each of our brokers along with the number of donors from our study who made gifts through that broker in 1981, a brief description of the allocations procedure, the percentage of business people on the broker's board, the title and employer of the chairman or president of the board, and the weighted average contribution per donor.[9] These data yield some interesting correlations. The brokerages that had higher percentages of business people on their boards tended to recruit more donors ($r = .637$) and to get bigger contributions, on the average, from their donors ($r = .720$). These same brokerages also had business people as chairs/presidents of their boards and on their allocations committees. In contrast, the brokerages with less business representation on their boards, administrators from member agencies as chair/presidents, and allocation by formula—these brokerages had fewer donors, and the weighted value of their contributions was typically smaller.

From these data it appears that if brokerages could coopt donors, donors would give them their enthusiastic support. Apparently if donors could be made to feel they were a part of the brokerage, they would not be fearful that they were losing control over their allocations; they could still have some say over how the money would be spent. Furthermore, by being allowed to be physically represented in officerships, on the board, and in committees, donors would not have to worry that their participation in the brokerage would go unrecognized. Those firms that wanted visibility could still get it. Although giving through brokerages did not improve one's reputation among the local elite, indeed our data showed that it did not hurt the reputation of the donor either.

Table 4.6
Selected Characteristics of Twin Cities Brokerages

Brokerage	Total number of donors from sample (1981) ($N = 150$)	Allocations procedure	% Businessmen on board (1981)	Chair/president of the brokerage	Weighted average gift per donor (1981) ($N = 150$)
United Way, Minneapolis	73	Program review/ committee	51.7	President/CEO, Medtronic	\$252 ($MD = 4$)[a]
Minnesota Private College Fund	49	Formula	29.6	President, College St. Thomas	\$ 70 ($MD = 1$)[a]
United Way, St. Paul	33	Program review/ committee	61.0	President, Slawik Enterprises	\$148 ($MD = 3$)[a]
United Arts Fund	26	Program review/ committee	34.3	Executive VP, 3M	\$ 10 ($MD = 1$)[a]
Minnesota Independent School Fund	7	Formula	0.0	Principal, Hill-Murray High School	\$ 19 ($MD = 0$)[a]

[a] *MD* = Missing data.

Notes

1. Contributions titles indicate that the incumbent had some responsibility in a direct-giving program (e.g., manager of corporate contributions, corporate contributions analyst). Foundation titles (e.g., vice president, foundation program officer) indicate that the incumbent's chief responsibility was in a company foundation (Troy, 1982b:2).

2. At first glance, the contributions professional does not appear to be as professional as do other occupational groups. R. Hall (1969:81–82) argues that the key element of professionalization is work autonomy. By this he means that individuals are free to exercise personal judgment and discretion regarding their jobs. The accoutrements that often accompany professional status—for example, a professional association, belief in service to the public, a sense of calling, and professional schooling—are all there to support and control someone who has enormous discretionary control in his or her job. Perhaps in the very largest corporations, contributions professionals do approach this ideal. However, the duties described in the Conference Board study are in sharp contrast even to the description of the private foundation officer, who has much more power and discretionary authority over allocations (see Larsen, 1975).

Professionals of all kinds who work in departments of large corporations and nonprofit organizations often have their autonomy challenged, or at least must tend to many nonprofessional duties (Hall, 1969:113–127). Often this gives rise to conflict, feelings of ambivalence, and compromise. Thus the contributions professional's preoccupation with organizational and administrative affairs may be something that all professionals in large bureaucratic settings must deal with, while still trying to perform their professional duties as faithfully as they can. While the contributions profession clearly does not have the autonomy and status of the more traditional professions, we believe that potentially there is enough autonomy in the role that it can legitimately be recognized as a professional occupation.

3. None of the individuals responsible for contributions in these companies could estimate for us the time they spent on contributions. Two of these companies gave no funds to charity in 1981. In the other eight cases, contributions were overseen by the chairman of the board in three companies, by the vice chairman of the board in one company, by the chairman's wife in another, and by a vice president in charge of finance or accounting in three others. However, we do not think that any of these personnel could rightfully be labeled full-time contributions professionals. To be on the safe side, they are treated as missing data.

4. Althouth providing services to contributions professionals, the Minnesota Council on Foundations has never been a professional association per se. For instance, it was founded by foundation trustees, only one-fourth of the board are contributions professionals, and membership is based on organizational, not occupational, status.

5. We derived factor scores for 65 firms. We employed the decision rule that a firm be assigned a factor score if it had data for at least two of the three variables that were used in the principal-components analysis.

6. Of the 66 firms that made contributions in 1981, 14 could not tell us the percentage of their contributions that went to Twin Cities area charities.

7. The five principle brokerages were the United Way of Greater Minneapolis, the United Way of Greater St. Paul, the Minnesota Private College Fund, the St. Paul–Ramsey United Arts Fund, and the Minnesota Independent School Fund. We asked if the company gave to any other local brokerages and added these amounts to the company's total. The other federated drives mentioned (e.g., the United Jewish Welfare Fund), relied almost exclusively on individual gifts, and thus corporate giving to these causes was minimal. One brokerage, the Cooperating Fund Drive, received corporate contributions

explicitly for operating expenses, but these contributions were not counted because the money was not passed on to service providers.

8. Because of the difficulty in estimating exact numbers for this last item, informants were allowed to say "none," "some," "about half," "most," or "all." Companies were then separated into those that evaluated "some" to "all" grants and those that evaluated "none" at all.

9. Our purpose in weighting the contributions of our donors is to control for the total amount of funds available to the donor for contributions. For example, a $100,000 gift may be only 2% of the contributions budget of a Fortune 500 firm, but 80% of the contributions budget of a much smaller company. We can assess the appeal of a brokerage only if we know how much of the contributions dollar is being invested in it. Our weighted average is computed by dividing the amount of money given by a firm to each broker by the total amount of money that firm gave to local charities in 1981. We then multiply the resulting quotient by $1,000. The average contribution for each broker is computed by summing up the adjusted contributions made by all firms to that brokerage and dividing by the number of firms that gave money to that brokerage in 1981.

5

WHO GETS WHAT, WHEN, AND HOW?*

Coauthored by Patti Mullaney

Introduction

We now turn to the problem of how and where resources are allocated in a charitable or grants economy. In Chapter 1 we argue that in a grants economy the goods or services produced are typically public or collective goods. At the same time, resources are typically allocated through one-on-one transactions. This, of course, is what makes the process so intriguing. Resources are distributed in a highly decentralized way through voluntary one-way transfers of exchangeables, but the output is some good or service that supposedly serves collective interests. In one respect a grants economy is like a market in that the process of distributing resources is decentralized, but in another respect a grants economy is like a government in that its goal is to produce first-order or second-order collective goods.

This and the following chapter address these questions: Who gets, what, when, and how? Lasswell (1951) first asked these questions of a centralized political system, and we now ask them of a decentralized

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grants economy. In a system so decentralized yet so full of good intentions, who gets? When do they get it? And how do they get it?

The Quest for the Elusive Maximand

In explaining resource allocation in a voluntaristic, decentralized grants economy, our first impulse is to turn to economic theory. The problem is that in order for market or value theory to provide explanations of who gets what, when, and how, one must know the maximand that governs decision-making in a grants economy. In Chapter 1 we review the efforts of sociologists and economists to pinpoint the maximand utilized by donors. To summarize, various writers focus on power and co-optation (Schwartz, 1967; Caplow, 1982), "cooperative egoism" (Hammond, 1975), "serial reciprocity" (Boulding, 1973), "intertemporal social contracts" (Kurz, 1978) and "interdependent utility functions" (Hochman & Rogers, 1969). In each case, there is an attempt to identify the true self-interest at work in the gift-giving transaction.

However, even if we could identify the underlying motives, it is still doubtful that it would do us much good in explaining resource allocation in a grants economy. Boulding (1973:24) points out that most donors have to wait so long before they get any feedback on transactions of this kind that it is very unlikely that enough discipline would develop within a grants economy to redirect the flow of resources. In contrast to market economies, in which actors can tell almost immediately if they are better or worse off in a given transaction, in a grants economy the donor does not experience benefits until far into the future. Thus although there may be self-interest at work in a grants economy, donors have to wait too long before they can get the sort of feedback they need to know how to rechannel their resources to realize a more beneficial and efficient (i.e., less costly) outcome.

The problem exists even in those cases of pure altruism where Alter's priorities become Ego's. Unless the significant other is physically or socially proximate to Ego, it may be very costly for Ego to verify that its alter ego is really better off as a result of the gift it made. In Chapter 1 we describe the multitude of agents who often end up mediating transactions in charitable economies (e.g., the nonprofit, the almoner, the broker, and the fundraiser), thus increasing the distance between those who make the initial gift and those who are the ultimate beneficiaries. It may thus be very difficult to get feedback to donors, given the various agents and organizational layers through which information must pass. In the real world, even true altruists will likely find it difficult to

know whether their gifts had the intended effects and thus whether their gift money might be better allocated.

There is also a problem in identifying the maximand of the nonprofit donee or producer organization. The crux of the problem, as Martin (1980:76) notes, is that one cannot assume a single maximand if decision-makers do not have private property rights over assets and residual earnings. If the manager cannot keep residual earnings or capitalize wealth by selling ownership rights, then what guides decision-making in the organization (Frech, 1980:62)? According to Martin,

> The institution of private property does more than bestow exclusive rights on individuals, it also operates as a constraint on their choices. It serves to make more costly than otherwise those choices that fail to maximize wealth for holders of such rights. In other words, it is the private property assumption that translates the interests of utility-maximizing owners into behavior that is consistent with wealth as an organizational maximand of the firm. (1980:76)

To make matters worse, there is seldom a price for the nonprofit's output (F. Levy, 1968:4; Carlsson, Robinson, & Ryan, 1971:78). There are indeed fluctuations in the demand for a nonprofit's goods and services, as well as in the supply. However, the price is insulated from market conditions and does not interact with either supply or demand. In fact, outputs are typically provided free or at nominal cost. Even if donors are seen as the ultimate buyers, there is no price they have to pay for goods and services. They give what they want and still get what they want. Although this does not seem to bother consumers, producers, or contributors, it deprives the analyst of an important mechanism to explain how resources are allocated.

The only constraint that economists have consistently found effective across all nonprofits is the budget. There seems to be little disagreement that nonprofits seek to maximize outputs given certain budgetary constraints (e.g., F. Levy, 1968; Blair, Ginsburg, & Vogel, 1975). Some authors have been more specific. For example, Newhouse (1970) and Feldstein (1971) argue that nonprofit hospitals maximize quantity and quality subject to budget constraints. Long (1964) also states that nonprofit hospitals maximize quantity subject to budget constraints.

Yet other maximands are operative as well. F. Levy (1968) argues that nonprofits seek to maximize sales, organizational slack (see also Martin, 1980; and Blair et al., 1975), and managerial discretion. Pauley and Redisch (1973:87) believe that the professionals who control the nonprofit seek to maximize their personal income. Finally, Copeland and Smith (1978:151) suggest that nonprofits maximize the utility of contributors.

All in all, it is extremely difficult to build a model explaining how resources are allocated in an economy where the buyers (i.e., donors) have little or no idea of the benefits that they or "significant others" realize and where there is no clear maximand upon which sellers (i.e., donees) make production decisions. Indeed, back in 1962 a group of economists convened by the National Bureau of Economic Research came basically to the same conclusion and warned that value theory, the mainstay of economic analysis, is just not useful in studying charity, philanthropy, or charitable organizations (Dickinson, 1962; see also Clarkson & Martin, 1980, and Boulding, 1973:5).

Securing Funding in an Open Grants Economy

The goal of this chapter is to shed some light on how nonprofit organizations are able to attract direct corporate contributions in an unmediated grants economy.[1] The question intrigues us for two reasons. First, in an open grants economy, the distribution of corporate contributions across a set of nonprofits in the community is the result of a large number of small decisions by nonprofits to solicit certain firms and by companies to fund certain nonprofits. Open economies do not have the advantage of redistributive structures via allocations committees, guidelines, community priorities, and institutional power. Instead the final distribution is the result of one-on-one transactions between donor and donee.

Second, in an open grants economy certain market signals, which might attract capital in a market economy, are missing. Putting aside the problem of measuring benefits that might accrue to the donor or to some significant other, investors or donors in a grants economy do not have a reliable indicator of organizational performance against which they can make some evaluation of future performance. In a market economy, investors can look at a firm's profitability and evaluate its potential earnings. Given the nondistribution constraint and an interest in benefiting client groups rather than exploiting a market position, there are no profits for prospective donors to look at when making their decisions about allocations. Realizing a surplus at the end of the fiscal year may mean that the organization is well managed, but otherwise it does not have the same meaning as in the for-profit sector. It could, in fact, be a liability in fundraising, because the organization may be seen as not needing any more money to carry out its goals. Given that the profit or surplus earned at the output boundary cannot be used as an incentive to recruit the input of capital resources, the nonprofit, unlike

the for-profit, cannot simply let bottom-line indicators recruit capital for them. Just as the nonprofit must devise a strategy to market its services to consumers, it must also develop a separate strategy to market itself to donors.

Although not couched quite in these terms, the sociological literature pays considerable attention to how organizations go about securing resources in an open grants economy and to the features of an organization that often unintentionally affect the amount of resources it is able to secure from donors and other sources. Three general strategies that nonprofits pursue have received the most attention: the manipulation of various external referents of organizational prestige, the creation of boundary-spanning roles, and affiliation with elites in the community.

Making Oneself Legitimate: Manipulating Referents of Legitimacy

Recent organizational studies have rediscovered the importance of the institutional environment. Stemming from Parsons' early work (1956, 1960) is renewed interest in the legitimation of organizations before their various audiences and publics. In Chapter 2 we focus on how corporations struggle to legitimate themselves by making contributions to charity. Here we focus on the nonprofit as it manipulates referents of legitimacy to make itself attractive to at least one segment of institutional environment—corporate donors.

We believe that the legitimacy issue is even more important for nonprofit than for profit-oriented organizations, because the former's raison d'être is to further the social values of different minority interests (see Weisbrod, 1975, 1977). For a theoretical grounding, we turn to Douglas (1983:146), who convincingly argues that the private nonprofit human-service organization—the public charity—is an organizational form that is distinct in its emphasis on furthering the plethora of social values and ideals that are near and dear to various interest groups in a society. According to Douglas, when an individual or a minority wants something for itself, then markets are appropriate; when values are social and are widely held in common, then governments are in order. However, when an individual or minority has social values but cannot rally a constituency large enough to persuade government to implement the action, then the Third Sector—nonprofits—becomes useful. Nonprofit organizations are vehicles that help give expression to the social values or social ideals of minority interests.

Just how far the social values of minority interests can deviate from the values of the larger society is an unresolved question. Douglas

phrases the problem this way: "[if] social values diverge in ways that are, rather literally, tolerable, a voluntary third sector permits different and inconsistent social values to be pursued concurrently" (Douglas, 1983:146). If the values diverge in ways that are intolerable, then the larger society will either cease to support the organizational effort or persecute it outright. What is tolerable or intolerable, however, is open to debate.

Parsons (1956) argues that the surest way of ensuring organizational legitimacy is to select organizational goals reflective of dominant values. If organizational goals are in line with system goals, the main functional patterns within the organization will be legitimate, as will subgoals and operating procedures. For Parsons, if the goals of the organization are in line with the dominant values, not only will the organization operate unencumbered in its environment, but participants in the organization will be all the more loyal to the organization (see also Pfeffer & Salancik, 1978:193–194; and Thompson & McEwen, 1958).

An alternative strategy to ensure legitimacy is to introduce some outside authority to validate the worthiness of the organization. Perrow (1961) argued that this is especially important in organizations in which it is difficult for outsiders to evaluate the merits of the organization's output (e.g., hospitals.) In his study of Valley Hospital, Perrow noted how the organization used research grants from well-reputed agencies to validate their claims to legitimacy. Pfeffer and Salancik (1978:197–199) presented a similar argument in their analysis of the American Institute for Foreign Study. In an effort to validate its legitimacy, it obtained endowments from prominent politicians, selected prestigious European universities as study sites, and secured college credit from prestigious American colleges for student participation in its program.

A third alternative is to publicize characteristics of the organization that are thought to ensure quality (Perrow, 1961). In Perrow's study of Valley Hospital, administrators promoted the reputation of the staff, the specialized equipment, the number of research projects, the teaching program, and so on. Kamens (1977) argues that colleges often pursue a similar course in highlighting referents of their exclusivity, detachment from worldly affairs, and upper-class subculture.[2]

Boundary-Spanning Roles

Recently, researchers studying organizations have paid considerable attention to efficiency norms and the minimization of transaction costs in interorganizational relations. In Chapter 4 we discuss how almoners

and brokers reduce transaction costs for donors. Here we argue that fundraisers, grantsmen, and public-relations staff perform a comparable function for nonprofit organizations and can influence contributions because of it.

We argue that efforts to reduce transaction costs through the institutionalization of boundary-spanning roles are as important to nonprofits as they are to donors. To review briefly: "Two types of functions are filled by boundary roles: information processing and external representation. Information from external sources enters an organization through boundary roles, and boundary roles link structures and activities to environmental conditions in the form of buffering, moderating, and influencing external events" (Aldrich, 1979:249). Applied to the donor–donee transaction, donee boundary roles can provide the nonprofit with information on what values are current in the larger society, which actors have an intense interest in different values, and which actors have enough resources to make solicitation worthwhile. As Aldrich (1979:249–250) points out, part of the responsibilities of these roles is to filter information from the environment and not just to aggregate information.

Boundary roles can also represent the organization to the funding community by providing accurate information on the organization to prospective funders and keeping the organization visible. This can be done through mass media advertising, news events, bulletins, newsletters, and press releases. Another, potentially more critical aspect of their work is solicitation. This is the active pursuit of donors through mailings, phone calls, site visits, and so on. A more subtle, but in some organizations equally important, form of solicitation is the active pursuit of contracts and grants. Grantsmanship activities include writing proposals, visiting prospective funders, hosting site visits, and writing reports on completed projects, and these activities are often responsibilities of boundary personnel.

Co-optation Through Elite Sponsorship

Finally, resource-dependency theorists have paid considerable attention to organizational strategies for co-opting sources of important resources. Citing Selznick's (1949) pioneering study of the Tennessee Valley Authority as one example, Burt (1982), Allen (1974), and Pfeffer (1972) argue that an effective way to ensure the continued input of resources from other actors in the environment is to get their executives actively involved in the organization and to make them feel that they have a stake in its survival. This chapter also focuses on the ways that nonprofits can co-opt members of the corporate philanthropic elite by

involving them as board members, donors, volunteers, consultants, officers, or even users.

Co-optation theory suggests that nonprofit personnel would be wise to involve business executives and philanthropic elites as much as possible in their affairs. The purpose of making overtures to the upper strata is obvious. These people will ensure that those institutions survive and flourish that are essentially their turf. These people have financial resources themselves and often have control or influence over corporate assets that can be mobilized on behalf of the nonprofit. The nonprofit, quite literally, can live out of their pockets. By involving those who have resources in the organization's affairs and effectively making them dependent upon the nonprofit for some sociability payoff, the organization should be assured of its own survival.

A number of latent functions are also served by involving business people and philanthropic leaders. First, these people are often excellent conduits for information on developments in the resource environment and superbly represent the organization to the larger community. In other words, they can perform the same functions as do boundary-spanning personnel. Instead of employing professional fundraisers or public-relations staff, the nonprofit can use those laymen to monitor the environment and to represent its interests to donors in the community. In his study of the YMCA, Zald (1969) notes that wealthy directors often assume important boundary-spanning functions. "They [directors] promote and represent the organization to major elements of the organizational set, for example, customers, suppliers, stockholders, interested agencies of the state, and the like. That is, they defend and support the growth, autonomy, and effectiveness of their agencies *vis-à-vis* the outside world" (Zald, 1969:69).

A second latent function is that the donee organization can enhance its prestige through association with prestigious people. Just as giving to a prestigious nonprofit may enhance the prestige of the donor, association with prestigious people in the community can enhance the prestige of the donee. If those people of whom the community thinks highly, themselves think highly of some nonprofit organization, then the community may think highly of that nonprofit as well. In this case, carrying prestigious members of the donor community on the board or as volunteers is a type of market signaling device that indicates to the rest of the actors in the system the organization's potential worth to the community.

Research has shown that elite involvement in nonprofits has helped them secure resources. For example, Pfeffer (1973) found that hospitals grew to the extent that their boards had political connections, ties to

financial institutions, and personnel appropriate to the agricultural or manufacturing character of the area (see Pfeffer & Salancik, 1978:174). In his study of the YMCA in Chicago, Zald (1969) had even more convincing results: the more business representation on the board, the greater the amount of business contributions.

Hypotheses

We can summarize our discussion thus far with the aid of a few simple equations. First, we hypothesize that nonprofit organizations will be better known and more esteemed in the donor community if they engage in activities that have high priority in the community, if they have some legitimate outside authority to validate their worthiness, or if they have some referents that give testimony to the high quality of their services. We expect that larger nonprofit producers will be more visible to donors as well. Thus,

$$\mathrm{rp}_j = f(\mathrm{ac}_j, \mathrm{gf}_j, \mathrm{bd}_j, \mathrm{pf}_j, \mathrm{ex}_j) \tag{5.1}$$

where rp_j is the number of corporate contributions staff that recognize and hold a nonprofit (j) in high esteem, ac_j is the degree to which a nonprofit's activities are highly valued by members of the community elite, gf_j is the total value of government grants and contracts received by the nonprofit, bd_j is the occupational prestige of board members, pf_j is the total number professionals employed full time by the nonprofit, and ex_j is total expenditures of the nonprofit.

Second, we hypothesize that nonprofit recognition and prestige in the donor community is also a function of the use of boundary-spanning personnel to publicize the organization and its activities. Thus,

$$\mathrm{rp}_j = f(\mathrm{fr}_j, \mathrm{gw}_j, \mathrm{pr}_j) \tag{5.2}$$

where rp_j is the degree to which a nonprofit (j) is recognized and held in esteem by the donor community, fr_j is the presence/absence of a fund raiser, gw_j is the presence/absence of a grants writer, and pr_j is the presence/absence of a public-relations specialist.

Third, we hypothesize that nonprofit recognition and prestige is a function of contact with the corporate philanthropic elite. In particular, we are interested in the use of the nonprofit by the elite for their own private purposes and the elite's volunteer and financial support of the organization. Thus,

$$\mathrm{rp}_j = f(\mathrm{el}_j) \tag{5.3}$$

where rp_j is defined as above and el_j is the number of corporate philanthropic leaders who use the services of the nonprofit or actively support the nonprofit with contributions, volunteer time, and so on.

Finally, the total amount of direct corporate contributions is a function of the direct involvement of the corporate philanthropic elite in the organization and the degree to which the nonprofit is recognized and held in esteem in the donor community. Size is now included as a control variable. Thus,

$$cd_j = f(el_j, rp_j, ex_j) \tag{5.4}$$

where cd_j is total direct corporate donations received by a nonprofit and ex_j, el_j, and rp_j are defined as above.

Measurement

Corporate Contributions and Expenditures

In 1980 and 1981 we interviewed a stratified sample of 229 public charities in the Twin Cities metro area (see Appendix C). The amount of money received from corporations in 1979 and 1980 was obtained from the nonprofit organization during each interview. The variable used in the analysis is the average of the amounts for the 2 years (X_{cd}).[3] Expenditures for 1979 and 1980 were also obtained during the interview. Again we averaged across the 2 years (X_{ex}).[4]

Donor Recognition of Nonprofits

The data on donor recognition of nonprofits is taken from the interviews with corporate representatives. We handed a list of all 326 nonprofit organizations in our sample (see Appendix C) to the individual primarily responsible for contributions in the 69 participating firms with 200 or more employees. In all, representatives of 61 of the 69 firms responded to this item. The respondent went through the list and checked off the nonprofits that she or he "recognized." The maximum number of votes received was 58, and the mean was 10.8. A similar procedure was used to determine the prestige of nonprofits. With the list of the 326 nonprofit organizations in hand, the 61 corporate representatives went through it a second time and checked off the nonprofits that they thought were providing "very essential" services to community residents. They then went through the list a third time and checked off those achieving "extraordinary accomplishments" in their respective fields.[5]

Because all three of these variables were highly skewed, we computed their natural logarithms and then their zero-order correlations. (Because the log of zero is undefined, we coded its log as equal to zero.) The correlation between being "recognized" (ln) and being "very essential" (ln) was .808; the correlation between being "recognized" (ln) and achieving "extraordinary accomplishments" (ln) was .729; and the correlation between being "very essential" (ln) and achieving "extraordinary accomplishments" (ln) was .865. Because these variables were so highly intercorrelated, we did a principal-components analysis combining the three into a single factor. The eigenvalue for this factor was 2.60 and accounted for 86.7% of the variance in our variables. The loadings for being recognized, being essential, and achieving extraordinary accomplishments were .906, .958, and .929 respectively. A factor score was then assigned to each case (X_{rp}).

Boundary-Spanning Roles

We examined three boundary-spanning roles. During the nonprofit interview we asked respondents to tell us whether they retained the services of a fundraiser, (X_{fr}), grants writer, (X_{gw}), or community-relations specialist (X_{pr}) either on a part-time or full-time basis.[6] Interestingly, organizations that employed fundraisers did not necessarily hire grants writers ($r = .310$). Nor did organizations that hired fundraisers or grants writers necessarily hire public-relations staff; the zero-order correlations were .411 and .236 respectively. We debated whether or not to combine these various boundary-spanning items into a single factor and to analyze factor scores. We decided against this, because the correlations were not very high. Therefore, the three boundary-role variables will be treated as three dummy variables in the analyses below.

Activities

One strategy to determine the legitimacy of nonprofit organizations is to determine the extent to which their activities have high priority in the community. To determine the priority ranking of different nonprofit activities is not an easy task. We chose to hand the 80 members of the general community elite (see Appendix B) a list of nine activity areas: health/welfare, education, legal, recreational, cultural, NPO support services, science, housing/urban development, and "other." We then asked:

> To get an idea of how local corporate philanthropic money ought to be spent in the next few years, we would like you to "spend" $100 on the sectors below. Let us pretend that this sum represents all the corporate (and corporate foundation) money available in the Twin Cities for nonprofit support in the next two years.

According to our respondents, 22.4% of allocations should go to health/welfare, 16.0% to education, 6.4% to legal, 7.1% to recreational, 15.4% to cultural, 6.0% to NPO support services, 11.7% to science, 12.6% to housing/urban development, and 2.3% to other types of services.

In the course of each nonprofit interview, we handed the respondent the same nine activity areas and asked him or her: "Which of the following services does your organization provide for clients? Also rank order in terms of organizational priorities (e.g., 1 = most important, 2 = second most important, and so on)." Respondents were free to give equal rankings to categories. According to the respondents, 31.9% of the NPOs provided primarily health/welfare services, 27.9% provided primarily educational services, 2.2% legal services, 6.6% recreational services, 10.9% cultural activities, 7.9% NPO support services, 4.4% scientific services or activities, 6.1% housing/urban development, and 10.5% provided other types of services.

To arrive at an activity legitimacy score, we identified the area of primary interest to the nonprofit and noted the percentage of all corporate contributions that members of the elite had said should go to that area. Based on the services they provided, nonprofits were then assigned the percentage that the elite had specified (X_{ac}). Thus if a nonprofit was engaged primarily in the delivery of health and welfare services, it received a score of 22.4, because the elite reported that $22.40 out of every $100 contributed by corporations should be allocated to health and welfare activities. Thus the higher the score, the more corporate money should be allocated to a given service area. Where more than one activity area was ranked first by the NPO respondents, we averaged across the areas.[7]

Government Funding

Another way to attain legitimacy is to be validated by some outside party that represents the public's interests. Thus we tallied the dollar value of grants and contracts received from government sources. Following from our discussion above, we assume, with Douglas (1983) and Weisbrod (1975), that services that governments are willing to support reflect the majority's or even the entire citizenry's social values. Supported by government funds, these organizations are serving the collective will. Needless to say, students of interest-group politics would question this assumption. Nevertheless, we still suspect that, in the

eyes of many, government dollars are an indicator that organizational activities dovetail with what legal authorities deem acceptable and thus with the social values of the societal majority. To measure government support, we added up the dollar values of all grants and contracts received from federal, state, county, and municipal governments in 1979 and 1980 and divided by 2 (X_{gf}).[8]

Prestige of Board

A second indicator of external validation is the prestige of the directors who sit on nonprofit boards. During the course of the nonprofit interviews we asked administrators for lists of their 1980 board members, as well as the cities or towns in which directors resided, their occupations, and their employers. If the respondent could only provide the name and residence, we went to the 1980–1981 city directories of Minneapolis–St. Paul and neighboring suburbs to obtain information on occupation and employer. With the occupational data in hand, we coded the prestige of each director's occupation using the Siegel–NORC index. In total there were 3,217 directors to code. For each organization we derived an indicator of the board's prestige by averaging the prestige scores of board members. If we were unable to code a director's occupation, the board's prestige score was computed on the directors for whom we had information. Of the 229 nonprofits, there were missing data for 24.

Professionalism

A third strategy by which an NPO can demonstrate legitimacy is to display referents that indicate the quality of services that the organization provides. One indicator of quality is the credentials of the NPO's staff (see Knoke & Wood, 1981). In the course of the interviews we asked respondents to list major job categories and to estimate the number of full-time, nonmanagerial, professional staff currently employed by their organizations.[9] Our indicator of professionalism is simply the number of full-time professionals reported by our nonprofit respondents (X_{pf}).[10]

Association of the Elite with the Nonprofit

The involvement of the elite in nonprofit affairs was drawn from our interviews with 26 members of the corporate philanthropic elite. During the course of these interviews, we handed the respondents a list of all 326 nonprofits in our sample and asked them to tell us which organiza-

tions they had served personally during the "past couple of years" and the capacity in which they had served. These capacities included donor, volunteer worker, consultant, board member, officer, and fund-raiser. We subsequently scored each nonprofit on the basis of how many members of the elite had served it (in any capacity at all) during the past few years. The frequency distribution of this variable was highly skewed: 74.2% of the nonprofits had not been served by our elite; the maximum number of elite patrons for a given NPO was 21, and the average number was .89.

We also asked our 26 elite respondents to tell us which organizations they or members of their immediate families had used personally during the past couple of years—by being patients, attending classes, going to plays or concerts, participating in programs, or otherwise using NPO facilities. We subsequently scored each nonprofit on the basis of how many members of the elite had used its services during the past few years. The frequency distribution of this variable was also highly skewed: 84.7% of the nonprofits had been used by none of our elite; the maximum was 24, and the mean was .64.

Because both of the above variables were skewed, we did a log transformation of each (again assigning zero to cases in which the log of zero would otherwise be undefined). The zero-order correlation between them was .919. This led us, in turn, to combine these two variables using principal-components analysis. The principal factor had an eigenvalue of 1.77, and it explained 88.6% of the variance in our variables. The factor loadings for "service to" nonprofits and "use of" nonprofits were both .941. Factor scores were then assigned to our cases (X_{el}).

The Finances of the Nonprofit Organization

Before analyzing the model outlined above, we should put our discussion of corporate contributions into context by reviewing briefly the financial profile of the nonprofits in our sample. From surveys of contributions activities and nonprofit organizations nationally, we learn (see Reiner & Wolpert, 1981; American Association of Fund-Raising Counsel, 1983; Theatre Communications Group, 1978) that corporate contributions are often a very small part of a nonprofit's income.

Table 5.1 presents a breakdown of where the sources from which our nonprofits received their moneys in 1980. In viewing these numbers we should remember that the average level of expenditures was $978,120 in 1980. With this in mind, corporate contributions that aver-

Table 5.1

Average 1980 Income to Twin Cities Nonprofits from 16 Sources[a]

Sources of income	Income ($)
Private sources	
Private, community foundation grants	45,264 (N = 210)
Individual gifts	15,458 (N = 212)
Federated giving	10,124 (N = 213)
Special benefit	363 (N = 213)
Corporate, corporate foundation grants	16,567 (N = 212)
Trusts/bequests	4,172 (N = 213)
Government sources	
Federal government grants and contracts	49,346 (N = 211)
State government grants and contracts	61,264 (N = 212)
City government grants and contracts	19,965 (N = 212)
County government grants and contracts	21,310 (N = 212)
Self-generated income	
Dues, membership fees	32,279 (N = 211)
Interest, rents, royalties	55,179 (N = 213)
Sale/loss of assets	950 (N = 213)
Profits from fundraising	7,036 (N = 213)
Income from sales of items unrelated to the exempt purpose and program service revenue	663,323 (N = 213)
Income from miscellaneous sources (e.g., other nonprofits, churches, etc.)	21,247 (N = 213)

[a] N = 229.

aged $16,567 clearly do not appear very significant. They were considerably less important than federal or state government grants and contracts and even less significant than income from interest, rents, and royalties ($55,179 in 1980). Indeed, every source of income was dwarfed by income from sales of goods and services unrelated to the exempt purpose of the NPO and program service revenue ($663,323).

Managing Donor Impressions of Nonprofit Organizations

In Equation 5.1 we hypothesize that nonprofit organizations will be better known and more esteemed in the donor community if they are engaged in activities that have high priority among the community elite, if they have some legitimate outside authority to validate their worthiness, if they have some referents that give testimony to the high quality

of their services, or if they are simply larger. We tested this hypothesis using the following equation.

$$Y_{rp} = a + b_{ac}X_{ac} + b_{bd}X_{bd} + b_{gf}\ln X_{gf} + b_{pf}\ln X_{pf} + b_{ex}\ln X_{ex} + u \quad (5.5)$$

where Y_{rp} is the factor score tapping the recognition and esteem of the nonprofit in the donor community, X_{ac} is the measure of how central an NPOs primary activities are to the priorities of the community's elite, X_{bd} is the average occupational prestige of the nonprofit's board of directors, X_{gf} is the amount of funds received from all government sources averaged across 1979 and 1980, X_{pf} is the number of full-time paid professional staff, and X_{ex} is the average annual total expenditures for 1979 and 1980. The natural logs of X_{gf}, X_{pf}, and X_{ex} were computed because each of these variables was highly skewed.

The zero order correlations for these variables are presented in Table 5.2, and the results for the regression analysis are in Table 5.3, Panel A. In the latter we see that only two of the internal and external referents of legitimacy proved to be significantly related to nonprofit recognition and esteem: The greater the number of full-time professionals, the more recognition and esteem the nonprofit received; and the larger the nonprofit (in terms of expenditures), the greater the recognition and esteem of the donor community.

The hypothesis in Equation 5.2 is that nonprofit recognition and prestige in the donor community is a function of the use of boundary-spanning personnel. We tested this hypothesis by use of the following equation:

$$Y_{rp} = a + b_{fr}X_{fr} + b_{gw}X_{gw} + b_{pr}X_{pr} + u \quad (5.6)$$

where Y_{rp} is the factor score for donor recognition and evaluation of nonprofit activities, X_{fr} is a dummy variable indicating whether or not the nonprofit retained the services of a fundraiser, X_{gw} is a dummy variable indicating whether the nonprofit retained the services of a grants writer, and X_{pr} is a dummy variable indicating whether the nonprofit retained the services of a public-relations specialist.

The results shown in Table 5.3, Panel B, provide strong support for our hypothesis. We find that nonprofits that had a full-time public-relations specialist, a fundraiser, or a grants writer were recognized and held in esteem by more members of the corporate donor community. These results suggest that boundary-spanning roles do have some effect on a nonprofit's reputation among donors.

Finally, Equation 5.3 argues that those in the donor community would recognize and evaluate nonprofits more positively if members of the corporate philanthropic elite were associated with them. That is,

Table 5.2
Means, Standard Deviations, and Pearson Zero-Order Correlations for Variables in Equations 5.5–5.8

	X_{ac}	X_{bd}	$\ln X_{gf}$	$\ln X_{pf}$	$\ln X_{ex}$	X_{fr}	X_{gw}	X_{pr}	X_{el}	$\ln X_{cd}$	Mean	SD	N
Recognition and esteem of the NPO in donor community (X_{rp})	.121*	.096	.304***	.491***	.485***	.348***	.293***	.444***	.661***	.451***	−.000	1.000	229
Centrality of NPO activities to priorities of community elite (X_{ac})		−.002	.197**	.215***	.221***	.077	.068	.095	−.020	.177**	14.271	6.965	229
Occupational prestige of NPO board members (X_{bd})			.011	.080	.155*	.034	.040	.037	.063	.061	57.255	8.04	205
Average value of government grants/contracts, 1979–1980 ($\ln X_{gf}$)				.587***	.525***	.236***	.282***	.287***	.213***	.348***	4.530	5.564	213
Number of full-time, paid professionals ($\ln X_{pf}$)					.728***	.406***	.319***	.617***	.416***	.321***	.975	1.405	229
Average expenditures, 1979–1980 ($\ln X_{ex}$)						.332***	.312***	.478***	.400***	.342***	10.789	2.487	215
Presence of a fundraiser (X_{fr})							.310***	.411***	.425***	.275***	.118	.323	229
Presence of a grants writer (X_{gw})								.236***	.256***	.257***	.074	.263	229
Presence of a public-relations staff (X_{pr})									.465***	.252***	.076	.266	223
Philanthropic elite use and service to NPO (X_{el})										.346***	.000	1.000	229
Average corporate donations 1979–1980 ($\ln X_{cd}$)											4.530	5.564	213

*** $p \leq .001$.
** $p \leq .01$.
* $p \leq .05$.

Table 5.3

Regression Analysis for Equations 5.5 and 5.6 Testing the Managing-Impressions Thesis[a]

PANEL A

Dependent variable
Recognition and esteem of the NPO in the donor community (Y_{rp})

Independent variables	*b*	*SE*	Sig.	Beta	R^2	Sig.
Centrality of NPO activities to priorities of community elite (X_{ac})	.000	.009	.996	.000		
Occupational prestige of NPO board (X_{bd})	.004	.008	.633	.030		
Average value of government grants/contracts, 1979–1980 (ln X_{gf})	−.003	.014	.853	−.015		
Number of full-time paid professionals (ln X_{pf})	.216	.069	.002	.304		
Average expenditures, 1979–1980 (ln X_{ex})	.107	.038	.005	.267		
					.277	.000

PANEL B

Dependent variable
Recognition and esteem of the NPO in the donor community (Y_{rp})

Independent variables	*b*	*SE*	Sig.	Beta	R^2	Sig.
Presence of a fundraiser (X_{fr})	.486	.204	.018	.157		
Presence of a grants writer (X_{gw})	.623	.235	.009	.164		
Presence of public-relations staff (X_{pr})	1.281	.243	.000	.341		
					.254	.000

[a] N = 229.

their recognition and evaluation of a nonprofit would be that much better if corporate philanthropic leaders either supported it or used its services. The zero-order correlation between our factor scores summarizing the elite's use and service to our nonprofits and our factor scores summarizing donor's recognition and valuation of nonprofits was .661 (significance = .001; n = 229). However, the true impact of elite involvement with an NPO can only be seen if it is stacked up against the other variables that we have found to impact on donor perceptions. Thus we estimated the following equation, which included the factor score for elite involvement as well as the other variables that we found

earlier in our analysis to be statistically related (at the .05 level) to donor recognition and valuation:

$$Y_{rp} = a + b_{fr}X_{fr} + b_{gw}X_{gw} + b_{pr}X_{pr} + b_{pf}\ln X_{pf} + b_{el}X_{el} + b_{ex}\ln X_{ex} + u \quad (5.7)$$

where X_{el} is the factor score combining elite use of and service to a nonprofit organization and X_{fr}, X_{gw}, Y_{rp}, X_{pr}, X_{pf}, and X_{ex} are defined as above.

Table 5.4, Panel A, presents some interesting findings. First of all, we see that none of the boundary-spanning roles were significantly related to donor recognition and evaluation of nonprofits. Second, the number of professionals was similarly no longer related to the dependent variable. Once the association of the elite with the nonprofit was introduced into the equation, the effects of the aforementioned variables dropped out. This is not surprising, because the elite tended to associate with nonprofits that had fundraisers ($r = .425$; sig. $< .001$), grant writers ($r = .256$; sig. $< .001$), public-relations people ($r = .465$; sig. $< .001$), and more professional staff ($r = .416$; sig. $< .001$). Evidently the effects of these organizational variables on donor perceptions were spurious.

There was very strong support, however, for the thesis that the affiliation of the corporate philanthropic elite with the nonprofit greatly enhanced its recognition and esteem in the corporate donor community. Also large nonprofits—simply because they were large in terms of their budgets—continued to attract the attention and respect of those responsible for corporate contributions, although the effect was not nearly as strong. Thus to be seen and evaluated positively by those in the donor community, the nonprofit either had to have a larger budget already or the patronage of corporate philanthropic leaders.

Upon reflection, we concluded that these results may be due to the fact that we failed to distinguish between the perceptions of nonprofessional and professional contributions people. As we learned in Chapter 4, the former was typically an officer of the company—sometimes the chief executive but more likely a vice president—who oversaw contributions on a part-time basis. Contributions were only one of his or her many duties, and a minimal amount of time was spent on this activity. The latter devoted considerably more time and energy to the contributions program. This type of individual typically had more work experience in the nonprofit sector or in government, had been employed in the direct delivery of human services, had memberships in professional

Table 5.4

Regression Analysis for Equation 5.7 Testing the Elite-Association Thesis[a]

PANEL A

Dependent variable
Recognition and esteem of the NPO in the donor community (Y_{rp})

Independent variables	b	SE	Sig.	Beta	R^2	Sig.
Presence of a fundraiser (X_{fr})	−.033	.180	.853	−.011		
Presence of a grants writer (X_{gw})	.258	.203	.205	.068		
Presence of public-relations staff (X_{pr})	.168	.248	.499	.045		
Number of full-time paid professionals (ln X_{pf})	.087	.058	.134	.122		
Philanthropic elite use of and service to NPO (X_{el})	.516	.059	.000	.516		
Average expenditures, 1979–1980 (ln X_{ex})	.060	.029	.041	.150		
					.510	.000

PANEL B

Dependent variable
Recognition and esteem of the NPO in the donor community: Nonprofessionals only (Y_{rp1})

Independent variables	b	SE	Sig.	Beta	R^2	Sig.
Presence of a fundraiser (X_{fr})	−.160	.177	.365	−.052		
Presence of a grants writer (X_{gw})	.295	.200	.142	.078		
Presence of public-relations staff (X_{pr})	.312	.244	.203	.083		
Number of full-time paid professionals (ln X_{pf})	.080	.057	.162	.112		
Philanthropic elite use of and service to NPO (X_{el})	.542	.058	.000	.542		
Average expenditures, 1979–1980 (ln X_{ex})	.052	.029	.074	.129		
					.526	.000

PANEL C

Dependent variable
Recognition and esteem of the NPO in the donor community: Professionals only (Y_{rp2})

Independent variables	b	SE	Sig.	Beta	R^2	Sig.
Presence of a fundraiser (X_{fr})	.001	.179	.999	.000		
Presence of a grants writer (X_{gw})	.254	.202	.212	.067		
Presence of public-relations staff (X_{pr})	.251	.247	.312	.067		
Number of full-time paid professionals (ln X_{pf})	.098	.058	.091	.138		
Philanthropic elite use of and service to NPO (X_{el})	.499	.059	.000	.499		
Average expenditures, 1979–1980 (ln X_{ex})	.054	.029	.066	.134		
					.514	.000

[a] N = 229.

associations related to contributions activities, and attended conferences on these topics.

We re-evaluated Equation 5.7 to see whether both types of contributions functionaries were equally likely to evaluate nonprofits on the basis of philanthropic elite involvements. We expected that nonprofessionals (e.g., corporate officers and middle-level managers), would be more influenced by the involvement of elites because for many, this was their reference group. The corporate philanthropic elite was highly visible in the community, and executives just did not have the time to learn about nonprofits from sources other than the philanthropic elite. If the elite believed enough in the organization to serve on its board, to make a donation, or to use its services, then other business people could feel fairly confident that the organization was legitimate and essential and that it was doing good things for the community.

In contrast, we expected that professionals would be less influenced by the involvement of elites with an organization. The corporate philanthropic elite was not their reference group. In all likelihood these people were not upwardly mobile in the business community, and their careers were not dependent upon the elite looking favorably upon them. Furthermore, these people supposedly had a broader background in nonprofit and governmental affairs and spent a good part of their work time doing research on nonprofits, making site visits, and consulting with others on the merits of various organizations. Thus we expect that their recognition and evaluation of nonprofits were sensitive to a wider variety of criteria and immune to the special affiliations of elites with the nonprofits.

Table 5.4, Panels B and C, presents the results of two reanalyses of Equation 5.7. The first reanalysis used a dependent variable that was based solely on the evaluations by the 38 nonprofessionals. We tallied the number of nonprofessionals who recognized a nonprofit, thought it was essential, and thought it had achieved extraordinary accomplishments. We computed the natural logarithm of these sums and performed a principal-components analysis of the three variables. Factor scores were then assigned to nonprofits.

The second reanalysis of Equation 5.7 used a dependent variable based solely on the evaluations of the 23 professional staff who responded to these items. We tallied up the number of professionals who recognized a nonprofit, thought it was essential, and thought it had achieved extraordinary accomplishments. We computed the natural logarithm of these sums and performed another principal-components analysis on the three variables. Factor scores were then assigned to nonprofits.

As we can see in Table 5.4, the results in Panels B and C are essentially the same as we found in Panel A, where we make no distinction between professional and nonprofessional contributions staff. The model with only evaluations by nonprofessional staff had an R^2 of .526; the model in which we examined only evaluations by professional staff had an R^2 of .514. Nonprofessional staff were by far influenced most by the affiliation of the corporate philanthropic elite with a nonprofit. Professional staff exhibited the same pattern. Comparing the unstandardized regression coefficients for elite affiliations across both models, we found only a very slight difference. For nonprofessionals the unstandardized regression coefficient was .542 (SE = .058); for professionals it was .499 (SE = .059). Also we see that both professional and nonprofessional staff were responsive to the size of the nonprofit's budget. The only difference is that professional staff based their evaluations of nonprofits slightly more on the number of professional staff than their nonprofessional counterparts. Thus the difference between professionals and nonprofessionals was not as great as we had expected.

Explaining Corporate Support

In Equation 5.4 we argue that the level of corporate support for a nonprofit should be a function of the philanthropic elite's use and support of the nonprofit organization, the NPO's reputation among those responsible for contributions in different companies, and, of course, the level of expenditures. However, given the wide range of other variables that we have analyzed, it may be that any one of these may also effect the amount of contributions received from corporations. Pursuing a course somewhat different from our previous efforts, we thus first postulated a model that contained only the hypothesized effects and then entered each of the other variables one at a time to see its relative impact on our dependent variable. In this way we tested our hypothesis and provided an opportunity for other varibles to demonstrate their effects on the level of contribution. The initial equation that we used is as follows:

$$\ln Y_{cd} = a + b_{rp1}X_{rp1} + b_{rp2}X_{rp2} + b_{el}X_{el} + b_{ex}\ln X_{ex} + u \qquad (5.8)$$

where Y_{cd} is the average annual total corporate donation received by nonprofit j in 1979 and 1980. The natural logarithm was computed, because this variable was highly skewed. NPOs that received no contributions were coded zero. All the other variables are defined as above.

Table 5.5

Regression Analysis for Equation 5.8 Testing the Donor-Priority Thesis[a]

PANEL A

Dependent variable
Average corporate donations, 1979–1980 (ln Y_{cd})

Independent variables	*b*	*SE*	Sig.	Beta	R^2	Sig.
Recognition and esteem of the NPO in donor community: Nonprofessionals (X_{rp1})	.052	.575	.928	.012		
Recognition and esteem of the NPO in donor community: Professionals (X_{rp2})	1.419	.567	.013	.339		
Philanthropic elite use of and service to NPO (X_{el})	.230	.354	.518	.055		
Average expenditures, 1979–1980 (ln X_{ex})	.252	.119	.036	.149		
					.231	.000

PANEL B

Dependent variable
Average corporate donations, 1979–1980 (ln Y_{cd})

Independent variables	*b*	*SE*	Sig.	Beta	R^2	Sig.
Recognition and esteem of the NPO in donor community: Nonprofessionals (X_{rp1})	.065	.566	.909	.015		
Recognition and esteem of the NPO in donor community: Professionals (X_{rp2})	1.322	.559	.019	.316		
Philanthropic elite use of and service to NPO (X_{el})	.273	.349	.436	.065		
Average expenditures, 1979–1980 (ln X_{ex})	.078	.131	.555	.046		
Average value of government grants/contracts, 1979–1980 (ln X_{gf})	.156	.053	.004	.208		
					.262	.000

[a] N = 229.

The results, presented in Table 5.5, Panel A, show that recognition and esteem among professionals in the donor community clearly had a major impact on the level of contributions, as did the size of the nonprofit's budget. However, contrary to our expectations, a nonprofit's reputation among nonprofessionals and association with philanthropic leaders had no independent effects on the level of contributions. Thus, combined with our earlier findings (see Table 5.4), we now know that elite affiliation had only an indirect effect on contributions, enhancing

the NPO's reputation among professionals in the donor community but not affecting the level of funding itself.

Before we consider the results of entering the other variables into our equation through a stepwise procedure, we should note that all but one of the variables we discuss in this chapter were correlated at the .01 level with the amount of corporate contributions received by nonprofits (see Table 5.2). In fact, all but one of these correlations were significant at the .001 level.

The stepwise procedure we used prespecified the inclusion of the four hypothesized effects in the equation—two of which were found to be significantly related to contributions. The inclusion of additional variables was based strictly on how much the variable increased the explanatory power of the model. This was evaluated by examining changes in R^2 and performing the corresponding F tests. Eventually six of the seven variables not in the original equation were entered into Equation 5.8.

Table 5.6 summarizes the results. The first additional variable entered into the equation was the average value of government grants and contracts received in 1979 and 1980. The inclusion of this variable increased R^2 from .231 to .262, and the difference in the variance explained was significant at the .01 level. After that variable had been entered, however, no other variable had a significant impact on R^2. In fact, with all the other variables in the equation, R^2 increased to only .287.

To see if the inclusion of government funding detracted from the effects of the variables already in our model, we reestimated Equation 5.8, this time including the value of government grants and contracts received averaged across 1979 and 1980. The results for this analysis are shown in Table 5.5, Panel B. As we can see, the reputation of the nonprofit among professionals in the donor community still had a statistically significant effect on the level of contributions. However, so did the dollar value of government grants and contacts awarded to the organization ($p = .004$). As before, elite association had no effect on the level of contributions, and the effect of organizational size had now disappeared.

Summary and Discussion

Our overriding concern in this chapter was to reveal the factors that govern resource allocation in a grants economy. In the absence of a market mechanism or some centralized redistributive structure to help

Table 5.6

Summary Table of Exploratory Stepwise Regression Analysis Testing for Additional Exogenous Effects[a]

Dependent variable
Average corporate donations, 1979–1980 ($\ln Y_{cd}$)

Step	Variable entered[b]	F to enter	Sig.	R^2	Overall F	Sig.
1	Recognition and esteem of the NPO in donor community: Professionals (X_{rp2})	5.726	.018	.210	14.103	.000
	Average expenditures, 1979–1980 ($\ln X_{ex}$)	4.082	.045	.229		
	Philanthropic elite use of and service to NPO (X_{el})	.383	.537	.231		
	Recognition and esteem of the NPO in donor community: Nonprofessionals (X_{rp1})	.007	.931	.231		
2	Average value of government grants/contracts, 1979–1980 ($\ln X_{gf}$)	7.862	.006	.262	13.267	.000
3	Centrality of NPO activities to priorities of community elite (X_{ac})	2.467	.118	.272	11.553	.000
4	Presence of a grants writer (X_{gw})	1.488	.224	.277	10.142	.000
5	Number of full-time paid professionals ($\ln X_{pf}$)	.863	.354	.281	8.975	.000
6	Presence of a fundraiser (X_{fr})	1.145	.286	.286	8.111	.000
7	Occupational prestige of NPO board members (X_{bd})	.078	.780	.285	7.271	.000

[a] N = 229.
[b] Variable not entered into equation: Presence of public-relations staff (X_{pr}).

allocate resources, we began our investigation somewhat in a quandry as to what does determine just who gets what in a grants economy.

Working under the assumption that nonprofit organizations are vehicles that give expression to donors' ideals of what is best either for the entire community or for a minority within the community, we first suggested that those nonprofits that could best demonstrate their legitimacy would be likely to receive more corporate contributions. The more centrist an organization, the more it has been verified by outside authorities, or the more it can demonstrate the quality of its services, the

more corporate donors will come to appreciate its merits and the more corporate contributions it should then receive.

We next suggested that those organizations that can better "get the message out" and present themselves effectively to the community should be better known and more respected in the donor community. The utilization of boundary-spanning personnel to better represent the organization should result in more donors knowing about and appreciating the organization's activities, and in the organization receiving more funding.

We suggested that alternatively, nonprofits can both secure a valuable external referent of prestige as well as a very capable spokesperson for the organization by recruiting or otherwise securing the patronage of the corporate philanthropic elite. In addition, elite members often have ties to very important prospective donors in the corporate community and can use their clout to influence allocation decisions directly.

Only two variables were consistently related to nonprofit recognition and esteem in the donor community: the number of corporate philanthropic leaders either using or serving the nonprofit organization and the size of the organization's budget. Multiple-regression analysis indicated that variables having weak or nonexistent effects included having prestigious board members, having programs consistent with the priorities of the general community elite, having government funding, or having more professional staff. Similarly, having either a fundraiser, grants writer, or public-relations specialist had little or no effect on how well known and respected the organization was in the donor community. To repeat, only nonprofits that had philanthropic leaders associated with them or that were very large organizations tended to be well known and respected by more members of the corporate giving community. We might add that this pattern held true even when we analyzed the perceptions of professional and nonprofessional corporate contributions staff separately.

Even though elite affiliation did so much for an organization, we still do not know for sure why this effect was as strong as it was. That is, did more contributions people know about elite-sponsored/utilized nonprofits because members of this elite actively solicited in the business community on their behalf? Or were these organizations better known and respected because they had been marked by the elite as credible organizations?

In the first scenario, the corporate philanthropic elite would be active champions of their favorite nonprofits. Philanthropic leaders would "talk up" their favorite nonprofits to corporate staff members, make presentations on behalf of their organizations to the company, or pressure the chief executive officer, who then informs the staff contribu-

tions person about the nonprofit organization and all the good things it is doing. This scenario has the corporate philanthropic leadership playing a very traditional role in the charity arena. Having identified organizations that they feel are worthwhile, they actively solicit corporate money for contributions. They effectively become boundary-spanning personnel linking the nonprofit to the corporate world. If the corporate almoner is the functionary who controls the philanthropic purse strings, then it would be logical for the philanthropic elite to pursue those who administer these contribution programs.

A second scenario would have the corporate philanthropic elite playing a more passive role. Although they may have favorites themselves, the elite would not push these organizations on program administrators. Rather, both professionals and nonprofessionals would come to know and regard nonprofits that the elite favors, because they know and respect the judgment of these business leaders. In their search for credible organizations, contributions people look for cues that signal the worthiness of a nonprofit. If the organization either serves or is served by people who have had a long involvement in philanthropic activities, then the chances are that the organization is worthy of their attention and esteem. In this respect, the corporate philanthropic elite becomes an outside authority that verifies the organization's legitimacy. Although either scenario is quite credible, unfortunately our data do not allow us to ascertain which is true.

The reason for the size effect is also not clear. We suspect, however, that organizations with larger budgets are often doing more things for more people.[11] In this light the effect of budget size reflects an interest on the part of donors in the breadth of a nonprofit's outreach. To the extent to which it serves more people, it is that much more important as a community service organization. This fits well with our argument that having a large constituency is a signal that a firm is serving collective interests. Interestingly, this interest in the number of people being served by the nonprofit can be juxtaposed with the other criterion for recognizing a nonprofit: patronage by the philanthropic elite. Thus donors seem to be sensitive both to the mass appeal of the nonprofit and to its service to the philanthropic elite.

We also found that nonprofits recognized and evaluated positively by more contributions professionals in the donor community received larger corporate contributions. We interpret this finding as demonstrating the importance of professional roles and professional networks. The perceptions and opinions of those who actively manage corporate contributions programs did make a difference in the allocation of dollars to nonprofits. Galaskiewicz (1984, August) shows how contributions staff who are in contact with each other come to recognize

and esteem the same nonprofit organizations. That is, the more interaction between the staff of two companies, the more likely they are to regard prospective donees in the same light. Our findings confirm that funding in this community was a function of what professionals in this network thought. It is our speculation that certain nonprofits become faddish in contributions circles and that network contacts help to crystallize opinions about those organizations. We would further speculate that once an organization has gained acceptance in these circles, the word gets around quickly, a consensus emerges, and corporate dollars are forthcoming. That contributions come from one corporate donor or another may be less important than that the organization receives some kind of corporate support.

Although we did not expect to, we also found that nonprofits that received more government funds tended to receive more corporate funds. At first glance, this finding might seem odd, but upon reflection it makes good sense. It appears that nonprofits became attractive to corporate donors if they received validation from either one of two sets of actors in the nonprofits' institutional environment. If the nonprofit was known and respected by more members of the corporate contributions community, then it was funded. If the nonprofit was able to secure larger grants or contracts from governmental sources, then it was funded as well. As long as some set of responsible outside actors made some gesture of support and good will to the nonprofit, it was funded. Perhaps the rule of thumb is that nonprofits are funded that have been able to win the recognition and respect of other funders.

If our interpretation is correct, it raises an interesting prospect. By taking into account the evaluations of other funders or looking at what they have funded instead of looking at the organization itself, the donor is relieved of the responsibility of making a decision based on an organization's own merits. If Douglas (1983) and Weisbrod (1975, 1977) are correct and the Third Sector is a menagerie of minority interests each pursuing its own version of the collective good, then donors find themselves facing a potentially explosive situation. They do not want to be seen as favoring one group too much, so they might very well look to see what's popular with other donor groups. That corporate donors are ready to mimic the preferences of other corporate donors or the public sector could indicate a desire to avoid criticism that they are using corporate money to support extreme or marginal grups which could, in turn, jeopardize their own legitimacy.

Mimicking institutional donors instead of individual donors may signal a new era in philanthropy. Curiously, corporate funding decisions seemed to be oblivious to the prestige of board members, to the associa-

tion of philanthropic leaders with a nonprofit, and to the fact that a nonprofit was doing things that the community elite thought companies should be supporting. In other words, corporate funding was impervious to the wishes of upper-middle- and upper-class status groups in the community that have traditionally assumed a guardian role regarding the Third Sector. Instead of funding the groups that these high-status individuals patronized, corporate funding decisions were more sensitive to the opinions and actions of institutional funders. Again, this may reflect a cautious desire on the part of companies not to be seen as agents of special interests.

Finally, what does all this say about the nonprofit organization? Curiously, none of the features of the NPO itself affected the level of corporate funding. Neither its activities, its use of professionals, its employment of boundary-spanning personnel, nor even its size had a direct effect on the amount of funds it received from corporations. Evidently corporate funding was not allocated according to a set of criteria that took into account what the organization did or how it did it. Large size did appear to have an indirect effect on corporate funding —it made the NPO more visible and respected in the donor community. However, most nonprofits apparently could do very little to increase corporate funding on their own. Their fate was out of control. Only if they were able to attract the attention of corporate philanthropic leaders were they able to enhance their visibility in the donor community; or if they were able to attract government funds, were they able to get more corporate dollars. However, the success of these strategies was contingent upon the cooperation of actors outside the organization. Without that outside help, the chances of corporate funding appeared to be slim.

Notes

1. In this chapter, we do not consider allocations that flow through brokerages; we only concentrate on direct company giving.

2. Researchers have found over and over again that nonprofit organizations can encounter serious difficulties if they become too preoccupied with their images. For example, Meyer and Rowen (1977) argue that many organizations in postindustrial societies reflect the myths of their institutional environments even at the expense of the demands of their work activities. In their efforts to respond to constituents, public opinion, regulatory agencies, and the courts, organizations lose technical efficiency. The result is an attempt to maintain parallel structures both to appease the demands of the various environments and to sustain the internal operations of the organization.

Lee (1971) noted that pressures to maintain organizational legitimacy can often seriously strain the budgets of nonprofit hospitals. To attract personnel (i.e., physicians) who

will establish the reputation of the hospitals, administrators find themselves spending considerable sums on equipment and facilities that will attract physicians but, in all likelihood, will contribute little to patient care. With continued physician shortages, increasing demands for health care, and new technological developments, there is increased pressure to purchase new and more expensive artifacts to seduce MDs.

Finally, Perrow (1961) also notes some of the pitfalls in store for organizations that place too great an emphasis on prestige. First, "the production of direct indices of intrinsic qualities may take precedence over maintaining the quality of goods and services. Second, resources may be diverted from activities supporting official goals to those which produce and market extrinsic characteristics. And, third, multiple dependencies may interfere with the marketing of either intrinsic or extrinsic referents and may create conflicts within the organizations and/or between the organization and its target group" (Perrow, 1961:341). The third problem seems to be the most common, as nonprofits find themselves needing both the recognition and esteem of the professional community as well as the respect of community residents. As Perrow correctly states, the pressures to please both audiences can tear the nonprofit apart (see, for example, Zolberg, 1974).

3. If organizations were missing information for 1 year, only data for the other year was used. Of the 214 organizations that provided us with data, 68% received no corporate contributions in either year, whereas the largest totals in 1979 and 1980 were $743,100 and $837,400 respectively. The average amounts received from corporations were $13,776 and $16,567 in 1979 and 1980.

4. The minimum in each year was $0; the largest expenditures were $79,000,000 and $85,000,000 for 1979 and 1980. The average level of expenditures was $908,843 in 1979 and $978,120 in 1980. As in the case of corporate contributions, if we had data for only one of the 2 years, we used that figure. For 14 organizations there were no data for either year.

5. The maximum number of votes for being "very essential" was 45, and he mean was 4.4 The maximum number of votes for having "extraordinary accomplishments" was 42, and the mean was 2.0.

6. We found that 11.8% of the organizations interviewed had either a full-time or part-time fundraiser, 7.4% had either a full-time or part-time grants writer, and 7.6% had a full-time public-relations specialist. There were six cases with missing data on the public-relations item, but no missing data for the other two variables.

7. The range on this variable was 0 to 22.4. This means that some organizations were not engaged in any activities at the time of the survey. The mean of this variable was 14.27 with a standard deviation of 6.96. There were no cases with missing data.

8. The distribution on this variable was highly skewed: 54.6% of the 213 organizations providing us with data received no government dollars in either year, but the mean for the 2 years was still $134,101.

9. In many cases the job categories provided by respondents were not what one might intuitively regard as professional occupations (e.g., janitor, clerk, nurse's aide). To ensure that we counted only recognized professional staff, we looked up all the job categories in the *Dictionary of Occupational Titles* (1977). Only those occupational titles that the dictionary listed as professional were categorized by us as professional.

10. Of the 229 nonprofit organizations, 55% had full-time professionals. The mode was 2 (7.9%), and the average was 10.32.

11. The reader is probably wondering why we did not simply measure the size of the nonprofit in terms of clients, patients, audiences, or others served instead of budget expenditures. We did request this information, but such data are not as simple to code as one might think. For instance, 94 nonprofits reported unduplicated numbers (different individuals served in a given year), whereas 46 nonprofits reported duplicated numbers

(service recipients are counted each time they attend a conference, enroll for class, and so on in a given year). (There are 89 missing cases.) To choose one or the other figure would eliminate a considerable number of nonprofits from any analysis using this variable. We can report, though, that the zero-order correlations between budget size and number of unduplicated clients was .520 ($n = 87$; $p = .001$) and between budget size and number of duplicated clients was .631 ($n = 46$; $p = .001$).

6

MATCHING AND MATING IN A GRANTS ECONOMY*

Introduction

Having discovered who gives and who gets in the Minneapolis–St. Paul grants economy, we turn our attention to who gives to whom. Our suspicion is that the factors that prod companies to give more money to charitable organizations and that make nonprofits attractive to corporate donors can explain which donors match up with different donees. This takes us beyond the aggregate analyses in the previous chapters. There, either the corporation or the nonprofit organization is the unit of analysis; here, the dyad or transaction is the unit of analysis.

Transactions in Unstructured Organizational Fields

The study of organizational pairings in organizational fields that are neither markets nor hierarchies has captured the attention of a number of sociologists and organizational theorists during the past 25 years. With the rise of the community organization movement and efforts on the part of various levels of government to solve problems of poverty,

* Revision of a paper read at the Sunbelt Social Network Conference V, February 14–17, 1985, Palm Beach, FL.

health care, and education at the neighborhood level, there emerged a whole new context for the development of interorganizational relations (see Warren, Rose & Bergunder, 1974). Both applied and basic research have wrestled with the issues of how resources are allocated in such a context and how collective problem solving can be better achieved (see Rogers & Whetten, 1982). These interorganizational arenas pique our interest precisely because there exists neither a market mechanism nor an effective central authority that can solve the problem of resource allocation (Galaskiewicz, 1985). Instead, organizations must work out arrangements with other organizations on their own.[1]

The earliest efforts to explain transactions within this kind of organizational field focused on exchange among actors (e.g., Levine & White, 1961). An important assumption underlying these early efforts was that organizations enter into transactions grudgingly and only to secure resources that they need to survive. In many respects the literature portrayed those fields as primitive, premarket barter economies. As needs arose, an organization's decision-makers would scan their environment and negotiate a transaction with some other organization that could provide them with the resources they needed in exchange for some future favor.

The literature reached a new level of sophistication in articles by Jacobs (1974) and Cook (1977). In these papers the authors correctly began to draw a parallel between the exchange processes described by Emerson (1962) and what was being found in the field. As noted by Aldrich (1979), once exchange relations among organizations were defined in terms of resource dependence, researchers could start to make predictions about how actors would try to minimize their dependence upon others. Also, following Blau (1964), researchers could start to hypothesize how actors in dominant positions would pursue different strategies to maintain their power over others. Numerous studies of interorganizational relations have been done within the exchange framework, including Galaskiewicz (1979a), Pfeffer and Leong (1977), Provan et al. (1980), and Pfeffer and Salancik (1978).

Alternatively, researchers have focused on how the management of uncertainty has influenced interorganizational relations. In fact, the management of uncertainty may explain the pattern of transactions among organizations as much as do power-dependency considerations. Organizational decision-makers often work with insufficient information and must pursue strategies to improve their information flow and knowledge of the environment. In the process, their relations to other organizations should change. In addition to the studies cited in Chapter 4 that looked at boundary-spanning roles and brokerages, research has

examined how interorganizational relations become more formalized (Leblebici & Salancik, 1982) or institutionalized in interlocking directorates (Burt, 1980, 1982, 1983; Burt, Christman, & Kilburn, 1980) as the environment becomes more threatening or unstable.[2]

Exchange Processes and Donor Allocations

To explain donative patterns in a grants economy, the exchange perspective, if modified, is potentially useful. As we note in Chapter 2, the exchange network—in our case community—involved three actors, not just two. The benefit that the donor derived from making greater contributions came not from the nonprofit that benefited from the gift, but from members either of the community elite or of the corporate philanthropic elite. Furthermore, the benefit was not tangible but rather in the form of esteem and recognition as a generous and successful business.

If the maximand of the donor is to enhance public relations among its stakeholders, then we might expect these donors to support nonprofits in which these stakeholders have an interest. Furthermore, those companies that support these NPOs should reap even greater status benefits from the reference group they seek to impress. For example, if a firm is dependent upon the community for employees, then it should channel its contributions to nonprofits that members of the community elite think ought to be supported. In turn, the reward for this gesture is that even more members of the community elite will see the company as generous.

If the maximand of the donor is to enhance executive acceptance and respect among the corporate philanthropic elite, then we might expect these donors to support the nonprofits that this elite patronizes. Furthermore, those companies that support the elite's favorite NPOs should reap even greater status benefits from this reference group. Operationally, those companies whose executives are in the social circles of the corporate philanthropic elite can be expected to give their contributions to nonprofits that the philanthropic elite use or support themselves. In turn, we expect that those firms that support nonprofits favored by this elite should be reaping even greater recognition and esteem from this elite than do those firms that do not.

In sum, exchange theory may have some potential for explaining the pattern of resource allocation among donors and donees. To repeat, what's different about our theory is that instead of focusing on the donor receiving something from the donee, we instead examine the benefits

that the donor receives from third parties. If, indeed, the motive to win the applause and esteem of significant others in the environment is strong enough, then firms should be supporting nonprofits that these significant others favor.

Managing Uncertainty and Donor Allocations

Uncertainty can influence matching and mating in interorganizational arenas, but typically it does so indirectly through the structures that organizations institutionalize to solve problems of uncertainty. In Chapters 4 and 5 we talk about the use of agents as a strategy for reducing uncertainty in donative transfers. Both brokerages and boundary-spanning personnel supposedly help to perform this function. These roles absorb the information search costs that donors must incur if they are to allocate their donations in such a way that their gifts are effective and the donor is not exploited. We argue that where broker and boundary-spanning roles have been institutionalized, they will influence the pattern of interaction among organizations.

Boundary-Spanning Roles and Donor Allocations

We specifically expect that corporations with professional boundary-spanning roles (i.e., almoners) will tend to fund nonprofits with professional boundary-spanning roles (i.e., mendicants). One reason is that information is much more easily exchanged between donor and donee if both have representatives who have the time and expertise to communicate with one another. Both donors and donees have agents who frequent the same community meetings, go to the same seminars, and attend the same conferences. The almoner is out there looking for someone to fund, and the mendicant is out there looking for someone to "hit up." Thus it would not be too surprising if these agents get together and consummate transactions between their respective organizations. After becoming acquainted with one another in informal settings, almoners and mendicants may very well strike deals. Thus, organizations with agents might end up collaborating because they each have the personnel to network and communicate with one another.

We might also expect to find a homophily effect, because donors which have boundary-spanning personnel require that nonprofits also have boundary personnel before they fund them. In other words, to reduce their own uncertainty, donors with almoners may exert formal or informal pressure on donees to become more like themselves as a

condition for being funded (see DiMaggio & Powell, 1983). In their effort to reduce their own transaction costs, almoner-dominated firms may require that the donee has some identifiable spokesperson to talk to or someone who can write a grant proposal or someone who can give them prompt information on the organization. In other words, in order to meet their own information needs, almoners may press prospective donees to change their own procedures and staffing. Obviously savvy nonprofit managers will anticipate these expectations and hire the appropriate boundary-spanning personnel. Not to do so would reduce their chances of being funded by the larger donors in the community.

Matchmakers

Alternatively, the allocation of resources in these interorganizational fields can be influenced by the intervention of a special type of third party: the matchmaker. Indeed, the brokers we discuss at length in Chapter 4 are a type of institutionalized third party that directs the allocation of resources among member organizations. The importance of these interorganizational superstructures in the allocation of organizational resources is highlighted in Aldrich (1976), Litwak and Hylton (1962), and others. In these cases the emphasis is less on transactions negotiated among two or three organizations than on joint decision-making and joint action within a larger, shared task environment (Rogers & Whetten, 1982:30).

An alternative to organized brokerages are matchmakers. In contrast to brokerages, which have been described as structured hierarchies, matchmakers are middlemen who have neither formal ties to any organizational actor in the field nor any formal authority to direct the flow of resources. These intermediaries have opinions, preferences, and priorities. They also have information and network contacts. In the role of matchmaker, they take it upon themselves to match surplus with need as they see fit.

Although matchmaking is not very common in interorganizational studies (for a possible exception, see Van de Ven, Walker, & Liston, 1979), it has been found in other arenas of social life. The best example of matchmaking is found in Granovetter's (1974) now classic study of employment patterns among managerial and professional workers. The actors in his study were individuals in search of jobs or considering reemployment, employers who had jobs to offer, and third parties who had information about the employment opportunities but were not themselves seeking employment at the time. Of interest to us is the role that the third party played as a matchmaker between those who sought

jobs and those who had jobs to offer. Those individuals who were looking for jobs benefited if they had ties to those who had information about jobs and if those third parties were willing to give or donate that information to them. Granovetter's work has been extended in a number of ways. For example, his particular interest in matchmakers and matching has been pursued by Boorman (1975) and Delany (1980).

The application of the matchmaker concept to a grants economy is straightforward (see Delany, 1980). The actors in need of resources such as money are the nonprofits; the actors controlling resources are the corporations. However, to secure money from the corporation, the nonprofit needs information about funders' priorities, preferences, and so on; and in order to disburse its charity budget, the corporation needs information about nonprofits' activities, goals, trustworthiness, and so on. In this situation, the matchmaker must be able to provide both types of information to be effective. She or he must be able to provide prospective donees with specific information on prospective donees.

Though there is nothing to prevent the matchmaker from charging both donors and donees a commission for this information, Granovetter, Boorman, and Delany envision the matchmaker providing information to both parties free of charge. This may, in fact, be intrinsic to the role. If the matchmaker took a commission, then she or he would become an agent for one interest or the other (see White, 1983). When they take a fee, they become either almoners or mendicants. Furthermore, if matchmakers charged consultants' fees, price barriers would be introduced into the organizational field that might hinder the optimal matching of "surplus" to needs; only those corporations and nonprofits wealthy enough to retain the services of agents would be getting the information they needed. The existence of free-floating matchmakers at least makes it possible for everyone to network into the information they need. The only barriers to an optimum allocation of resources may be limitations on the time and energy of the matchmakers.

In light of our discussion in Chapter 2, we suspect that members of the corporate philanthropic elite were likely candidates for the role of matchmaker in the Twin Cities grants economy. Just as is the case regarding the elite's role in spurring corporate contributions, the strong ties to the region shared by members of this elite may have been enough to motivate them to assume a matchmaker type of agency role; their social and corporate clout certainly gave them the capacity to do so. Matchmaking, then, would be another dimension of the elite's leadership/agent role. As intermediaries who straddle nonprofit and for-profit organizations, but who receive brokers' fees from neither, the members of the elite can pass on tips about prospective donors and

donees to both the nonprofits and corporate executives with whom they are associated. Though neither donors nor donees are obliged to follow up on the tips the elite provide, they would be foolish if they ignored the often rich inside information the elite has to offer.

As in Granovetter's world, it goes without saying that the existing ties that matchmakers have with those looking for favors and with those with favors to give, is critical in explaining resource allocation. This is why networks are so important. They provide a structural context in which these tips are passed on by matchmakers, thus enabling donors and donees to match and mate.

Hypotheses

To summarize, we present several hypotheses below in the form of simple equations. First, we speculated on the role that exchange processes play in resource allocation, arguing that the amount of money that donor *i* gives to donee *j* is a function of *i*'s interest in enhancing its image in the eyes of the local community elite (determined by *i*'s market position) and the degree to which *j* provides services that this elite thinks companies should be supporting. Thus,

$$c_{ij} = f(de_i ac_j,\ cc_i,\ cd_j) \tag{6.1}$$

where c_{ij} is the donation from donor *i* to donee *j*, de_i is the dependency of *i* upon the local area for employees, ac_j is the extent to which the activities of the nonprofit are of high priority to the community elite, cc_i is *i*'s total corporate donations, and cd_j is the total corporate contributions to *j*.

Along with this, we expect that donors who give more money to nonprofits that have high priority among members of the community elite should be recognized as generous by more members of this elite. Essentially, this is the donor's reward for funding the elite's favorites.

$$gc_i = f(c_{ij} ac_j,\ cc_i,\ e_i) \tag{6.2}$$

where gc_i is the number of community elite members who view the firm as being generous to nonprofits, e_i is the earnings of *i*, and c_{ij}, ac_j and cc_i are defined as above.

Similar exchange processes should influence those who seek to impress the corporate philanthropic elite. The amount of money donor *i* gives to *j* is a function of *i*'s interest in enhancing its image in the eyes of philanthropic leaders (determined by *i*'s social position) and of these leaders' use of and service to nonprofit *j*. Thus,

$$c_{ij} = f(nt_i el_j,\ cc_i,\ cd_j) \tag{6.3}$$

where nt_i is the degree to which executives are in the social networks of the philanthropic elite and el_j is the degree to which the philanthropic elite patronizes nonprofit *j*. The other variables — c_{ij}, cc_i, and cd_j — are defined as above.

We also expect that the cheers for the corporate donor will be greater if it supports the nonprofits that the philanthropic elite patronizes.

$$gp_i = f(c_{ij}el_j, cc_i, e_i) \tag{6.4}$$

$$sp_i = f(c_{ij}el_j, cc_i, e_i, p_i) \tag{6.5}$$

where gp_i is the number of philanthropic leaders who judge the donor to be generous to nonprofits, sp_i is the number of philanthropic leaders who judge the donor to be a successful business, and p_i is a performance indicator based on earnings and scaled to industry and firm size. The other variables — c_{ij}, el_j, cc_i, and e_i — are defined as above.

Second, we speculated on the role that agents may play and the need to reduce uncertainty in donative transactions. We argued that the amount of money that donor *i* gives to nonprofit *j* should be a function of both donor *i* and donee *j* having boundary-spanning roles, of almoner and medicant respectively. Thus,

$$c_{ij} = f(al_i md_j, cc_i, cd_j) \tag{6.6}$$

where al_i is a measure of donor *i*'s professionalism, md_j is a measure of donee *j* having a grants writer, public-relations specialist or fundraiser, and c_{ij}, cc_i, and cd_j are defined as above.

Finally, we argued that the amount of money that donor *i* gives to nonprofit *j* will be a function of some matchmaker *k* being in the personal networks of donor *i* and a patron of nonprofit *j*. Therefore,

$$c_{ij} = f(k_{ij}, cc_i, cd_j) \tag{6.7}$$

where k_{ij} is the number of philanthropic leaders who are both in contact with executives in donor i and use or support nonprofit *j*, and c_{ij}, cc_i, and cd_j are defined as above.

Measurement

Many of the corporate-level variables analyzed in this chapter are discussed in previous chapters, and we summarize them below only briefly. Corporate dependency on the local community was measured by the percentage of the employees who lived in the Twin Cities area in 1980–1981 (X_{de}). Corporate earnings were measured by pretax net income in 1980 (X_e). Corporate contributions was simply tax-deduct-

ible corporate contributions in 1980 (X_{cc}). Corporate performance was measured by taking the ratios of net income to sales, equity, and assets and comparing company performance to norms for firms of similar size in the same primary industry. Firms were then scored on each ratio as being in the 75th percentile or higher, the 25th to 75th percentile, or below the 25th percentile of their class. A summary score was then computed across the three performance scores (X_p). A summary index measuring the degree to which a firm professionalized its contributions function was based on the number of full-time people who did contributions work, the number of people who had contributions or corporate-foundation titles, and the number of professional associations that their contributions staff belonged to (X_{al}).

The integration of company executives into the social circles of the corporate philanthropic elite was measured by counting the number of elite members who said they personally knew executives in the firm and the number of clubs and exclusive boards that both a company's CEO and members of the elite belonged to (X_{nt}). Recognition of a firm by the philanthropic elite as a generous company was measured by the number of philanthropic leaders who said that the firm was generous in its support of nonprofits (X_{gp}). Recognition of a firm by the philanthropic elite as a successful business was measured by the number of philanthropic leaders who said that the firm was an especially successful business venture (X_{sp}). Finally, the recognition of a firm by the community elite as a generous company was measured by the number of community elite members who said that the firm was generous in its support of nonprofits (X_{gc}).

The nonprofit variables are also introduced in previous chapters. The extent to which the activities of a nonprofit had high priority for the community elite came from our inspection of the primary activities of our NPOs and the corporate money that community elites wanted allocated to different activity areas (X_{ac}). The dollar value of direct corporate donations received by a nonprofit was for 1980 (X_{cd}). A measure of the corporate philanthropic elite's patronage of a nonprofit was based on their personal use of the NPO and their service to the organization (X_{el}). Finally, an additive index was constructed that reflected the number of boundary-spanning personnel such as fundraiser, public-relations specialist, or grants writer retained by the organization (X_{md}).[3] The mean for this variable was 1.571, with a standard deviation of .923. There were no missing cases.

There are only two new variables introduced in this chapter: (1) the amount of money given by individual Twin Cities corporations to nonprofits in our sample in 1980, and (2) the number of corporate philan-

thropic leaders who both patronized a nonprofit j and were in network contact with executives of a given corporation i.

In the course of the nonprofit interviews we handed the NPO administrators a list of all 209 corporations in our study and asked them to indicate the firms or company foundations that had given their organizations cash gifts or grants in 1979 and then in 1980. Funds that had gone through brokers such as the United Way were not counted, nor did we count the dollar value of volunteer labor, inventory, or the like. Thus, only cash contributions for 1979 and 1980 were recorded. In this chapter, we analyze only the 1980 data.

In order to facilitate collecting this information, we provided eight size categories for our respondents. Each repondent then indicated on the list the size of each company's gift.[4] This data collection effort produced a 209-by-229 matrix in which the rows (i) represented the population of firms and the columns (j) represented the nonprofits that were in our sample. Unfortunately, we were unable to analyze this full matrix for two reasons. First, we had originally interviewed 150 companies, and of these we had complete data for only the 69 participating companies with more than 200 employees. Thus we pared the matrix from 209 $\times$ 229 to 69 $\times$ 229. An advantage of this is that now our analyses are consistent with those presented in Chapters 2 through 4.

Second, we thought it essential to include only companies that had made contributions in 1980 and nonprofits that had received corporate donations in 1980. If a company gave no money to nonprofits, then there was a zero probability that any one nonprofit would receive money from it. In like manner, if a nonprofit did not receive any funds from corporations, perhaps because it did not solicit, then the likelihood of any company giving money to it was zero. By including only organizations that participated in the quest for corporate dollars, we feel we have a much more realistic test of our hypothesis. To put it another way, we believe one can only test hypotheses on how corporations allocate money to nonprofits if we include only those organizations that had at least some chance of interacting with each other.

Because 4 of the 69 companies made no corporate contributions in 1980, 1 company had missing data on this item, 156 of the 229 nonprofits received no contributions from businesses, and 17 had missing data, this left us with a matrix composed of 64 rows representing 64 active corporate donors and 56 columns representing 56 active nonprofit recipients of corporate contributions. Thus there were 3,584 possible dyadic transactions between our donors and donees (X_c). However, this matrix was quite sparse even after being streamlined, its density being only 8.3%.

Testing the proposition about matchmakers posed something of a

problem. The first task was to identify the linkages between each of our 26 responding elite members and the chief executive officers of each of the 64 companies. As we note in Chapter 2, we obtained the rosters of 34 exclusive clubs, cultural boards, and Fortune 50 and 500 boards in the Minneapolis–St. Paul area. Data on the clubs and cultural boards are for 1978 through 1981. The data on the Fortune boards are for 1980. With these 34 rosters we created a 26 × 64-cell matrix, A, in which row entries were our elite members and the columns were the CEOs of our corporations. An entry, a_{ij}, was coded as "1" if both an elite member and the corporate executive were members of at least one board or club together and "0" otherwise.

Another strategy to reveal linkages between elite members and CEOs was to ask the corporate philanthropic elite to indicate the firms with an officer or director they knew personally. As discussed in Chapter 2, respondents went through our list and checked off as many names as they wished. This enabled us to construct a second 26 × 64 matrix, B, in which again the row entries were elite members and the columns were the companies. This time an entry, b_{ij}, was coded as "1" if an elite respondent had checked off a company and a "0" otherwise.

For a summary indicator of elite–company contacts, we created a third matrix, C, which was simply the union of A and B. Thus an entry, c_{ij}, was equal to "1" if the elite member and the company's CEO were in the same exclusive club or on the same exclusive board or if the elite member had said that he knew personally one of the company's directors or officers, and "0" otherwise.

Next, we wanted to reveal the linkages between our elite and the nonprofits in our sample. In the course of the corporate-philanthropic-elite interviews, we handed our respondents a list of all the nonprofits in our sample and asked them to tell us which they served personally (e.g., as a donor, volunteer, director, etc.) and which they had used personally over the last few years. These items allowed us to create two 26 × 56-cell matrices, S and L; S represented the elite's service to nonprofits and L represented the elite's use of nonprofits. In each matrix the rows represented elite members and the columns represented nonprofits. The entries in these matrices, s_{ij} and l_{ij}, were coded "1" if the elite member indicated that he served/used the nonprofit respectively and "0" otherwise. To arrive at a summary matrix for elite/nonprofit linkages, we constructed a third 26 × 56-cell matrix, M, which was the union of S and L.

The final step was to take the elite-by-corporation matrix, C, and the elite-by-nonprofit matrix, M, and construct a new 64 × 56-cell matrix, K, where K describes the linkages between corporation i and nonprofit j

through elites who were associated with both the company and nonprofit. The entries in K, k_{ij}, were integers that could range from 0 to 26 (X_k). These integers represented the total number of philanthropic leaders that a company and nonprofit had in common (i.e., the total number of elite members who had personal contacts with corporation *i* and had served or used the services of nonprofit *j*).[5]

Modeling Dyadic and Nodal Data using Regression Analysis

It is evident from the above discussion that we have measured variables for three units of analysis: the corporation, the nonprofit, and the corporate-nonprofit dyad. The latter is the most interesting to us here, and the two variables introduced in this chapter—the donation that company *i* gave to nonprofit *j* and the number of corporate philanthropic leaders who were personally associated with both company *i* and nonprofit *j*—are measured at the dyadic level.[6]

The network data studied here are unique in two ways. First, the data are organized in a rectangular matrix: The rows are made up of companies, and the columns are nonprofit organizations. This is important to remember because there are no symmetry effects to consider —we look at transactions only from *i* to *j*. Furthermore, the independence of dyads is not as serious a problem.[7] This greatly simplifies our models and removes many of the problems that preoccupied Holland and Leinhardt (1981), Fienberg and Wasserman (1981), and Lincoln (1984).

Second, the data are interval and semi-interval in scale. As noted before, the amounts of money contributed by company *i* to *j* were coded roughly on a logarithmic scale, and number of philanthropic leaders straddling the company and the nonprofit is clearly an interval scale. This gives us enormous freedom and allows us to use ordinary least-squares regression models to explain variation in the size of a transaction.

In addition to explaining contributions with dyadic-level data (i.e., the number of philanthropic leaders straddling two organizations), we also want to use nodal-level data to explain variation in our dependent variable. Following Lincoln (1984), we consider the following regression model, which represents nodal variables as predictors of relational outcomes:

$$Y_{ij} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \epsilon_{ij} \quad (6.8)$$

where Y_{ij} is the relation from node i to node j, X_1 is a measure of some characteristic of node i, X_2 is a characteristic of node j, α is the intercept, and ϵ_{ij} is the error term. As Lincoln (1984:49) notes, β_1 is a parameter that measures the effect of X_1 on a node's propensity to send or initiate relations, whereas β_2 measures the effects of X_2 on the node's propensity to receive or be the object of relations.[8]

We will use these parameters as a way to control for key nodal characteristics while assessing other effects in the model. For example, in all the models to be tested below, we will take into account the total contributions given by a corporation to charitable organizations in 1980 and the total contributions received by a nonprofit from all business firms (and their foundations) in 1980. The reason for including these variables in our analysis is to control for the volume of giving by corporation i and the volume of dollars received by nonprofit j. We believe that in assessing the effects of our explanatory variables on contributions from corporation i to nonprofit j, we must first partial out the amount of money a company gave to all nonprofits and the amount of money nonprofits received from all corporations. In other words, the amount of the contribution from actor i to j could simply be a function of the total amount of funds that corporation i had to give away and the amount of funds that nonprofit j received in the course of the year. By including these two variables in all of our equations, we effectively control for the expansiveness and popularity of donors and donees respectively.

The simple model can also be extended to include an interaction term:

$$Y_{ij} = \alpha + \beta_1 X_{1_i} + \beta_2 X_{2_j} + \beta_{12} X_{1_i} X_{2_j} + \epsilon_{ij} \qquad (6.9)$$

where β_{12} measures the joint effect of two nodal-level variables on the dyad or relational outcome.[9] The appeal of including an interaction term is that one can see if there is a joint effect of X_1 and X_2 on the dependent variable. In the example used above, this effect would then be net of the amount donated by actor i to all charities j and net of the amount received by actor j from all corporations i. In constructing interaction terms, we will include variables measured at the interval level and dichtomous variables. All our interaction terms are multiplicative.[10]

Retesting the Contributions-as-Public-Relations Thesis

In a previous section, we speculate that the exchange that supposedly took place between the donor, the nonprofit, and various elites in the

community may have affected specific allocations of corporation dollars. We hypothesize that the amount of money that donor *i* gave to donee *j* was a function of *i*'s interest in enhancing its image in the eyes of the local community elite and the degree to which *j* provided services that the local community thought ought to be supported. In other words, we expect that those companies that wanted to win the favor of the local elite funded those activities that the elite thought they ought to fund.

To test this hypothesis, we used the dyad as the unit of analysis with the amount of contributions given by *i* to *j* as the dependent variable. Two nodal-level control variables were the amounts of money that donor *i* gave to charitable organizations in 1980 and that donee *j* received from corporations in 1980. Also included in this model were terms for donor *i*'s structural dependency upon the local area and the degree to which donee *j* provided services that the elite thought ought to be funded. Finally, we included a multiplicative interaction term that specified the degree to which the dyad, *ij*, was composed of a donor that was structuraly dependent upon the local area and a donee that was providing preferred services. The behavior of this interaction term is, of course, very important to us. The equation that we used to estimate these effects is as follows:

$$Y_c = a + b_{cc} \ln X_{cc} + b_{cd} \ln X_{cd} + b_{de} X_{de} + b_{ac} X_{ac} + b_{de,ac}(X_{de} X_{ac}) + u. \quad (6.10)$$

Where Y_c is the amount of money given by donor *i* to donee *j* in 1980, X_{cc} is the total tax-deductible contributions made by donor *i* in 1980, X_{cd} is the total corporate contributions received by donee *j* in 1980, X_{de} is the percentage of company employees living in the Twin Cities metro area, X_{ac} is the percentage of corporate donor dollars that the community elite would allocate to a donee's primary activity area, and $X_{de}X_{ac}$ is a multiplicative interaction term measuring the joint effect of X_{de} and X_{ac} on Y_c.[11]

Our strategy in presenting these results is to ascertain the increase in R^2 as each variable enters the equation and to look at the *F* ratios associated with each of these changes in the model. The change in R^2 gives us some indication of the magnitude of each variable's effect, and the *F* ratio tells us if this effect is statistically significant.[12] Because standardized coefficients associated with interaction terms can take on arbitrary and distorted values (see Stolzenberg, 1980), standarized regression coefficients will not be presented in our tables.

We begin the presentation of our findings with Table 6.1, which reveals correlations among our predictor variables. First, we see that

Table 6.1

Means, Standard Deviations, and Pearson Zero-Order Correlations for Pairwise Variables [a]

	X_{nt}	X_{al}	ln X_{cc}	X_{ac}	X_{el}	X_{md}	ln X_{cd}	X_k	X_c	Mean	*SD*	*N*
Corporate-level variables												
% Employees from local area 1980–1981 (X_{de})	−.344***	−.273***	−.372***	.000	.000	.000	.000	−.083***	−.094***	41.547	29.476	3,584
Elite network index (X_{nt})		.517***	.763***	.000	.000	.000	.000	.179***	.204***	.309	.991	3,584
Professionalism index (X_{al})			.636***	.000	.000	.000	.000	.080***	.255***	.011	.996	3,472
Corporate contributions, 1980 (ln X_{cc})				.000	.000	.000	.000	.148***	.244***	11.752	2.330	3,584
Nonprofit-level variables												
Centrality of NPO activities to priorities of community elite (X_{ac})					−.088***	.133***	−.096***	−.069***	−.032*	16.378	5.837	3,584
Philanthropic elite use and service to NPO (X_{el})						.520***	.665***	.849***	.411***	.412	1.370	3,584
Number of boundary-spanning roles (X_{md})							.469***	.429***	.252***	1.571	.923	3,584
Corporate donations, 1980 (ln X_{cd})								.542***	.301***	9.333	1.971	3,584
Dyadic-level variables												
Number of philanthropic leaders with company and NPO (X_k)									.519***	1.701	3.877	3,584
Amount of Donation from company *i* to nonprofit *j* (X_c)										.212	.855	3,584

[a] $N = 3,584$.
***$p \leq .001$.
**$p \leq .01$.
*$p \leq .05$.

Table 6.2

Regression Analysis for Equation 6.10 Retesting the Contributions-as-Public-Relations Thesis[a]

Dependent variable
Amount of donation from company i to nonprofit j (Y_c)

Independent variables	b	SE	Sig.	Change in R^2	R^2	Sig.
Corporate contributions, 1980 ($\ln X_{cc}$)	.089	.006	.000	.051		
Corporate donations, 1980 ($\ln X_{cd}$)	.130	.007	.000	.089		
% Employees from local area 1980–1981 (X_{de})	−.001	.001	.602	.000		
Centrality of NPO activities to priorities of community elite (X_{ac})	−.002	.004	.603	.000		
($X_{de}X_{ac}$)	.000	.000	.628	.000		
					.150	.000

[a] N = 3,584.

none of the variables measuring nodal characteristics of donee j (e.g., X_{ac}, X_{el}, X_{md}, $\ln X_{cd}$) were correlated with the variables measuring nodal characteristics of donor i (X_{de}, X_{nt}, X_{al}, $\ln X_{cc}$). Second, the correlations between variables measured on the same unit for 3,584 cases are the same as the correlations measured on the same unit for 64 and 56 cases respectively. For example, the correlation between $\ln X_{cc}$ and X_{de} on 3,584 cases was −.372. Computing this correlation on the 64 corporations under analysis, the result is exactly the same. Finally, we should note that there is a high correlation between some of our nodal variables and our interaction term (not shown in Table 6.1), for example, $r_{X_{de}X_{de,ac}} = .851$. This is a problem that is often found in analysis that includes product terms as well as the components of the products in the same equation. For the time being we will not regard this as evidence of multicollinearity, and we include both the product term and its components in the same equation.

Table 6.2 presents the increases in R^2 and the corresponding F-test statistics for Equation 6.10. Essentially we did a stepwise regression analysis five times. Each time we included all variables but one in the first step and then added the omitted variable in the second step. Our results show that each of our control variables for volume effects was statistically significant as it entered the equation. However, neither of the two nodal-level variables—X_{de} or X_{ac}—made a statistically significant difference in R^2, nor did the inclusion of the interaction term,

$X_{de}X_{ac}$. Thus, as one might expect, the size of the contribution from *i* to *j* was a function of the size of *i*'s contribution budget and *j*'s annual intake of corporate money. However, neither the dependency of i upon the local area for employees, nor *j*'s activities, nor the interaction of *i*'s dependencies and *j*'s activities had any effect on the size of the contribution from *i* to *j*. The reader should note that these findings are consistent with those in Chapters 2 and 5.

We next hypothesized that donors should be recognized as generous by more members of the community elite if they gave more money to nonprofits whose activities the community elite thought should be funded. We argued that this was the donor's reward for being sensitive to the funding priorities of the local elite.

We used the following equation to test this hypothesis, and the 64 corporations served as the units of analysis.

$$\ln Y_{gc} = a + b_{cc} \ln X_{cc} + b_{e} \ln X_{e} + b_{c,ac} X_{c,ac} + u \qquad (6.11)$$

where Y_{gc} is the number of community elite members who viewed the company as being generous to nonprofits, X_{cc} is 1980 company contributions to charity, X_e is the company's 1980 pretax earnings, and $X_{c,ac}$ is a term measuring the degree to which company i funded activities that the elite thought should be funded.[13]

We should caution the reader that the term $X_{c,ac}$ and the other variables in the model were highly correlated: $r_{X_{c,ac} \ln X_{cc}} = .780$, $r_{X_{c,ac} \ln X_{e}} = .436$, and $r_{X_{c,ac} \ln Y_{gc}} = .815$. Thus there may be a problem of multicollinearity with $X_{c,ac}$ and X_{cc}. Our interpretation of these correlations is that companies that gave away considerable amounts of money tended to give more of it to nonprofits that the community elite thought should be funded. In contrast, smaller donors tended to support activities that the elite did not think as highly of. Furthermore, as hypothesized, firms that gave to activities that the elite thought highly of were recognized by more members of the community elite as being especially generous to nonprofits.

The results of the regression analysis are presented in Table 6.3. Confirming the results we report in Chapter 2, there was significant relationship between the amount of contributions given to charity in 1980 and the number of community elite members who thought that the company was especially generous to nonprofits. However, firms that gave more money on the average to causes that the elite thought highly of tended to be regarded as more generous to nonprofits by the elite as well. In other words, there appears to have been two routes to being recognized as a generous company among the local elite. First, simply give more money to charity in toto or, second, give more money to causes that the local elite think highly of.

Table 6.3
Regression Analysis for Equation 6.11 Retesting the Contributions-as-Public-Relations Thesis [a]

Dependent variable Reputation as a generous company: Community Elite (Y_{gc})						
Independent variables	*b*	SE	Sig.	Beta	R^2	Sig.
Corporate contributions, 1980 (ln X_{cc})	.223	.061	.001	.395		
Pretax earnings, 1980 (ln X_e)	.015	.023	.517	.049		
Corporate contributions weighted by elite preferences ($X_{c,\,ac}$)	.037	.008	.000	.485		
					.730	.000

[a] N = 69.

Retesting the Contributions-as-Social-Currency Thesis

Our second hypothesis in the exchange framework ventures that the amount of money that donor *i* gave to donee *j* was a function of i's interest in enhancing its image in the eyes of the corporate philanthropic elite and of the degree to which *j* was patronized by members of that elite.

To test this hypothesis we turn again to the dyad as the unit of analysis. Again the two nodal-control variables—total contributions by *i* in 1980 and total contributions to *j* in 1980—were included in the equation, as were the nodal variables measuring the degree to which company executives were in network contact with the elite and nonprofits were patronized by the elite. We also included a product term that measured the extent to which *i* and *j* were both in contact with this elite. Following our line of reasoning, contributions between *i* and *j* should be greater where the executives of *i* were well integrated into the networks of the philanthropic elite and nonprofit *j* was well patronized by members of this elite. Thus,

$$Y_c = a + b_{cc} \ln X_{cc} + b_{cd} \ln X_{cd} + b_{nt} X_{nt} + b_{el} X_{el} + b_{nt,el}(X_{nt} X_{el}) + u \qquad (6.12)$$

where X_{nt} is the factor score measuring the degree to which a company's executives were in the same clubs/boards and personal networks of the

Table 6.4

Regression Analysis for Equation 6.12 Retesting the Contributions-as-Social-Currency Thesis[a]

Dependent variable
Amount of donation from company *i* to nonprofit *j* (Y_c)

Independent variables	*b*	SE	Sig.	Change in R^2	R^2	Sig.
Corporate contributions, 1980 (ln X_{cc})	.078	.008	.000	.019		
Corporate donations, 1980 (ln X_{cd})	.021	.008	.008	.001		
Elite network index (X_{nt})	−.043	.019	.021	.001		
Philanthropic elite use and service to NPO (X_{el})	.176	.012	.000	.042		
($X_{nt}X_{el}$)	.196	.009	.000	.097		
					.328	.000

[a] N = 3,584.

corporate philanthropic elite; X_{el} is the factor score measuring the degree to which a nonprofit was used by or supported by members of the corporate philanthropic elite; $X_{nt}X_{el}$ is a simple product term; and Y_c, X_{cc}, and X_{cd} are defined as above.

Table 6.4 presents the increases in R^2 and corresponding significance levels as each predictor variable was entered into a model with all the other variables present.[14] This time as each nodal variable and then our interaction term was entered into the equation, there was a significant increase in the variance explained by the model. Every predictor variable was statistically significant at the .05 level, and three terms were significant at the .001 level. To get some idea of which variable was most crucial, we looked at the change in R_2 as each was entered into the equation. Clearly the inclusion of the product term $X_{nt}X_{el}$ was most important, increasing R^2 from .231 to .328. This was followed by X_{el}, which raised R^2 from .286 to .328, and ln X_{cc}, which increased R^2 from .309 to .328. Substantively, then, these findings support our hypothesis: The contribution from donor *i* to donor *j* was greater if the company's executives were in elite circles *and* the nonprofit was patronized by members of the elite.

We next hypothesized that donors who gave more money to nonprofits that the philanthropic leaders patronized would be recognized as generous and successful business ventures by more members of this elite. We argued that this was the donor's reward for being supportive of the elite's favorite nonprofits.

Again the 64 corporations are the units of analysis. We tested this hypothesis using the following two equations:

$$\ln Y_{gp} = a + b_{cc} \ln X_{cc} + b_e \ln X_e + b_{c,el} X_{c,el} + u \quad (6.13)$$

and

$$\ln Y_{sp} = a + b_{cc} \ln X_{cc} + b_e \ln X_e + b_p X_p + b_{c,el} X_{c,el} + u \quad (6.14)$$

where Y_{gp} is the number of corporate philanthropic leaders who viewed the company as being especially generous to nonprofits, Y_{sp} is the number of corporate philanthropic leaders who viewed the company as being a particularly successful business venture, X_p is a factor score measuring the company's earnings performance against industry standards, $X_{c,el}$ is a term measuring the extent to which companies funded nonprofits that the elite patronized, and X_{cc} and X_e are defined as above.[15]

As shown in Table 6.5, Panel A, the number of philanthropic leaders who viewed a company as generous to nonprofits was directly related to the total amount of money that the company had given to charitable organizations. Furthermore, companies that gave greater support to the nonprofits patronized by the corporate philanthropic elite tended to be viewed as more generous. Thus again we found two ways to improve one's reputation among an elite population: Either give more money to charity in toto or give more money to organizations that members of the elite use themselves or support with contributions, volunteer time, or the like.

However, Panel B of Table 6.5 indicates that a company's pattern of contributions had only a marginal effect on its reputation as a successful business venture. Earlier we had found that greater recognition as a successful business venture was associated with greater contributions to charity, and this finding is confirmed in this table. We had thought, however, that this reputation might also be affected by the sort of contributions a company made. But this did not prove to be the case. Although there was a slight association between companies giving more money to elite nonprofits and their reputation as successful business ventures, it was not statistically significant even at the .10-level.

Retesting the Agency Thesis

A second set of studies in the interorganizational literature focuses on the role of uncertainty and its management in shaping interorganizational relationships. We first addressed the role that boundary-span-

Table 6.5

Regression Analysis for Equations 6.13 and 6.14 Retesting the Contributions-as-Social-Currency Thesis [a]

PANEL A

Dependent variable
Reputation as a generous company: Philanthropic elite (Y_{gp})

Independent variables	b	SE	Sig.	Beta	R^2	Sig.
Corporate contributions, 1980 ($\ln X_{cc}$)	.298	.053	.000	.557		
Pretax earnings, 1980 ($\ln X_e$)	.032	.024	.188	.114		
Average participation of elite in donee affairs ($X_{c, el}$)	.085	.030	.007	.270		
					.648	.000

PANEL B

Dependent variable
Reputation as a successful business: Philanthropic elite (Y_{sp})

Independent variables	b	SE	Sig.	Beta	R^2	Sig.
Corporate contributions, 1980 ($\ln X_{cc}$)	.194	.054	.001	.428		
Pretax earnings, 1980 ($\ln X_e$)	.064	.028	.026	.266		
Profit performance index, 1980 (X_p)	.102	.119	.395	.090		
Average participation of elite in donee affairs ($X_{c, el}$)	.050	.030	.101	.187		
					.549	.001

[a] $N = 69$.

ning personnel might play in influencing allocations in a grants economy. We speculated that the size of the contribution from i to j would be a function of both donor i and donee j having boundary-spanning personnel to negotiate these transactions, and that this effect would be independent of i's contributions budget or the amount j received from corporations.

The model we tested was once again at the dyadic level, and the dependent variable was the size of the contribuion from i to j in 1980. Thus,

$$Y_c = a + b_{cc} \ln X_{cc} + b_{cd} \ln X_{cd} + b_{al} X_{al} + b_{md} X_{md} + b_{al,md}(X_{al} X_{md}) + u \qquad (6.15)$$

where X_{al} is the factor score measuring the extent to which corporation i has professionalized its contributions staff, X_{md} is an additive index of

the number of boundary-spanning personnel employed by the nonprofit (e.g., a fundraiser, grants writer, or public-relations specialist), $X_{al}X_{md}$ is a simple product term, and Y_c, X_{cc}, and X_{cd} are defined as above.

Table 6.6 presents both increases in R^2 and the corresponding F-test significance level for Equation 6.15.[16] Again, we employed a stepwise procedure in which each variable was entered with all the other predictor variables already in the equation. Again, we see a significant increase in R^2 as each of our nodal and interaction terms was added. Each variable was significantly related to size of contributions at the .001 level. Judging from the changes in R^2, which give some idea of the impact of the different variables, two variables were most prominent: the total contributions received by the nonprofit (an increase in R^2 of .043) and whether or not *both* donor and donee had professional boundary-spanning staff (an increase in R^2 of .029). This latter effect, of course, substantiates our prediction.

Finally, we hypothesized that a different kind of agent—the matchmaker—would also affect who gets funded by whom. The matchmakers in this community would be philanthropic leaders. In their role as matchmakers, they would channel funds from corporations with which they had network contacts to nonprofits that they used or supported personally. We hypothesized that the more philanthropic leaders who linked donor i and donee j together, the greater the size of the contribution from i to j.

This model is a bit more complicated than the others tested thus far,

Table 6.6

Regression Analysis for Equation 6.15 Testing the Effects of Boundary-Spanning Roles on Contributions [a]

Dependent variable
Amount of donation from company i to nonprofit j (Y_c)

Independent variables	b	SE	Sig.	Change in R^2	R^2	Sig.
Corporate contributions, 1980 (ln X_{cc})	.051	.007	.000	.011		
Corporate donations, 1980 (ln X_{cd})	.101	.007	.000	.043		
Professionalism index (X_{al})	−.106	.028	.000	.003		
Number of boundary-spanning roles (X_{md})	.131	.016	.000	.016		
($X_{al}X_{md}$)	.158	.014	.000	.029		
					.211	.000

[a] N = 3,584.

because we wanted to simultaneously control for total contributions of donor *i*, total contributions to donee *j*, the association of the elite with donor *i*, the association of the elite with donee *j*, and the product term measuring the effect of elite association with both *i* and *j*. In contrast to the argument embodied in Equation 6.12, we expected that the size of the contribution would be a function of the actual number of elite linkages between *i* and *j* and not simply a result of more philanthropic leaders being associated with donor *i* and/or donee *j*. In other words, the volume of donor i's gift to j is not a function of its being in elite social circles or of donee j being supported or utilized by the elite. Rather it was the fact that more individual members of the elite personally connected the two together. We tested this hypothesis using the following equation:

$$Y_c = a + b_{cc} \ln X_{cc} + b_{cd} \ln X_{cd} + b_{nt} X_{nt} + b_{el} X_{el} + b_{nt,el}(X_{nt} X_{el}) + b_k X_k + u \qquad (6.16)$$

where X_k is the number of philanthropic leaders who were both linked organizationally or informally with executives of donor *i* and personally used or supported donee *j*; Y_c, X_{cc}, X_{cd}, X_{nt}, and X_{el} are defined as above.

Looking at Table 6.7, Panel A we see that X_k had a statistically significant effect on the volume of contributions from i to j. Thus contributions were greater when more members of the elite were in network contact with both the donor as well as donee. To assess the relative importance of each variable in the equation we did a series of stepwise regressions, removing and then entering each variable one at a time. The change in R^2 calculated for each variable as it reentered the equation is also presented in Table 6.7, Panel A. Focusing in particular on our matchmaker variable (X_k), we see that it was the third most important variable in the equation. As it was added in the stepwise procedure, R^2 increased from .327 to .332. The most important variable was the interaction term indicating the involvement of the CEO in the networks of the philanthropic elite and the involvement of the elite with the nonprofit ($X_{nt}X_{el}$). It was followed by the size of the donor's contribution budget in 1980 ($\ln X_{cc}$).

A final test of this variable's effect was to include X_k along with the volume effects (X_{cc}, X_{cd}), the predictor variables on elite association (X_{nt}, X_{el}, and $X_{nt,el}$), and the variables on boundary-spanning roles (X_{al}, X_{md}, and $X_{al,md}$).

Table 6.7, Panel B, presents the changes in R^2 and the corresponding test statistics for this final series of stepwise regressions. The unstandardized regression coefficients and the corresponding probabilities

Table 6.7

Regression Analysis for Equation 6.16 Testing the Effects of Matchmakers on Contributions[a]

PANEL A

Dependent variable
Amount of donation from company i to nonprofit *j* (Y_c)

Independent variables	b	SE	Sig.	Change in R^2	R^2	Sig.
Corporate contributions, 1980 (ln X_{cc})	.076	.008	.000	.018		
Corporate donations, 1980 (ln X_{cd})	.024	.008	.002	.002		
Elite network index (X_{nt})	−.051	.019	.006	.001		
Philanthropic elite use and service to NPO (X_{el})	.088	.022	.000	.003		
($X_{nt}X_{el}$)	.155	.012	.000	.029		
Number of philanthropic leaders with company and NPO (X_k)	.041	.009	.000	.005		
					.332	.000

PANEL B

Dependent variable
Amount of donation from company i to nonprofit *j* (Y_c)

Independent variables	b	SE	Sig.	Change in R^2	R^2	Sig.
Corporate contributions, 1980 (ln X_{cc})	.039	.009	.000	.004		
Corporate donations, 1980 (ln X_{cd})	.020	.008	.011	.001		
Elite network index (X_{nt})	−.058	.019	.002	.002		
Philanthropic elite use and service to NPO (X_{el})	.063	.023	.005	.001		
($X_{nt}X_{el}$)	.130	.013	.000	.020		
Professionalism index (X_{al})	.007	.026	.776	.000		
Number of boundary-spanning roles (X_{md})	.044	.015	.003	.002		
($X_{al}X_{md}$)	.090	.013	.000	.009		
Number of philanthropic leaders with company and NPO (X_k)	.049	.009	.000	.006		
					.360	.000

[a] N = 3,584.

again bear witness to the importance of the matchmaker variable and the two product terms. There were only four variables that were significant at the .001 level; in order of their influence on R^2, they are $X_{nt}X_{el}$, $X_{al}X_{md}$, X_k, and X_{cc}. Thus larger contributions were found where both the donor and donee had close ties to the corporate philanthropic elite, where both donor and donee had professionalized their boundary-spanning roles, where more philantropic leaders were directly linking donor to donee, and where the donor was among the largest contributors in town.

Summary and Discussion

This chapter has addressed the issue of how resources are actually allocated in a grants economy. What leads corporation i to make a donation to nonprofit *j*? We turned to research that has been done on interorganizational transactions in nonmarket, nonhierarchical field settings to gain some insight into how donors and donees pair up in a grants economy.

Two schools of thought held forth the greatest promise: exchange models of interorganizational behavior and models that emphasized the role of uncertainty in the creation of interorganizational relationships. Working within the exchange framework we argued that if the donor company is trying to enhance its public relations among its various stakeholders, then it should support nonprofits that these stakeholders have an interest in. If it gives contributions to these nonprofits, the stakeholders should record their approval in exchange. Thus the more money it pours into nonprofits that these stakeholders value, the more positive its image becomes in the eyes of the stakeholders.

To measure a company's potential interest in winning the approval of the local community elite, we looked at the proportion of its employees working in the Twin Cities area in 1980–1981. We found, however, that companies that were dependent upon the local labor market did not concentrate giving in service areas that local elites thought ought to be funded. Although somewhat dependent upon the good will of the elite, these companies did not follow the elite's agenda for giving.

Interestingly, however, those companies that did follow the local elite's agenda and supported activity areas that the elite thought important were recognized by more members of the community elite as being generous companies. This effect was independent of the total contributions made by a company. Thus, although companies that one would think would have an interest in pleasing the local elite did not channel

their funds accordingly, those companies that did channel their donations to the elite's causes were recognized by more elite leaders as being generous companies. Thus there appears to have been two separate routes that companies could take to enhance their reputations: give more money in toto to charity, or target areas that the elite thinks are important.

Still within the exchange framework, we also argued that if the donor is trying to enhance its image amongst local philanthropic leaders, then it should support nonprofits that these elites patronize. The process is similar to the one described above. The company gives money to the nonprofit and in exchange receives the recognition and accolades of local philanthropic leaders.

To measure a company's potential interest in winning the respect of the philanthropic elite, we looked at the organizational and informal networks between the company and members of this elite. Specifically we did a factor analysis combining these items and assigned factor scores to companies indicating the integration of the company into elite social circles. We also ascertained the extent to which the nonprofit was patronized by the elite. We found that companies that were better integrated into elite social circles gave more money to nonprofits that were also better integrated into elite circles.

Our theory suggests that this pattern was due to the special interest on the part of some executives to please and to be responsive to the corporate philanthropic leaders with whom they came in contact. In Chapter 2 we discuss peer pressure and the threat of being ostracized if the company refuses to respond to the solicitations of business leaders. The findings in that chapter suggest that as a company's executives were exposed to more and more of this pressure, they responded by making larger corporate contributions. The findings reported in this chapter build on these results and show that as executives were exposed to more peer pressure, they responded by giving more money to nonprofits that the elite were heavily involved with. In other words, executives in a peer-pressure situation gave more to charity and gave more to charities that the philanthropic elite patronized.

We also found that companies funding nonprofits that the elite patronized tended to be regarded by more members of the philanthropic elite as being very generous to nonprofits. Donors were given more recognition by the corporate philanthropic elite when they supported the causes of this elite. More members of the corporate philanthropic elite regarded a company as being more generous if the firm either gave more money to charity or supported the charities most favored by the elite.

It is clear that exchange theory, albeit in a form somewhat different than that found in the interorganizational literature, is useful in explaining resource allocation in this grants economy. If donors were subject to informal peer pressure from philanthropic leaders, they responded by making contributions to nonprofits that this leadership patronized. In return more members of this elite recognized the firm as being generous to nonprofits. A similar pattern was found when companies supported activities that the community elite favored. The more money spent on activities that this elite favored, the more members of this elite saw the company as generous—independently of the total amount donated to charity in a given year. Indeed, with cross-sectional studies it is always risky to make such causal statements, and we recognize the need for longitudinal data. However, our data fit an exchange model involving these three actors—the donor, the donee, and an elite audience—very well. In sum, we appear to have what has been called a *serial exchange*, in which the return comes not from the donee but from some third party that benefits either personally or psychically from the gift to the donee. Though some may see this reciprocating gesture as a kickback, others may consider it as simply a thank you.

Alternatively, the management of uncertainty and particularly the use of agents in this process can also affect resource allocation in a grants economy. The technical problems of allocating funds in a system in which there are no market mechanisms or authorities lead participants to rely heavily on agents to reduce transaction costs. We found that agents did influence the flow of resources and did so independently of the donation-service-recognition exchange described above. In other words, our data show that both exchange processes and agency roles played a significant part in resource allocation within this grants economy.

The first set of agents we examined were boundary-spanning personnel retained by companies and nonprofits to make the contributions process more rational and to help secure funding from the environment. We found that companies that had more professionalized staff tended to give more money to nonprofits that had more boundary-spanning personnel. In other words, companies with agents tended to give more money to nonprofits with agents. It is important to remember that this was an interaction effect and that it was the presence of both an almoner in the firm and a mendicant in the nonprofit that resulted in a larger contribution from the firm to the nonprofit.

The importance of this finding is that it reveals an alternative mechanism by which to channel funds to nonprofits: the corporate almoner.

In Chapter 4 we discuss how companies that gave more money to charity tended to professionalize their contributions staff and how companies that professionalized their staff tended to give more money to charity. These roles seemed to grow out of technical needs to manage larger contributions budgets effectively. In Chapter 5 we report that the perceptions and evaluations of professionals in the donor community were clearly the most important factors in determining how much money nonprofits received from business firms in the Twin Cities.

The findings in this chapter simply extend this line of thought. Companies with almoners were channeling more dollars to nonprofits that had fund raisers, grants writers, and public-relations staff. Their presence did have an effect on specific allocations, independently of the status games that their company's executives might also have been playing.

Indeed we cannot identify the exact causal ordering among our variables. Did contributions professionals search out nonprofits that had fundraisers, grants writers, and public-relations staff? Did fundraisers, grants writers, and public-relations staff communicate better if there was a contributions professional in the company? Was there much networking between almoners and mendicants in arenas such as conferences, workshops, and luncheons? Did almoners recommend funding a nonprofit and then require that it institutionalize boundary-spanning roles to facilitate communication and the transaction? At this point it is not clear exactly what processes produced the effects we found. However, it is of theoretical importance to us that these agency roles had become effective conduits through which funds were channeled to specific nonprofits.

Finally, we see that a more traditional agent—the matchmaker—also influenced resource allocation. The matchmaker is an agent, retained by neither the donor nor the donee, who takes it upon himself or herself to channel the funds in a grants economy in such a way as to match surplus to need. The matchmakers we studied were members of the corporate philanthropic elite, although there certainly could have been other matchmakers in the community as well. In particular we focused on the number of philanthropic leaders who were linked personally to both individual donors i and individual donees j. Our findings suggest that a company gave more money to a nonprofit if more philanthropic leaders were tied to executives in the company *and* used or supported the nonprofit personally.

At first glance, this appears as if it might be just another manifestaion of the peer-pressure process, and in some respects it is. However, it also has agency implications. In an effort to tease out an independent

agency effect, we tested our model controlling for the integration of the company's executives into elite social circles and the association of the nonprofit with elite types as well as the joint effect of these two variables. Even after this, we still found that the matchmaker had an independent effect. Companies that were more integrated into elite circles gave more money to nonprofits that were more integrated into elite circles; but companies also gave more money to nonprofits if several of the same philanthropic leaders had network ties to each. In other words, elite-oriented firms appear to focus their giving on elite-oriented nonprofits. The elite association with the nonprofit is like an external referent of prestige that elite-oriented companies respond to. However, companies of all kinds give more money to all types of nonprofits if there are simply more members of the elite associated with both directly.

Essentially, what we found is that agency is not antithetical to a style of resource allocation that is dependent upon an old boy network. Furthermore, a network of resource allocation based on the reduction of uncertainty is not antithetical to one that is based on status competition. Our findings suggest quite the contrary. Even in arenas in which an elite is actively soliciting contributions and then conferring status rewards, uncertainties were still a problem, and to solve these problems the elite doubled as matchmaker. Philanthropic leaders doled out recognition and esteem and provided a channel through which companies could give money directly to nonprofits. At the same time that companies were trying to secure recognition and esteem, they had to worry about uncertainties and transactions costs. Our findings suggest that a motivated corporate philanthropic elite was key to the solution of both problems.

But what about the elite's motivation? The findings from this chapter and the previous chapter give us a better insight into why our corporate philanthropic leaders took it upon themselves to organize this action. In Chapter 2 we argued that their participation could have been traced to their local roots and feelings of home and hearth for the Twin Cities. But in light of the evidence presented in the last two chapters we see that these individuals derived some very real benefits from their participation in this grants economy. In Chapter 5 we learn that nonprofits that were recognized and respected by contributions staffs in companies tended to get more corporate funding, but these staffs tended to recognize and respect nonprofits that were used and supported by the corporate philanthropic elite. In this chapter, we found that companies that were in elite circles tended to fund nonprofits that had members of the elite in their ranks. Also, companies tended to give nonprofits more

money if the two were tied through elite networks. In other words, elite efforts were paying off because a favorite nonprofit was very likely to benefit. Thus although the localism of the corporate philanthropic elite could still have been an important factor in mobilizing it, we must also recognize that individuals in this network were benefiting in that organizations that they themselves used or thought highly of were receiving a disproportionate share of corporate support.

Notes

1. Space and time do not allow us to review all the research on the ways organizations in a community setting have solved problems of resource allocation and coordination. Readers can peruse Aldrich (1979), R. Hall (1982), P. White (1974), Rogers and Whetten (1982), Whetten (1981), Pfeffer (1982), Laumann, Galaskiewicz, and Marsden (1978), Galaskiewicz (1985), and Van de Ven, Emmett, & Koenig (1975).

2. Several studies (e.g., Hall, Clark, Giordano, Johnson, & Van Roekel, 1977; Benson, 1973; and Galaskiewicz, 1979a), have found that cooperative relations among organizations were more likely if the agencies or administrators had similar operating philosophies or values. Unfortunately, none of these studies explored the texture of the environments in which the different actors operated to see if cooperation based on similar values was more likely under more uncertain conditions. We suspect, however, that it was.

3. The minimum value of this index was "1" for organizations that retained no boundary-spanning personnel to "4" for organizations that had all three types of boundary spanners.

4. The categories were: none; less than \$1,000; \$1,000 to \$2,999; \$3,000 to \$6,999; \$7,000 to \$14,999; \$15,000 to \$30,999; \$31,000 to \$62,999; \$63,000 to \$126,999; and over \$127,000. We precoded the categories this way for one reason: It would have taken too long to recover exact dollar figures from the NPOs. Preliminary fieldwork had indicated that there were a large number of small gifts and a small number of very large gifts flowing from corporations to nonprofits. Essentially this coding scheme was intended to normalize the scores prior to actually knowing the distribution.

5. Across the 64 × 56- (3,584-) cell matix, the actual range of k_{ij} was 0 to 23, the average number of elite members in common was 1.70 ($SD = 3.88$), and the median was .326. Although 123 corporate–nonprofit pairs had as many as 15 elite individuals who were somehow affiliated with both the corporation and nonprofit, 2,170 (60.5%) pairs had no linkage at all through a member of the elite.

6. Treating dyads as the units of analysis in a statistical analysis of a social network is not new in sociology. We find it in the work of Laumann and Pappi (1976); Laumann, Marsden, and Galaskiewicz (1977); Galaskiewicz and Marsden (1978); Lincoln and Miller (1979); Fienberg and Wasserman (1981); Holland and Leinhardt (1981); Galaskiewicz and Shatin (1981); Fienberg, Meyer, and Wasserman (1981); Lincoln (1984); and Wasserman and Galaskiewicz (1984).

7. The independence of dyads is a much debated issue in the social-network literature. Lincoln (1984) summarized the debate. The crux of the problem lies in the fact that a party to one dyad is also a party to several others. In fact, in a square matrix, each actor is a party to $2(n-1)$ dyads (where n is the number of actors in a network); in a rectangular matrix, each row actor is a party to $m-1$ dyads (where m is the number of column actors) and each column actor is a party to $n-1$ dyads (where n is the number of row actors).

There is not much the analyst can do about this problem. One solution is to avoid tests of statistical significance (e.g., Laumann & Pappi, 1976; Galaskiewicz & Shatin, 1981). Alternatively one can simply assume independence and calculate statistics that incorporate this assumption. A third solution is to test for autocorrelation (measuring the same variable on the same unit twice) and partialing out this effect (e.g., Lincoln, 1984).

Our decision was to treat this problem of independence as a nonissue. First, there is little evidence that money given by one company to a nonprofit reduces or increases the probability that it will give money to another. The events appear to be independent. Limits on total expenditures are a separate issue that we will discuss later. However, that firms are limited in the amounts they can give to a nonprofit because of budgetary constraints does not mean that specific contributions decisions cannot be independent.

Second, in a large rectangular matrix the number of dependent dyads is comparatively less than in a small square matrix. Take any given dyad in a rectangular matrix with dimensions of 64 and 56. It is formally dependent upon only (64—1) + (56—1) = 118 other dyads. This is only 3.3% of the total number of dyads (less 1) in the matrix. In contrast, in a square matrix with 4 actors, any given dyad is formally dependent upon 9 other dyads, or 81.8% of the total number of dyads (less 1) in the matrix (see Lincoln, 1984:59). Thus as the size of the network increases and the analysis is restricted to rectangular matrices, the independence problem becomes less and less important.

8. Lincoln (1984) draws a parallel between his parameters and the parameters in the Holland-Leinhardt and Fienberg-Wasserman models. Although figuratively he may be correct, we are cautious in drawing too close a parallel, because the models used by Lincoln and these other researchers are very different.

9. Lincoln (1984) interprets the interaction effect for the case in which X_1 and X_2 are the same variable measured for sender and receiver modes as a similarity/dissimilarity effect.

> Take the example of age [and friendship]. If β_{12} [notation slightly different] is positive, one infers that, with age, people establish relations more readily with likewise older others than with younger people. A negative interaction means the opposite: more or stronger relations as the ages move in opposite directions (Lincoln, 1984:51-52).

Lincoln (1984) goes on to discuss how interaction terms can be examined that measure different properties of sender and receiver nodes (e.g., race and occupation).

10. For other efforts to include nodal-level data in an analysis of dyadic patterns, see Fienberg, Meyer, and Wasserman (1981); Fienberg and Wasserman (1981); and Galaskiewicz, Wasserman, Rauschenbach, Bielefeld, and Mullaney (1985).

11. Before we outline and test our models, we should say a word about our sampling design and the use of inferential statistics in our analysis. We might recall that the rows in our matrix are all the participating companies with over 200 employees that made contributions in 1980 to nonprofits. Thus one set of actors in the network constitutes a population. The columns in our matrix are all nonprofits drawn from our sample that received corporate contributions in 1980. The columns are then part of a 20% stratified sample of all public charities in the Twin Cities metro area identified by the Internal Revenue Service.

The issue is whether one can make statistical inferences about corporate donations of larger firms (+200 employees) to public charities in the metro area with this sampling

design. The population to be studied is the set of all possible dyads between 209 publicly-held firms in the Twin Cities and 1,601 nonprofit organizations. Our original plan was to have data on all firms and a sample of nonprofits. Firms would constitute a population of subjects, and we would make inferences about their relations to a sample of nonprofits —considered as stimuli, if you will. The response variable would be the amount of money given by subject i to stimulus j.

There are some unusual features to this design. First, sampling is done on the stimuli rather than on the subjects. Parameters measuring stimuli effects would then have to be estimated for each subject. This, however, is awkward. To perform one test measuring the effect of stimuli j on the response variable, ij, we could pool the data across all members of the population instead of performing separate tests for each subject. By pooling subjects it would now seem reasonable to conduct the usual tests to evaluate the covariation between stimuli j and response ij.

Tests of statistical significance become more problematic when we consider variation in the subjects. For example, given that subjects (i.e., companies) vary on some dimension (e.g., amount of money they contribute to charity in total), how can we incorporate this information into our models? The simplest strategy is to divide the pooled data into two subsets and look at the covariation of stimuli j with the response variable within each subset. Since we are working with a population of subjects, the analyst would then have to judge for (her)himself if the differences across the two subsets of subjects was large enough to make any substantive difference.

In our analysis we present tests of statistical significance for both the models to be tested and parameters showing subject (corporate) and stimuli (nonprofit) effects. However, we do so reluctantly. Tests for subject parameters seem superfluous, since we have a population of subjects. Tests for stimuli parameters may be meaningless, because the matrix to be studied has been purged of nonprofits from our sample which received no contributions in 1980. Thus while significant tests will be presented and discussed, the reader should regard these cautiously.

12. This procedure is necessary because with 3,584 cases, almost every effect is significant. By noting the change in R^2 accounted for by each variable, we get a finer measure of each variable's importance in explaining variance in the dependent variable. Obviously, change in R^2 does not tell us the magnitude of each effect, as a standardized regression coefficient would. However, this strategy does give us some way to differentiate among a set of predictor variables, all of which may be statistically significant.

13. The measurement of $X_{c,ac}$ was based on the contributions that corporation *i* made to the 56 nonprofits in our matrix of transactions and the amount of money that the elite wanted spent on the services that donee *j* provided. Thus,

$$X_{c,ac} = \sum_{j=1}^{n_{j \cdot i}} X_{c_{ij}} X_{ac_j} / n_{j \cdot i}$$

where $X_{c,ac}$ is the weighted average contribution of *i* to its donees *j*, $X_{c_{ij}}$ is the amount given by *i* to *j* in 1980 (coded 0–8), X_{ac_j} is the percentage of all corporate contributions that the elite thought should be spent on the activities of donee *j*, and $n_{j \cdot i}$ is the total number of nonprofits that donor *i* funded, which of course could vary from 1 to 56. The mean of this variable across the 64 corporations in this analysis was 28.42, with a standard deviation of 17.52.

14. The problem of high correlations between product terms and component variables is not as severe here. The zero-order correlation between $X_{nt,el}$ and X_{nt} was .276; the correlation between $X_{nt,el}$ and X_{el} was .286.

15. The measurement of $X_{c,el}$ was similar to that of $X_{c,ac}$. It was based on the amount of

money that corporation i made to the 56 nonprofits and the extent to which the philanthropic elite used or supported the services of the nonprofit. Thus,

$$X_{c,el} = \sum_{j=1}^{n_{j \cdot i}} X_{c_{ij}} X_{el_j} / n_{j \cdot i}$$

where $X_{c,el}$ is the weighted average contribution of i to its donees j, $X_{c_{ij}}$ is the amount given by i to j in 1980, X_{el_j} is the factor score representing the elite's use and support of nonprofit j, and $n_{j \cdot i}$ is the total number of nonprofits that donor i funded, which could vary from 1 to 56. The mean of this variable was 6.70, with a standard deviation of 3.98.

16. A high correlation between a product term and a component variable is again a concern. The correlation between $X_{al,md}$ and X_{al} was .862 (the correlation between $X_{al,md}$ and X_{md} was only .006). Again, because of the need to include component variables as well as the product variable in the same equation when assessing interaction effects, we ignore this high correlation for the time being.

7

CONCLUSIONS

Introduction

A reputation as an Emerald City does not come easily. There must be reasons why companies in Minneapolis–St. Paul were out-giving their peers in other communities in the late 1970s and early 1980s. This monograph attempts to describe this very successful case in an effort to discover these reasons. Ultimately, of course, our efforts will come up short, because without comparative data we cannot say why company giving in other cities did not match the Twin Cities. Also we will never be able to sort out the causal ordering among variables, because we only have cross-sectional data. For these reasons our discussion in this chapter must be seen as speculative and our conclusions tentative. Nevertheless, we have examined a great deal of data, and we must now begin to put together a theory about how this business community was able to get its companies to give to charity as much as they did.

The Grants Economy

If this monograph accomplishes anything, we hope it sheds a little more light on how a grants economy made up of gift-givers and gift-getters operates. As social scientists our interest in company giving extends beyond the practical issues of how to get companies to give more money to charity, how to give money away more wisely, or how to get

more money for one's favorite nonprofit. Instead we look at corporate gifts and grants as a special type of social transaction—a donative transfer. In this spirit, we follow in the footsteps of sociologists such as Titmuss (1971); Simmons, Klein, and Simmons (1977); and Caplow (1982, 1984). Whereas these other researchers examined donative transfers that individuals made either to an impersonal bureaucracy such as a blood or kidney bank or to other individuals in a family setting, we have studied donative transfers that business corporations made to nonprofit organizations in a community setting. As might be expected when studying corporate actors instead of real people, we shied away from theories of personality and small-group behavior and borrowed heavily instead from the economics, management, and political-science literatures on collective action and resource allocation in nonmarket settings.

One of the most difficult aspects of studying a grants economy is identifying the interests of different actors. Economists and exchange theorists in sociology have spent considerable effort trying to discover the "real" self-interest in gift-giving. For example, Homans (1958), Schwartz (1967), and Caplow (1982) have all tried to show how ostensibly selfless acts were really strategies on the part of donors to extend their power and control over donees, or at least to co-opt donees' affections. Economists have been a bit more gentle. Hammond (1975) and Kurz (1977, 1978) write about the intertemporal social contract that Ego strikes with future generations of prospective do-gooders. In a similar spirit, Boulding (1973) discusses serial reciprocity whereby a donor's gifts will eventually be reciprocated, but perhaps by a third party rather than by the donee. For the most part, economists and many sociologists have been very skeptical of self-proclaimed altruists or philanthropists and have taken it upon themselves to unmask the true self-interest at work.

But even if we could identify that underlying selfish motive, it is doubtful that it would do us much good in explaining resource allocation in a grants economy. Boulding (1973) points out that most donors must wait so long before they get feedback on transactions of this kind that there is not sufficient discipline in a grants economy capable of redirecting the flow of resources. A grants economy is a loosely coupled system. The reason for this is that the donor is essentially the buyer of the service, the nonprofit is the vendor, but the client, student, patient—not the donor—is the consumer. The one who buys the service is not the one to consume it. In contrast to market economies, in which actors can tell almost immediately if they are better or worse off as a result of a given transaction, in a grants economy the donor is unsure if

those who actually consumed the service were satisfied or often has to wait a number of years to know if it has benefited in any way.

The problem of identifying true self-interest is no easier when one looks.at donees. The crux of the problem is that one cannot assume a single maximand once you prohibit nonprofit producers from owning the means of production or appropriating surplus earnings. In other words, being unable to assume that producers are out to maximize profits robs theorists of a basic assumption that would otherwise allow them to build a model of resource allocation. Instead there is free rein given to any number of decision-making criteria: maximize quantity subject to budget constraints (Long, 1964), maximize personal income of professionals who are employed by the organization (Pauley & Redisch, 1973), or maximize organizational slack (Martin, 1980; Blair et al., 1975). Some writers even argue that nonprofits should maximize the utility of contributors or donors (Copeland & Smith, 1978; Douglas, 1983; Weisbrod, 1975, 1977).

Without clear-cut maximands based on self-interest and profit maximization, it is difficult for the theorist to use value theory—the mainstay of economic analysis—to understand allocation in a grants economy. We suggest that there are certain things that corporate donors in the Twin Cities apparently wanted to get out of their contributions, and certain costs they wanted to minimize. For example, donors may anticipate public-relations payoffs, recognition and respect from business leaders, the survival of the free-enterprise system, and/or the reduction of uncertainty. However, none of these maximands easily lend themselves to analysis, and it is very unlikely that firms know or can know whether their contributions will result in any of these benefits. Academicians have been spoiled by bottom-line indicators of organizational effectiveness. Theory-building becomes so much more difficult when the analyst is not sure of the maximand governing decision-making, and it is impossible to measure the payoff for participants.

The Grants Economy as a Network of Collective Action

This study assumes that a grants economy is a highly decentralized social institution that produces either first- or second-order collective goods for the community. A grants economy is decentralized because resources are allocated through a large number of very small, individual decisions. In contrast to governments, where citizens are coerced to forfeit control of their surplus for the production of collective goods

and/or services, grants economies operate on a voluntaristic basis, with each donor deciding whether or not to give to this or that prospective donee. Granted there are governmentlike structures in grants economies that centralize the allocation of surplus in the system (e.g., the United Way); but even contributions to the United Way are voluntary, and the total given to the United Way is again the result of a large number of very small, individual decisions.

At the same time the products or outputs resulting from the gift are first- or second-order collective goods. First-order collective goods are what economists call pure public goods—goods that cannot be appropriated by any single actor in the community but that can be enjoyed by any member of the community directly, whether or not that individual contributed to its provision (Boulding, 1973). Examples of public goods include fresh air, clean water, scientific knowledge, and neighborhood safety. Second-order collective goods can be appropriated by single actors, but the consequences of their consumption allegedly benefit everyone in the long run. Income transfers, free health care for the indigent, food shelves for the hungry, and so on are examples of second-order collective goods. These outputs qualify as public goods because without them everyone in the community would have to suffer the negative consequences of community members being poor and hungry, sick, or otherwise undersatisfied.

In many ways, then, a grants economy is a hybrid social organization. Its outputs parallel the outputs of governments in that it provides collective goods, whereas its process of resource aggregation and allocation parallels processes in the marketplace in that the distribution of resources is the result of a large number of small, voluntary, individual decisions. Whether or not a grants economy embodies the best or worst of both systems is an issue that we leave to policy analysts.

Selective Incentives as a Way to Persuade the Reluctant Donor

One problem that all efforts at collective action face is the chiseler who cannot be denied access to the good, even though he has not contributed to its production. One solution to this free-rider problem is to provide selective incentives to induce participation. A selective incentive is some payoff that donors come to enjoy directly in return for their participation or contributions to the collective action. Olson (1965) gave several examples, among them praise, esteem, and friendship. Such incentives are *sociability* goods that group members bestow upon

those who decide to join in the action. They are not commodities in the strict sense of the term, and there is nothing even approaching a contract guaranteeing that one would get *y* amount of praise, recognition, or fellowship in exchange for x amount of participation. As Goode (1978) points out, this would violate the social ritual. Besides, it would be difficult to quantify these transfers and thus almost impossible to draw up any sort of meaningful contract.

Our review of the anthropological literature on status rituals and the literature on organizational behavior indicates that companies and company executives may be responsive to two types of selective incentives that actors in the local community could provide: recognition for being generous companies and for being successful businesses. Following our predecessors in sociology and economics, we did not assume that corporate donors were altruists but rather worked under the assumption that there was something that companies expected to get out of their participation in a grants economy. We suspected, however, that the benefit came not from the nonprofit that received the gift but from significant others in the environment.

In discussing the significance of selective incentives for corporate contributions, we distinguished between two arenas of action. The first was the geographic community; the second was the business community. In the first arena companies would be motivated to make contributions by the promise of more favorable recognition by members of the local community elite. The payoff for giving more money to charity or giving money to the elite's favorite charities would be that the reputation or image of the company would be enhanced in the eyes of local "movers and shakers." This is of interest to firms, because favorable public relations is a type of social insurance against "unreasonable action" that local interest groups might take against companies.

However, not all firms should be equally interested in winning the good will of the local elite. We hypothesized that the market position of the firm would give us some clue as to which firms might be more involved in this status competition than others. Specifically we looked at the percentage of a firm's employees that lived in the local area. In assessing the effects of this variable on contributions, we controlled for pretax net income, the percentage of sales to consumers, and labor intensity, as suggested in the literature (see Burt, 1983; Nelson, 1970).

As Figure 7.1 indicates, firms that were less labor intensive or firms that were less dependent upon the local area for employees gave more money to charity, and the percentage of sales to consumers was unrelated to the level of contributions.[1] The only variable that was posi-

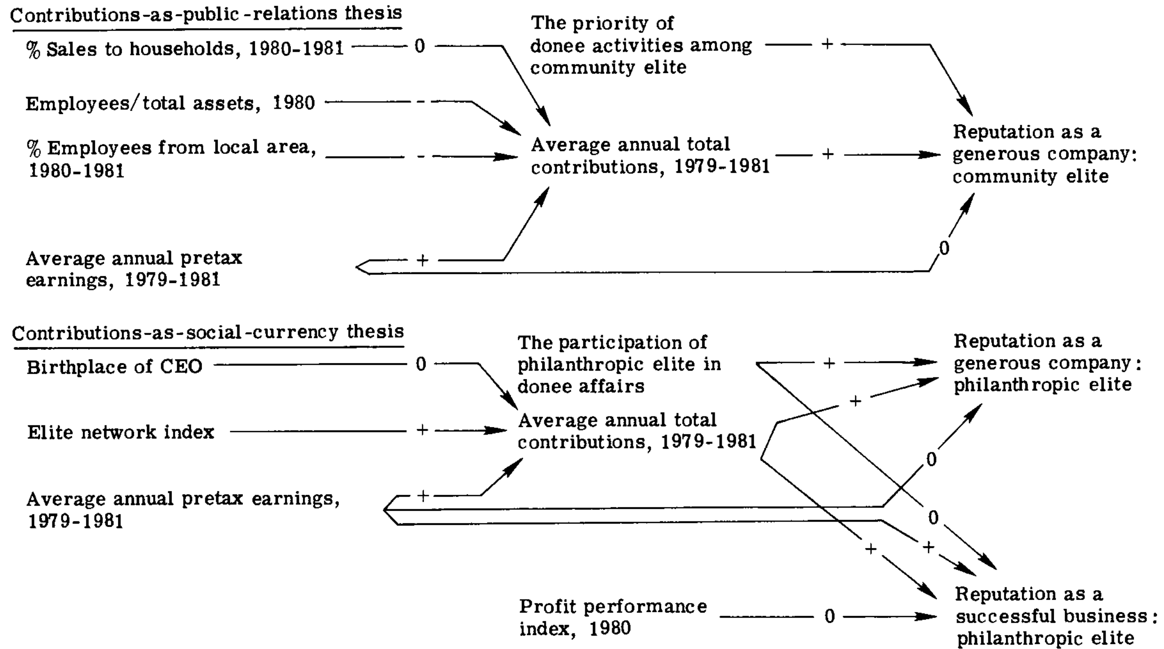


Figure 7.1 Diagram summarizing results of the contributions-as-public-relations thesis and the contributions-as-social-currency thesis.

tively associated with the amount given to charity was pretax earnings. None of the so-called market-position variables had a positive effect on contributions. Thus, although the contributions-as-public-relations thesis would lead us to expect firms more dependent upon various stakeholders to be giving more money to charity, this just was not the case in our study.

We also failed to find support for the contributions-as-public-relations thesis in our more detailed dyadic analysis. We had thought that the more dependent a company was upon the local community, the more money it would give to activities that the elite thought corporations should be supporting. In other words, they would carefully target their contributions on elite causes. This, however, was not the case. The joint effect of a donor being dependent upon local labor markets and the importance of the nonprofit's activities in the eyes of the elite had no impact on the amount donated by the donor to the donee.

However, Figure 7.1 does show that companies that gave more money to charity or that supported charitable causes that the local community elite thought important were recognized by more members of the local community elite as being very generous to nonprofits. Evidently, companies received good PR for their charitable contributions whether they intended to or not.

In a second arena of action, the business community, we had expected companies to be drawn into contributing by the promise of more favorable recognition from local corporate philanthropic leaders. The payoff for giving more money, or giving money to the elite's favorite charities, would be enhancement of the company's reputation or image in the eyes of business peers or leaders. This would be of interest to firms and executives not because of any business advantage they might win but for sociability or status purposes.

We hypothesized that the firms that would be most attracted to this action would be firms whose executives were highly integrated into the social circles of the philanthropic elite or were born in the region. Supposedly, peer pressure in these circles would prompt contributions from members. Alternatively, local roots would motivate executives to win applause and acceptance from local business elites. In assessing the effects of these variables on total corporate contributions, we again controlled for annual pretax earnings.

The results, presented in Figure 7.1, show clearly that integration into the social circles of the philanthropic leaders was an important factor in explaining contributions. This effect was independent of pretax earnings and of the birthplace of the CEO. This latter variable, the CEO's birthplace, had little or no effect on contributions.

We also found support for the contributions-as-social-currency hypothesis in our dyadic analysis. As hypothesized, companies that tended to be better integrated into the social circles of the corporate philanthropic elite tended to give more money to charities that the elite either supported or used themselves. In other words, executives' social positions influenced the specific allocations that their companies made, as well as the overall amount they spent.

As Figure 7.1 also shows, companies that contributed more money to charity or that supported nonprofit organizations that the philanthropic elite itself patronized were recognized by more members of the corporate philanthropic elite as being very generous to nonprofits. Also, companies that gave more money to charity were recognized by more members of the corporate philanthropic elite as being very successful businesses, controlling for pretax earnings and performance ratios. In this community, a reputation as a successful business appears to have been a function of either how much a company earned or how much it gave away.

Almost all aspects of the contributions-as-social-currency thesis were supported by our data. This leads us to believe that the corporate grants economy depended upon a high level of status competition among firms. At the center of this competition was an elite of business leaders who bestowed recognition and esteem upon companies that gave more money to charity. Being subject to peer pressure, companies responded, and, in turn, received status rewards for their efforts.

Support for the contributions-as-public-relations hypothesis was not as strong. Although the local community elite recognized firms that gave gifts, we did not find that a company's market position had the anticipated effect on the amount it gave. These findings may appear to contradict each other, but we suspect that the favorable attitudes held by the community elite were a spillover from the status games that companies were playing within the business community. In a sense, big givers were getting a bonus from their attempts to impress philanthropic leaders—those in the larger community were applauding as well.

However, firms that could have benefited most from good local public relations were not taking full advantage of the situation. On the one hand, firms could have been acting foolishly. On the other hand, the good will of local elites may not be worth that much to the company, and the emphasis on public relations has been overplayed. Certainly the literature has found little or no correlation between business performance and being socially responsible or being regarded as socially responsible. Thus, although they knew they could derive PR benefits, compa-

nies may also have realized that impressing local elites has no bottom line payoff and thus passed on the opportunity.

Enlightened Self-Interest as a Way to Persuade the Reluctant Donor

Another way to solve the free-rider problem is to have individual actors define their own interests more broadly so as to include many other actors and possibly even the collectivity itself. In Chapter 1, we cite examples of how members of a clan (Ouchi, 1980) or commune (Kanter, 1972) come to define their interests in terms of the collective interest (see also Knoke & Wood, 1981). If individual donors can be made to believe that their interests are served if the collective interest is served, then contributions to collective action should be readily forthcoming without any overriding concern about chiselers.

Our review of the literature reveals that there has been a history of collectivist sentiments that have rationalized giving by business corporations. These sentiments are embodied in a loose-fitting ideology that we and others call enlightened self-interest. This ideology focuses attention on the long-term benefits that business, and subsequently the firm, will realize in the future if each business firm acts responsibly today. Essentially, it is an appeal to the collective interests of business. For the most part this ideology has been a favorite of Big Business and is not found too often among smaller firms. Useem (1980) and others have explained this in terms of the greater investments that Big Business has in many different parts of the economy. With such diversified interests, it is no wonder that Big Business tends to identify more with the collective interests of the free-enterprise sector as a whole. Plain and simple, they have more to lose if one or another part of the system begins to crumble (see also Wallich & McGowan [1970] and Keim [1978]).

We found that companies that espoused an ideology of enlightened self-interest gave more money to charity, even when we controlled for the firm's average annual pretax earnings and the proximity of the company's executives to the philanthropic elite (see Figure 7.2).[2] In other words, rationalizing contributions on the grounds that they help to protect the long-term interests of the company or of the free-enterprise system as a whole appears to have led some companies to give more money to charities. A corporate ideology of enlightened self-interest had a direct effect on company contributions; interestingly, it was the only ideological position that was positively correlated with size of contributions. Neither rationales based on more self-seeking ends (the corporate business strategy) nor rationales based on community or mo-

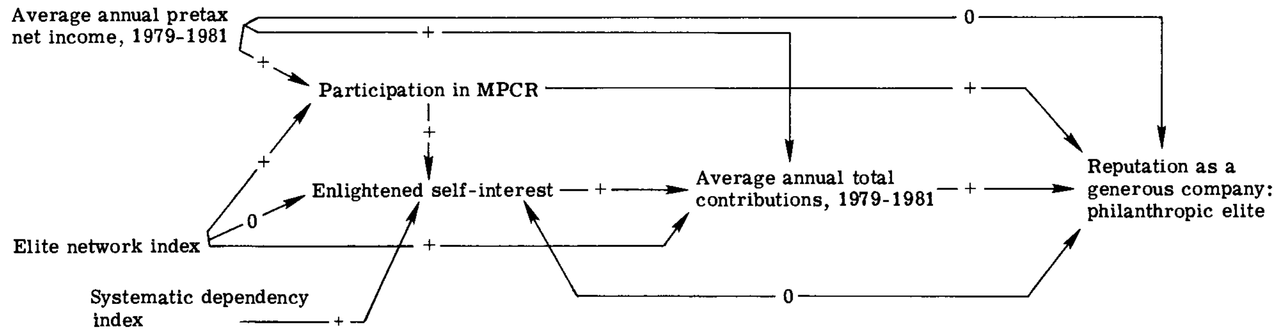


Figure 7.2 Diagram summarizing effects of the contributions-as-enlightened-self-interest thesis.

rality (moral obligation or social responsibility) had any effect at all on the level of company giving. Collectivist sentiments apparently can move companies to contribute money to charity. However, the collectivity to be benefited is not primarily the larger community; it is the business community.

We hypothesized, but did not find, that companies that espoused an ideology of enlightened self-interest tend to be proximate to the philanthropic elite. Neither did we find that companies that espoused an ideology of enlightened self-interest tend to be seen by the philanthropic leaders as being more generous to nonprofits in the area. We had expected this to be the case, because members of the corporate philanthropic elite tended to espouse this value position. We thought that the same sort of peer-group pressure and recognition process found to stimulate contributions might also explain differences in corporate ideology. This, however, was not the case.

Instead we found that the correlates of an ideology of enlightened self-interest were broad gauged dependency of the firm upon different sectors of the economy and company participation in local educational programs aimed at socializing executives into an ethic of corporate responsibility. Looking at the latter effect we must be careful, because the causal direction is, of course, unclear. Participation in this program could have given rise to these values, or firms with these values may have chosen to send their people to the seminars. Nonetheless, companies participating in these programs tended to rationalize contributions as enlightened self-interest.

Following up on this, we then found that integration into the personal networks of the corporate philanthropic elite was highly correlated with participation in these programs, independently of firm size. Furthermore, companies that participated in these programs were seen by more members of the corporate philanthropic elite as being generous contributors to nonprofit organizations, independently of actual contributions, pretax earnings, and whether or not they rationalized contributions as enlightened self-interest.

These findings are highly suggestive. It appears that peer pressure and the promise of greater recognition in the elite community spurred companies to participate in local educational programs on corporate responsibility, but it was participation in these programs and not peer pressure or the promise of increased recognition that led companies to embrace an ethic of enlightened self-interest. The conversion appears to have happened through the socialization process that took place in the program setting. In other words, elite peer pressure and the promise of selective incentives brought firms into an organizationally structured

arena where they subsequently learned how to rationalize their giving as enlightened self-interest.

Contributions to a Theory of Collective Action

Our main contribution to the literature on collective action is our identification and analysis of elites and elite networks. Inspired by the theoretical work of Olson (1965), we sought to immerse ourselves in a real-life network of collective action. In contrast to much of the work on collective action in economics and political science, which is highly theoretical, our efforts were empirically grounded. The advantage of this approach, we believe, is that it allowed us to discover whether other factors hitherto unthought of were important in shaping collective action. Our focus on community elites, their networks, and the impact of both on collective action follows a long sociological tradition beginning with Hunter's (1953) work in Atlanta and followed by Perrucci and Pilisuk (1970); Laumann and Pappi (1976); Marsden and Laumann (1977); Ratcliff, Gallagher, and Ratcliff (1979); and Ratcliff (1980). Our efforts depart from earlier studies in that we focus on collective action that takes place strictly among private sector actors and that operates outside of conventional political institutions. However, our focus is still on collective action and on the roles that elites and their networks play.

It is clear that the corporate philanthropic elite was vital to the continuance of the collective action. At the risk of repeating ourselves, company/executive contact with the elite was associated with firms giving more to charity and being recruited for seminars on corporate responsibility. Furthermore, companies that gave more to charity and sent executives to these seminars tended to be recognized by more members of the elite as being very generous to nonprofits. Greater contributions also resulted in more recognition as successful businesses. As reported in Chapter 2, members of this elite acknowledged the role that peer pressure played in sorting out who was in and who was out of local civic culture and in keeping track of actors' debts to one another. Finally, as we discuss in Chapter 3, members of this elite played a critical role in organizing a program that would help company executives to better recognize their corporate responsibilities to the larger society and, evidently, to the free-enterprise system as well.

An Interactionist View of Company Giving

What strikes us immediately is the importance of interactionist variables (e.g., network ties and personal recognition of a company as generous or successful) and sociocultural variables (e.g., an ethic of enlightened self-interest) and the impotence of structural variables (e.g., market position) in explaining who gave more or less and who gave to whom. For example, companies that were more dependent upon households or consumers for sales, or upon labor power, did not contribute more money to charity. Nor did we find that companies that were more dependent upon the Twin Cities area for employees gave more money to charity or targeted their giving to please local elites. Even with local elites giving recognition to companies that gave more and that gave to causes they favored, firms that one would think might want to take advantage of this situation were not acting accordingly. In studying any sort of bureaucratic organization, our Weberian heritage leads us to project a certain rationality onto these actors. Perhaps local corporate types were rational in that being viewed as socially responsible does not result in immediate increased profits. Yet it would seem that good PR would benefit the firm in the long run, and those companies which might have benefited most were not giving more. In sum, the structural positions of companies in their various markets or vis-à-vis their various stakeholders were just not important predictors of how companies behaved.

It was, instead, the companies whose executives were immersed in the networks of the corporate philanthropic elite, and in the elite subculture, that gave more money to charity and took care to give to charities patronized by the elite. The network that extended out from the elite was key in communicating expectations of behavior and in getting companies to do the sorts of things that were expected of them. In turn, the community elite as well as the philanthropic elite were responsive to the actions of the companies and conferred recognition and applause accordingly. When a company did something that the elite felt worthwhile, more recognition and esteem were conferred upon the firm.

In terms of the existing literature on collective action, we have only elaborated on something that Olson (1975) proposed a decade ago: When free-rider problems exist, others will rely upon selective incentives such as praise, esteem, and good fellowship—sociability goods—to elicit the participation of reluctant contributors. In light of our above discussion, one could argue that Mancur Olson himself was a latent social interactionist. To overcome the barriers to collective action

—the naked self-interest of actors—others on the scene utilize their networks to pressure recalcitrant actors to contribute, and then bestow or withhold sociability goods depending upon whether the actor has complied or remained aloof.

The importance of subculture, values, and group norms comes through clearly when we observe the impact of ideology on company giving, the efforts on the part of the elite to establish programs on corporate responsibility, and the use of elite peer pressure and peer recognition to elicit participation in these educational programs. This latter finding is especially intriguing in that the same interactionist processes that spurred greater contributions apparently operated to get company executives into formally organized, culture-creating arenas where they might learn a rationale for giving. In other words, the elite network not only communicated its expectation that companies give, it also expected executives to learn about why one should give.

In a very real sense, the elite may have been preparing for its own demise. If contributions were solely dependent upon the continued networking and applause of an elite, then as the elite passed on, so would the subculture. By virtue of local educational programs that perpetuated an ideology that could sustain a high level of corporate contributions independently of the informal peer subculture, the local grants economy might just be able to survive without an old-boy network. We suspect the elite was replacing its own subculture, which had depended upon the old boy network, with a subculture based on allegiance to a set of abstract principles learned through formally organized learning activities.

Interactionists will be skeptical that a subculture based on individual actor allegiance to an abstract ideological position could ever be as effective as a network of interpersonal relationships giving direction to and feedback on action. Yet we found that companies whose executives espoused an ethic of enlightened self-interest gave more to charity, controlling for network ties to the elite! In other words, there is some evidence that the alternative strategy can work. Indeed, the effect of ideology on giving was not as strong as were the network variables, but it was still significant.

Unfortunately, students of collective action and gift-giving have not paid enough attention to the role that collectivist sentiments can play in motivating participation. We believe that the cynicism that pervades economic and sociological thought makes it difficult for scholars to take collectivist sentiments seriously. Ouchi (1980), Lindblum (1977), and others refer to clans, preceptorial systems, and the like, in which collective action is based on the allegiance of individual actors to some com-

monly held collectivist-based value system. In the Twin Cities, we observed efforts on the part of one elite to institutionalize structures that could socialize companies and their executives into this kind of ethic. As noted earlier, there are very real costs associated with the reeducation of corporate actors, which is much more difficult than reeducating natural persons. One essentially has to work against a set of values in the larger society that prescribes that business corporations be primarily responsible for shareholders' equity (Friedman, 1982). Yet the Twin Cities educational programs asked companies to abandon this narrow definition of their mission and to embrace the interests of the free-enterprise or business system as a whole.[3]

In sum, if there is one thing we have learned, or at least relearned, it is that there are ways to overcome the innate selfishness of actors and to channel their energies into action that serves the collective interest—even if the collective interest is that of business. In Janowitz's (1978) terms, corporate actors are amenable to social control. First, corporate actors can be socialized into a value system that allegedly reflects collectivist rather than individualist goals—that of enlightened self-interest. In turn, allegiance to collective symbols can be a very effective spur to action. A company cooperates with some type of collective action because it identifies with the interests of the collectivity. Alternatively, corporate actors are subject to control by social networks that extend into the heart of the firm via the ties of executives and directors to extraorganizational status groups and status systems. A firm's actions are subsequently constrained by these networks or, more appropriately, by expectations, the promise of approval, and the threat of ostracism from the social networks through which executives and directors maintain their contacts with the local elite. Giving in response to peer reactions is giving that is highly controlled. To the extent that these social networks can be sustained and empowered with the neces-

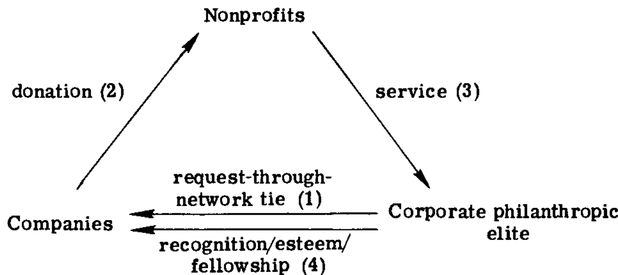


Figure 7.3 Exchange pattern among companies, nonprofits, and the corporate philanthropic elite.

sary resources, even the most selfish of corporate actors can be brought into line. Identification with collective interests is not necessary for collective action as long as the networks among participants can extract the cooperation of actors for collective purposes. Again, we make no claim that we have found something new. Indeed, these conclusions echo the classical theoretical positions of Georg Simmel and Emile Durkheim as well as the approaches of more contemporary interactionists such as Fischer (1976) and Fine and Kleinman (1979). Action can be controlled and energies channeled through networks and subculture.

An Exchange Perspective on Company Giving

Before we become overly enamored with an interactionist interpretation of our findings, we must recognize that actors were deriving some very real benefits in return for their participation in this action. While the collective interest of business was being served (i.e., charitable organizations were being supported that enhanced the community environment in which free enterprise did its business), individual participants were benefiting as well.

Figure 7.3 describes a pattern of serial reciprocity in which no two actors exchange resources directly, but in which each actor derives some benefit for itself by making a "gift" to a third party. Ignoring the role of ideology for the time being, let us offer a heuristic on the way peer pressure worked in our case study. Looking at Figure 7.3, we see that the action was initiated when some member(s) of the philanthropic elite solicited companies in their networks. The companies responded in turn by making contributions to nonprofits. The nonprofits supported by the companies just happened to be those that provided services (either tangible or psychic) to members of the corporate philanthropic elite, and, finally, the members of the elite recognized companies that supported the nonprofits that serviced them. The empirical findings discussed above fit this description of events perfectly. All the appropriate correlations are there. The only problem is, of course, that our data were cross-sectional and the scenario we describe in Figure 7.3 is time-ordered. Thus, our interpretation of events must still be regarded as speculative.

If we are correct, however, each actor in the system was well served. We need not elaborate on the benefits that nonprofits derived, nor do we need to discuss again the public-relations benefits that companies and their executives realized. Of greater interest are the benefits that the philanthropic elite derived from the action. Essentially, companies and executives who were in elite networks ended up giving more money to

nonprofits that the elite favored or utilized themselves. In Figure 7.3, this is the (1) (2) (3) sequence; in our analysis, it was the significant interaction effect that we describe in Chapter 6 between company contact with the elite (X_{nt}), company donations to the nonprofit (Y_c), and elite patronage of the nonprofit (X_{el}).

In turn, the elite thought more highly of companies that had funded nonprofits that they utilized. In Figure 7.3, this is the (2) (3) (4) sequence; in our analysis, it was the effect of our weighted contributions score, $X_{c,el}$ (which measured the affiliation of our elite with the nonprofits funded by donor *i*), on the number of philanthropic leaders who saw the company as especially generous to nonprofits.

That the system was working so well for the philanthropic elite makes it understandable why members of the elite were not free riders themselves. In Chapter 2 we discuss the backgrounds of the elite. Of the 30 philanthropic leaders, 23 were born in Minnesota, Iowa, or the Dakotas. Of the 17 leaders who had been CEOs, presidents, or chairmen of Fortune 50 or 500 firms, 13 were born in Minnesota or the Dakotas and 3 had lived in the Twin Cities since 1921, 1942, and 1946 respectively. We had speculated that the motivation of this elite to organize the action could be due to their local roots and family ties in the area. However, later we learned that companies in close social proximity to the elite were making contributions to nonprofits that the elite used or supported. We also found (see Chapter 6) that the contribution from corporation *i* to nonprofit *j* was greater if there were more philanthropic leaders in contact with i and associated with *j*. Home and hearth could have been a motive to elicit elite participation, but so could the increased funding of these leaders' favorite charities.

That members of the elite would benefit personally from their participation in this collective action raises two interesting questions. At first glance, the elite appears manipulative and hypocritical. In our interviews, 54% of the elite rationalized corporate giving as serving the long-term interests of the free-enterprise system. The ideology was one of enlightened self-interest, and the tone was clearly collectivist—albeit in terms of the collective interest of business. Yet nonprofits that the elite personally used or supported were benefiting from the social system that they had created. Were elite members prompting contributions from their peers with the rhetoric of enlightened self-interest and then channeling the dollars raised from their peers into nonprofits that they favored? Or was an ethic of enlightened self-interest being institutionalized by the elite precisely because the more informal peer pressure had all too often led to funding for elite organizations? It is difficult to say either way.

But why should we expect the elite to solicit on behalf of organizations and take the time to acknowledge peers who contribute without taking some kind of compensation? The elite did have deeper local roots and were more likely to rationalize giving as enlightened self-interest than were other executives in the area. Yet perhaps elite organizers needed some selective incentives in addition to their natural interests in the community and their idealism. Funding for their favorite nonprofits might just have been a cost that the system had to incur in order to enjoy the larger benefits that the elite's organizational efforts produced. Indeed, we found that companies in close proximity to the elite gave more money in toto to nonprofits, and that a company could earn recognition and a reputation as a generous and prosperous company simply by giving large sums to charity. Peer pressure was thus important in stimulating corporate contributions in general, and not just corporate contributions to elite organizations. Looking at it this way, one could rationalize the funding of elite organizations as a commission, or selective incentive, that the system paid members of the elite for motivating others to make greater contributions to charity.

Some Sobering *Qualifications*

In concluding this section, we add two sobering thoughts. Even though our empirical findings were as strong as they were, there is always the chance that we may have overinterpreted events. It could very well be the case that things were not so tightly planned, so tightly coupled, so strategic. To repeat a point made above, one is tempted to view the corporation and the elite as rational actors who were out to maximize their return. It is seductive to think that they set up this action with the idea that everyone would benefit in the long run—that companies would get favorable public relations, that the elite would get its favorite nonprofits funded, and that the community would get some extra money to meet local needs. That the philanthropic business leaders and corporate chiefs would be so clever fits the popular image of the all-knowing, manipulative, and highly strategy-conscious businessman.

Unfortunately, we just do not have the data that would tell if this network was so nicely orchestrated as our scenario suggests. It could have been the case that in the course of interacting with peers in the community, members of the elite pushed their favorite nonprofits, which in turn resulted in these organizations getting funded. When asked later in our interviews which companies were generous to nonprofits, the elite checked those companies that had responded to their

solicitations. Although from the outside the whole process seems very Machiavellian, at the micro level it is very innocent. Ours may have been a case in which the system was rational but the actors were not purposive.[4]

A second sour note is a disclaimer that our interpretations are based on cross-sectional data, making them highly suspect. A full test of our theories would require longitudinal data that would allow us to see what members of the elite thought of a company before it gave at a higher level or supported elite causes, and what they thought of it afterward. Perhaps at some point a follow-up study of this network can be done. Until then we must be very cautious in interpreting our cross-sectional correlations.

Reducing Uncertainty and Transaction Costs

Just as in other instances of resource aggregation and allocation, there are transaction costs associated with efforts at collective action. These costs are associated with all that actors must tend to in order to consummate a transaction with another actor. Traditionally, those interested in transaction costs have focused on reducing uncertainty, maintaining flexibility, and protecting against opportunistic behavior. Williamson (1975), Ouchi (1980), and Williamson and Ouchi (1981) discuss how markets, hierarchies, and clans are alternative organizational forms to reduce transaction costs under different environmental conditions.

We focused on agency as a way to reduce transaction costs for donors and donees in a grants economy. Borrowing from Schmid (1978), we considered various agency roles in collective action that help to reduce contractual costs, information or uncertainty costs, and policing costs. The rationale underlying the use of agents is that it is cheaper in the long run to retain the services of agents who can reduce transaction costs associated with collective action, than to let individual principals solve these problems on their own (Mitnick, 1980a).

The Elite as Agent

In a previous discussion of the corporate philanthropic elite, we touch upon the issue of agency. For example, the elite absorbed contractual costs in that they distributed the selective incentives to those who contributed to the collective action. Through our statistical analysis we found that companies that gave more money to charity or participated in

local educational programs were recognized by more members of the philanthropic elite as being extraordinarily generous to nonprofits. Big givers were also seen by more philanthropic leaders as being successful business ventures as well. Through qualitative data we found that those who refused to contribute often lost respect among business leaders or were denied access to local civic culture. These forms of reward and punishment were part of the elite's duties. To the extent that members of the elite controlled the intangible selective incentives of recognition, esteem, and respect, they acted as social or status gatekeepers in the business community.

Furthermore, the philanthropic elite helped to reduce information search costs for donors and donees. The philanthropic leaders acted as agents for the different nonprofits in the community, soliciting their peers in the business community for contributions. In this capacity they assumed the role of mendicant or fundraiser. Indeed, in many instances we found that they were very effective matchmakers between the nonprofits that they patronized and companies in which they knew executives, directors, or CEOs personally. In Chapter 6 we learn that the more philanthropic leaders who were associated with both a company's executives and a nonprofit, the greater the corporate contribution between that company and the nonprofit. The elite essentially acted as a conduit through which corporate funds flowed to the nonprofit.

The importance of the matchmaker role cannot be overemphasized. As a free-floating agent, unattached from (i.e., not employed by) any single donor or donee, the matchmaker is a sort of "wandering weak tie" that can enable different donors to "mate" with different donees (see Granovetter, 1973). Discussions of such weak-tie roles in systems of resource allocation are only now in the early stages (e.g., Granovetter, 1974; Boorman, 1975; Delany, 1980). Considerably more empirical work needs to be done on the optimum number of weak ties or matchmakers in a network of a given size, the consequences for resource allocation when matchmakers have values that they are striving to maximize, the time it takes to match donors to donees given different numbers of matchmakers with different values to pursue, and the relative importance of matchmakers in networks of resource aggregation and allocation as conditions in the resource or institutional environment become more or less uncertain or unstable. The role of matchmakers in interorganizational fields is an exciting topic for future inquiry.

Finally, the elite took it upon themselves to police the behavior of companies and executives in the community. In our interviews with

these philanthropic leaders, we learned that corporate executives who refused to give in response to a solicitation ran the risk of losing the opportunity to solicit in the future. If an executive would not "play ball" with a peer, he might miss his chance to get that actor to cooperate with him on his project. The philanthropic elite policed the behavior of local companies, because it maintained a social memory (see Ouchi, 1984). A network of actors in the community—the elite acting as agents of the business community—granted or withheld cooperation to those actors who have cooperated or refused to cooperate in the past. It is difficult to keep chiselers from consuming the fruits of collective action; however, a social memory keeps track of just who the chiselers are.

In sum, the philanthropic elite played several critical agency roles in this local grants economy. It absorbed contractual, information search, and policing costs for others in the system. The elite may have derived some benefits from participating in the collective action, but again the transaction costs that they saved other actors in the system may have far offset the extra money that was expended to fund their own favorite charities. This is, of course, all speculation, because it is so difficult to measure these cost savings.

That the local grants economy has perhaps unconsciously "priced out" what different social and organizational arrangements would cost and "decided" upon retaining matchmakers is intriguing. Again it suggests that the system may be more rational than the actors in the system, in that the system may select those forms of social organization that are more cost effective. Again, all of this is speculation, because our data are cross-sectional, and we did not collect information that would allow us to explore these issues directly.

Brokers as Agents

It is common in a grants economy to have a broker (e.g., the United Way), which acts as a middleman between donors and donees. Rose-Ackerman (1980) points out that the primary attraction of brokers is that they can effectively reduce information search costs for both donors and donees. Donors can easily delegate the responsibility of screening and verifying donee requests to their agents, their brokers. Through review committees, the staff and directors of the brokerage can make a more informed judgment about the merits of donee requests. It simplifies the search for donors and thus reduces transaction costs associated with reducing environmental uncertainty. Furthermore, the broker has the capacity to follow up on those organizations that have received fund-

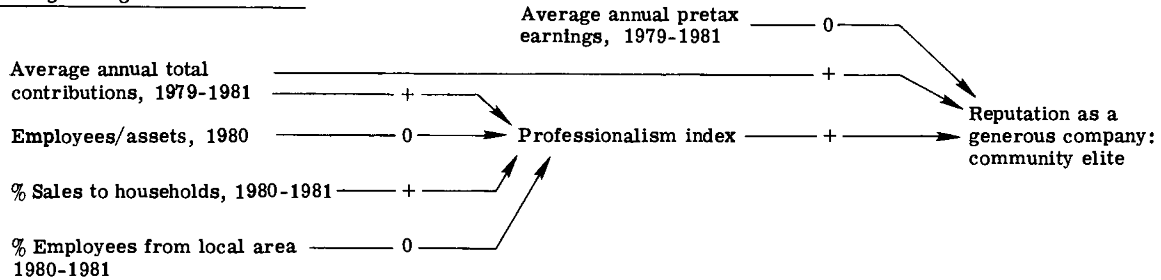
ing. Because the donor does not benefit directly from the output of the donee, it is convenient to have an agent who is able to check on how funds were spent. The broker also provides certain advantages to the donee. Instead of several different donors to please, prospective donees now only have to please the broker.

Brokerages also have their drawbacks, however. For donors, participation in brokerages ultimately means that they forfeit control over the final disposition of their charitable dollars. Control passes to a board of directors, an allocations committee, or a staff. As Coleman (1973) and others note, the problem of control becomes worse as the corporate actor or the brokerage becomes larger. Furthermore, the presence of a broker introduces another layer of social structure between the donor and the donee. It increases the social distance between those who give and those who receive. Supposedly this is a problem for donors who want feedback so as to better allocate their contributions dollar or who wish to be recognized as benefactors. With money going through a broker, allegedly it is difficult for others to know about the good things that the company has done.

Brokers also can be disadvantageous to donees. With a brokerage, donees become more power dependent. Instead of multiple sources of funding, there is only a limited number of sources that donees can turn to. Search costs may be less, but that does not mean that it will be any easier to secure funds. Indeed, as Pfeffer and Leong (1977) and Provan et al. (1980) have found, an important strategy for being funded by a brokerage is to show that one has other sources of support. At that point, the monopoly position of the brokerage is challenged, and it must cater to the nonprofit's wishes. However, if a nonprofit has no outside funding, it receives less from a broker. In other words, brokers can use their monopoly position to squeeze donees that are more dependent upon them.

Given these pros and cons, we wanted to develop a model that could explain why some firms in our study used brokerages and others did not. Figure 7.4 summarizes our findings. We expected to find that firms with larger budgets would tend to give larger shares of their contributions through brokerages and that firms that gave larger proportions of their funds through brokerages would tend to give more money to charity. Instead we found just the opposite: The larger the contribution, the smaller the proportion given through brokerages.

Next, we hypothesized that firms that were more dependent upon natural persons, and especially upon *local* natural persons, would be less likely to use brokerages. In the interest of maximizing the impact of



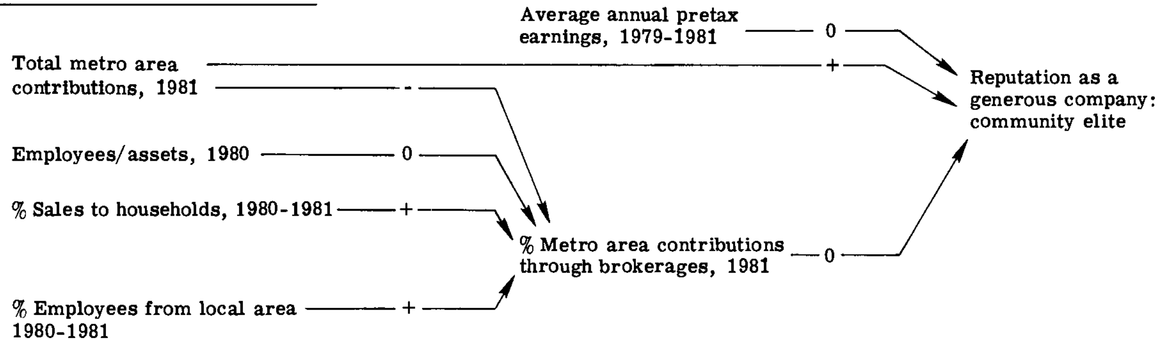


Figure 7.4 Diagram summarizing effects of the giving-through-almoners thesis and the giving-through-brokerages thesis.

contributions on public opinion, these firms should shy away from agents who would reduce their control over the disbursement of contributions. In fact, we found that firms' dependency upon labor power had no effect on the usage of brokerages, and that companies more dependent upon consumers and companies more dependent upon the Twin Cities for employees gave a larger proportion of their local contributions through brokers. Clearly our theory of brokerages had serious shortcomings.

In sum, we came up with a number of findings that we had not anticipated. We were surprised that dependency upon labor power failed to explain utilization rates, and that firm dependency upon local labor markets led to greater utilization. However, upon closer inspection of the five brokerages studied, it became clearer why none of our hypotheses had panned out. We had underestimated the shrewdness of brokerages, many of whom had coopted donors by bringing their executives onto their boards, into officerships, and onto allocations committees. If donors could be made to feel a part of the brokerage, then they would not feel they were losing control over contributions. If donors could be identified visibly with the brokerage, then they would not feel their good works go unrecognized. Evidently the strategy worked so well that donors were not penalized for giving through brokerages, and thus it would have been senseless for firms worried about their public relations to purposely avoid using them to disburse their charity dollars.

Also we should add that in many communities—perhaps in the Twin Cities as well—brokerages organized on behalf of business donors (e.g., the United Way) are often a vehicle to organize and integrate small businesses into the larger business community. It is an arena or club where senior executives from small local firms can rub shoulders with junior executives from larger, more cosmopolitan firms. Indeed, it was the smaller donor and the firm with a larger percentage of its employees working in the Twin Cities area that were giving a larger proportion of their contributions through brokerages.

Corporate Almoners as Agents

The third type of agent we studied was the corporate almoner. The almoner is a boundary-spanning role retained by the donor either as an employee or on a fee-for-contract basis. The information gathered on prospective donees by this functionary is provided directly and only to his or her employer or client. At times this role had the authority to

make grants on behalf of the employer or client; more often it simply provided information services to the donor or to its contributions committee.

Our analysis of corporate almoners was similar to our analysis of brokerages. We wanted to understand why some companies professionalized their staffs whereas others did not. The theory we used to formulate our hypotheses was similar to the theory we used in predicting the usage of brokerages. However, this time our efforts were more successful.

We began by assuming that the technical problems of administering a larger budget would have necessitated creating a larger staff, and that size of budget should thus have been a good predictor of professionalization. We also hypothesized that the more professionalized the staff, the larger the contributions budget would have been. With staff on board whose jobs were to screen contributions, management should have felt more confident in making more contributions. In fact, we found a direct association between professionalism and the size of the contributions budget.

It appears that if contributions budgets were small, the company gave a larger proportion of its budget through brokers. We then speculate that as contributions got larger, the company switched its strategy and hired an almoner. In the process the company may actually have increased its allotment to brokerages, but because the overall budget was larger, these donations now were a smaller proportion of its budget. Indeed, there was a strong negative association between the professionalization of the contributions staff and the percentage of contributions given through brokerages. Without longitudinal data, however, it is difficult to test this thesis. Nevertheless, it is very likely that a larger contributions budget presents a problem for the company and leads to institutionalization of boundary-spanning roles such as corporate almoner.

Next we found that firms that were more dependent upon households/consumers for sales tended to have professional staff in these boundary-spanning roles. However, we found no association between our measures of labor intensity and dependency upon the Twin Cities for employees and the professionalization of staff. We had hypothesized that companies that had a greater interest in retaining control over their contributions would have professionalized their staffs. Professionals would allegedly make allocations more visible and more effective, ultimately leading to a more favorable company image.

In fact, this appeared to be the case. When we regressed community

elite recognition as a generous company on our professionalism index, controlling for average annual contributions and pretax net income, we found that the professionalization of staff had a strong, positive, significant effect on the company's reputation as a generous company. In other words, the more professionalized the staff, the more members of the community elite thought that the company was exceptionally generous to nonprofits regardless of how much money it actually gave to charity. If companies wanted to enhance their company's image by professionalizing their contributions staffs, they appeared to have succeeded. Again, though, we hesitate to draw firm conclusions without longitudinal data.

In sum, it appears that the professionalization of staff was much more closely tied to norms of rationality than were either total contributions donated or ideology rationalizing contributions. To illustrate, professionalization was related to size of budget and market position. This is consistent with the interpretation of these roles as efforts to reduce transaction costs or to maximize transaction payoffs. Giving more or espousing a particular social philosophy may be explained best by interactionist or subcultural variables, but the professionalization of staff seems to be a function of "hard," structural indicators such as size of the budget and dependency upon consumers/households for sales.

Still it would be a mistake to think that professionals operated independently of the institutional environment. Although norms of rationality may have led the company to professionalize staff in the first place, once established, professionalism influenced the way significant others perceived the company. Whether the impact of professionalism on elite perceptions can be traced to the quality of contributions by professionals or simply to the signal that professionalism gives to the larger elite community, is difficult to determine. But the impact was undeniably there.

Even more importantly, contributions staff were not at all insensitive to the preferences and actions of the local philanthropic elite. In Chapter 6 we learn that the recognition and evaluation of nonprofits by both contributions professionals and nonprofessionals were greatly influenced by the patronage of philanthropic leaders. In other words, the perceptions of nonprofits by both contributions professionals and nonprofessionals were greatly influenced by the association of philanthropic leaders with the nonprofit organization. Those nonprofits that had the patronage of the elite were clearly recognized more often and thought to be more essential and outstanding by those responsible for

overseeing contributions within companies than were those nonprofits that did not have this patronage.

Contributions to Transaction-Cost Analysis

Transaction-cost analysis has recently been criticized for its inattention to issues of power (see Perrow, 1981; Francis, Turk, & Wilman, 1983). Although this does not bother us as much as it does the critics, we are interested in how transaction-cost analysis fits in with a discussion of power — especially the power of agents in a grants economy. We believe that our findings can shed some light on these issues.

We begin with the rather obvious and simple proposition that once agency roles have been created to reduce transaction costs associated with collective action, these roles play an ever-increasing part in the allocation of resources in a grants economy. The rationale behind this proposition is equally simple. Agency personnel become important actors in a grants economy because they control a valuable and scarce resource in this economy — information. We have argued that agency roles come on the scene under conditions of uncertainty; they are reflective of norms of rationality; they are efforts to overcome uncertainty. Therefore, it would follow that (a) agency roles should be created precisely where information needs are the greatest — at the boundaries of corporations and nonprofits or between them, and that (b) agents should accrue information and data that others do not have, thus increasing their power in the system.

If our proposition has any validity, it should hold true regardless of the agent being studied. It turns out that we found two very different types of agent, each having a very important effect on who got funded and who funded whom. On the one hand, we had the philanthropic elite serving as matchmaker, tying corporate donors to nonprofit donees. As discussed in Chapter 6, the greater the number of philanthropic leaders who straddled a corporation and a nonprofit, the larger the contribution from that corporation to that nonprofit. The power of the agent — in this case the matchmaker — was manifest in the statistical finding that the size of a corporate contribution was based at least partially on the presence of elite intermediaries tying the donor to the donee.

On the other hand, corporate almoners also acted as boundary-spanning personnel. Here a number of findings are relevant. First, we found that an important correlate of budget size was the degree to which companies had professionalized their staffs. This could mean either

that companies that had larger budgets hired staffs to help give this money away; that companies that had professional staffs felt more confident about making contributions and gave more money away; or that professionals who had full-time positions lobbied hard internally to increase the contribuions budget. Obviously we do not have the data to sort out these issues, but the last interpretation suggests that the institutionalization of these professional roles may give contributions a power base within the firm that leads to ever greater contributions.

Second, as discussed in Chapter 5, the nonprofits that received more money from companies tended to be nonprofits that professionals in the donor community recognized, thought essential, and perceived as having achieved extraordinary accomplishments in their respective fields. In fact, in our regression analysis, professionals' opinions were the best predictor of who got funded. Other things certainly shaped whom almoners recognized and thought important, but it was the extent to which nonprofits were recognized and respected among professional corporate almoners that determined whether they got funded.

Third, in our dyadic analysis we found that firms that had highly professionalized contributions staffs tended to give more money to nonprofits that had highly professionalized grants-getting/public-relations/fundraising staffs. Evidently, professional staff had some kind of influence over company giving, because the company ended up supporting nonprofits that had a complement of boundary roles on the receiving end. One interpretation is that corporate almoners may have required that nonprofits establish a set of boundary roles to provide information on the nonprofit or to write grant proposals. Alternatively, nonprofits might have anticipated that highly professionalized contributions staffs would prefer to work with similar types. A third interpretation is that the availability of boundary people in both the nonprofit and the company to network at conferences, luncheons, and the like could explain the pattern we found. Nevertheless, almoner roles clearly impacted on resource allocation in this grants economy.

In sum, we have no real argument with transaction-cost analysis, as it explains various strategic moves on the part of companies—one of which is to utilize agents in a grants economy to overcome problems of uncertainty. We would only caution that because agency roles are created to solve problems of uncertainty, they tend to accrue power in the system because of the agents' control over information resources. Indeed, the data we reviewed should be regarded more as illustrative of the kind of power that agency roles—in this case, the matchmaker and almoner—can exercise simultaneously over the allocation of resources than as a rigorous test of an agency-power theory.

From the Old Boy Network to Organized Philanthropy

The study of social institutions is central to sociological inquiry, yet all too often we ignore the process of institution-building. By institution-building we mean the effort by a collectivity to set collective goals, to establish a normative order to allow for goal attainment, and to establish social structures to ensure that norms are effective (Janowitz, 1978: chapter 2). Essentially our whole monograph can be viewed as a study in how the social institutions in a corporate grants economy function. We focused on the production of collective goods, the peer-group processes that ensured participation of members in the collective enterprise, institutionalization and socialization of a set of collective values, and the functioning of different agency roles. But we must put what we found into context. Social institutions do not operate in a vacuum. They are either in the process of being created or decaying. Only by viewing institutions in an historical context can we fully understand them.

The Historical Setting Revisited

Although in the Introduction we provide a brief overview of the history of the Twin Cities business community and a description of social, economic, and political conditions in the late 1970s and early 1980s, readers soon discovered, perhaps to their dismay, that none of the historical or contextual material was used to explain the way in which the local grants economy functioned. The bulk of the research sought to identify the problems endemic to the provision of collective goods and theoretically feasible alternative solutions to these problems. Our review of the literature focused on how communities in the past used selective incentives to elicit the cooperation of members, how values were important in rationalizing contributions, and how actors in grants economies coped with transactions costs. The focus was on universal problems and universal processes associated with collective action and gift giving. The Twin Cities were used solely as an urban laboratory that allowed us to observe how these problems and processes worked out in a real-life setting.

Yet the institutional processes that we found had developed in the context of a historical period, and we need to speculate on what might account for the way things developed in the Minneapolis–St. Paul area at this particular time in history (in the late 1970s and early 1980s). Without comparative or longitudinal data we can never know for sure,

and others' speculations are certainly as valid as ours. Yet it would be irresponsible not to venture some guess as to why things happened in the Twin Cities the way they did.

We believe that the most important historical development that affected the corporate grants economy in these cities was the change in the leadership structure of Minneapolis–St. Paul businesses between 1970 and 1980. The steady stream of demonstrations against business interests throughout the 1970s may have jeopardized the legitimacy of individual firms, but we doubt that local activists brought about changes in the corporate grants economy. Demonstrations could only have affected developments in the corporate community indirectly as it would be necessary to counter the bad PR generated by the demonstrators with more positive PR generated through contributions to charitable organizations. Yet as we saw in the previous chapters, the Itasca Seminar was the only philanthropic institution built in this decade that was in direct response to the activism of protest groups. Loss of control over local corporations to outsiders was a more serious problem. Other cities had faced the problem decades earlier, and the legacy of corporate withdrawal from local affairs is well known to practitioners and scholars alike (see Friedland & Palmer, 1984). And when companies do take an interest in the community, it is more to exploit than to nurture the local population (Molotch, 1976).

In Table 0.1 we found some definite changes in the leadership of local Fortune 500 and Fortune 50 firms between 1970 and 1980. Between 1970 and 1975 there was a noticeable decrease in the percentage of Fortune firms whose CEO was born in Minnesota: 47.6% in 1970 and 30.4% in 1975. Between 1970 and 1980 three firms hired a nonfamily professional manager as CEO, replacing the founder or his progeny. Also in this decade three firms were acquired by out-of-state interests. In sum, 38.1% of the 21 firms on the Fortune list in 1970 were either acquired by outside interests, had a family member replaced by a professional manager as CEO, or had a professional manager born in Minnesota replaced by a professional manager born elsewhere by 1980. In the mid-to-late 1970s, especially when there were so few Minnesota-born CEOs and a flurry of acquisitions, the future of corporate public-service activity in the Twin Cities must have seemed bleak.

To make things worse, data from interviews with members of the corporate philanthropic elite indicated that continued dependence upon a set of philanthropic leaders to organize philanthropic activities could be problematic. First, in 1981 the average age of the 28 living elite members was 64.6 (as compared to 55.6 among all the CEOs of publicly

held firms that had 200 or more employees). Second, the heirs apparent to the older corporate philanthropic elite did not have the same mix of social and corporate credentials as their predecessors. In the course of the philanthropic elite interviews, we asked respondents to give us the names of the five or six individuals they believed would be instrumental in increasing contributions over the next decade. We found that about the same proportion of the new elite had been born in Minnesota, but that the new elite included a smaller proportion of entrepreneurs and founders and a larger proportion of professional managers. Also, although 10 individuals were the progeny (or progeny-in-law) of founders of companies in both the old and new elite, 9 of the 10 older elite progeny were associated with Fortune 50 or 500 firms as compared to only 3 of the 10 younger elite progeny.

To be sure, we do not know if the shifts in leadership described above are any different than those in other business communities, or any more serious than in other eras in the Twin Cities history. Our guess is that the changes were significant for the Twin Cities and that the succession and leadership problems described here were common in other Northern industrial centers—but perhaps 30 to 50 years earlier. For the time being we will have to wait for historians and comparative research to verify or disprove this thesis.

If, though, there was a crisis in leadership between 1970 and 1980, with nonlocals and professional managers taking control of very large companies previously controlled by locals and family members and with professional managers and local business progeny of lower-status companies assuming philanthropic leadership roles previously controlled by local entrepreneurs and progeny of very powerful corporations, then events we observed in the Twin Cities corporate grants economy make a great deal of sense.

Supplanting Informality with Formality

Our thesis is that these changes in leadership prompted a shift from a corporate grants economy based on informal peer (or old-boy) networks, peer pressure, and social sanctions to a corporate grants economy based on bureaucratically institutionalized roles and formally organized reward systems. We have no evidence, nor is it theoretically necessary, that this shift was carefully orchestrated by members of the older corporate philanthropic elite. We found no evidence of collusion or a sense of impending calamity in our interviews with the elite or principals involved with these institutions. Instead, for many there was simply

"something in the wind" that they reacted to. Nonetheless, formal institutional roles that probably will stabilize corporate contributions for years to come were consciously constructed during this period, and many members of the older elite or those who worked for them were involved in these efforts.

In 1976 the president and the executive director of the Minneapolis Chamber of Commerce and two VPs in charge of external affairs in their companies presented the first Five Percent Club awards. In 1978 the Minnesota Project on Corporate Responsibility held its first formal conference/seminar, organized by the likes of Thomas Wyman (CEO of Green Giant). In 1976 and in 1979 the Business Action Resource Council of the Minneapolis Chamber of Commerce and Women and Foundations/Corporate Philanthropy were organized by contributions professionals and community/external-affairs staff from local private foundations and companies.

How did this flurry of institution-building relate to the leadership problems that the community faced? Our speculation is that these were the formally institutionalized structures that would replace the more informal elite-based social institutions that had been at the heart of the corporate grants economy.

To illustrate, the old system operated on the assumption that primary-group networks extending out from a set of business leaders would act as conduits through which expectations would be communicated and applause and recognition would be expressed; in the new system any firm, simply by giving 5% or 2% of its pretax earnings, could win the applause of significant others in the business community and even of the community as a whole. By making 5% and 2% giving public, the chamber of commerce formally proclaimed to all that giving was acceptable, proper, and expected and that some firms were worthy of public acclamation because they had met this standard.

As noted in Chapter 2, the transformation of peer recognition into public recognition effectively took social control out of the locker rooms and clubrooms and put it into the hands of the mass media and of public opinion. Now every firm knows what's expected of it and every firm can earn as much recognition as the next simply by giving more. Giving more is not something that just goes on in elite social circles; every firm can now give more. Being recognized is not something that just goes on in elite social circles; every firm can now be recognized. Our data clearly show that peer pressure was alive and well in the late 1970s and 1980s, but the more open, bureaucratically organized, and highly public arena for communicating expectations and recognition was already in place.

Again in a speculative vein, it could have been good fortune or sophisticated planning that brought this about. Yet nonetheless a structure was put into place that could replace the old-boy networks. With less local leadership, more professional managers, and a philanthropic elite bloodline with less corporate clout, it may have happened just in time. Will the new business leadership take the same interest in organizing philanthropic activities; will they be as interested in helping this or that nonprofit organization? Even if they care or develop an interest, will they have enough social credentials and corporate clout to move their peers to greater corporate giving? These are issues that we cannot answer here, but then they may be moot with the construction of a more formally institutionalized reward system.

The old system also operated on the assumption that donors would come to understand the purpose of their contributions through participation in elite subcultures; in the new system all businessmen, simply by participating in seminars or educational programs on corporate responsibility, could learn the true purpose of contributions and other types of socially responsible behavior. By institutionalizing the learning process in structures like MPCR and the Itasca Seminar, the opportunity had been made available for all to learn about enlightened self-interest. In Chapter 3 we discuss how the MPCR was a vehicle through which executives who had been narrowly preoccupied with their firms' bottom lines could have an opportunity to understand the larger role that business plays in the community, the society, and the world. This opportunity was now available to all; the elite were no longer the only ones privy to such insights.

Our analyses, however, uncovered an interesting pattern—perhaps marking a transition in this community. Companies in the peer network were not particularly prone to embrace enlightened self-interest, but they did tend to participate in the MPCR and/or the Itasca Seminar; at the same time, companies participating in the seminars tended to espouse enlightened self-interest. This raises an interesting prospect. Though evidently not all firms were yet into these educational efforts, it was the exposure to the formal program, and not participation in elite networks, that was associated with public statements on enlightened self-interest.

One interpretation of these findings is that peer-group socialization into values of enlightened self-interest had broken down already. The weak association between network position and values of enlightened self-interest could be evidence of this. Instead, peer-group pressures may have been rechanneled to lead companies into the more formally organized arenas in which they then learned the orthodoxy through

group discussions, presentations, and so on. Perhaps participation in MPCR activities will become more widespread, involving firms not only in elite networks but outside the networks as well. When this happens, the institutionalization and bureaucratization of the socialization or value-formation process will be complete.

Finally, the old system operated on the assumption that members of the philanthropic elite would actively be involved as matchmakers to reduce uncertainty for donors and donees and to channel the flow of resources from those whom they know to those whom they like. In the new system, professional boundary-spanning personnel assume the responsibility for reducing uncertainty, and they even take an active part in directing the flow of charitable dollars. With the institutionalization of professional organizations like the Business Action Resource Council, the Minnesota Council on Foundations, and Women and Foundations/Corporate Philanthropy, formally organized arenas were created to enable these professionals to learn how to better do their jobs, to learn about community priorities, and to learn about one another.

Again our findings suggest that we were observing a community in transition. In Chapter 6 we present evidence of both the old system and the new system at work. On the one hand, philanthropic leaders' ties to both companies and nonprofits resulted in greater contributions. On the other hand, companies with contributions professionals were giving more to nonprofits with fundraisers, public-relations staff, and grant writers. Of course, we have no way of knowing if this is the way it has always been or if this was unique to the period we studied. But our guess is that elite agents will soon be replaced by the contributions professionals at the boundaries of these corporate donors.

Still, moving to professionalized giving may just mean the creation of a new peer network made up of the new professionals. Control would be exercised in this network over members just as control was exercised by the elite over local CEOs. We already have evidence of this: In Chapter 5, the most powerful predictor of who got funded was the number of contributions professionals who recognized and respected the nonprofit. The better a nonprofit's reputation among these agents, the more corporate funding it received. Even more importantly, a recent paper (Galaskiewicz, 1984, August) reported that contributions people in the Twin Cities tended to recognize and value the same nonprofits as did those other contributions people whom they knew personally and saw regularly. In other words, not only did these networks carry a great deal of weight and directly influence the amount of money that nonprofits received from business organizations, they also shaped the way corporate almoners came to view nonprofits in the community.

In sum, changes and impending changes in the leadership of the largest corporations and in the philanthropic leadership in Minneapolis–St. Paul in the late 1970s could have been a very important factor in explaining why institutional structures like the Five Percent Club, the Minnesota Project on Corporate Responsibility, and professional associations for contributions professionals emerged when they did. Only occasionally did we hear passing remarks about the change in corporate leadership in the mid-to-late 1970s, just as we heard only occasional references to antibusiness demonstrations. No one ever tried to tie the development of these different institutions together or to the historical events discussed in this chapter. Thus we have no reason to believe that actors in the community were consciously taking precautionary steps in anticipation of some impending leadership or legitimacy crisis. Yet the local business community was clearly undergoing change at the top in the late 1970s, and this cannot be ignored. Perhaps this is another instance in which actors, facing certain contingencies in their environment, act rationally as a collectivity but not purposively as individuals.

In any event, the thesis proposed here is just a thesis. In the Introduction we defend our inquiry by pointing out that we were studying a case that worked, and indeed business philanthropy was alive and well in this urban setting in the late 1970s and early 1980s. Still, longitudinal and comparative analyses of private-sector collective action are desperately needed. Perhaps we have articulated some models of collective action that can be tested elsewhere; perhaps we have offered new methodological tools to study these systems of action; and perhaps we have identified some variables that can help explain why they do things differently in different places. Only time will tell, and only future research can judge the value of our efforts.

Notes

1. So that the reader will have some notion of the importance of each effects presented in the figures, we have assigned a "+" to independent variables that were found to have statistically significant ($p < .10$) positive effects, a "–" to variables that had statistically significant negative effects, and a "0" to variables that had no statistically significant effect. The models presented here should not be regarded as path diagrams, nor do we propose to do a path analysis. The number of variables here is quite large given that we only had 69 cases, thus making a path analysis unfeasible. Furthermore, because we use cross-sectional data only, we are hesitant to test a causal model per se. The diagrams should simply be looked upon as an effort to summarize our results from earlier analyses.

2. Again the diagram is only meant to be a heuristic device summarizing the data of

previous chapters. The same criteria are used in Figure 7.2 for the pluses and minuses as in Figure 7.1.

3. Some would argue that all we have done is tap efforts on the part of the business elite to perpetuate a class-based rationality to offset the narrow "bottom-line" rationality found among so many upwardly mobile, middle class managers (e.g., Useem, 1980, 1982, 1984). This position certainly has its merits, however, we will not go into an extended discussion of the issue here.

4. Some of the Twin Cities community people who were active in the late 1970s and early 1980s may, in fact, be somewhat amused by their foresight.

APPENDIX A

The Corporate Donor Survey

This monograph concentrates only on cash contributions that publicly owned corporations headquartered in the Twin Cities metro area made to charitable organizations in 1979, 1980, and 1981. Excluded from consideration are privately held companies (e.g., Cargill, Carlson Companies, and the Minneapolis Star and Tribune Company) and companies that had local plants or offices but headquarters that were located elsewhere (e.g., Northwestern Bell, Ziegler, and Prudential Life Insurance). The population of Twin Cities publicly owned corporations is listed below. The list was taken from the *Corporate Report Factbook, 1980 Edition* and was current as of October 31, 1979. All publicly owned firms with zip codes ending in 550, 551, 553, and 554 were included. Corporations ranged in size from one employee to several thousand employees.

Corporate cash contributions could be made either directly, through a corporate foundation, or from a trust. The 1981 Tax Reform Act allows companies to deduct up to 10% of their pretax net income as charitable contributions; however, for the period that we studied, companies were only allowed to deduct up to 5% of their pretax net income. The simplest route was for the company to make a contribution directly to the charitable organization. Corporations could, of course, give money to nonprofits that were not public charities; for example, companies could contribute to political parties or political-action committees or to business associations or private clubs. But these contributions were not

tax-deductible as charitable contributions and are therefore not considered in this study. Nor do we consider transfer payments to charities that are deducted by the firm as business expenses. We suspect that these amounts may be considerable.

Giving through a corporate foundation is slightly more complicated. The corporate foundation is technically an independent legal entity that qualifies under section 501(c)(3) of the IRS code as a nonprofit organization itself. It is even required to have its own articles of incorporation and board of directors. Practically speaking, however, it has only one outside source of revenue, and this is the parent corporation. Contributions made to the corporate foundation are tax-deductible, as they would be to a public charity. Corporate foundations are subject to all the laws and regulations that apply to private foundations, including complete disclosure of disbursements.

There is little difference between contributions that come directly from a company to a public charity and contributions that come through a company foundation. When comparing direct corporate giving to corporate foundation giving, we find that the latter more often involves a staff person and/or a formal evaluations committee. But for all practical purposes there is no need to draw a distinction between the two, and we treat them together.

We should add that businesses serve charitable organizations in a host of other ways besides giving them money. We found numerous instances of companies donating the services of their employees to nonprofits. Facilities, and especially computer services, were provided free of charge by companies. Inventory or old office equipment was donated with no tax benefit. Another example of corporate largesse was the provision of low-interest loans or the waiving of fees by financial institutions. To illustrate, 3M reports that in 1981 the company and its subsidiaries donated gifts-in-kind valued at $4.9 million. Although a few companies like 3M have estimated the value of these gifts, most companies have not. This report analyzes only the cash contributions to public charities, but it certainly acknowledges the many other ways that corporations support nonprofit organizations.

We targeted 209 corporations to interview when we began the study in 1980. Of these, we completed interviews with 150 companies. There were 20 refusals, and 39 companies had either gone out of business, moved out of the area, been acquired by another company, or otherwise disappeared before we reached them.

An initial letter was sent to the Chairman of the Board explaining the research and asking him to identify a representative whom we could interview. Sometimes the Chairman of the Board met with us himself;

Table A.1
Summary Statistics for Selected Variables for Participants, Refusals, and Firms Unable to Be Located [a]

		Number of employees, 1979					Revenues 1979 (1000's)				
	Total	*N*	Mean	*SD*	*T* Value	2-Tail Prob.	*N*	Mean	*SD*	*T* Value	2-Tail Prob.
Participants	150	148	3,945	13,074	—	—	145	304,501	862,973	—	—
Refusals	20	20	1,082	1,894	2.48	.014	20	96,553	179,355	2.53	.012
Unable to locate	39	39	2,499	9,495	.78	.440	6	666,399	1,282,270	−.99	.325
Missing data		2					38				
		209					209				

		Number of contacts with corporate philanthropic elite					Number of elite arenas, 1979–1981				
	Total	*N*	Mean	*SD*	*T* Value	2-Tail Prob.	*N*	Mean	*SD*	*T* Value	2-Tail Prob.
Participants	150	150	7.26	9.34	—	—	150	.653	1.123	—	—
Refusals	20	20	5.55	7.32	.79	.433	20	.700	1.218	−.17	.863
Unable to locate	39	39	3.36	6.08	3.15	.002	39	.256	.595	3.00	.003
Missing data		0					0				
		209					209				

[a] N = 209.

more often we interviewed an officer of the company or a staff person. The principal investigator conducted all on-site interviews with representatives of companies of over 200 employees and phone interviews with companies with less than 200 employees. These interviews were conducted between October 1981 and June 1982. On-site interviews lasted from 45 minutes to 3½ hours; phone interviews were between 10 minutes and 30 minutes. In some companies we interviewed more than one respondent, inasmuch as we had specific questions to ask staff members who did research on grant requests. Often these staff persons, some of whom could be considered contributions professionals, were not the individuals initially identified by the Chairman of the Board. All respondents were guaranteed complete confidentiality.

Table A.1 provides summary statistics on the 150 firms whose representatives we interviewed, the 20 firms that refused to participate in the study, and the 39 firms that had either gone out of business, moved, been acquired, or otherwise disappeared before we reached them. In this table we include variables that measure the structural traits of participants and nonparticipants (e.g., number of employees in 1979 and total revenues/sales in 1979) as well as the involvement of company executives in local clubs and boards and local elite networks.

The number of employees for each firm was obtained from the *Corporate Report Factbook, 1980 Edition* (1979). Total revenues was taken from the *Corporate Report Factbook, 1981 Edition* (1980) and the *Corporate Report Factbook, 1982 Edition* (1981). There were considerable missing data, because firms that left our population were not listed in the 1981 and 1982 directories. Sales figures ran approximately 2 years late, and by the time the information on sales was published, the company was already out of the directory.

The number of contacts with the corporate philanthropic elite was obtained from our corporate philanthropic elite interviews (see Appendix B), in which 26 members of this local elite looked through a list of the 209 publicly held firms in town and checked off the companies in which they personally knew an officer or director. The score for each company was simply the tally of checks each company received. The number of elite arenas that a CEO belonged to was based on a scanning of the club rosters and boards in four different elite arenas: recreation (Woodhill and Somerset country clubs), social (Minneapolis and Minnesota clubs), cultural (nine prominent cultural organizations), and corporate (all Fortune 50 or 500 firms in 1980). The score for each company/CEO was simply the number of different elite arenas (zero to four) that the executive was associated with. Rosters and board lists for the recreational, social, and cultural arenas were for 1978, 1979, 1980, and 1981.

Board lists for the corporate arena were for 1980 only. Participation in an arena in any year counted as participation in the arena for the entire period.

T-tests were based either on pooled variance estimates or on separate variance estimates depending upon the degree to which the variances within categories were similar or dissimilar. The preliminary tests were performed separately from the results presented here. Following convention, when the variance estimates were not significantly different ($p > .05$), the T-test statistic was based on pooled variance estimates; when the variance estimates were significantly different ($p \leq .05$), the T-test statistic was based on separate variance estimates. All test statistics were based on comparisons between "Refusals" and "Participants" and between firms "Unable to locate" and "Participants."

In brief, we see that refusals tended to have fewer employees and less sales than participants, whereas firms unable to be located had executives who were less likely to belong to local clubs, boards, and elite social networks than participants.

Table A.2

Publicly Owned Corporations in Minneapolis and St. Paul, 1979[a]

ATR Electronics, Inc.	Buckbee-Mears Co.
Advance Circuits, Inc.	Burlington Northern, Inc.
Aero Systems Engineering, Inc.	CPT Corp.
Ag-Chem Equipment Co., Inc.	Central Mortgage & Realty Trust
Aladdin International, Inc.	Century Camera, Inc.
All Nation Insurance Co.	Charter Design & Mfg. Corp.
Allstate Lawn Products, Inc.	Cherne Industries, Inc.
American Hoist & Derrick Co.	Colight, Inc. (currently Colwell Industries)
Analysts International Corp.	Comserv Corp.
Apache Corp.	Consul Corp.
Apogee Enterprises, Inc.	Contech, Inc.
Arrow Developers, Inc.	Control Data Corp.
Astrocom Corp.	Conwed Corp.
Audiotek Systems, Inc.	Cornelius Co.
Barbers Hairstyle for Men & Women, Inc.	Cray Research, Inc.
Bemis Company, Inc.	Crosstown Enterprises, Inc.
Bio-Medicus, Inc.	Data Card Corp.
Bison Instruments, Inc.	Data Graph, Inc.
Briggs Transportation Co.	Data Management, Inc.
Brooks-Scanlon, Inc.	Data Systems, Inc.
Brothen, Inc.	Dayton Hudson Corp.

[a] Source: *Corporate Report Factbook, 1980* (1979).

(continued)

Publicly owned corporations, 1979 *(continued)*

Deltak Corp.
Deluxe Check Printers, Inc.
Detection Sciences, Inc.
(currently Dahlberg Electronics)
Dexon, Inc.
Diagnostic, Inc.
Dicomed Corp.
Donaldson Company, Inc.
Donovan Companies, Inc.
Dyco Petroleum Corp.
EMC Corp.
Eagle Industries, Inc.
Econo-Therm Energy Systems Corp.
Economics Laboratory, Inc.
Educational Management Services, Inc.
Electro-Sensors, Inc.
EmCom, Inc.
Empire-Crown Auto, Inc.
Environ Electronics Labs, Inc.
Erickson Corp.
Fabri-Tek Inc.
Film Tec Corp.
Finnemann Enterprises, Inc.
First Bank System, Inc.
First Midwest Corp.
Flame Industries, Inc.
Foto Mark, Inc.
H. B. Fuller Co.
G & K Services, Inc.
Gamble-Skogmo, Inc.
Gelco Corp.
General Mills, Inc.
General Resource Corp.
Genetic Laboratories, Inc.
Gold Medallion Corp.
Graco, Inc.
Graphics Diversified, Inc.
Hawkins Chemical, Inc.
Honeywell, Inc.
Immuno Nuclear Corp.
Industrial Components, Inc.
Infocorp, Inc.
Information Dialogues, Inc.
Innovex, Inc.
Ionic Controls, Inc.
International Dairy Queen, Inc.
International Multifoods Corp.
Interplastic Corp.
Inter-Regional Financial Group, Inc.
Investment Corp. of America, Inc.
Jostens, Inc.
K-Tel International Inc.
Kallestad Laboratories, Inc.
Kinnard Companies, Inc.
(currently Oahe Industries)
Knox Lumber Co.
Kodicor, Inc.
Krelitz Industries, Inc.
Kroy Industries, Inc.
(currently Kroy, Inc.)
LSM Corp.
LaMaur, Inc.
Landvest Development Corp.
Leisure Dynamics, Inc.
MEI Corp.
MTS Systems Corp.
Mag-Con, Inc.
Magnetic Controls Co.
Mailhouse, Inc.
McQuay-Perfex, Inc.
Med General, Inc.
Medical Devices, Inc.
Medtronic, Inc.
Mentor Corp.
Metacom, Inc.
Micro Metals, Inc.
Mid-American Bancorporation, Inc.
Minnesota Auto Specialties, Inc.
Minnesota Gas Co.
Minnesota Mining & Mfg. Co.
Minnetonka, Inc.
Minnetonka Mills, Inc.
Modern Controls, Inc.
Modern Merchandising, Inc.
Munsingwear, Inc.
Murphy Motor Freight Lines, Inc.
Napco Industries, Inc.
Nash Finch Co.
National Beauty, Inc.
National Computer Systems, Inc.
National Foodline Corp.
Norstan, Inc.
The North Central Companies, Inc.
North Star Acceptance & Invst. Corp.

(continued)

Publicly owned corporations, 1979 (continued)

Northern Instruments Corp.
Northern States Enterprises, Inc.
Northern States Power Co.
Northstar Computer Forms, Inc.
Northwest Airlines, Inc.
Northwest Bancorporation
Northwest Teleproductions, Inc.
Northwestern National Life Ins. Co.
Norwesco, Inc.
Nugget Oil Corp.
Nutrition World, Inc.
Osmonics, Inc.
Pacific Gamble Robinson Co.
Pain Control Centers, Inc.
Pako Corp.
Par Systems Corp.
Peavy Co.
Pentair, Inc.
Robert S. C. Peterson, Inc.
Pillsbury Co.
Philmon & Hart Labs, Inc.
(currently Spearhead Industries, Inc.)
Photo Control Corp.
Pilot Industries Corp.
Piper Jaffray, Inc.
Point of Sales
Possis Corp.
Prestige Electronics, Inc.
Product Design & Engineering, Inc.
Quality Homes, Inc.
R-Vec Corp.
Ran Packing Corp.
Rembrandt Enterprises, Inc.
Reo Plastics, Inc.
Republic Airlines, Inc.
Research, Inc.
Reuter, Inc.
St. Jude Medical, Inc.
St. Paul Companies, Inc.
Schaak Electronics, Inc.
Scientific Computers, Inc.
SciMed Life Systems, Inc.
Scottland, Inc.
Security American Financial Entrp.
Shallbetter Industries, Inc.
Sheldahl, Inc.
Solid Controls, Inc.
Soo Line Railroad Co.
Sound of Music, Inc.
Sports Films & Talents, Inc.
Sunstar Foods, Inc.
Suntec Systems, Inc.
Super Valu Stores, Inc.
Stein Industries, Inc.
Win Stephens Leasing Co.
(currently Win Stephens Co.)
Strout Plastics, Inc.
TK Products, Inc.
T. O. Plastics, Inc.
TSI, Inc.
Tal-Cap, Inc.
Technalysis
Tennant Co.
Theradyne Corp.
Three Points, Inc.
Tonka Corp.
Tool Engineering, Inc.
Toro Co.
Twin City Barge & Towing Co.
(currently Twin City Barge)
Universal International, Inc.
Universal Marking Systems, Inc.
Valspar Corp.
Van Dusen Air, Inc.
Vaughn's, Inc.
Washington Scientific Industries, Inc.
Webb Co.
Welch Village Ski Area, Inc.
Westland Capital Corp.

APPENDIX B

The Elite Surveys

This study focuses on three sets of elites: a sample of 90 prominent citizens drawn from several areas of community life (the community elite), 29 corporate philanthropic leaders, and 28 prospective leaders.

The sampling frame for the community elite was developed in several steps. First, we scanned Marquis's *Who's Who in America, 1980–1981* (1980) for names of people who either lived or worked in the Twin Cities seven-county metropolitan area. There were a total of 820. Because individuals do have the option of not belonging to *Who's Who* and Marquis's criteria are not clearly defined, we felt the need to supplement this list.

To insure that we had all the names of prominent people in the area, we went to key leaders in various sectors of the community. We visited the executive directors of the Minneapolis and St. Paul chambers of commerce (business), the president of the University of Minnesota and the executive administrator of the Minnesota Educational Association (education), the chair of the Metropolitan Health Board and the commissioner of the Minnesota Department of Health (health), the director of the Arts Resource and Information Center and the administrator of the Minneapolis Art Commission (culture), the dean of the University of

Minnesota Law School and the president-elect of the Minnesota Bar Association (law), the mayors of Minneapolis and St. Paul (government), sports writers at Minneapolis and St. Paul metropolitan newspapers (sports), and the administrator of the Minnesota Council of Churches and the executive director of the St. Paul Council of Churches (religion). These individuals were handed a list of *Who's Who* names for their sector and asked to add the names of any other prominent people in their sector. All the names mentioned by our informants were added to our list.

The only problem was with the informants for the business sector. When asked to volunteer names, the executive director of the St. Paul Chamber of Commerce gave us 183 names that he had taken from an in-house list of companies and executives. Of these, 29 were already on our *Who's Who* list and 166 were from St. Paul. In contrast, the executive director of the Minneapolis Chamber of Commerce gave us no names and said that we had all the prominent business people in the Twin Cities.

Because of the difference in the way our informants responded to our inquiry, we decided to augment the list of Minneapolis business people. We obtained a list of the largest employers in the Twin Cities (400+ employees) for 1980 from the Minneapolis Chamber of Commerce. There was a total of 113 firms. Of these, 78 were from Minneapolis or its suburbs, and 35 were from St. Paul or its suburbs (a ratio of 2.22:1). Combining the names from *Who's Who* and the St. Paul Chamber interview, we had a ratio of 1.46 to 1.00—Minneapolis to St. Paul business people. This confirmed our suspicion that Minneapolis business people were underrepresented. Subsequently we checked to see how many of the 78 Minneapolis area CEOs/managers were on our master list already (36 were) and added the rest. This augmented our list by 42 and gave us a total of 300 business people from the Minneapolis area and 186 from St. Paul and its suburbs.

In total we had 1,284 people who were grouped by functional area. We then drew a 7% stratified systematic sample of 90 names. Business people (35), educators (22), and lawyers (8) were most heavily represented in our sample. Of these 90, we interviewed 80. Seven respondents had moved out of the Twin Cities, and three refused to be interviewed.

The elite sample was interviewed between June 1981 and September 1981. Interviews with elite leaders were face-to-face at their homes or places of business. The interviews lasted between 45 and 90 minutes. The principal investigator and a research assistant conducted these interviews.

In the course of the interviews, respondents were asked to identify "the individuals who had been most instrumental in raising the level of corporate contributions over the past few years." Some respondents named no one; others named several people. Individuals who were named three or more times were labeled "corporate philanthropic leaders"; 30 individuals were thus identified. All but 2 were corporate executives at some point in their careers, 14 were retired, and 2 were deceased. The principal investigator interviewed 26 of the 28 possible interviewees. One man was too ill to be interviewed, and another simply refused.

In the course of the philanthropic-leader interviews, each respondent was asked to identify individuals who he believed would be "instrumental in raising the level of corporate contributions in the next 5 to 10 years." Individuals who received two or more votes were labeled "prospective leaders"; 28 such individuals were identified. All but 2 were corporate executives, 1 individual was a foundation executive, and the other was an educator. The principal investigator interviewed 23 members of this elite, and there were 5 refusals.

Below we list alphabetically all the individuals who were designated as corporate philanthropic leaders or as prospective leaders or who were selected to be in our sample of the community elite.

Table B.1
Community Elite Sample, Corporate Philanthropic Leaders, Prospective Philanthropic Leaders

Dennis W. Angland	Robert Gorlin	Johannes C. Nitsche
William A. Andres	Bud Grossman	William C. Norris
Anthony Andersen	Gene Gutche	Fred C. Norton
Elmer L. Andersen	Roger L. Hale	Terrence P. O'Brien
Wallace D. Armstrong	Floyd Hall	Robert J. Odegard
H. Brewster Atwater, Jr.	Donald V. Harper	Dale R. Olseth
Marvin B. Bacaner	Robert J. Hasling	Lawrence Perlman
Atherton Bean	G. E. Hendricks, Jr.	Harold O. Peterson
Anthony Bechik	Raymond H. Herzog	Stephen R. Pflaum
Judson Bemis	James Hetland, Jr.	Jay Phillips
Clifford E. Biggs	Claude R. Hitchcock	William G. Phillips
Bruce H. Bisping	Robert J. Holloway	George S. Pillsbury
Bruce Blackburn	Harry Humphrey	John S. Pillsbury, Jr.
Coleman Bloomfield	Paul F. Jessup	Raymond Plank
Francis M. Boddy	Charles H. Johnson	Leo J. Raskind
Edward L. Bronstien, Jr.	Stephen F. Keating	James Reagan
Archibald Bush	William C. Kerkvliet	James J. Renier
Curtis L. Carlson	David A. Koch	Walter H. Robilliard
Charles W. Carr	Kim Koenig	Walter F. Rogosheske
Alroy C. Claseman	Maurice M. Kreevoy	John H. Rosenow
Dan Cohen	Woodrow P. Langhaug	Arthur A. Rouner, Jr.
Howard J. Conn	Dick Lareau	Ronald Saxon
Richard C. Cross	Eugene D. Larkin	Andrew G. Sall
John Cowles, Jr.	Russell W. Laxson	Lang D. Schuelke
Harold Cummings	Lewis W. Lehr	James P. Shannon
Stanley Dagley	David Lilly	George B. Shea
Bruce Dayton	Sanford Lipsky	J. L. Shiely, Jr.
Donald C. Dayton	Norman M. Lorentzen	Jeff Siemon
Kenneth N. Dayton	Kenneth MacCorquodale	Waverly G. Smith
Robert J. Dayton	Harvey Mackay	Leon C. Snyder
John M. Dickerson	Kenneth A. Macke	Edson W. Spencer
Charlton H. Dietz	Carl L. Manfred	William H. Spoor
George H. Dixon	Robert L. Martin	Harold E. Stassen
Carl B. Drake, Jr.	Roger Martin	Robert Steele
Donald R. Dwight	George C. Mastor	George Tagatz
Ernst Eckert	James P. McFarland	George Tesar
Jesse E. Edwards	Keith N. McFarland	William L. Thompson
John Ervin, Jr.	William L. McKnight	Joan Wallin
Barbara Flanagan	F. Stuart Mitchell	Arthur C. Wangaard, Jr.
Raymond W. Foley	John W. Morrison	Charles Weaver
Elvin Fraley	Albert Moscowitz	Frederick T. Weyerhaeuser
Robert A. Garrity	John H. Myers	F. Daniel Wilder
Edward J. Gearty	Philip H. Nason	Robert D. Wirt
E. Peter Gillette, Jr.	Marilyn Nelson	C. A. Wurtele
Freddie Goodwin	W. C. Nemitz	

APPENDIX C

The Nonprofit Organization Survey

This research focused on public charities in the Twin Cities area. Organizations can qualify for tax-exempt status under a number of different Internal Revenue Service (IRS) codes. The most privileged status is that of public charity. Like other types of nonprofits, these organizations are exempt from federal income tax and eligible for a host of other tax-exempt privileges (e.g., exemption from state sales tax and local property taxes). Their unique privilege is that they can receive tax-deductible contributions from individuals or businesses.

To qualify as a public charity, the organization must pass both an organizations and an operations test. The organization must demonstrate to the IRS that it is organized and operated exclusively for religious, charitable, scientific, testing-for-public-safety, literary, or educational purposes, or to foster national or international amateur sports competition, or for the prevention of cruelty to children or animals. Furthermore, it must pledge that no part of its net earnings inures to the benefit of any private shareholder or individual. And, finally, it must demonstrate that the organization serves (either directly or indirectly) a public rather than private interest.

In more concrete terms, public charities include churches, schools, colleges, universities, hospitals, clinics, medical-research organizations, development foundations for state universities, governmental units, operating foundations, theaters, orchestras, museums, technical assistance/consulting firms, sports leagues, sports clubs, public televi-

Table C.1
Sample of Twin Cities Area
Public Charities

Recreational
- Armstrong Hockey Boosters, Inc.
- Bloomington Gymnastics Club
- Brooklyn Park Athletic Assoc.
- Buck Hill Ski Racing Club
- Camp Patmos, Inc.
- Cedar Athletic Assoc.
- Crystal Little League, Inc.
- Eden Prairie Gymnastics Club
- Edina Swim Club
- Girl Scout Council of St. Croix Valley
- Highland Groveland Recreational Assoc.
- Linwood Park Booster Club
- Metropolitan Park Foundation
- Minn. Babe Ruth League, Inc.
- Minn. Parks Foundation
- North St. Paul Hockey Boosters Club
- Northend Youth Hockey Assoc.
- Orono-Long Lake Baseball Assoc.
- Phelps Field Boosters
- Robbinsdale Dist. Traveling Baseball
- St. Anthony Village AAU Swim Club
- St. Paul Turners
- Twin City Yoga Society
- White Bear Lake Babe Ruth League

Media
- Daytons Bluff News, Inc.
- Minn. Public Radio, Inc.
- Twin Cities Public Television

Legal
- Crime Stoppers of Minn.
- Golden Valley Crime Prevention Fund
- Legal Assistance of Ramsey County
- Legal Assistance of Minn.
- Minn. Citizens Rights Fund
- Southern Minn. Regional Legal Services, Inc.

Housing
- Am. Indian Business Devel. Corp.
- Common Space
- Loring Nicollet Devel. Corp.
- Maple Hills of Red Wing, Inc.
- Minn. Multi-Housing Institute, Inc.
- Old Town Restorations, Inc.
- Southside Neighborhood Housing Service of Mpls.
- Twin Cities Ctr. for Urban Policy, Inc.
- 2nd Southeast Corp.

Health and Welfare
- Abbott Northwestern Hospital
- Afton Lakeland Preschool Center
- Airmans Nantambu Memorial Foundation
- Alpha Kappa Epsilon Society Foundation
- Am. Indian Health Care Assoc.
- American Citizens Concerned for Life, Inc. Education Fund
- Applied Cardio-Pulmonary Research Foundation
- Assoc of Radio Reading Services
- Augustana Lutheran Homes
- Beltrami Health Center
- Big Brothers
- Bloomington Child Development
- Building Block Nursery School & Day Care
- Carr for the George Washington University Hospital
- Central Health Services, Inc.
- Child Care Parents of Anoka County
- Childbirth Education Assoc. of Mpls.
- Childrens Center, Inc.
- Childrens Home Society of Minn.
- Childrens Oncology Service Upper Midwest
- Christian Union Home
- City, Inc.
- Community Emergency Assistance Program
- Community Retreat Corp.
- Concern Community Organized for Nutritional Concerns of East Side Residents
- Covenant Living Centers—Minn.
- Dakota County Receiving Ctr.
- Dakotas Adults, Inc.
- Dakotas Children Benefit Assoc.
- Dental Home Care

(continued)

Sample of Twin Cities Area Public Charities *(continued)*

Divine Redeemer Memorial Hospital Auxiliary
Door of Hope
East Communities Youth Service Bureau
Edina Special Childrens Group
Emerge Counseling Ctr.
Episcopal Group Homes
Fairview Community Hospitals
Faith Fund Charitable Trust
Family Service
Foundation of the Minn. Medical Assoc.
Forest Lake Area Youth Service Bureau
Fremont Community Health Services
Fremont Connection
Genesis II for Women
Good Shepherd Residence
Great Plains Org. for Perinatal Health Care, Inc.
Greenvale Place of Northfield
Guadalupe Service Center, Inc.
Harriet G. Olson Trust Fund
Harriet Tubman Women's Shelter, Inc.
Harrington Trust U/W Par 14 Item 630 26006, CM
Harrington Trust U/W Paris Item 10 3611-9, Charles
Helping Industry Resolve Employment Disabilities
Hidden Ranch, Inc.
Hopkins Nursery School
Human Aging Attitude Reassessment Program
Institute on Healing of the Whole Person
International Heart Relief
Jack and Jill Preschool
Jesus Peoples Free Store
Jewish Marriage Encounter of Minn.
Judson Family Center
Keep Older Persons Employed
Lakeview Memorial Hospital Women's Auxiliary
Learn and Grow Playhouse
Loring Nicollet Meals on Wheels
Lutheran Social Services Auxiliary
McIntyres Center for Gifted Children
Messiah Willard Day Care Center, Inc.
Metro Affiliated Senior Entertainment Programs
Midway Hospital Foundation
Minn. American Legion & Auxil. Heart Research Foundation
Minn. Behavioral Institute
Minn. Council for Ex-Offender Employment
Minn. Dental Research Foundation
Minn. Diversified Industries, Inc.
Minn. Human Genetics League
Minn. Hundred Club
Minn. Law Enforcement Memorial Assoc.
Minn. Marriage Encounter
Minn. Power Mikes, Inc.
Minn. Society for Crippled Children and Adults
Minn. State Dental Assoc. Relief Foundation
Minn. Vikings Children's Fund
Mpls. Hearing Society
Mpls. Youth Diversion Program
Natl. Assoc. of Women Helping Offenders
Natl. Council on Family Relations
Nativity Lutheran Church Women's Nursery Schools
New Life Homes
NE Learning Center for Persons with Developmental Disabilities
North East Senior Citizen Resource Center
North Metro Developmental Achievement Center
North Suburban Day Activity Center
Northside Child Development Center
NW Suburban Youth Service Bureau
Opportunity Workshop, Inc.
Ours, Inc.
Owobapte Industries, Inc.
People, Inc.
Person Education–Developmental Educ.

(continued)

Sample of Twin Cities Area Public Charities (*continued*)

Pilgrim Rest Child Development Center
Presbyterian Homes, Inc.
Prodigal House
Project Life
Redeemer Corp.
Resident Council Services, Inc.
Riverview Memorial Hospital Auxil.
Sabathani Community Center
Schizophrenia Assoc. of Minn.
Senior Federation Services
Seward Nursery School, Inc.
Sholom Home, Inc. Auxil.
Social Opportunities and Resources
Southern Anoka Community Assistance
Southside Life Care Center
St. Anthony Park Nursery School
St. Croix Area United Way
St. Louis Park Medical Center Research Foundation
St. Mary's Rehabilitation Center
St. Paul Ostomy Assoc.
Suburban North Alano
Summit–University Senior Outreach & Advocacy Program
Tac Two, Inc.
Trinity Health Care
Twin City Home Economists in Home-Making
United Blind of Mpls.
Unity Settlement Assoc.
Univ. Hospitals Auxil. of Faculty Womens Club
Vanderlip Trust
Veap, Inc.
Victory House, Inc.
Wakota Life-Care, Inc.
Warm World Child Development Center
Washington County Association for Senior Citizens
Wilder Foundation
Willows Inner Community Center
Worldwide Eye Care & Research Foundation
Youth Emergency Services
Youthcraft Industries

Environmental/natural resources
Environmental Balance Assoc. of Minn.
The Intersociety Consortium for Plant Protection
Izaak Walton League of America
Midwest Environmental Education & Research Assoc.
Minn. River Valley Audubon Club
Natural Resources Corp.
Quetico Superior Foundation
Tree Trust U/A (same as Twin Cities Tree Trust)
9th Intl. Congress for Plant Protection

Education
ABC Montessori School
Alpha Tau Omega Foundation of Minn.
Anoka Junior Great Books
Augsburg College
Bloomington Scholarship Foundation
Calvin Christian School
Career Development and Evaluation Services
Challenge Research Institute, Inc.
Community Resources for Educ. Alternative Treatment and Evaluation
Dial-Logue, Inc.
Edison Scholarship & Memorial Fund
Emma Willard Task Force on Education
Environ Agribusiness Resources Technologies and Horticulture Assoc. of Minn.
Flight Unlimited
Golden Valley Lutheran College
Greater Gustavus Fund
Higher Education & Development, Inc.
Institute for Continuing Education
Kenneth Hall School
Kinderhaus Montessori School
Lightening and Transients Research Institute
Macalester College
Metropolitan Medical Center Alumna
Minn. Alumni Assoc., U. of Minnesota

(*continued*)

Sample of Twin Cities Area Public Charities (*continued*)

- Minn. Assoc. of Continuing Adult Education
- Minn. Bible College
- Minn. Consulting Group, Inc.
- Minn. Office Education Foundation
- Minn. Private College Research Foundation
- Minn. State Horticultural Society
- Minn. Women in Higher Education
- Mpls. Better Jobs for Women
- Mrs. Liistes Montessori Schools
- Native American Theological Assoc.
- Newgate Education & Research Ctr.
- Northwestern College of Chiropractic Foundation
- Parkview Alumni Assoc.
- Plymouth Montessori
- Psyche, Inc.
- Rainbow Research
- Richard Spruce Foundation for the Study of Ethnobotany
- Scientists and Engineers Technical Assessment Council
- Sister Joseph Endowment Fund for Nursing Education
- Spanish Evangelical Educational Crusade
- St. Paul Educational Foundation
- Survival Skills Institute, Inc.
- Twin Cities Creation-Science Assoc.
- United Ministries in Higher Educ.
- University Student Telecommunication Corp.
- Voluntary Action Center of St. Paul
- Washington County Foundation

Cultural

- African American Cultural Center
- Artspace Reuse Project
- Bach Society of Minn.
- Bloomington Historical Society
- Centre for Internationalizing English
- Choreogram Dance Studio
- Colonial Dames of American in Minn.
- Cooperating Libraries in Consortium
- Cricket Threatre Corp.—Phoenix Theatre Corp.
- Edina Historical Society
- Film in the Cities
- Fine Arts Society of Dakota County
- Greater Twin Cities Youth Symphonies
- Guild of Performing Arts
- Hennepin County Historical Society
- International Center of Medieval Art
- Jo Lechay Dance Co.
- Land O' Lakes Theatre Organ Society
- Metro Boys Choir
- Midwest Libertarian Library Assoc.
- Minnetonka Orchestra Assoc.
- Minn. Archeological Society
- Minn. Chorale
- Minn. Dance Theatre and School
- Minn. Historical Society Trust 3892
- Minn. Jazz Dance Co.
- Minn. Orchestral Assoc.—Mpls. Symphony Orchestra
- Minn. Theatre Federation
- Minn. Zoological Garden Foundation
- Mpls. Chamber Symphony
- New Hope Musical Theatre, Inc.
- Park Square Theatre
- Plymouth Historical Society
- Richfield Historical Society
- Sarah Hughes American Holiday for Irish Children
- Space Theatre Consortium
- St. Andrews Society of Minn.
- Suburban Symphony Assoc.
- Theatre Studio
- Thursday Musical
- Trinity Films
- Twin Cities Catholic Chorale
- Twin Cities Choirmasters Assoc.
- Weavers Guild of Minn.
- Women Historians of the Midwest
- Womens Auxil. of Mpls. Musicians Assoc., Local No. 73

Civic

- Anoka County Community Action Program
- Board of W. Central Area Council of YMCA
- Citizens of Hanover Advocating Responsible Govt.

(*continued*)

Sample of Twin Cities Area Public Charities *(continued)*

Council of Community Councils	Miscellaneous
District 1 Community Council	Board of Trustees, Mt. Zion Cemetary
Friends of Cue	Brian Rudd Trip Beyond
Good Helps, Inc.	Brorby, Thea Charitable Trust
Lexington–Hamline Community Council	Community Research Associates
Midway Club	Dunwoody Trust 775, Kate L.
Minn. Council American Youth Hostels	Evaluation Systems
Mpls. Kiwanis Foundation	Good News for Isreal
National Fly the Flag Crusade	Hudson Trust U/AZ 1541-1, Laura Bell
National Foundation for Philanthropy	Masterton Memorial Trust, William J.
Nokomis Planning District Citizens Council	Miller Peace Memorial, James
Northeast Kiwanis Foundation	National Distillers Distributors Foundation
Powderhorn Residents Group	O'Brien Trust 8451, Hannah F.
St. Louis Park Rotary Foundation	Ramsey Charitable Trust
Weesner Charitable Trust Fund 6107	Religion and Society
World Trade Week, Inc.	St. Mary's Hall, Ethel M. Vanderlip Fund Tr. U/A
YMCA Illinois Area Council	St. Paul Lutheran Friends of Israel
	Wells, Frederick B., Jr., Trust Fund
	Yeshuah Hamashiach Fellowship

sion or radio, legal services, housing/urban-development corporations, day-care centers, drug-outreach centers, nursing homes, societies for the blind or handicapped, environmental protection groups, alumni associations, civic groups, and many other types of organizations.

Our sampling frame was developed from the *Cumulative List of Organizations* (1979) published by the IRS. The document we used was current for October 31, 1979. One of our staff went through the document and identified all the public charities active in the Twin Cities five-county metropolitan area. There were 1,601 organizations altogether. Our next task was to group these organizations into functional categories (e.g., health/welfare, education, legal, housing/urban development, mass media, recreational, cultural, civic, environmental, and miscellaneous). Assignments were made on the basis of names and descriptions that were available in community directories. If there was any doubt, we phoned the organization or examined its charter at the Minnesota secretary of the state's office. If we were still unsure after this, we assigned the organization to an "unidentified" category. After all the organizations had been grouped, we drew a one-in-five (20%) stratified systemtic sample. The target number of interviews was 326. Of these, we interviewed 229 organizations. Of the remainder, 42 orga-

nizations could not be located; 18 were known to be defunct; 22 were only "paper" organizations (e.g., trusts); and 15 organizations refused to participate in the study. The 326 organizations in our sample are listed alphabetically below.

Interviewing began in November 1980, and most interviews were completed by June 1981. Because of a clerical oversight, we overlooked a number of organizations that we were supposed to interview. This required that we return to the field in January 1982 and interview those we had missed. This phase was completed by May 1982. Even though some of the interviews did not take place until early 1982, all information is for 1980 and early 1981. Interviews were face-to-face and conducted by the principal investigator or his graduate research assistants. We spoke with the chief administrative officer or his or her designate. Interviews lasted from 30 minutes to 3 hours.

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