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Upfront

The Outsiders

Why some companies donate to charity

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CORPORATE SOCIAL RESPONSIBILITY

The Outsiders

Why some companies donate to charity

What drives some companies to donate money to charities, invest in local communities, or spend time and resources supporting the arts while others never look beyond meeting quarterly earnings? According to a new study, it may depend upon whether the board of directors includes outsiders.

Recent revelations of corporate mismanagement and coverups have fueled the call for boards of directors to wake up and be more vigilant on their watch. The study, “Board Members in the Service Industry: An Empirical Examination of the Relationship Between Corporate Social Responsibility Orientation and Directorial Type,” shows that in addition to serving shareholders better, outside directors may be more sensitive to the company’s role in society.

The study was conducted by management professors Nabil Ibrahim and Donald Howard of Augusta State University, and John Angelidis of St. John’s University. It was published last November in the *Journal of Business Ethics* (vol. 47, no. 4).

The researchers surveyed 307 board members – 198 outside directors and 109 inside directors – from companies in the service industry. The companies on average had more than 100 employees and annual sales of above \$160 million. Each director was presented with a set of 20 statements, designed to measure the relative priority he or she placed on the company’s legal, economic, ethical, and “discretionary” responsibilities. “Discretionary” responsibilities are

purely voluntary obligations that flow from the company’s desire to improve the welfare of society. They include corporate philanthropy or corporate volunteerism.

After statistical analysis of the surveys, Ibrahim and his colleagues found distinct differences between outside and inside directors. The two groups did not significantly differ on their interest in abiding by legal and ethical boundaries. However, inside directors were more focused on the company’s economic performance than the outside directors. Outsider directors, meanwhile, “seem to be more interested in the philanthropic activities than insiders.”

What accounts for this difference? “Perhaps the most plausible explanation – and the one receiving the widest support from the literature – is that outside directors exhibit greater responsiveness to philanthropic needs,” the author writes, “and show less concern for the firm’s economic goals merely because they are outsiders.” Inside directors are often currently or recently employed by the company on whose board they serve. Outside directors are frequently chosen specifically for their financial independence from the company. Outside directors also tend to have a broader range of experience and interests. They are more distant from the pressures of the marketplace. And because they don’t owe loyalty to the company, they may be in a better position to protect the interests beyond those of the entrenched executives and stockholders. –Jan Chong