Accounting Disclosure At The Organization-society Interface: A Meta-theory And Empirical Evidence

Jennifer Ching-Kuan Chen
University of Central Florida

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ACCOUNTING DISCLOSURE AT THE ORGANIZATION-SOCIETY INTERFACE:  
A META-THEORY AND EMPIRICAL EVIDENCE

by

JENNIFER CHING-KUAN CHEN  
B.S. Brigham Young University- Hawaii, 1999  
M.S. University of Nevada Las Vegas, 2001

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Major Professor: Robin W. Roberts
ABSTRACT

This dissertation consists of three studies related to accounting disclosure at the interface of the organization and society. The first study investigates the overlapping perspectives of legitimacy theory, institutional theory, resource dependence theory, and stakeholder theory and integrates these theories into a more cohesive meta-theory of the organization-society interface. The second study examines whether a corporation’s charitable contributions represent a corporate social performance strategy or a legitimation strategy. More specifically, study two investigates, from two competing perspectives, how corporate executives rationalize their philanthropic actions. The third study analyzes the relationship between the current tax laws and the fulfillment of corporate foundations’ social functions. Taken together, these three studies build upon prior theoretical and empirical work to advance social and environmental accounting research.
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# TABLE OF CONTENTS

**LIST OF FIGURES**  
v

**LIST OF TABLES**  
vi

**GENERAL INTRODUCTION**  
1

**STUDY ONE**  
LEGITIMACY THEORY, INSTITUTIONAL THEORY, RESOURCES DEPENDENCE THEORY, AND STAKEHOLDER THEORY: ARE THEY COMMENSURABLE?  
2

**STUDY TWO**  
CORPORATE CHARITABLE CONTRIBUTIONS: A CORPORATE SOCIAL PERFORMANCE OR LEGITIMACY STRATEGY?  
3

**STUDY THREE**  
CURRENT TAX LAWS AND THE FULFILLMENT OF CORPORATE FOUNDATIONS’ SOCIAL FUNCTIONS: EVIDENCE FROM 990-RETURNS OF PRIVATE FOUNDATIONS  
4

**OVERALL CONTRIBUTION**  
6

**REFERENCES**  
7

**STUDY ONE**  
LEGITIMACY THEORY, INSTITUTIONAL THEORY, RESOURCES DEPENDENCE THEORY AND STAKEHOLDER THEORY: ARE THEY COMMENSURABLE?  
9

Commensurability and an Overview of the Theories  
12

Commensurability  
12

Overview of the Theories  
14

The Theories and Their Relationships  
16
<table>
<thead>
<tr>
<th>Chapter Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legitimacy Theory</strong></td>
<td>16</td>
</tr>
<tr>
<td>Legitimacy and Legitimation</td>
<td>17</td>
</tr>
<tr>
<td>Institutional Legitimacy and Organizational Legitimacy</td>
<td>18</td>
</tr>
<tr>
<td>From Abstract to Observable</td>
<td>20</td>
</tr>
<tr>
<td><strong>Legitimacy and Institutional Theory</strong></td>
<td>21</td>
</tr>
<tr>
<td>Institutionalization and Legitimacy</td>
<td>23</td>
</tr>
<tr>
<td><strong>Legitimacy and Resource Dependence Theory</strong></td>
<td>26</td>
</tr>
<tr>
<td>Legitimacy and Resource Flows</td>
<td>30</td>
</tr>
<tr>
<td><strong>Legitimacy Theory and Stakeholder Theory</strong></td>
<td>31</td>
</tr>
<tr>
<td>Modification in Perspective</td>
<td>33</td>
</tr>
<tr>
<td>Communication and Compromise</td>
<td>35</td>
</tr>
<tr>
<td><strong>AN APPLICATION OF THE CURRENT STUDY</strong></td>
<td>37</td>
</tr>
<tr>
<td><strong>DISCUSSION AND CLOSING REMARKS</strong></td>
<td>40</td>
</tr>
<tr>
<td><strong>REFERENCES</strong></td>
<td>44</td>
</tr>
<tr>
<td><strong>STUDY TWO</strong></td>
<td></td>
</tr>
<tr>
<td><strong>CORPORATE CHARITABLE CONTRIBUTIONS: A COROPRATE SOCIAL PERFORMANCE OR LEGITIMATION STRATEGY?</strong></td>
<td>54</td>
</tr>
<tr>
<td><strong>INTRODUCTION</strong></td>
<td>54</td>
</tr>
<tr>
<td><strong>CONCEPTUAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT</strong></td>
<td>58</td>
</tr>
<tr>
<td>Corporate Social Performance</td>
<td>58</td>
</tr>
<tr>
<td>Hypotheses</td>
<td>61</td>
</tr>
<tr>
<td>Legitimacy and Legitimation</td>
<td>64</td>
</tr>
<tr>
<td>Corporate charitable contributions and legitimation</td>
<td>68</td>
</tr>
</tbody>
</table>
Hypotheses

METHOD AND RESEARCH DESIGN

Dependent variable

Test variables

Control variables

Sample selection and description

ANALYSIS OF THE RESULTS

DISCUSSION OF RESEARCH FINDINGS

IMPLICATION OF RESEARCH RESULTS

CONCLUSIONS AND LIMITATIONS

REFERENCES

STUDY THREE

CURRENT TAX LAWS AND THE FULFILLMENT OF CORPORATE FOUNDATIONS’ SOCIAL FUNCTIONS: EVIDENCE FROM 990-RETURNS OF PRIVATE FOUNDATIONS

INTRODUCTION

LEGAL HISTORY AND TAX POLICIES RELATED TO CORPORATE DONATIONS

THEORETICAL DEVELOPMENT AND RESEARCH QUESTIONS

Justification of Private Foundations

FUNCTIONAL DIFFERENCES BETWEEN FOUNDATIONS AND CHARITIES

Giving behavior of corporate foundations

Giving motivations of corporate foundation

RESEARCH DESIGN
LIST OF FIGURES

Figure 1-1 Relationships among Theories ................................................................. 53
LIST OF TABLES

Table 2-1 Descriptions of Variables ................................................................. 77
Table 2-2 Summary of the Sample Firms’ Attributes ........................................ 80
Table 2-3 Descriptive Statistics for Variables in Charitable Contribution Empirical Tests ................................................................. 80
Table 2-4 Pearson Correlation Coefficients ...................................................... 82
Table 2-5 Regression Results of the Function of Charitable Contribution Test ............. 83
Table 3-1 The Relationship Between Corporation Actions and the Net Resource Change to Society ...................................................................................... 109
Table 3-2 Summary of Sample Corporate Foundations ........................................ 119
Table 3-3 Summary of Corporate Foundation Payout Behaviors by Recipient and Percentage .................................................................................................. 120
Table 3-4 Descriptive Statistics .......................................................................... 120
Table 3-5 Regression results for corporate foundation giving motivation test .......... 121
GENERAL INTRODUCTION

The role of business in society is a vital public policy issue in contemporary debate, and much of its currency comes from the scale and influence of the modern business corporation. As business entities have become one of the most dominant organizations in society, more people are concerned with the role and accountability of business (Preston & Post, 1975; Frederick, 1978). The actions of influential businesses affect the lives of individuals in many aspects and shape the prosperity of communities and the condition of their environments. The society in general expects business entities to perform their economic functions legally and ethically as well as to be socially responsible (Carroll, 1979).

Although Friedman (1962) argues the only social responsibility of business is to make a profit, business entities voluntarily undertake many social activities that may not necessarily bring direct financial benefits to the firms (Hillman and Keim, 2001). Among the different social activities performed by corporations, charitable contributions are perceived as the top of the pyramid of corporate social responsibility (Carroll, 1979; 1991), and as one outcome of corporate social performance (Wood, 1991). Moreover, there have been efforts to extend business reporting into a wider context. In addition to the traditional financial information, Gray et al. (1997), Elkington (1999), and others advocate to include business social and environmental performance into business accounting and reporting. The U.S. Congress proposed to require corporations to disclose their charitable contribution activities within their financial statements (Gillmor and Bremer, 1999).
Issues pertaining to interactions between organizations and society and the usefulness of business social disclosure/reporting are of interest to academia as well as to many stakeholders. Thus, this dissertation aims to provide comprehensive theoretical explanations and empirical evidence on these issues through the development and execution of three studies. Each study is discussed separately in the following three sections.

**Study One**

**Legitimacy Theory, Institutional Theory, Resources Dependence Theory, and Stakeholder Theory: Are They Commensurable?**

Study One investigates the overlapping perspectives of legitimacy theory, institutional theory, resource dependence theory, and stakeholder theory and integrates these theories into a more cohesive meta-theory of the organization-society interface. This study concludes that even though the four theories are different in their levels of analysis and resolution, they are much the same. They share one common objective—to explain how organizations survive and growth. These theories imply that financial performance and efficiency may be necessary but not sufficient for business entities to reach their goal of continued existence and growth. This meta-theory offers an explanation of why business entities voluntarily undertake social activities, why business social performance may or may not necessarily be rewarded by financial benefit, and why the overall numbers of social activities undertaken by corporations tend increase. The commensurability of these theories provides a sound theoretical foundation to
substantiate the value of social and environmental accounting research because firms’ undertaking of social activities is crucial for them to maintain their societal legitimacy.

**Study Two**  
**Corporate Charitable Contributions: A Corporate Social Performance or Legitimacy Strategy?**

Study Two examines whether a corporation’s charitable contributions represent a corporate social performance strategy or a legitimization strategy. More specifically, study two intends to understand or explain, from two competing perspectives, how corporate executives rationalize their philanthropic actions while their corporations are concurrently facing other business-related social issues such as poor evaluations of their employee relations, environmental performance and product safety records.

From a corporate social responsibility/performance perspective, Carroll (1979) classifies business social responsibility into four categories: economic, legal, ethical and discretionary responsibilities. He argues that business entities must first focus on meeting their economic, legal and ethical responsibilities; placing their discretionary efforts such as philanthropic giving as secondary concerns. Based on this conceptual framework, corporate charitable donations are expected to be negatively associated with firm-specific problems (e.g., poor performance records) with employee relations, product safety and environmental performance. If this postulation holds, corporate charitable contributions would be a fair representation of business social performance.
Conversely, Ashforth and Gibbs (1990), Dowling and Pfeffer, (1975) and others, posit that charitable contributions are a means of legitimating business activities. These researchers argue that the amount of contributions would be expected to change over time or contexts to the extent that a firm’s legitimacy or social acceptance is more or less problematic. This argument is consistent with the finding of legitimacy-based environmental disclosure research that found that firms with a poor environmental performance record tend to make more extensive mitigating environmental disclosures (Patten, 2002). In accordance with this legitimation assumption, the relationship between corporate charitable contributions and firm-specific problems with employee relations, product safety and environmental performance is expected to be positively related. If this postulation is supported, the perceived merit of corporate charitable giving could be misleading.

**Study Three**

**Current Tax Laws and the Fulfillment of Corporate Foundations’ Social Functions: Evidence from 990-Returns of Private Foundations**

Study Three analyzes the relationship between the current tax laws and the fulfillment of corporate foundations’ social functions. A corporate foundation is a tax-exempt private foundation that is funded by a business entity, but is legally separated from its sponsoring company. Currently, corporations may deduct charitable contributions, including donations to their sponsored foundations, up to 10 percent of their modified annual taxable income (Internal Revenue Code Section 170(b)(2)). Because of this favorable tax treatment and other advantageous tax provisions for private
foundations, many firms establish corporate foundations to manage all or some of their donations (Himmelstein, 1997).

The social function of private foundations is to some extent different from that of traditional charities. While the role of traditional charities is to provide relief to the underprivileged, and to lessen the burdens of government, the functions of foundations is to fund leading research that may bring alternative solutions to social and public policy issues and explore new and uncharted directions in which society may move (Andrews, 1965; Zurcher, 1972; Roelofs, 2003). However, funding activities pertaining to social and public policy issues are more controversial and vulnerable to criticism than donations to traditional charities (Mcilnay, 1997). Thus, corporations may hesitate to fund contentious social programs, such as Planned Parenthood projects, through their private foundations. Business entities tend to avoid any involvement with social controversial issues because, as reported by Roberts (1992), corporations with foundations are more proactive in building good relationships with various stakeholders. Moreover, current tax laws neither differentiate the functions between foundations and charities nor require or provide any incentive for foundations to fund research and public policy studies. In other words, firms received the same tax benefit and perhaps similar degree of name recognitions when donating to either foundations or charities.

As a result of the discussion presented above, study three hypothesizes that corporate sponsored foundations give a significantly higher amount of grant monies to charities than they give to research and public policy studies. The findings of study three have important public policy applications because if current tax laws do not facilitate
foundations to fulfill their social functions, amendments to tax provisions for private foundations appear to be desirable.

**Overall Contribution**

Taken together, studies one, two and three, of this dissertation offer several significant contributions. First, and for most, this dissertation presents a comprehensive meta-theory of the organizations-society interface. This meta-theory provides a strong theoretical foundation to sustain and advance social and environmental accounting research because firms’ participation in social activities is necessary for them to maintain their societal legitimacy. Second, this dissertation provides empirical evidence on the functions of corporate charitable contributions and corporate sponsored foundations in the interactions between organizations and society. All these empirical findings have public policy implications. Corporate charitable contributions are generally perceived as an outcome of corporate social responsibility. This dissertation tests whether a corporation’s donations represent a strategy of corporate social performance or a legitimization strategy. The results of this inquiry provide empirical evidence to the ongoing debate over the relevance of corporate charitable contributions disclosure. Finally, this dissertation also suggests that amendments to the current tax laws regarding private foundations appear to be necessary because current tax laws do not promote foundations to fulfill their social functions. In the remainder of this dissertation, each of the studies is specifically presented in detail.
REFERENCES


Legitimacy theory and stakeholder theory are considered the most influential theories within the domain of social and environmental accounting research. As Gray, Kouhy and Lavers (1995) state, to treat legitimacy theory and stakeholder theory as two totally distinct theories would be incorrect because they are two overlapping theories that are different in their levels of perception and resolution rather than two competing theories. In other words, both legitimacy theory and stakeholder theory are interested in organizations and societal interactions but their approach to decomposing this complex social phenomenon are different. In addition, Mathews (1993), Gray et al, (1996), and Deegan (2000, 2002) review a number of theories, and the notion of legitimacy appears to be relevant to other theoretical perspectives, such as institutional theory, resource dependence theory and stakeholder theory. For example, when Pfeffer and Salancik (2003) updated their resource dependence theory, they reemphasized legitimacy as the fundamental resource on which any organization depends for continued existence.

To what extent do legitimacy theory, institutional theory, resource dependence theory and stakeholder theory overlap? Do these theories provide different foci of explanation for similar social phenomena? Is it possible to synthesize these theories and if so would a synthesized theoretical model provide us with a better understanding of the organization-society relationship? Because of the slightly different but useful insight provided by each theory, in this study I attempt to integrate these theories. More
specifically, this paper explores how these theories can inform and be built upon by one another, and attempts to integrate these theories into a meta-theory of the organizations-society interface.

This study provides several significant contributions to the accounting literature. First, many accounting scholars (e.g., Mathews, 1993; Gray et al, 1995, 1996; and Deegan, 2000, 2002) agree that there is considerable overlap among a number of social and organizational theories and the possibility of making “compatible interpretations of evidence from these different theoretical perspectives” (Gray et al., 1995, p. 55). Furthermore, Gray (2002, p703) emphasizes that “we need even greater meta-theory” to sustain and advance social and environmental accounting research. This is the first paper that attempts to synthesize these theories into a meta-theory. Second, legitimacy theory, institution theory, resource dependence theory and stakeholder theory are all important theoretical frameworks that seem to have significant influence in accounting and organizational research. These theories, however, have been applied and taught as separate perspectives in research and in business and accounting doctoral student education. This paper will be a valuable reference to researchers as well as to doctoral students who are interested in understanding the concepts and potential applications of each individual theory and the relationships between and among them. Most importantly, we may see a richer (perhaps better) picture of social phenomena from this integrated lens than can be attained through relying on one theory alone. Thus, this integrated meta-theory should help position different sub-streams of research within a broader perspective and create a new path for future accounting research and programs.
This study concludes that although these theories are diverse in their levels of analysis and specificity, they are commensurable. They share one common goal—to explain issues of organizational survival and growth—and most importantly, these theories recognize that economic performance and efficiency may be necessary but not sufficient to reach the objective of continued existence and progress. From an institutional legitimacy perspective, legitimacy and institutionalization are synonymous. From an organizational legitimacy perspective, resources are a medium or representation of legitimacy. From a stakeholder perspective, the dynamic nature of legitimacy is amplified and legitimation requires two-way communication and a mind-set of compromise between the organization of concern and its stakeholder groups.

The remainder of this study is organized as follows. The next section begins with a brief discussion of the notion of incommensurability and presents an overview of the theories. The following section provides a detailed discussion on legitimacy theory by bringing some of the recent critical discussions on legitimacy and corporations in the management literature into accounting research. The notion forwarded by legitimacy theory would then serve as an overarching concept as I try to understand the relationships between and among these theories. An application of the study result is then discussed and limitations are presented in the final section of this study.
Commensurability and an Overview of the Theories

The theories\(^1\) that are of interest in this paper are legitimacy theory (Dowling and Pfeffer, 1975; Lindblom, 1994; Suchman, 1995), institutional theory\(^2\) (Meyer and Rowan, 1977; DiMaggio and Powell, 1983), resource dependence theory (Pfeffer and Salancik, 1978; 2003), and stakeholder theory (Freeman, 1984; Clarkson, 1995).

Commensurability

One fundamental issue to be addressed prior to integrating these theories is the commensurability among them. The notion that scientific paradigms are incommensurable was forwarded by Kuhn (1970) in his book *The Structure of Scientific Revolutions*. The term “incommensurability” in philosophy refers to the idea that different paradigms, or theories from competing paradigms, may appear to contradict each other but because of fundamentally different philosophical foundations, they cannot be meaningfully compared. Kuhn (1970) states competing paradigms employ different criteria of acceptability for scientific explanations. Thus, it is impossible to compare the validity of scientific paradigms from a neutral standpoint. There are two main grounds of incommensurability:

*Ontological incommensurability*: ontological assumptions are concerned with the position of reality in one’s being. In other words, it raises questions about whether reality is simply given or a product of the mind. The former perspective is referred to as realism

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\(^1\) These theories have roots in other theories and have been applied by researchers in various academic disciplines and thus there are several versions of original ones. It is not the objective of this paper to review all versions of the theories.

\(^2\) This is sometimes also called “new” or “neo” institutional theory.
which views the external social world as real and composed of concrete, hard, and tangible structures that separate the social world from the individual’s perception of it. On the other hand, the latter perspective is referred to as nominalism, which sees the external social world as relativistic and composed of mainly names, labels, and concepts that enable individuals to communicate. In nominalism, there is no ‘real’ social structure beyond one’s mind.

The mindset between these two different worldviews also often influences one’s assumptions regarding the resources of knowledge, the relationship between individuals and their environment, and the appropriateness of research methodology\(^3\). Given these different viewpoints, there is no common way to perceive the world. Thus, there is no common measure that can be used to make unbiased judgments between paradigms.

**Semantic incommensurability**: the terms and concepts of scientific theories in different paradigms are not mutually intertranslatable (Sankey, 1993). Scientific terms from different traditions or paradigms have different meanings. The meaning of a term depends on its role within a theory. Moreover, even if the exact word is used, the same term in different theories and different paradigms may not have the identical reference. Therefore, theories cannot be directly compared if the terms they employ do not share the same meanings or references. In other words, the change in the meaning of theoretical terms from one paradigm to another provides the other ground for incommensurability.

According to these two criteria above, the theories examined in this paper are commensurable because they share a similar ontological view, and the references of their terms are almost identical. All of these theories are considered to be system-oriented

\(^3\) See Kuhn (1970) for detailed discussions.
theories\(^4\) (Katz and Kahn, 1966; Thompson, 1967; Gray et al., 1995, 1996), these theories assume any organization is influenced by the society in which it operates, and, in turn, the organization also influences society. Organizations work within such \textit{interdependencies} to reduce uncertainty and to ensure survival and growth. Thus, these theories have a shared ontological worldview that they see reality/structures are continually created, reproduced and reoriented by the interactions among social organizations. And such interactions become constitutive of their province of meaning or having the power to enact and establish social meanings. These theories neither perceive that reality is purely given nor deny the existence of social structures. Their worldview seems to situate in the middle ground of the spectrum between realism and nominalism.\(^5,6\) The semantic commensurability of the terms used in these theories will be discussed in detail throughout the paper. The core concept of each theory is summarized below.

\textbf{Overview of the Theories}

Legitimacy theory (Lindblom, 1994; Suchman, 1995) focuses on whether the value system of an organization is congruent with the value system of society, and whether the objective of organizations is to meet social expectations or to gain social

\(^4\) “Open systems” is the term used in management literature.

\(^5\) Their ontological view is similar to Giddens’ (1984) structuration theory.

\(^6\) In addition, each theory focuses on a particular aspect of this interdependency and may have a slightly different attitude toward the effect of the social-political environment on organizations. The human nature assumption is a continuum with determinism on one end and voluntarism on the other. Determinism assumes that the actions of organizations are controlled by the external social-political environment. On the other end of the spectrum, voluntarism views that organizations have the freedom to select their own actions. Legitimacy theory does not declare a human nature assumption but views the value system as socially constructed. Institution theory tends to be deterministic but both resource dependence theory and stakeholder theory tend to be more voluntaristic in their views.
acceptance. Legitimacy theory, however, is neither specified on how the congruency could be reached nor how the actions should be formulated.

Institutional theory (Meyer and Rowan, 1977; DiMaggio and Powell, 1983) began much like legitimacy theory but concentrates on the relationship between environment and organizations, especially the stability and survival of organizations. While legitimacy theory itself does not specifically express how to meet social expectation and gain social support, institutional theory strongly emphasizes that organizations can incorporate institutionalized norms and rules to gain stability and enhance survival prospects. Thus, conformity to these established institutional patterns is the pathway to legitimacy, and to receive support and attract resources.

Resource dependence theory (Pfeffer and Salancik, 1978; 2003) also focuses on the effects of environment on organizations. However, instead of concerning itself with social expectation, resource dependence theory attempts to explain the effect of environmental constraint on organizations. Resource dependence theorists state that organizations must engage in exchanges and transactions with other entities for various resources. Because organizations are not self-contained or self-sufficient, they rely on their environment for support, and the core of the theory focuses on how organizations gain access to vital resources for survival and growth. Resource dependence theorists believe that although organizations are constrained by their situations and environment, organizations possess both the desire and the ability to negotiate their positions within those constraints through various tactics.

Stakeholder theory (Freeman, 1984; Clarkson, 1995) is also concerned with the effect of environment on organizations. However, as opposed to the other theories
treating the ‘environment’ as a whole, stakeholder theory focuses on the relationships between organizations and its various stakeholders who constitute the environment. This holds true because stakeholder theory recognizes that (1) the impact of each stakeholder group on the organization is dissimilar, and (2) the expectations of different stakeholder groups are not only diverse but also sometimes conflicting. Thus, how to receive support/approval from different influential stakeholders rests upon the ability of organizations to balance these conflicting expectations.

According to the summaries above (see figure 1-1), it seems that as these theories attempt to analyze a complex social occurrence into simpler ones, each of them focus on a different level of analysis or a different level of perspective. The levels of perspective range from (the highest level of) societal value system to (the lowest level of) stakeholder expectation. Legitimacy theory seems to have a higher level of analysis than institutional theory, followed by resource dependence theory and stakeholder theory. And as a result, legitimacy theory has the lowest levels of specificity on the issue of concern followed by institutional theory, resource dependence theory and stakeholder theory. However, they have a shared goal—to explain how organizations survive in a changing society.

The Theories and Their Relationships

Legitimacy Theory

Accounting researchers (e.g., Patten, 1992, 1995; Deegan and Rankin, 1996; Walden and Schwarts, 1997; O’Donovan, 1999, 2002; Deegan et al., 2000, 2002) have used legitimacy theory as an explanation of the motivation behind voluntary environmental disclosure of corporations. Although legitimacy theory provides a
foundation for understanding certain managerial actions such as environmental disclosures, the theory, as it is currently applied, is still in need of refinement (Deegan, 2002). The challenge of legitimacy theory in general, and in explaining the rationale of corporate environmental disclosure specifically, is that the term has been widely used but loosely defined. This is not a problem of the theory itself, and the same situation could be equally applied to other concepts as well (e.g., see Roberts and Mahoney (2004) on the use of stakeholder language). Suchman (1995, p572, emphasis in original) observes this situation and states that “many researchers employ the term legitimacy, but few define it”. Failure to adequately define the concept has also led Hybels (1995) to comment that legitimacy has been used as a “blind man’s hammer” by social scientists to shelter their careers and disciplines. What is legitimacy? And what does legitimacy theory explain, describe and/or predict?

**Legitimacy and Legitimation**

Lindblom (1994) argues that we must first distinguish between legitimacy and legitimation. The former is a status or condition and the latter is the process of obtaining the status or condition. Lindblom (1994, p.2) defines legitimacy as:

… a condition or status which exists when an entity’s value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity’s legitimacy.

Organizations are perceived to be legitimate if they pursue socially acceptable goals in a socially acceptable manner; given this normative quality, performance and economic efficiency alone are theorized to be insufficient to obtain or maintain the status
(Epstein and Votaw, 1978). Thus, legitimacy is not synonymous with economic achievement or legality because economic success is just one facet of legitimacy, and legality is theoretically an enforcer, not a creator, of changes in social values (Lindblom, 1994, Deegan, 2002). In addition, whether or not the goals and actions of an organization are legitimate (desirable, proper, or appropriate) within the socially constructed value system depends upon the social audience who observe them (Suchman, 1995). The actions of an organization may deviate extensively from societal norms yet the organization retains legitimacy because the divergence is unnoticed. Thus, “legitimacy is possessed objectively, yet created subjectively” (Suchman, 1995, p. 574). In other words, legitimacy is a conferred status that is always judged and controlled by others rather than by the legitimating organization. As for legitimation, Maurer (1971, p 361) states “legitimation is the process whereby an organization justifies to a peer or superordinate system its right to exist.” Thus, legitimacy grants rights not power to organizations. The processes of financial report environmental disclosure have been theorized and empirically verified as a tool of legitimation (Lindblom, 1994, Patten, 2005).

**Institutional Legitimacy and Organizational Legitimacy**

From the above definitions of legitimacy and legitimation, two systems are identified; these are social system and organizational system. The social system is theorized at a higher and more abstract level of analysis than is the organization system. Organizations have the tendency to reconcile (in fact or in appearance) their systems with the higher order system through the process of legitimation. As mentioned previously, legitimacy theory itself does not prescribe how the congruency between the two systems
can be achieved. As a result, Gray et al., (1996), Ashforth and Gibbs (1990), Suchman (1995) and others state that there are (at least) two major camps of legitimacy theory — institutional legitimacy and organizational (or strategic) legitimacy. These camps differ in their understanding of how the congruency is reached or how the legitimating organization justifies its position.

From a societal perspective, institutional legitimacy is used to investigate what/which institutional structures and activities as a whole (such as capitalist economic structure, democratic government) have gained social acceptance. These established structures, activities and procedures are used as the base line to evaluate whether the legitimacy-seeking organization adheres to these expectations, like legitimated institutions. For instance, in order to gain social acceptance as a typical business institution, corporations would have an accounting department in their organizational structure, and then the accounting department would prepare financial statements for their shareholders. Whether or not such structure and activity would ensure or enhance the reliability of accounting information is not the concern of institutional legitimacy. This path of legitimation reinforces the legitimacy of the already institutionalized system—a capitalistic society in which our analysis of the social and organizational relationship is situated.

The other camp is called organizational legitimacy or strategic legitimacy research. Authors in this camp attempt to identify different strategies that organizations seeking legitimation may adopt. Work in this strategic camp (Ashforth and Gibbs, 1990;  

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7 Gray et al. (1996) place these two perspectives under political economy theory. They name the former legitimacy of the system (e.g. capitalism) and the latter legitimacy of the organization.
Oliver, 1991; Lindblom, 1994) often adopts a managerial perspective (a narrower perspective) and emphasizes the ways in which organizations instrumentally manage and deploy suggestive symbols in order to gain social acceptance and support. It is from this perspective that most social disclosure accounting research tends to draw its understanding of legitimacy (e.g. Deegan et al., 2002; Patten, 2005).

**From Abstract to Observable**

Although legitimacy and legitimation are theorized to have concrete consequences, they are both abstract subjects based on abstract logic. As a result, a number of theoretical questions have emerged. For instance, legitimacy and institutionalization appear to be synonymous, but to what extent or under what circumstance is this relationship sustained? Second, is legitimacy itself a survival resource or is resource flow itself a representation of legitimacy? Third, legitimacy is subjectively evaluated by observers. Who are these observers and how can organizations identify them and identify with them?

Hybels (1995) critically reviewed the use of the legitimacy concept and argues that although abstraction sometimes is necessary in theory building, well-specified representation of the abstract concepts of social value, rules and norms may be identifiable. He stresses that the representation of these abstract concepts may be revealed through detailed observations of institutions’ structures, actions and resource flows among constituencies (stakeholders). Hybels (1995) argues that theories are developed to describe and to a certain extent to predict social-organizational behaviors,

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8 Hybels (1995, p245) state “abstraction may be the price of generalizability.”
and social phenomena are supposed to be observable. For instance, observations of our governmental structures inform others and us that this society values democratic government systems in which citizens have the right and freedom to elect their leaders. Each time as citizens cast their votes, their actions signify their support for this social value and norm. Observibility is an important element of these theories. Thus, the next section discusses how the concepts forwarded by institution theory, resource dependence theory, and stakeholder theory may each provide certain observable traces of the abstract construct of legitimacy. The center of these observable traces may be different as the levels of perspective of these theories narrow down. By so doing, I argue that these theories can be integrated into a meta-theory as they inform and are informed by one another.

**Legitimacy and Institutional Theory**

The concepts of institution and institutionalization have evolved over time from creating social reality to granting social acceptance (legitimacy). The early concept of institutionalization emerged as Berger and Luckmann (1967) addressed the nature and origin of social order. They argue that social order is fundamentally based on a shared social reality that is created in social interactions. Social order comes into being as individuals take actions, interpret those actions and share with others their interpretations. Scott (1987) defines institutionalization as the process by which actions become repeated over time and are interpreted with the similar meanings among society members. The process of institutionalization creates social meaning and reality for social members to communicate and for the establishment of social order.
Berger and Luckmann (1967) emphasize that institutionalization involves three stages: externalizations, objectivation and internalizations. For instance, we have socially created the time scheme (twenty four hours a day, seven days a week and twelve months a year) for ourselves but as this human product became institutionalized, it turns into a reality that seems external to us. Our daily activities are scheduled according to the time, as if it is externally set. We use the schedule to determine where to be and what to do as an objective measurement, and then we take this measurement result internally to evaluate our performance and plan our lives. This situation appears to be what Berger and Luckmann (1967) observe in which we are capable of producing a world that we later experience as something other than a human product.

The social realities that are established through the process of institutionalizations have become something known as tradition—the way things are or the way things are to be done. These traditions or way of life are observable but often become invisible to individuals who immerse in these social patterns. Weber (1946) states that tradition is an element of legitimacy because social actors are more likely to accept or approve the activities and decisions that they are familiar with. This early version of institutional theory placed particular emphasis on the traditional character of institutional rules and beliefs as shared social reality and on the processes by which organizations tend to become instilled with value and social meaning.

As the theory evolved, the focus of institutional theory has also moved from the establishment of social reality to the institution of modern organizations. In this shift of direction, there is less emphasis on institutionalization as a distinctive process of social reality and more focus on the pattern of organizational behavior and the conformity to the
pattern (Scott, 1987). The work of Meyer and Rowan (1977) and DiMaggio and Powell (1983) both investigate a common question—what makes organizations so similar? They observed that many dynamics in the organizational environment stem not from technological or material imperatives, but rather from social norms, symbols, beliefs, and rituals. They conclude that rational individuals make their organizational structures, functions and operations increasingly homogeneous not necessarily to increase efficiency but to meet social expectation or to be socially acceptable. Meyer and Rowan (1977) state that organizations do not conform to a set of institutionalized beliefs because they constitute reality; organizations are strategically doing so because they are rewarded with increased legitimacy, resources, and survival capabilities.

**Institutionalization and Legitimacy**

DiMaggio and Powell (1983) identified three types of processes (coercive, mimetic and normative) that might cause an organization to arrange its structure in ways that conform to a formal institutional pattern. Coercive process arrives from governmental regulations. Mimetic approach happens when new organizations embrace the system of the existing institutions in their field. Normative process occurs when organization administrators intuitively follow the conventional practices. Scott (1977, 1992) defines structures as indicators of an organization’s socially constructed capacity to perform specific types of functions. Moreover, Meyer and Rowan (1991, p50) state that institutionally prescribed structures convey the message that an organization “is acting on collectively valued purposes in a proper and adequate manner.” However, Meyer and Rowan (1977) also create the term “ceremonial conformity” to argue that the
organization might adopt certain highly visible and salient practices that are congruent with social expectations while leaving the fundamental operations of the organization intact.\textsuperscript{9}

If legitimacy is said to stem from some socially constructed system of values, norms, beliefs, and definitions (Suchman, 1995), then conformity to this system grants social acceptance. In other words, in order to be perceived as legitimate organizations, the pattern of organizational structures and actions is assumed to follow the prescription of these socially constructed norms and principles. As a result, the feature of the socially constructed value system is supposed to be institutionalized into every aspect of institutions (DiMaggio and Powell, 1983, 1991; Meyer and Rowan, 1991; Meyer and Scott, 1983; Zucker, 1987). Parsons and Smelser (1956, p102) define institutions as “the ways in which the value patterns of the common culture of a social system are integrated into the concrete action of its units.” This line of reasoning may have led many researchers (e.g., Ashforth and Gibbs, 1990; Oliver, 1991; Suchman, 1995) to suggest that conformity to the structures and rules of a preexisting institution is the easiest way to obtain legitimacy because sustained institutional patterns must already have the characteristic of legitimacy. From this perspective, Suchman (1995, p576) states “legitimacy and institutionalization are virtually synonymous. Both phenomena empower organizations primarily by making them seem natural and meaningful.”

\textsuperscript{9} For example, the socially constructed structure for business Ph. D. programs in the United States is basically consisted of two years of course work followed by dissertation, which is different from the programs generally structured in Europe. Thus, in order to demonstrate that they are capable of carrying out quality academic research education, U.S. business Ph. D. programs usually adopt (or adapt to) a particular set of structures. The usefulness of this type of program arrangement is not uncontestable, yet the institutionalization of program structure grants social acceptance.
The perspective of institutional theory is narrower than that of legitimacy theory. Instead of examining directly the value system of the society, institution theory views the pattern of the established institutions as the symbolic representation of the social value system. In addition, the resolution provided by institutional theory is clear---conformity is the basic managerial tactic for organizations seeking legitimation. It is interesting to note that while accounting researchers in the domain of environmental disclosure tend to rely on legitimacy theory to frame their studies, institutional theory is a preferred lens for many other aspects of accounting research such as auditing (Carpenter and Dirsmith, 1993), accounting profession (Fogarty, Radcliffe and Campbell, 2004), accounting systems (Covaleski, Dirsmith and Michelman, 1993), accounting regulation (Bealing, Dirsmith and Fogarty, 1996; Hunt and Hogler, 1993), and change in managerial accounting (Hopper and Powell, 1985; Burns and Scapens, 2000). Some of these studies examine how institutionalization confers legitimacy and some critique the value of such processes. It seems that well-established (institutionalized) accounting practices and regulation are more likely to associate with institutional theory, and the emerging accounting procedures such as social/environmental reporting, on the other hand, are more likely to be based upon the notion of legitimacy.

Although institutional theory offers a reasonable tactic to legitimacy, Gray et al., (1996) argue that this type of legitimation practice indeed strengthens the legitimacy of the current social system (e.g. capitalism). Thus institutional theory is capable of describing the reinforcement of the existing condition of legitimacy but is insufficient to explain the changes in social expectation or the dynamics of legitimacy. For instance, why business corporations might start caring about environment and community issues.
Apparently, other theories are needed to provide us with a comprehensive understanding of this social occurrence.

**Legitimacy and Resource Dependence Theory**

Several researchers (Ashforth and Gibbs, 1990; Deegan, 2002; Pfeffer and Salancik 2003; Suchman, 1995) agree that legitimacy is like any other resource that organizations seek for continued existence. Suchman (1995, p576) views “legitimacy as an operational resource that organizations extract—often competitively—from their cultural environments and that they employ in pursuit of their goals”. This view appears to be consistent with the notion of resource dependence theory (Pfeffer and Salancik, 1978; 2003), which emphasizes that whatever resources are vital to the survival of an organization; the organization will pursue strategies to ensure the continuing supply of the resources. With this overlap, it is reasonable to further explore how legitimacy theory and resource dependence theory are related.

Legitimacy theory, institutional theory and resource dependence theory are all interested in the relationship between organizations and their environment. Legitimacy theory stresses the necessity to avoid any threat to an organization’s legitimacy, while institutional theory suggests conformity to the pattern of institutionalized organizations is the pathway to legitimacy. Both theories, however, are less specific on the consequence of being or not being legitimate. Resource dependence theory, in contrast, addresses the effect of legitimacy. Instead of using the abstract expression “legitimacy”, resource dependence theorists have chosen the less abstract term “resource”, which explicitly
proposes the objective for an organization in its interaction with its environment is to obtain resources.

Resource dependence theory was introduced in the book *The External Control of Organizations* (Pfeffer and Salancik, 1978). This book explored how organizational environments affect and constrain organizations and how organizations respond to those external constraints. The book contained three central themes. The first, and perhaps the most essential theme is that *social context mattered*. Pfeffer and Salancik (1978, 2003) emphasize that organizations rely on one another’s support and resources to carry out their functions. This resource reliance makes the external control and constraint of organizational behavior both possible and almost inevitable. Thus, analyzing the environmental situations in which organizations are located and the pressures and constraints that stemmed from those situations would provide us with a better understanding of organizational decisions and behaviors.

The second theme reveals resource dependence theorists’ ontological view. They believe that even though organizations are constrained by their situations and environment, strategic choices are still available and possible for organizations to pursue their goals. Indeed, they emphasize that the environment is not only a given condition to be absorbed, avoided, or accepted. Environment itself is the dynamic outcome of the interactions of many organizations seeking their own goals and interests. When organizations face manageable uncertainty and external constraint, they may search for arrangements or form alliances with others to coordinate their actions. Empirical studies based on this theory have investigated how organizations strategically managed their external constraints through selection of employees (Salancik, 1979; Pfeffer and
Leblebici, 1973), compositions of boards of directors (Pfeffer, 1972a; 1973; Peng, 2004), and business mergers (Finklestein, 1997; Pfeffer, 1972b; Pfeffer and Nowak, 1976). Furthermore, when faced with unmanageable interdependence, organizations would seek to use the greater power of the larger social system and the government, using tactics such as political actions, to alter the environment for their needs.

The third main theme of resource dependence theory is the emphasis on power rather than on economic efficiency. From a resource dependence perspective, some organizations have more power than others because of the asymmetries of their interdependence and their location in social space (Pfeffer and Salancik, 2003). Theorists argue that the government is an important source provider for many organizations such as schools, health care, and government project contractors. These organizations depend more on the government for resources than the government relies on them for supplies. The differences in the degrees of interdependence and social position grant the government more power than the organizations. As a result, these organizations are more responsive to governmental regulations and policies (Salancik, 1979; Pfeffer and Leblebici, 1973). The theory concludes that building close relationships with critical power organizations that control vital resources is a crucial strategy for continued existence.

Since the publication of The External Control of Organizations, the empirical work that applied resource dependence perspective has primarily focused on transactional interdependence (Salancik, 1979; Pfeffer and Leblebici, 1973; Pfeffer, 1972ab; 1973; 10

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10 Little recent work is cited because research that applied resource dependence theory in recent years has concentrated more on networks and alliances (Pfeffer and Salancik, 2003). Networks and alliance are more managerial oriented rather than organizational emphasized, which is not the focus of this study.
Finklestein, 1997; Pfeffer and Nowak, 1976; Gulati and Gargiulo, 1999). For instance, the relationship between the possibility of merger and the amount of financial transactions between firms. Hence, the major theoretical challenge and critique of this theory is that resource dependence, with its focus on transactional interdependence, overlooks many other essential environmental impacts on organizations. Pfeffer and Salancik (2003, p.xx) acknowledge this omission in the preface of their updated writings and explicitly claim that resource dependence was originally developed to provide an alternative perspective to economic theories of organizational decisions and actions, and “resource interdependence accounted for everything about organizations.”

The relation of resource dependence theory to studies of legitimacy is clarified in the recent reissue of the original resource dependence text (Pfeffer and Salancik, 2003). In this update, Pfeffer and Salancik (2003) stress that a benefit of studying firm strategies in a resource dependence tradition is the ability to consider the externally-oriented, non-market based actions that companies undertake to achieve organizational legitimacy. In addition to strategies used to alter interdependence and negotiate with the environment, Pfeffer and Salancik (2003) state that political actions and alliance are two important strategies for organizations to create an environment for their needs. However, as to legitimation strategy, they believe that developing alliances with other organizations that possess a particular legitimacy is a less criticized but more effective strategy than the use of political means. Their predictions about the alliance approach are confirmed by accounting and management research. Fiedler and Deegan (2002) document that seeking legitimacy was one key incentive for the building and constructions industry to collaborate with the environmental groups in Australia. In addition, Friedman and Miles
(2002) analyze the relationship between Greenpeace and environmental sensitive corporations over the decades. They report the relationship has been transformed from incompatibility in actions in the 1970s to a partnership for environmental solutions in the recent years. And the basic momentum of such evolution is from the process of compromising and alliance.

Based on the renewal of resource dependence writings, it is clear that the perspective of resource dependence theory is narrowed to focus on critical powerful organizations. This is in contrast to institutional theory that focuses on institutionalized organizations in general. The level of specification of resource dependence theory is increased as the goal of interacting with the environment is precisely stated and the strategies are explicitly proposed. The proactive organizational tactics prescribed by resource dependence theory indicate a link between this theory and research of organizational legitimation strategy.

**Legitimacy and Resource Flows**

Several researchers (Ashforth and Gibbs, 1990; Deegan, 2002; Suchman, 1995) agree with Pfeffer and Salancik (1978, 2003) that legitimacy is simply like any resource that organizations must obtain from their environment. In contrast, Hybels (1995) criticizes such assumption as presenting a tautological relationship between resource acquisition and legitimacy. Hybels (1995) notes that legitimacy is said to be obtained as resources are transferred from others to the focal organization, yet legitimacy is required before external entities will confer any resource. Legitimacy is a symbolic representation of the evaluation of an organization, which has no material form. Thus, Hybel (1995)
emphasizes that legitimacy is better characterized as both part of the context for exchange and a by-product of exchange rather than viewing legitimacy as something ready for exchange among organizations.

In addition, Hybels (1995) appealed to the asserted relation between resources and organizational legitimacy forwarded by Terreberry (1968) many years ago. Terreberry (1968, p. 608) states “[t]he willingness of firm A to contribute to X and of agency B to refer personnel to X, and firm C to buy X’s product testifies to the legitimacy of X.” From this perspective, I agree that resource flow is a representation of legitimacy—an observable measure of an abstract concept— and I also see the need to understand the roles played by several organizational constituencies whose interactions with the focal entity may inform us of the legitimate status of the firm. Hybels (1995, p 243) states that “to build a well-grounded theory of the legitimation of organizations, it is necessary above all to identify the critical actors, both internal and external, whose approval is necessary to the fulfillment of an organization’s functions”. How is this concept similar or different from the notion of stakeholder theory? Are these two concepts complementary to one another? With these questions in mind, I examine the relationship between legitimacy and the different stakeholders who confer it.

**Legitimacy Theory and Stakeholder Theory**

Stakeholder theory (Freeman, 1984) like the previously discussed theories is also concerned with the relation of organizations and their environment. As the social expectation of business corporations changed, stockholders were no longer the only constituent group in a firm’s environment. The term stakeholder first appeared in an
internal memorandum at the Stanford Research Institute in 1963, as a concept used to
distinguish stockholders from any other group or individual who was also relevant to the
survival of the firm (Freeman, 1984). Freeman (1984) defines a stakeholder as any
individual or group who can affect or is affected by the achievement of a firm’s
objectives. From a strategic management point of view, Freeman (1984) argues that in
order to receive the necessary support for the continued survival of the firm, managers
not only have to understand the needs and concerns of these stakeholder groups but also
have to incorporate these needs and concerns into their strategic program.

Not all stakeholder groups have direct influence on the operation of the firm. Thus stakeholders are separated into primary and secondary categories (Clarkson, 1995). The primary category includes shareholders, investors, employees, customers, suppliers, communities and governments whose continued participation is necessary to the survival of the firm. The secondary stakeholder category includes groups or individuals who influence or are influenced by the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival (e.g., special interest groups and the media). Prior research sometimes questions the necessity of incorporating the needs and concerns of the secondary stakeholders into a firm’s managerial planning (Jensen, 2002). Freeman (1984) states that secondary stakeholders may be less relevant today, but if ignored, they could become a powerful group tomorrow and may have a direct effect on the firm’s operation. For instance, Nestle suffered the consequences of a product boycott because the firm ignored the request from one of its secondary stakeholder groups, a social interest group, who wanted a total ban on improper marketing of infant formula in third-world countries (Sturdivant and Robinson, 1981). Therefore, an
organization must willingly undertake actions to negotiate with and to satisfy the expectations of as many stakeholders as possible. Clearly, stakeholder theory does not embrace a passive approach for management.

**Modification in Perspective**

Legitimacy is conferred upon the organization by its observers, which is like beauty is in the eyes of the beholder. Since legitimacy is judged subjectively by various stakeholders, the same organizational activity would not necessarily be judged equally by different stakeholder groups. From this perspective, whether or not the objectives and actions of an organization are legitimate essentially depends upon the value systems of stakeholder groups rather than the value system of the larger society.

While legitimacy theorists usually emphasize the importance of compliance with the expectations of society, stakeholder theory (Freeman, 1984) explicitly recognizes that society is composed of different constituents (stakeholders) who have different and even conflicting expectations of firms. While resource dependence theory concentrates on external organizations with power and resource, stakeholder theory acknowledges that stakeholder groups (both external and internal) have unequal power and ability to influence the actions of an organization (Mitchell et al., 1997). Stakeholder theory explicitly recognizes the expectation differences among various groups and stresses the importance for organizations to meet the expectation of as many stakeholder groups as possible (Freeman, 1984).

Gray et al. (1995) and Deegan (2002) both suggest that this change in analytical focus may be evidenced by Lindblom’s (1994) most cited legitimacy paper. She
discusses the concerns of the “relevant publics” rather than the expectations of the “society”, which may indicate that proponents of legitimacy theory are shifting the focus from the value system of the larger society to the expectations of particular groups within society. The scope of stakeholder theory has further narrowed to focus on how firms can strategically manage the demands of particularly powerful stakeholders (see Ullman, 1985; Roberts, 1992; Neu et al., 1998).

Although Freeman (1984) attempts to present stakeholder theory as a normative, strategic management practice for contemporary organizations, the stakeholder approach offers no concrete, unarguable prescriptions for what a corporation should stand for. According to Freeman (1984, p 210), the stakeholder approach “presents a framework for discussing a host of differing moral views”, and does not prescribe particular positions of moral worth to the actions of managers and the board. From this perspective, stakeholders could confer different conceptions of legitimacy to an organization depending on the value system of the particular stakeholders. Suchman (1995) suggests three different legitimacy conceptions. Pragmatic legitimacy rests on the self-interested calculations of the stakeholders who do the evaluation, which means some stakeholder groups may see particular organizational actions or policies as legitimate as long as these actions or policies are in their favor. Moral legitimacy reflects a positive normative evaluation of the organization and its activities, in which stakeholders base their judgments on whether a given activity is “the right thing to do”, rather than whether the activity simply benefits them. Cognitive legitimacy is based on cognition rather than on interest or evaluation. Organizations are perceived to be cognitively legitimate if their structures and activities follow established pattern of other organizations that are
comprehensible and familiar to the stakeholder groups. The three conceptions of legitimacy differ based on the value standards used by stakeholders to confer legitimacy.

**Communication and Compromise**

Given this dynamic and complex nature of legitimacy, both Dowling and Pfeffer (1975) and Lindblom (1994) propose that if an organization perceives that its legitimacy is in question, the organization can attempt to change or manipulate the perceptions of those who confer legitimacy. Because legitimacy is always subjectively judged and conferred by others (Suchman, 1995), legitimation strategies in concept should be based upon the organization’s understanding of stakeholder perception. Freeman (1984, p166), however, states that most organizations tend to tell their side of the story without knowing what the stakeholders’ expectations are, and “this approach often simply incites a stakeholder group to action.” Inaccurate assumptions in legitimation strategy may trigger a series of unexpected actions from stakeholder groups, which may eventually decrease legitimacy (Ashforth and Gibbs, 1990).

The concept of “stakeholder” is introduced as one way to revise the conceptual maps of managers\(^\text{11}\). Within the current corporation structures, the key to successful interaction with stakeholders requires the willingness to communicate and compromise (Freeman, 1984). If the results are to be meaningful, communication processes with stakeholders must be two-way, in which the positions of both sides are understood by one

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\(^{11}\) Freeman (1984, p249) states that the main conceptual maps that the managers need to revise are the fiduciary to stakeholders and the notion of distributive justice, and emphasizes that “the sledding is rough, but the question cannot be avoided.”
another. Although proponents of legitimacy theory also emphasize the importance of communication (Suchman, 1995), they seem to be more interested in the strategic use of unilateral corporate communication such as environmental disclosures.

Most importantly, Freeman (1984) stresses the willingness of compromise rather than the intention of manipulation. The central idea of communication is “compromising”, which involves “giving up certain things to get other things” (Freeman, 1984, p169). The processes of communication provide managers the opportunities to explicitly recognize the possible overlapping interests between the company and key stakeholders. Managers, therefore, have a clear understanding of what they need to give up to get stakeholder support or action on an issue. Freeman (1984) states that from time to time, managers must take risks and commit themselves to positions that run counter to past company policy or even common practice. The willingness to do this is the foundation to successful stakeholder management.

Corporate managers engaging in stakeholder management via environmental disclosure seem not really inclined to social change. For instance, based on 355 sets of projected/actual spending drawn from 10K reports, Patten (2005) reports that actual spending for pollution abatement and control equipment was lower than the projected amount for more than 75% of the observations. This suggests that business corporations are manipulative rather than sincere in their environmental disclosure communication practice. This process of attempted legitimation is more likely to reinforce the status quo of traditional practice. On the other hand, the concept of compromise forwarded by stakeholder theory may provide organizations with a rationale for attending to their social acceptance and not only their economic profit.
The concept of compromise may explain why business corporations are voluntarily undertaking a number of social activities such as charitable contributions, employee matching gift programs, and community event sponsorship. While the phenomenon of change in social expectations of business is a complicated one, not reducible to a single cause, I suggest the process of compromise may in turn provide the momentum for change in social expectation. For instance, the initiation of certain community event sponsorships could be a compromise between a business entity and its community stakeholder group. As this practice gains its social acceptance, it may become a legitimized norm for business entities that operate in the community and become a societal-level expectation.

An Application of the Current Study

Friedman (1962) and Bakan (2004) argue the only social responsibility of business organizations is to make profit. From this perspective, researchers would argue that business organizations should only undertake social activities if such activities would enhance shareholder value. Yet, corporations voluntarily undertake many social activities that may not necessary bring direct financial benefits to the firms (Hillman and Keim, 2001). Corporate executives could have a variety of motivations for voluntarily undertaking certain socially desirable activities. Nonetheless, within the domain of corporate social responsibility/ performance (CSP) research, a simplistic connection between social performance and economic benefit is usually implied (Griffin and Mahon, 1997; Ullmann, 1985; Wood and Jones, 1995). After decades of research, however, two critical questions remain unanswered.
First, is there a positive relationship between corporate social and financial performance? If the answer is yes, then why are the results of more than three decades of research incompatible (Griffin and Mahon, 1997; Margolis and Walsh, 2001)? If the answer is no, then how do managers rationalize their decisions? Second, why do the numbers of social activities undertaken by business organizations seem to be growing (or why are societal-level expectations for business’ social activities increasing)? Limited by an economic focus and assumed stockholder primacy, Hillman and Keim (2001) admit that there is a gap in our understanding of the interactions between business corporations and society, especially, in the case of social issue participation.

This paper now advances two propositions that provide partial answers for these questions. I conclude that the continued existence of any social institution, including business entities, is conditioned by its societal legitimacy. Business organizations are perceived to be legitimate when their actions are congruent with the expectations of those who confer the status of legitimacy. Based on this theoretical argument, economic performance and efficiency appear to be necessary but not sufficient to ensure firm survival and growth.

Prior research on corporate social and financial performance evidently has overlooked the fact that not all firms start a similar social activity at the same time. Why do some firms choose to initiate social programs and others are just simply following the trend? This is an important variable because the primary motivation of firms to initiate or adopt a particular social activity may be reflected in the timing of such undertaking. Thus, the relationship between corporate social performance and economic benefit may be dependent upon the timing to undertake a particular social activity among different
firms. For instance, as a socially desirable activity spreads, a threshold is reached beyond which adoption provides legitimacy rather than improves financial performance (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). This economic benefit is diminished when other organizations in the field start to mimic the actions of these leaders. Consequently, these activities began to gain social acceptance and eventually become a common expectation of doing business in the field. Hence:

PROPOSITION 1. Legitimacy is the sole reward when social activities undertaken by business corporations merely meet well-established social expectations.

It is possible for some managers to rationalize certain business social activity because those activities are consistent with the role and legitimacy of business organizations (Margolis and Walsh, 2001). In most capitalist societies, this view is unlikely to be the dominant belief because financial responsibilities are of fundamental concern of most business institutions (Carroll, 1979). DiMaggio and Powell (1983) argue that early initiators of innovative social activities are commonly driven by a desire to improve economic performance. Examples of this practice include the Apple Computer educational technology grants for schools, or the American Express credit card donation project for the Statue of Liberty. When the social performance of business entities is above and beyond expectation of their targeted stakeholders, the relevant stakeholders are theorized to usually reward such actions. Typically this benefit is engaged by early adopters of a sound practice. Thus:
PROPOSITION 2. There is a short-term economic benefit available when social activities initiated by business corporations exceed the expectations of their targeted stakeholders.

In sum, some business entities initiate social activities for economic benefit, and others may undertake such activities to manage their societal legitimacy. As this situation is continually repeated, momentum spirals to broaden the social expectation of business corporations.

**Discussion and Closing Remarks**

The purpose of this paper was to investigate the overlapping perspectives of legitimacy theory, institutional theory, resource dependence theory, and stakeholder theory and to integrate these theories into a more cohesive meta-theory of the organization-society interface. Several scholars recognize these theories share some common characteristics, yet how they are really related is unclear. This current study presents the relationships among the theories explicitly (figure 1-1). Legitimacy theory states that legitimacy is a status or condition that is achieved when the value system of an organization is congruent with the value system of the larger society. Organizations seek this status through the process of legitimation. This broad societal-level view, however, is primarily based on abstract concepts and reason. As a result, it does not offer any solution on how the congruency could be practically obtained or empirically examined. Depending on the purpose of legitimation, there are primarily two levels of legitimacy---
institutional legitimacy and organizational (or strategic) legitimacy. The process of seeking institutional legitimacy is directly related to institutional theory. The concepts of resource dependence theory and stakeholder theory are more relevant to the process of strategic legitimacy.

Institutional theory proposes that the institutionalized value patterns of a social system are integrated into the concrete behaviors of its institutions. The scope is limited to the patterns of established institutions as the symbolic representation of the social value system. Institutional theorists believe that conformity to long-established institutional norms is the path to institutional legitimacy. This process of legitimation in turn also reinforces the legitimacy of the social value system. As Proposition 1 suggests, societal legitimacy is the reward when activities undertaken by organizations are merely in conformity to institutionalized social expectations.

Instead of focusing on the social value system or institutionalized social patterns, resource dependence theory adopts a more narrow perspective. The theory focuses on how organizations collaborate with other powerful external organizations that control vital resources required for continued existence. Most importantly, I agree with Hybels (1995) that resource flows are an observable representation of the abstract concept of legitimacy. From this point of view, legitimacy and resources are much the same.

Finally, stakeholder theory recognizes that legitimacy is subjectively evaluated according to the value standards of stakeholder groups, rather than the value system of the larger society. Freeman (1984) emphasizes that the willingness to communicate and compromise is the required solution to stakeholders’ approval and support. As suggested by Proposition 2, organizations may receive a short-term economic return if the
performance of their initiated activities is beyond the current expectations of their stakeholders. When other organizations begin to imitate these leaders, soon a threshold is reached. As a result, implementation of such imitative activities confers legitimacy rather than economic returns. This course of action, in part, gives force to the changes of social expectation (legitimacy).

The analysis shows that although these theories are different in their levels of perspective, and levels of specificity and resolution, they are much the same. They have a common goal--to explain how organizations ensure survival. Most importantly, they realize that financial performance and efficiency may be necessary but not sufficient for organizations to reach this objective. This commensurability provides a strong theoretical foundation to sustain and advance social and environmental accounting research, because firms’ participation in social activities is indispensable for them to maintain their societal legitimacy.

These theories are important to the field of accounting and organizational research, and this analysis reveals that it is more meaningful to consider them as components of a greater whole rather than to treat them as totally unrelated concepts. This meta-theory is capable of making compatible interpretations of organization-society relationships and issues from various perspectives because it embraces different levels of perspectives and resolution. The integration of these theories provides us with a better understanding of each individual theory and a broader view of the organization-society interface.

This integrated perspective presented in this paper, however, is somewhat simplistic and not uncontestable. In order to reduce the complexity, I have tried to limit my focus to the original notions of these theories. This choice unavoidably has omitted
many profound insights regarding the implication of these theoretical concepts.

Nevertheless, this paper is the first study to demonstrate the possibility of incorporating several theories into a meta-theory, and reveals the usefulness of investigating a particular social occurrence through more than one theoretical point of view.
REFERENCES


Legitimacy Theory
Scope of perspective: Social value system
Focal point: If the values system of an organization is congruent with the value system of society
Rationale of actions: To meet social expectations or to gain social acceptance

Institutional Theory
Scope of perspective: Institutionalized social structures
Focal point: How to conform to the established patterns of other similar social institutions
Rationale of actions: To gain legitimacy, and to attract resources

Resource Dep. Theory
Scope of perspective: External organizations
Focal point: How an organization can gain access to relevant resources
Rationale of actions: To obtain vital resource for survival and growth

Stakeholder Theory
Scope of perspective: Internal and external stakeholder groups
Focal point: How a firm can balance the conflicting demands of various stakeholders
Rationale of actions: To obtain approval from powerful stakeholders

Figure 1-1 Relationships among Theories
STUDY TWO
CORPORATE CHARITABLE CONTRIBUTIONS:
A CORPORATE SOCIAL PERFORMANCE OR LEGITIMATION STRATEGY?

Introduction

The relationship between businesses and society has been a subject of much discussion. The general public does not only require business entities to undertake their economic function legally and ethically but also expects corporations to voluntarily share some of their resources with the society in which they operate (Carroll, 1979; 1991; World Business Council for Sustainable Development (WBCSD), 2005). In addition to large firms, shareholder activists tend to target firms that have poor employee practices, product safety issues and environmental concerns when demanding changes in corporate practices (Rehbein, Waddock and Graves, 2004). Because firms have limited resources, how corporate executives rationalize their philanthropic behavior and their other business-related social performance activities is under constant examination. Moreover, whether or not corporations should be required to disclose their social activities such as charitable contributions in their financial statements is an ongoing debate (e.g. Gray et al., 1997; Elkington, 1999; Gillmor and Bremer, 1999) among many stakeholder groups.

Prior management research in the domain of corporate social responsibility/performance positions corporate charitable contributions at the top of the pyramid of corporate social responsibility (Carroll, 1979; 1991) and as a primary outcome of corporate social performance (Wood, 1991; Griffin and Mahon, 1997).
According to Carroll’s (1979) scheme of corporate social responsibility, discretionary responsibility such as corporate philanthropy is subject to a last in first out (LIFO) method of placement on a firm’s action inventory (Wood, 1991). Thus, business entities first fulfill their economic, legal and ethical responsibilities and then attend to their philanthropic affairs. In accordance with Carroll’s (1979) conceptual framework, corporate charitable contribution and firm-specific problems such as employee relations, product safety and environmental performance are expected to be negatively related. It is because the more resources a firm has to spend to improve their employee relations, product safety and environmental performance, the less resources the firm has left over for philanthropy. If this view of corporate strategy is correct, then corporate charitable contributions would be a reasonable indicator of corporate social performance.

On the other hand, Ashforth and Gibbs (1990), Dowling and Pfeffer, (1975) and others, have argued that charitable contributions are a form of legitimating behavior, and that the amount of contributions would be expected to vary over contexts or over time to the extent that legitimacy is more or less problematic. This argument is consistent with environmental disclosure research results documenting that firms who have a poorer environmental performance records tend to make more extensive mitigating environmental disclosures (Patten, 2002). Based on this legitimation assumption, corporate charitable contributions and firm-specific problems with employee relations, environmental performance and product safety are expected to be positively related.

If the legitimation perspective is correct, then the perceived merit of corporate charitable giving could be misleading. Corporations that donate a substantial amount of
resources may be perceived as socially responsible firms, yet in fact they may be culpable when their other socially related business practices such as reduction in workforce, and negative environmental impact are concurrently examined. Most importantly, this legitimation practice can lead to unjustified resource allocation and hinder social progress (Puxty, 1991) because currently corporations are rewarded, via tax deduction and other recognition, for their donations regardless of their other business-related social performance. As a result, the public loses the tax revenue that would be received if not for the deductibility of corporate charitable contributions. Moreover, the public eventually must cope with certain costs that are transferred by detrimental business practices, such as harmful environmental impact of production and unsafe products, to society. Societal resources may be wrongfully rewarded to corporations that in reality should be penalized if their other actions are also accounted for.

The purpose of this study is to explore whether corporate charitable contributions are representations of corporate social performance as theorized by Carroll (1979; 1991) and Wood (1991) or corporate legitimation actions as theorized by Dowling and Pfeffer, (1975). To date, no published study has directly examined the relations between charitable contributions and business-related social issues, nor has a published study simultaneously investigated these phenomena from different conceptual viewpoints. This study extends existing research by examining these relations through the juxtaposition of two different theoretical perspectives and by using the Kinder, Lydenberg, Domini (KLD) corporate social performance ratings to empirically test predictions derived from each perspective.
Furthermore, the results of this current study are relevant to the ongoing efforts to extend business reporting and accounting into a wider context (e.g. Gray et al., 1997; Elkington, 1999; Gillmor and Bremer, 1999). From a shareholder perspective, the U. S. Congress proposed an amendment that requires public corporations to disclose information regarding their charitable contributions (Gillmor and Bremer, 1999). The proposed legislation states that shareholder access to corporate information is essential for the proper functioning of U. S. securities markets. This proposed legislation focuses primarily on the ownership of corporations. Should shareholders be the only group who are entitled to corporate information? From a broader perspective, Gray et al., (1997) and others advocate for social accounting that emphasizes the rights for various stakeholders. These researchers argue that all stakeholders have the right to information, and organizations have the duty to provide an account of their actions. They are not concerned with whether stakeholders use the information or how stakeholders use it. Gray et al., (1997) describe social accounting as the presentation of information about organizational activities to parties other than directors and controllers of the reporting organization. Although corporate reporting is traditionally financial in nature, the increased use and application of the term “triple bottom line” (Elkington, 1999) in the business world indicates that financial reporting alone is insufficient to meet the needs of various stakeholders. Currently, some corporations voluntarily apply the triple bottom

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1 This proposed legislation is still in the U. S. Congress, and the preliminary response from the Securities and Exchange Commission regarding this proposal is that the amount of charitable contributions is not material.

2 A wide variety of terms have been employed in social accounting such as social audit, social responsibility accounting, corporate social reporting, ethical audits and others.
line approach to report their financial, social and environmental performances and link their practices to the idea of sustainable development.

The findings of this study can provide insights into the usefulness of the various reporting proposals. If charitable contributions are representations of corporate social performance, charitable contribution disclosure within financial statements, as proposed by the Congress, can be the first step to stakeholder rights for information. In contrast, if charitable contributions are legitimation tactics used by corporations, requirements for corporations to report their financial, social, and environmental performances simultaneously in one statement seem more appropriate.

**Conceptual Framework and Hypothesis Development**

Carroll’s (1979) conceptual model of corporate social performance, and Dowling and Pfeffer’s (1975) framework of organizational legitimation appear to be instructive in explaining organization -society interactions. Yet, I argue that these two conceptual schemes postulate competing hypotheses regarding the relationship between corporate charitable contributions and business-related issues such as the management of employee relations, product safety and environmental performance. The conceptions of these two frameworks and their corresponding hypotheses are articulated below.

**Corporate Social Performance**

Carroll’s (1979) conceptual model of corporate social performance has set a foundation for corporate social responsibility and performance research (e.g. Wartick and
Cochran, 1985; Wood, 1991; Swanson, 1995). According to Carroll (1979), corporate social performance involves three components: (1) the identification of the domains of an organization’s social responsibility; (2) the development of processes to evaluate stakeholder demands; and (3) the implementation of programs to manage social issues. The first component, business social responsibility identification, is necessary because different responsibilities may be evaluated by different stakeholder groups in different ways and trigger dissimilar management actions. For instance, shareholders may be most interested in the financial returns of their investment. In order to meet their shareholders’ expectation, corporate managers may choose to reduce their direct labor cost by outsourcing part or all of their assembling work overseas. Intentional layoffs of domestic laborers, on the other hand, may not be considered an ethical management practice for other stakeholder groups, especially for employees and their families. Thus if corporate managers are not only concerned with their financial responsibilities, outsourcing may not be the best choice. Carroll (1979) divides business social responsibility into four categories: economic, legal, ethical, and discretionary responsibilities.

**Economic responsibilities.** The first and foremost social responsibility of business is economic in nature, which is to produce goods and services that society wants and needs, and any other legally sanctioned actions required to carry out these functions. Unless the business fulfills its economic functions, then it will neither have the resources to perform other roles nor will it survive long enough to be an agent for any form of societal change. A similar notion has also been forwarded by Bakan (2004) and Friedman (1962).
Legal responsibilities. Society grants business institutions the right to reach their economic goals and explicitly requires businesses to fulfill these goals within the framework of legal requirements. However, the line between economic and legal responsibilities of business cannot be easily drawn. For instance, product safety and the ramifications of production processes on the health of employees would each be considered matters of economic and legal responsibilities.

Ethical responsibilities. Though less well defined, society has expectations of businesses over and above legal requirements. Ethical responsibilities call for business corporations to make their policies and practices consistent with societal values in such matters as fair employment practices and a harmless environmental impact of production. Workforce reduction, for instance, is a legally acceptable business practice yet it could be ethically controversial (Cascio et al., 1997).

Discretionary responsibilities. In Carroll’s framework, discretionary responsibilities are socially desirable actions taken by business entities that are beyond their economic, legal and ethical obligations. The public anticipates business corporations to voluntarily contribute their financial and human resources to the general improvement of society. Activities such as philanthropy and community leadership are examples of discretionary responsibility. Because Carroll (1979) defines these activities as discretionary, businesses may choose, or have discretion over the type, timing, and extent of their involvement.
Hypotheses

Carroll (1979) emphasizes that any given business action could have economic, legal, ethical, or discretionary motives embodied in it, but actions can be categorized as primarily having one of these four motivations. Although all of these business responsibilities may be simultaneously expected, business history reports that companies placed an initial emphasis on the economic, then added legal responsibilities, and later showed a concern for their ethical and discretionary responsibilities (Carroll, 1979). Corporate executives are subject to multiple and even competing demands from various stakeholders (Weaver, Trevino and Cochran, 1999). Several studies investigate how managers prioritize their limited resources to fulfill the economic, legal, ethical, and discretionary expectations placed on their organizations. Aupperle et al., (1985) surveyed 241 corporate executives to test the relative values or weights of each of the four components of Carroll’s (1979) framework. The relative degrees of importance the executives place on each component were: economic = 3.5, legal = 2.54, ethical =2.22 and discretionary = 1.30. The empirical results also suggest that the more concerned a firm is with its economic responsibilities, the less interest it has in its ethical and discretionary responsibilities. A similar prioritization result was also reached by Ruf et al., (1993) when they applied an analytic hierarchy process to determine the relative importance of corporate social performance. Thus, among these four types of responsibilities, discretionary responsibilities are weighted as being least important. This consistent finding led Wood (199, p. 698) to argue that discretionary responsibilities such as corporate philanthropy are “subject to a last in, first out (LIFO) method of placement
on a firm’s action inventory.”

More recent empirical work (Rehbein, Waddock and Graves, 2004) reports that in addition to large firms, companies that have problems over employee relations, product safety issues and environmental performance are more likely to be targeted for operation improvement by shareholder activists. According to Carroll’s (1979) scheme, favorable employee relations are important for a business to perform its economic functions. In order to fulfill its economic responsibilities and to reduce the risk of activists’ criticism, firms that have employee relationship problems are theorized to devote more of their resources in employee relationship improvement, and therefore have fewer funds available from which to make charitable contributions. Thus, the following hypothesis is offered.

H1a: The amount of corporate charitable contributions and firm-specific problems with employee relations are negatively related.

Tinker and Niemark (1987, p.84) state that “the public, in general, became increasingly aware of the adverse consequences of corporate growth”. The society’s concerns of the negative environmental impacts of business production and development are evidenced by the establishment of the Environmental Protection Agency and other environmental related policies and regulations. Some specific examples are the implementations of the Compensation and Liability Act of 1980 (the “Superfund”) and Toxic Release Inventory (Environmental Protection Agency, 2004). Compliance with
environmental regulations is a legal responsibility. Currently, the U. S. Securities and Exchange Commission (SEC) regulations and accounting standards require publicly traded corporations to disclose environmental related information in their financial statements and 10K reports (Berthelot et al., 2003). In addition, the results of a national survey of shareholders who own at least 100 shares of one stock on either the New York or American Stock Exchange indicate that shareholders prefer companies to spend money on environmental pollution prevention rather than to give to charities (Epstein, 1993). This result is consistent with Carroll’s (1979) responsibility scheme; corporate executives consider fulfillment of their legal responsibility is more important than charitable giving. The discussion leads to the following hypothesis.

H1b: The amount of corporate charitable contributions and firm-specific problems with environmental issues are negatively related.

As previously noted, any given business action may result from several business motives. Product safety, for example, is an ethical as well as a legal responsibility under current regulations. Businesses are expected to manufacture safe products, and under the requirements of the Consumer Product Safety Commission (CPSC), the Food & Drug Administration (FDA), the National Highway & Traffic Safety Association (NHTSA), and the Environmental Protection Agency (EPA), product safety is also a legal requirement. Product safety concerns would adversely affect the ability of firms to carry...
out their economic functions. Epstein (1993) reports that product quality and safety are perceived by shareholders as the top business responsibility (91%) over environmental protection (85%) and charitable contributions (36%). In accordance with Carroll’s (1979) framework, business managers should first allocate their resources to improve the safety and quality of their products because this choice meets their economic, legal, and ethical obligations. Then they may consider their philanthropy expectations such as charitable donations. Thus, the following hypothesis is postulated.

H1c: The amount of corporate charitable contributions and firm-specific problems with product safety are negatively related.

**Legitimacy and Legitimation**

An alternative view of charitable contributions is from the perspective of legitimacy theory. Study One of this dissertation, examining the commensurability of legitimacy theory, institutional theory, resource dependence theory and stakeholder theory, concludes that although these theories are different in their levels of perspective, specificity and resolution, they share one common goal --to explain how organizations survive and endure in a changing society. And most importantly, these theories realize that financial performance and efficiency may be necessary but not sufficient conditions for organizations to reach of objective of survival. The continued existence and development of any social institution including business entities, is conditioned upon its
societal legitimacy. Organizations are perceived to be legitimate when their goals, methods of operation and outcomes are congruent with the expectations of those who confer legitimacy (Lindbolm 1994).

Firms are expanding efforts to manage their legitimacy because it “helps to ensure the continued inflow of capital, labor and customers necessary for viability… it also forestalls regulatory activities by the state that might occur in the absence of legitimacy… and pre-empts product boycotts or other disruptive actions by external parties…” (Neu et al., 1998, p.265). How organizations manage their legitimacy has been and still is, an interest of academic inquiries (e. g. Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Ashforth and Gibbs, 1990; Lindbolm 1994 and Suchman, 1995), and many inquiries have applied or extended the legitimation strategies forwarded by Dowling and Pfeffer (1975).

Dowling and Pfeffer (1975) state that organizations have three basic methods available to manage their legitimacy: (1) the organizations can modify their goals, methods of operation, and performance in conformity with the prevailing definitions of legitimacy, (2) the organizations can attempt to alter the definitions of social legitimacy to the extent that social expectation is congruent with the current practices of the organization, and (3) the organizations can make an effort to identify or associate themselves with symbols, values, or institutions that have a strong perceived image of social legitimacy. The implementation of a conformity strategy is relevant to institutionalization and as DiMaggio and Powell (1983) note, this process of legitimation leads to institutional isomorphism.
Conversely, instead of actually changing the ways organizations are conducted, the organization might choose the strategy of ceremonial conformity (Meyer and Rowan, 1977). Organizations might adopt certain highly visible and relevant practices that are consistent with social expectations while leaving the essential operations of the organization intact. This legitimation strategy is enacted only for its symbolic quality. From the management perspective, Ashforth and Gibbs (1990) are concerned with the effect of legitimation and argue organizations run the risk of “protesting too much” if legitimation actions are taken only based on organizations’ self evaluation of their legitimacy status. The differences between corporate manager’s understanding of their legitimacy status and the expectations of those who confer the status are called “legitimacy gaps” (Sethi, 1979).

Wartick and Mahon (1994) suggest that legitimacy gaps may arise for several reasons. First, corporate performance changes while societal expectations of corporate performance remain the same, or societal expectations of corporate performances change while corporate performance remains the same. In this situation, what was once acceptable corporate practice becomes problematic. Second, both corporate performance and societal expectations may change, but they either move in different directions, or they move in the same direction but with a time lag. In addition, empirical evidence also shows the reputation or legitimacy of the organization, or the industry would be threatened if particular external or internal adverse social or environmental events occurred (Patten, 1992, Deegan et al., 2000).
Lindblom (1994) applied Dowling and Pfeffer’s (1975) legitimation strategies to investigate the function of corporate social and environmental disclosure. She suggests that in addition to actual change in organizational practices, change in the perceptions and expectations of those who confer legitimacy, firms can also manipulate perception by deflecting attention from the issue of concern to other related issues of strength. For instance, corporations may emphasize their philanthropic actions (Williams, and Barrett, 2000) and pollution control initiatives (Patten, 2005) in their reports and downplay their records of workforce reduction or EPA violations.

Prior work in accounting research demonstrates that firms tend to use social and environmental disclosures as a strategic tool to manage their relevant stakeholders (Ullmann, 1985; Roberts, 1992; Neu et al., 1998) and symbolically repair their legitimacy (Patten, 2005). There are several concerns associated with such a practice. First, environmental disclosure information not only lacks value, it can be purposely misleading (Deegan, 2002; Patten, 2005). Second, managers may provide corporate social responsibility information as a method to manipulate their stakeholders, not to meet societal expectation for accountability. This manipulative practice could lead to unjustified resource allocations and eventually jeopardize social progress (Puxty, 1991) because the public may wrongfully reward resources to organizations that indeed should be penalized for their illusive behaviors.
Corporate charitable contributions and legitimation

Social and environmental disclosure, however, is only one of many potential tools that firms can use to manage their legitimacy (O’Donovan, 2002). Corporate charitable contributions have been theorized as an important legitimation strategy used by corporations. Ashforth and Gibbs (1990), Dowling and Pfeffer, (1975) and others, state that charitable contributions are a form of legitimating behavior, and the amount of contributions would be expected to vary over contexts or over time to the extent that legitimacy is more or less problematic. This theorization is consistent with environmental disclosure research findings; firms that have a poor environmental performance record tend to disclose more than their better performing counterparts (Patten, 2002). If corporate charitable contributions and environmental disclosure are both legitimation strategies, firms that have problems with their social and environmental practices are theorized to use their charitable contributions as an attention deflecting tool to redirect concern away from the issues (Lindblom, 1994), and attempt to minimize the negative effect on their legitimacy. Thus, in contrast with the corporate social responsibilities perspective (Carroll, 1979; 1991), if business entities using charitable contributions to manage their legitimacy status, their contributions could be increased when their legitimacy is in question. Firm legitimacy becomes problematic when firms have poor employee relations, environmental troubles and product safety issues (Rhebein, Waddock, and Graves, 2004).
**Hypotheses**

*Employee relations.* Employees are vitally important primary stakeholders. Research findings indicate that firms that have good relationship with their employees are rewarded with higher productivity and better financial performance (e.g., Becker and Gerhart, 1996; Huselid, 1995; Huselid et al., 1997; O’Reilly and Pfeffer, 2000). Managers are believed to be generally cautious in their employee practices. However, management decisions such as layoffs and the underfunding of employee pension plans may not only jeopardize employee relations but also turn business choices into significant social issues. Cascio et al. (1997) and Palliam and Shalhoub (2002) document that the expected positive economic results of downsizing are often elusive. Moreover, the public expects corporations not only to be responsible to stockholders, but also to employees and the society in which they are a part (WBCSD, 2005). Layoffs and underfunding employees’ pensions penalize society by shifting the economic burden from business entities to the public, and as a result, corporate legitimacy is threatened. In addition, Zyglidopoulos (2004) reports that corporate legitimacy is especially questioned when firms are financially sound prior to downsizing. These types of management decisions attract public attention, for instance, the case of AT&T was discussed on the Public Broadcasting Service’s (PBS) *Newshour* (PBS, 1996). According to Lindblom’s (1994) attention deflecting strategy then, firms that have poor employee relations would be more likely to make charitable donations than firms that have better employee relations. Thus, the following hypothesis is postulated.
H2a: The amount of corporate charitable contributions and firm-specific problems with employee relations are positively related.

**Environmental concerns.** Prior accounting research provides evidence that legitimation is one primary motivation for firms’ environmental disclosures (e.g. Deegan et al., 1996; Patten, 1992, 2002; Neu et al., 1998). Patten (2002) documents that corporations which have poor environmental performance tend to make more extensive mitigating environmental disclosures than their better performing counterparts. In addition to using environmental reporting as a legitimation instrument, corporations can also use their charitable contributions as a complementary means to repair their legitimacy. Williams and Barrett (2000), for instance, examine the influence of corporate charitable giving programs on the link between the number of EPA and OSHA violations committed by a firm and its public image. The results indicate that although a firm’s public image can be diminished through its violation of environmental and labor regulations, the extent of the decline in public image is reduced through charitable giving. Charitable contributions appear to offer corporations a partial remedy for repairing their legitimacy. Thus, the following hypothesis is offered.

H2b: The amount of corporate charitable contributions and firm-specific problems with environmental issues are positively related.
Product safety. Thousands of products are manufactured and used by consumers every year. The public in general expects and relies on business corporations to manufacture, import, and transfer safe products. However, each year many products such as furniture, appliances, children’s products, drugs and even foods are recalled, withdrawn or regarded unsafe. Product safety is not only a business concern but also a societal issue. Unsafe or faulty products can create danger and cause injuries. For instance, the CPSC (2005) reports that more than two hundred thousand (206,500) toy-related injuries were treated in U. S. hospital emergency rooms in 2003. The government agencies such as CPSC and FDA publicize the recall of a harmful or defective product on their websites when they believe the public needs to be alerted about a serious hazard. The publicity of such events damages corporate legitimacy. In addition to removing unsafe products from the market, to compensate harmed individuals, corporations are theorized to use their charitable contributions as a means to partially mitigate their legitimacy loss.

H2c: The amount of corporate charitable contributions and firm-specific problems with product safety are positively related.

Method and Research Design

I test the hypotheses by developing an empirical model of corporate charitable contribution. The model is based on prior research concerning the determinants of
corporate charitable contribution. The data sources and analyses used to test each hypothesis are discussed below.

The overall empirical form of the model is stated as:

\[
\text{ChaCont}_{it} = a_1 + b_1(\text{EmpRel}_{it}) + b_2(\text{Env}_{it}) + b_3(\text{ProSaf}_{it}) + b_4(\text{IndCla}_{it}) + \\
\quad b_5(\text{Size}_{it}) + b_6(\text{Prof}_{it}) + b_7(\text{AdvExp}_{it}) + b_8(\text{Age}_{it})
\]

where

- \( \text{ChaCont}_{it} \) = the charitable contributions by firm \( i \) in period \( t \),
- \( \text{EmpRel}_{it} \) = the KLD employee relations concern score for firm \( i \) in period \( t \),
- \( \text{Env}_{it} \) = the KLD environmental concern score for firm \( i \) in period \( t \),
- \( \text{ProSaf}_{it} \) = the KLD product safety concern score for firm \( i \) in period \( t \),
- \( \text{IndCla}_{it} \) = the industry classification for firm \( i \) in period \( t \),
- \( \text{Size}_{it} \) = the total assets for firm \( i \) in period \( t \),
- \( \text{Prof}_{it} \) = the net income for firm \( i \) in period \( t \),
- \( \text{AdvExp}_{it} \) = the advertisement expenses by firm \( i \) in period \( t \),
- \( \text{Age}_{it} \) = the age of firm \( i \) at period \( t \).

The function of the charitable contribution model will be tested using Ordinary Least Squares (OLS) regression with group dummy variables. The results of Hausman tests will determine the best model for the data set. If the empirical results of test variables are significant with negative signs, then Carroll’s (1979) conceptual framework
of corporate social performance is supported. On the other hand, if the results of test
variables are significant but with positive sign, then Dowling and Pfeffer’s (1975)’s
legitimation proposition is confirmed.

**Dependent variable**

Charitable contributions. Each firm’s total amount of charitable contributions
during 1998-2000 were obtained from the Corporate Giving Directory (2003), the
Directory of Corporate and Foundation Givers (2000) and Tax Returns of private
foundations (990-PF). Both cash gifts (including direct giving and donation to corporate
sponsored foundations) and gifts in-kind (if applicable) were added during the period.
The resulting figures (in millions) are used as the dependent variable in the current study.

**Test variables**

Corporate social performance variables are obtained from the social research firm
Kinder, Lydengerg, Domini’s (KLD) Socrates database. Although several other
corporate social performance reports are available, the numbers of companies or the
dimensions of corporate social performance covered by these reports are limited. On the
other hand, KLD data offer several desirable qualities. KLD has quantifiable social
records of over 3,000 publicly traded U.S. companies across a range of dimensions

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3 Socrates is a proprietary database program issued by Kinder, Lydenberg, Domini & CO. Inc. that provides
access to KLD’s ratings and other data pertaining to the social records of over 3,000 publicly traded U. S.
companies.
pertaining to business related social concerns. Moreover, KLD’s data have been used extensively in a growing body of largely management-based U.S. research on corporate social performance issues (e.g. Waddock and Graves, 1997a, 1997b; Griffin and Mahon, 1997; Agle et al., 1999; Berman et al., 1999; Greening and Turban, 2000; Hillman and Keim, 2001; Ruf et al., 2001; Waddock, 2003; Rehbein et al., 2004), and recently have also been applied in accounting research (e.g. Cho, Patten and Roberts, 2005). Most importantly, these data have been validated as the best currently available measurements of corporate social performance (Sharfman, 1996; Szwajkowski and Figlewicz, 1999). A complete and detailed description of the KLD rating system is available from Waddock and Graves (1997a, 1997b) and KLD’s website (www.kld.com).

The test variables used in the current study are KLD’s corporate performance rating for the Standard & Poor’s 500 (S&P) largest companies and another 150 publicly traded companies that are also included in the index. KLD separately assigns strengths and concerns across eight social performance dimensions. These dimensions are community, corporate governance, diversity, employee relations, environment, human rights, product, and others (KLD, 2003). Among these different dimensions, three measurements (employee relations, environment, and product safety) are relevant to and thus selected for the current study.

**Employee relations.** KLD analyzes corporate employee relations’ strengths and concerns based on an extensive evaluation of each company’s union relations, labor policy, employee benefit, employee involvement, and compliance with labor related regulations. High strength ratings are assigned to companies that (1) have strong history
of union relations; (2) have cash profit distributions or stock options available to the majority of their employees; and (3) have a strong retirement benefit program. On the other hand, high concern ratings are given to firms that (1) have a poor history of union relations; (2) have records of employee health and safety standards violations; (3) have reduced their workforce by 15% in the most recent year or by 25% during the past two years or have announcement of such reduction; and (4) have either underfunded pension or inadequate retirement benefits.

Environment performance. KLD assesses corporate environmental performance strengths and concerns based on the following criteria. Firms are given high strength ratings when they have excellent environmental planning, environmental impact minimizing procedures, or they take initiative to use environmentally-friendly natural resources. In contrast, high concern ratings are assigned to companies that have poor environmental law and regulations compliance records, a significant portion of their revenues generated from products or services that have negative environmental consequences, or have failed to keep up with industry-wide environmental preventive standards.

Product safety. Firms are given product strength ratings when they have national recognized quality programs or have provided products or services for the economically disadvantaged, or they are industry leaders for research and development. Conversely, companies are assigned high product concern ratings when they have recently been involved in controversies or regulatory actions pertaining to the safety of their products and services, or when they have accusations regarding advertising practices, consumer
fraud, or antitrust.

KLD assigns a score of zero, one, or two for each of the strength and concern areas. Because this study focuses on how corporate executives rationalize their philanthropic behavior while the firms have problems with employee relationships, product safety and environmental performance; the sum of each concern rating for the above three areas are used as the measurements for the independent variables. This is consistent with the study of Cho et al. (2005), as they investigate the relationship between the extent of firms’ environmental concerns and the amount of their political expenditures.

Control variables

Findings of prior studies in corporate social performance and charitable contributions have found significant relationships between industry classification, company size, profitability, advertisement expense, the age of a company and corporate donations. Accordingly, these variables should be controlled for in empirical tests. All control variable data are obtained from Compustat, except for industry classification and age.
Table 2-1 Descriptions of Variables

<table>
<thead>
<tr>
<th>Variable name (expected sign)</th>
<th>Description</th>
<th>Data source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent variable</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ChaCont (n.a.)</td>
<td>Charitable contributions of firm 1998-2000</td>
<td>Corporate Giving Directory, Directory of Corporate and Foundation givers, and Returns of Private Foundation (990-PF)</td>
</tr>
<tr>
<td><strong>Test variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee relations EmpRel (+/-)</td>
<td>Evaluation of employee relations concern scores 1998-2000</td>
<td>KLD</td>
</tr>
<tr>
<td>Environmental performance Env (+/-)</td>
<td>Evaluation of environmental concern scores 1998-2000</td>
<td>KLD</td>
</tr>
<tr>
<td>Product safety ProSaf(+/-)</td>
<td>Evaluation of product safety concern scores 1998-2000</td>
<td>KLD</td>
</tr>
<tr>
<td><strong>Control variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry classification IndCla (+)</td>
<td>IndCla =1 if firms in industries that rely more on consumer sales, public perceptions or are labor intensive, else IndCla = 0</td>
<td>Standard Industrial Classification Code</td>
</tr>
<tr>
<td>Company size Size(+)</td>
<td>Natural log of assets 1998-2000</td>
<td>Compustat</td>
</tr>
<tr>
<td>Profitability Prof (+)</td>
<td>Return on assets of firm 1998-2000</td>
<td>Compustat</td>
</tr>
<tr>
<td>Age(+)</td>
<td>Age of firm in 2000</td>
<td>Mergent online</td>
</tr>
</tbody>
</table>

**Industry classification.** Prior studies have found some systematic relations between broad industry characteristics and corporate social responsibility activities and contributions. Industry differences have been shown to be significantly related to a company’s social responsibility practices. Roberts (1992) documents that firms in the industries that have a high level of political risk and concentrated intense competition
have higher levels of social responsibility disclosures. For this current study, environmentally sensitive firms are more likely to have environmental issues than service-oriented companies. Product safety concerns are more relevant to manufacturing corporations than to merchandising or servicing firms. For charitable contributions, firms in industries that rely more on consumer sales (Burt, 1983), public perceptions (Clotfelter, 1985), or are more labor intensive (Navarro, 1988) tend to donate more. Based on Standard Industrial classification (SIC) code and numbers of employees, if a sample firms is identified with one of the above three industries, the variable IndCla is set equal to one; else IndCla is set equal to zero.

Company size. Company size has been shown to correlate with charitable contributions (McElroy, and Siegfried, 1985). Firm size creates social and political exposures (Watts and Zimmerman, 1986; Miles, 1987), and as a result, larger firms have a higher level of visibility to the general public and the government as well as to grant-seeking organizations. In addition, larger firms are also more likely to institutionalize their charitable giving programs via corporate sponsored foundations (Webb, 1992; Werbel and Carter, 2002). In this study, the natural log of assets is used as a control variable for firm size.

Profitability. Profitability might also create social and political exposures. In addition, charitable giving is related to profits because firms time their donations as a means to reduce their taxable income (Webb, 1994). Another reason why donations are tied to profitability is because many firms used a fixed percentage of pretax net income to decide the amount of their donations (McElroy and Siegfried, 1986). Return on assets is
used to control for the potential effect of profitability on the amount of charitable contributions.

*Advertising expense.* Research has also found significant positive correlations between advertising expense and charitable contributions (Fry et al., 1982; Navarro, 1988). These studies posited that contributions and advertisements are both vehicles used by corporations to negotiate favorable corporate images with different audiences. To control for the effect, the amount of advertising and promotion expenses (in millions) for each year is included.

*The age of a company.* Consistent with Roberts (1992), the maturity of a firm may affect its social responsibility activities because as a firm matures, its reputation and history of involvement with nonprofit and charitable organizations can become entrenched. For instance, the Ford Motor Foundation has a history of supporting museums and arts. Mature corporations are more likely to have long-term sponsorships with nonprofit organizations and charities. The age of each corporation in 2000 is included as a control variable.

**Sample selection and description**

Corporations selected to examine the function of corporate charitable contribution in this study had to meet three criteria: (1) they had to be included in Kinder, Lydenberg, Domini, Inc. ratings for corporate social performance during 1998 to 2000; (2) they had to be listed on the *Corporate Giving Directory* and/or the *Directory of Corporate and Foundation Givers* during 1998 to 2000, and (3) they were included in Compustat for the
period. The data available for years 1998 to 2000 for a total of 384 firms were collected and formed a longitudinal cross sectional (panel) data set of 1152 observations\(^4\). Table 2-2 summaries several attributes of the sample firms.

Table 2-2 Summary of the Sample Firms’ Attributes

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fortune 500</td>
<td>198 (52%)</td>
<td>186 (48%)</td>
</tr>
<tr>
<td>Sponsoring corporate foundations</td>
<td>285 (74%)</td>
<td>99 (26%)</td>
</tr>
<tr>
<td>Product/equipment donations</td>
<td>177 (46%)</td>
<td>207 (54%)</td>
</tr>
<tr>
<td>In-kind services</td>
<td>150 (39%)</td>
<td>234 (61%)</td>
</tr>
<tr>
<td>Consumer sales/ public perception oriented</td>
<td>175 (46%)</td>
<td>209 (54%)</td>
</tr>
</tbody>
</table>

\(N = 1152\)

Among the 384 sample firms, 198 (52%) are *Fortune 500* corporations; 285 (74%) fund company foundations; 177 donate products or equipment; 150 (39%) provide in-kind services, and 175 (46) rely more on consumer sales or public perceptions.

Table 2-3
Descriptive Statistics for Variables in Charitable Contribution Empirical Tests

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mini</th>
<th>Maxi</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>ChaCont(^a)</td>
<td>0.00</td>
<td>624.61</td>
<td>10.88</td>
<td>38.83</td>
</tr>
<tr>
<td>EmpRel</td>
<td>0</td>
<td>3</td>
<td>0.28</td>
<td>0.51</td>
</tr>
<tr>
<td>Env</td>
<td>0</td>
<td>5</td>
<td>0.46</td>
<td>0.89</td>
</tr>
<tr>
<td>ProSaf</td>
<td>0</td>
<td>4</td>
<td>0.46</td>
<td>0.78</td>
</tr>
<tr>
<td>IndCl</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>Size (ln)</td>
<td>3.55</td>
<td>13.71</td>
<td>8.79</td>
<td>1.60</td>
</tr>
<tr>
<td>Prof(^c)</td>
<td>-39.05</td>
<td>49.85</td>
<td>5.83</td>
<td>6.26</td>
</tr>
<tr>
<td>AdvExp</td>
<td>1</td>
<td>4,500</td>
<td>457.58</td>
<td>734.95</td>
</tr>
<tr>
<td>Age</td>
<td>1</td>
<td>209</td>
<td>62.09</td>
<td>43.51</td>
</tr>
</tbody>
</table>

\(N = 1152\) except AdvExp \(N=341\)
a. See table 2-1 for a complete description of the variables.
b. Figures for Size and AdvExp are in millions.

\(^4\) Missing data are included in the final analysis because the test results of including missing data and excluding missing data are similar.
Table 2-3 presents the descriptive statistics for the variables. The average amount of charitable contributions is $10.88 million, with a range of less than $1 million (low) to $624.61 million (high). The average KLD employee relation concern score is 0.28, with a range of 0 to 3. The average KLD concern scores of environmental performance and product safety are both 0.46, with the low concern scores of zero for both categories and high concern scores of 5 and 4 for environmental performance and product safety respectively. The mean natural log of assets is $8.79 millions, with a range of $3.55 millions (low) to $13.71 (high) millions. The average ratio of return on assets is 5.83, with the low ratio of –39.05 to the high ratio of 49.85. The average amount of advertising expense is $457.58 millions, with a range from $1 million (low) to $4,500 millions (high). The average age of firms is 62.09, with a range from 1 to 209.

**Analysis of the Results**

I first performed correlation analyses between variables. Table 2-4 presents the bivariate correlations between the amount of charitable contribution and the KLD evaluation concern scores of employee relation, environmental performance, product safety and control variables. All bivariate correlations between dependent and the control variables possess the expected sign and are all significantly correlated (at the 0.01 level). Correlations between independent variables show no indication that any unacceptable levels of multicollinearity (above 0.8 or 0.9) are present in the data.
The function of the charitable contribution model was first tested using Ordinary Least Squares (OLS) regression with group dummy variables, which is an appropriated analytical procedure for panel data, but one problem emerged. The analytical procedure was unable to execute because the advertising data was insufficient. As a result, the control variable of AdvExp variable dropped off the model\textsuperscript{5}. The function of charitable contribution was then tested, and Hausman test results indicate that random model best represents the data set. The test results of the random model are presented in Table 2-5.

\textsuperscript{5} The test results of the 341 observations with advertising expense variable are similar to the results without the variable.
Table 2-5
Regression Results of the Function of Charitable Contribution Test

Dependent variable = charitable contributions of firms for 1998-2000

<table>
<thead>
<tr>
<th></th>
<th>Expected sign</th>
<th>Random Model</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Parameter estimates</td>
<td>Standard error</td>
</tr>
<tr>
<td><strong>Cont. vars</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IndCla</td>
<td>+</td>
<td>9.511</td>
</tr>
<tr>
<td>Size</td>
<td>+</td>
<td>4.554</td>
</tr>
<tr>
<td>Prof</td>
<td>+</td>
<td>0.363</td>
</tr>
<tr>
<td>Age</td>
<td>+</td>
<td>0.057</td>
</tr>
<tr>
<td><strong>Test vars</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EmpRel</td>
<td>+/-</td>
<td>-0.831</td>
</tr>
<tr>
<td>Env</td>
<td>+/-</td>
<td>3.208</td>
</tr>
<tr>
<td>ProSaf</td>
<td>+/-</td>
<td>10.275</td>
</tr>
</tbody>
</table>

**Model Statistics**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>(F)-statistic = 12.56</td>
</tr>
<tr>
<td>Sig.</td>
<td>Sig. at the 0.000 level</td>
</tr>
<tr>
<td>(R)-squared</td>
<td>Adjusted (R^2 = 0.80)</td>
</tr>
</tbody>
</table>

\(a\). Significance levels are two-tailed.

The random model is significant at the 0.000 level with a \(F\) score statistic of 12.56, and the adjusted coefficient of correlation \((R^2)\) is 0.80. All four control variables (IndCla, Size, Prof, and Age) possess the expected signs. Both IndCla and Size are significant at the 0.000 level, and Prof is at 0.10 level. Age is not significant. EmpRel has a negative sign but is not significant. Both Env and ProSaf have a positive sign and are significant at the 0.05 and 0.000 level, respectively. The overall results confirm that corporate charitable contributions are corporate legitimation actions. More specifically, the empirical evidence supports H2b and H2c, which posit that the amount of corporate charitable contributions is positively associated with firm’s KLD evaluation concern scores for firms’ environmental performance and product safety ratings.
Discussion of Research Findings

The findings of this empirical test are of interest to academia as well as to many stakeholders. The significance of the empirical results provides evidence that corporate charitable contributions are a means of legitimation as theorized by Dowling and Pfeffer (1975) rather than a representation of corporate social performance as postulated by Carroll (1979; 1991). From a legitimacy perspective, Dowling and Peffer (1975) argue that the amount of corporate contributions would be expected to vary over time or contexts when firm’s legitimacy is more or less problematic. On the other hand, driven by economic factors, Carroll (1979; 1991) posits that business managers would allocate more resources to improve their economic performance and fewer funds to be donated to charities. The significance of both Env and ProSafe with a positive sign is consistent with the finding of environmental disclosure research; firms that have a poor evaluation of environmental performance or product safety issues tend to donate more. Thus, in addition to environmental disclosure as documented by Patten (1992; 2005), corporations also use charitable donations as a tool of legitimation.

The lack of significance for the employee relation variable does not support the hypothesis that firms donate more resource to manage their poorer employee relations. This finding could be explained by distinguishing internal and external factors. Employee relation may be considered as an internal factor rather than an external issue such as environmental performance and product safety evaluation. Corporate charitable contributions are generally a channel between the corporation and external parties, which may not be an ideal instrument for managing internal issues such as employee relations.
Implication of Research Results

The empirical evidence provided by this study has several important public policy applications. Corporate charitable donations are a means of legitimation and not an indicator of corporate social friendliness, thus the perceived merit of corporate donation appears to be misleading. Discoursing only the amount of charitable contributions within business financial statement, as currently proposed by the U. S. Congress, may convey an inaccurate corporate social performance message to the public. In order for business entities to be socially responsible and accounted for their overall performance, as suggested by Gray et al. (1997) and others, corporations should report their financial, social, and environmental performances simultaneously in one statement. By so doing, the public may have adequate information to evaluate or observe the performance of corporations.

In addition to business reporting issues, the public may want to reconsider the tax deduction policy regarding corporate charitable contributions. Tax deduction of corporate donations is intended to encourage business entities to share their resources with the society. However, as evidenced by this the results of this study, corporations donate resources not to be socially accountable but to attempt to purchase their social legitimacy, and such legitimation action is partially subsidized by the public via tax deduction.
Conclusions and Limitations

The objective of this study was to empirically test whether corporate charitable contributions are an indicator of corporate social performance as theorized by Carroll (1979; 1991) and Wood (1991) or corporate legitimation action as theorized by Dowling and Pfeffer (1975). The results of this study provide strong empirical evidence that charitable contribution is a legitimation tool used by corporation in managing their social legitimacy. Firms that have a poorer environmental or product safety evaluation score tend to donate more than firms that receive a better evaluation score in these two domains. This finding confirms that legitimacy theory is an appropriate lens for analyses of corporate donation and that factors other than economic performance are important in social and environmental accounting research. The study results also suggest that a concurrent business statement of corporate financial, social and environmental performance would be an appropriate reporting approach.

Several future research suggestions emerged from the results of this study. First, the relationship between corporate charitable contribution and other dimensions of corporate performance could be tested. In addition to environmental performance and product safety issue, corporate governance structure, composition of the board, and community relation are also important aspects of corporate social performance. This study could also be replicated using other social performance evaluation ratings. Finally, identification of the recipients of corporate donation could verify the intention and effectiveness of such legitimation action.
The findings of this study are subject to several limitations. First, the amount of direct giving, product donations, and in-kind service are self reported, which may not be accurate. Second, there is no commonly acceptable value standard for in-kind services. Finally, the empirical tests were performed on large U. S. public corporations that may restrict the generalizability of the study results.
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World Business Council for Sustainable Development

http://www.wbcsd.ch/templates/TemplateWBCSD1/layout.asp?type=p&MenuId=MzI3&doOpen=1&ClickMenu=LeftMenu

STUDY THREE
CURRENT TAX LAWS AND THE FULFILLMENT OF CORPORATE FOUNDATIONS’ SOCIAL FUNCTIONS:
EVIDENCE FROM 990-RETURNS OF PRIVATE FOUNDATIONS

Introduction

During the twentieth century, United States (U. S.) public policy regarding corporate managers’ rights to authorize charitable donations of corporate resources has come full circle. At the beginning of the century, corporate managers were not allowed to make any charitable donations because many court rulings stated that giving business resources away without anything in return was beyond the power of management (Bormann, 1994). Currently, however, every state’s corporation statute grants businesses the right to make donations¹ (Balotti and Hanks, 1999; Kahn, 1997). At present, corporations may deduct charitable donations (including giving to their sponsored foundations) up to 10 percent of their annual modified taxable income (Internal Revenue Code Section 170 (b)(2)).

Due in part to this favorable tax treatment, business corporations are believed to be more proactive in managing their charitable giving agenda and attempt to directly control the amounts, recipients, and timing of their contributions (Werbel and Carter, 2002; Jones, 1994). Many corporations use corporate (company-sponsored) foundations

¹ Currently, every state and the District of Columbia have a statute enabling its corporations to make charitable donations. Although the language used by different philanthropy statutes may vary slightly, these statutes are generally unrestrictive as to the amount of the contributions and its beneficiaries. Also, these statutes do not define who within the corporation has decision-making power over corporate charitable contributions.
to handle some or all of their donations (Himmelstein, 1997). A corporate foundation is a tax-exempt private foundation that receives its funds from a profit-seeking business corporation, but is legally separate from its sponsoring company.

The number of corporate foundations has increased 26% from 2,018 in 2000 to 2,549 in 2003. The amount of funds distributed by corporate foundations has also increased 15% from $3.02 to $3.47 billion in 2000 and 2003 respectively. However, the amount of assets possessed by these foundations has decreased from $16 billion in 2000 to $15.5 billion in 2003 (Atienza, 2005). Using a foundation as a giving vehicle seems to be a trend of many business entities.

Corporate foundations’ funds are partially subsidized through tax deductions.\(^2\) In addition, tax provisions for private foundations, in comparison to tax provisions for corporations, provide many economic advantages. For instance, the current excise tax rate on a foundation’s investment income is only 2%, while the top corporate rate is 35%.\(^3\) These favorable tax treatments imply that the society at large believes foundation funds are used for the public interest.

The purpose of this study is twofold. First, this study investigates the relationship between the current tax laws and the fulfillment of corporate foundations’ social functions. Theoretically, private foundations are expected to fund leading research that may bring alternative solutions to social issues (Andrews, 1965; Zurcher, 1972; Heifetz, et al., 2004). Current tax laws, however, neither distinguish the functions between

\(^2\) Internal Revenue Code Sections 170 and 503(c)(3).
\(^3\) Internal Revenue Code Sections 509(a) and 4941. The provision of the 1969 Tax Reform Act imposed an excise tax of 4% on the income a foundation derives from investment, but the current excise tax rate is generally around 2%.
private foundations and charities nor require or provide any incentive for foundations to fund research. This lack of differentiation is an important public policy issue because if current tax laws do not facilitate foundations to fulfill their social functions, amendments to tax provisions for private foundations appear to be needed. Second, this study examines whether the giving behavior of corporate foundations is motivated primarily by the tax advantage or by a desire to strategically manage their parent company’s business environment.

This study contributes to both the accounting and nonprofit organization literature because existing corporate foundation research has concentrated only on sponsoring corporations (Webb, 1992; Werbel and Carter, 2002) with little or no consideration on the payout behaviors of corporate foundations. Corporate foundations’ payout behaviors are important because the size of their endowment, donations and contributions are substantial (Atienza, 2005; Stencel, 1998), and most importantly, private foundations have specified social functions to fulfill.

The data collected and analyzed in this study are not based on perception or estimation but on the actual activities of corporate foundations. Although previous studies (Griffin and Mahon, 1997; Navarro, 1988; Wokutch and Spencer, 1987; Kedia and Kuntz, 1981; Levy and Shatto, 1980) have attempted to investigate corporations’ charitable giving activities, obtaining an accurate measurement of business’s direct and in-kind giving has been extremely difficult. Achieving correct measurement is difficult for two reasons. First, neither the current state corporation law nor the federal securities regulations require companies to disclose their direct charitable spending and services
(Brudney and Ferrell, 2002; Kahn, 1997). Second, even if they report the amount of giving voluntarily, there are no agreed-upon standards for valuing gifts of in-kind goods and services.

Unlike direct giving and in-kind donation, the actual charitable activities of company-sponsored foundations are publicly available from their tax returns filed annually with the Internal Revenue Service (IRS). The institutionalized charitable activities undertaken by a corporate foundation are likely to reflect the social and political interests of its sponsoring corporation (Heald, 1970; Himmelstein, 1997; Kroll, 1991; Troy, 1982). As a result, the data collected from corporate foundations are considered the best measure currently available to examine corporations’ charitable giving behaviors.

The remainder of this study proceeds as follows. The next section begins with a brief review of the legal history of corporate charitable giving and company-sponsored foundations. Thereafter, the social functions of foundations and charitable organizations are discussed and the first hypothesis is presented. Following that, two theoretically grounded motivations for corporate foundation giving are reviewed. The two motivations are the tax advantage hypothesis and the strategic management hypothesis. These hypotheses are then empirically tested. Finally, the findings and implications for research and public policy are presented.

**Legal History and Tax Policies Related to Corporate Donations**

The legal history regarding corporate donations in the U. S. reveals substantial changes in public policy. Until the early 1950s, it was beyond the power of corporate
managers to make any charitable donation from which the company did not directly benefit (Werbel and Carter, 2002). However, in 1953, in *A. P. Smith Manufacturing Co. v. Barlow, et al.*, the New Jersey Superior Court judge stated that under common law every corporation has the right and a duty to make charitable giving. As a result, the “beyond the power” policy was overruled.

Additionally, in 1955, the court ruling of the *Union Pacific Railroad* case discarded the direct benefit rule pertaining to corporate donations. The judge stated that whether or not certain business actions directly benefit the company should be determined by the executives because they knew better than the judge what was in the firm’s best interest (Webb, 1992; Werbel and Carter, 2002). As a result, many state statutes regarding business donations were amended.

Currently, a business corporation may deduct charitable donations up to 10 percent of the corporation’s modified taxable income for the year when given to any domestic 501(c)(3) organization including donations to its sponsored foundations.\(^4\) Any charitable donation that is not currently deductible due to the percentage limitation may be carried over for up to five years.\(^5\) In other words, under the current charitable tax provisions, the government is willing to subsidize business’ charitable giving through tax deduction. For instance, given a corporate tax rate of 35%, within the $3.3 billion of

\(^4\) In 1935, the Internal Revenue Code was amended to permit charitable deduction in an amount not to exceed 5% of a firm’s taxable income, and currently the deductibility of gifts is up to 10% of the corporation’s annual adjusted gross income (Internal Revenue Code sections 170(b)(2) was modified in 1981.)

\(^5\) Internal Revenue Code Section 170(c)(2).
grant money given by corporations to their sponsored foundations in 2003 (Atienza, 2005), approximately $1.2 billion is subsidized by the public through tax deduction.

An additional amount of tax reduction is given by the tax treatments available to private foundations. Company-sponsored foundations held approximately $16 billion in assets in 2003 (Atienza, 2005). The excise taxes on the return on these assets were generally 2 percent, which is substantially lower than the taxes (35 percent) on identical returns to for-profit business entities. Moreover, corporate foundations are required to pay out only 5% of its asset value for charitable purposes each year, and grants as well as administrative expenses are included in this minimum payout amount.

Because of these tax advantages, business corporations appear to be more proactive in managing their giving programs (Mescon and Tillson, 1987). Many corporations use their own foundations to maintain control over the amounts, recipients, and timing of their contributions (Werbel and Carter, 2002; Himmelstein, 1997; Jones, 1994).

The current study is designed to test two hypotheses. First, this study examines whether the current public policy, as evidenced by Internal Revenue Code Section 170; 503(c)(3) and 4942, facilitates or hinders corporate foundations from fulfilling their social functions. Theoretically, the distinct function of private foundations is supposed to fund leading research that may provide alternative solutions to social issues (Andrews, 1965; Zurcher, 1972; Heifetz, et al., 2004). Second, by examining the payout activities

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6 Internal Revenue Code Sections 509(a) and 4941. The provision of the 1969 Tax Reform Act imposed an excise tax of 4% on the income a foundation derives from investment, but the current excise tax rate is generally 2%, and some foundations may be qualified for a reduced excise tax rate of 1%.

7 Internal Revenue Code Section 4942. The pay-out requirement requires foundations to pay out 5% of its asset value (including grants, and necessary and reasonable administrative expenses) for charitable purpose each year, and the Secretary of the Treasury has authority to change the rate using a formula.
of corporate foundations, this study analyzes whether tax advantage or strategic management is the main incentive for foundations’ giving. The literature of economics, management, nonprofit organizations and political science on corporate foundations suggests two possible rationales for businesses to establish foundations as their giving vehicle--tax advantage (Clotfelter, 1985; Heald, 1970; Webb, 1992; Webb, 1996) and strategic management of corporate environment (Bormann, 1994; Webb, 1992; Werbel and Carter, 2002; White and Bartolomeo, 1980; Zurcher, 1972). However, the previous empirical work attempting to test these different motivations is by no means conclusive.

**Theoretical Development and Research Questions**

**Justification of Private Foundations**

Roelofs (2003) states that the political system of a democratic capitalistic society, such as the United States, is maintained in two ways: the state and the civil society. The former controls through force and laws and is complemented by the latter that produces consent without resort to force. Nonprofit organizations are theorized to be critical to the effective functioning of a nation that has a strong economic market and, comparatively, a weak state. Hansmann (1980, 1981) argues that the economic, production and related tasks performed by the business and commercial world are primarily governed by the market through a contractual agreement. Private nonprofit organizations such as foundations, however, are a response to market failure. For instance, when the purchasers and the recipients of the goods or service are separated and especially when the recipients are unknown to the purchasers, the purchasers are in a poor position to
determine whether the goods or services they pay for are in fact ever delivered or
performed. In this situation, the purchasers would prefer to rely on a nonprofit entity
than to contract with a business organization because profit-seeking business is assumed
to have a relatively strong incentive to skimp on the services it promises and to divert
most or all of its revenue directly to its owners (Gunn, 2004).

In addition, the concept of market failure also helps to explain the prevalence of
nonprofits as private-market producers of certain specific goods such as public,
charitable, and certain mixed services. Abzug and Webb (1999) state the market failure
of public and similar goods occurs when the quantity of certain specific goods and
services, such as healthcare and insurance, provided by businesses is inadequate. This
occurs when business entities doubt that consumers have the ability to pay for the goods
and services they request, which leads to insufficient supply, and at the same time the
government fails to compensate. In these situations, nonprofits are theorized to be more
suitable for goods/service providers.

The Council on Foundations (1975) states that the justification of foundation and
charitable giving are both primarily based on three beliefs: (1) the importance of
encouraging voluntarism in the fulfilling of social needs; (2) the suitability of
decentralization of funding our educational, cultural, and charitable services; and (3) the
usefulness of having some alternatives to many government services, even when those
government services are accepted as the norm.
Functional Differences between Foundations and Charities

Although private foundations are funded by charitable contributions, the social expectation of a private foundation is somewhat different from traditional charities. Roelofs (2003) states the distinction between foundation grant-making and charitable giving is in the “root cause” metaphor. Whereas the purpose of traditional charities is to provide relief to the poor, the distressed or the underprivileged, and to lessen the burdens of government, the purpose of foundations is to do something about the deeper causes that lead to suffering and inequality in the first place. For instance, the research on and discovery of vaccine treatment is aimed at preventing the suffering that accompanies epidemics. Furthermore, Andrews (1965, p.5) emphasizes that the purpose of foundations “is not relief or even cure, it is prevention, research, and discovery.” Heifetz et al. (2004) argue that if foundations are to achieve their social role, they are well positioned to do so through imaginative and even controversial leadership. Society as a whole anticipates foundations (with partially public subsidized endowments) will fund innovative programs, leading research and work on the frontlines of social problems, and hope these efforts would provide alternative solutions to social issues in which society may progress (Zurcher, 1972).

Foundations also are supposed to be more flexible and adaptable to specific situations and pressing social needs than governmental appropriation and governmental agencies normally can be (Zurcher, 1972). Foundations, as independent legal entities, are able to respond to new ideas, support freedom of thought, perform research, and even to
critically review governmental programs and policies. Zurcher (1972, p.3) further emphasizes:

It is particularly desirable to maintain an institution like the foundation because, among private institutions concerned with public ends, the foundation is peculiarly equipped to command the resources and the freedom of action to provide alternatives to governmental policy and, if it will, to take the lead in exploring new and uncharted directions in which society might move. All this … makes for a more open and a more enlightened society.

The function of private foundations differs from that of traditional charities. Private foundations equipped with publicly subsidized financial resources and administrative autonomy are expected to support research projects, institutions, and scholars who investigate social problems and public policy issues (Zurcher, 1972). However, corporate foundations, being funded by business, may prefer to associate with charities rather than to be involved in social issues research or projects because many prior studies (Griffin and Mahon, 1997; Wood, 1990) suggest that corporate donations to charities is usually perceived as a friendly corporate social activity. Moreover, Roberts (1992) empirically verifies that the establishment of corporate foundations has had a positive relationship with the parent company’s social responsibility disclosure level. In
other words, corporations that use foundations as their donation vehicle are more proactive in demonstrating that they are socially friendly entities.

On the other hand, funding activities concerning social and public policy issues could be an extremely valuable social function of corporate foundations but it also could expose the sponsoring corporations to unnecessary business risk. Mcilnay (1997, p. 26) states:

Involvement in public policy is a two-edged sword for [corporate] foundations: at once perhaps their single most substantive opportunity for public service and their single greatest vulnerability to criticism.

Although corporate foundations are legally separated from the funding organizations, the grant-making behaviors of foundations are likely to be influenced by the giving policies and social interests of the parent company because foundations are financially and administratively controlled by the sponsoring corporations (Heald, 1970; Himmelstein, 1997; Kroll, 1991; Troy, 1982). In a capitalistic society, business entities are believed to be more concerned with their economic benefits as long as the pursuits of their business interest are within the provisions of laws. The current tax provisions neither request nor provide any incentive for corporate foundations to support public policy studies; grant monies given to traditional charities and policy research receives the same tax treatment. Consequently, corporate foundations operating in a capitalistic society are theorized to have a preference to provide funding to traditional charities rather than social issue research. It is because funding traditional charities not only helps
organizations enjoy the same degree of tax benefits, and perhaps the same amount of name recognition, but also prevents many criticisms. Thus:

Hypothesis 1: Corporate sponsored foundations will give a significantly higher amount of grant monies to traditional charities than they will give to research and public policy studies.

**Giving behavior of corporate foundations**

Corporate foundations, as tax exempt private organizations, must follow the rules prescribed by Section 509(a) of the Internal Revenue Code and the Tax Reform Act of 1969 (TRA69). These rules not only provide guidelines on whom are the legitimate grant recipients but also set the annual minimum grants payout requirement. The minimum payout rule is the amount that a foundation is required to expend for charitable purposes including grants, and necessary and reasonable administrative expenses. In general, a foundation is required to pay out at least 5 percent of the market value of its assets each year.

The combination of charitable deduction tax provisions for corporate donations and the minimum payout requirements for corporate foundations might lead to different giving behavior of corporations and foundations. For instance, assume a company with a marginal tax rate of 35% has $100 of net taxable income available for donation. The
company has at least three legitimate options: (1) no donation; perhaps dividends, (2) direct donation to charities, and (3) donation to its sponsored foundation. However, the social consequences of these three corporate actions may be different.

Table 3-1
The Relationship Between Corporation Actions and the Net Resource Change to Society

<table>
<thead>
<tr>
<th>Resource Kept by the Corporation</th>
<th>No Donation Keep $100</th>
<th>$100 Donation to Public Charities</th>
<th>$100 Donations to Its Own Foundations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount paid in Taxes</td>
<td>$35</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Resource Available to Govern/Nonprofits</td>
<td>$35</td>
<td>$100</td>
<td>$5~100</td>
</tr>
<tr>
<td>Net Change of Fund to Society Compared w/no charitable donations</td>
<td>$65</td>
<td>$ (30) ~ $65</td>
<td></td>
</tr>
</tbody>
</table>

Assuming a company with a marginal tax rate of 35% has $100 of net taxable income available for donation.

As indicated by table 3-1, the first option that the company can choose is to keep and reinvest the net income in its business and pay an income tax of $35. As a result, the company keeps $65, and $35 becomes tax revenue to the public, which is the primary financial resource to support governmental functions. Second, the company can donate the $100 directly to charity. This option results in an increase of $100 to charity and $35 of tax loss for the government, but the overall net public resource increase is $65 as compared to the first option. This option could be considered the intent of the charitable deduction provision. The government is willing to subsidize the tax revenue of $35 and give the company the privilege to select the social cause it wishes to support as long as
the company gives away the $100 to socially desirable organizations. In other words, within the $100 donation, the company’s actually giving is $65 and the $35 is sponsored by the public via tax deduction (or forgone in tax revenue).

Finally, instead of giving to other charities directly, the company can donate the $100 to its own foundation and received a deduction of $35. Although the company receives the same tax benefit regardless of whether it donates directly or through its foundation, the actual resource available to the public may vary significantly. The amount may vary because foundations are only required to give out a minimum of five percent of its assets, which total $100 in this example. If only $5 of the $100 is given out to socially desirable programs by the company-sponsored foundation, the public temporarily experiences a deficit of $30 for this particular donation as compared to option 1. It is because $35 of tax revenue is lost and only $5 of grant money is distributed to the society. Through examining the giving behavior of corporate foundations, we might be able to infer the purpose of using foundations as a means for business charitable giving.

**Giving motivations of corporate foundation**

The literature suggests two possible rationales - tax advantage and strategic management of corporate environment– that may explain why so many corporate foundations come into being and persist indefinitely. Many researchers (Clotfelter, 1985; Heald, 1970; Webb, 1992; Webb, 1996) argue the most important reasons for using a

---

8 Over time foundations have to payout the total amount of the particular donation.
corporate foundation have to do with the tax code. First, funds donated by the company for charitable purpose do not have to be handed over immediately to the ultimate users but can be transferred to the foundations. Thus, companies can increase donations in more profitable years to benefit from tax deduction and not immediately lose control of the funds. Second, corporations can fund foundations with appreciated property and foundations can turn around and sell the property and pay no capital gains tax on earnings. Third, foundations’ funds can be distributed regularly to chosen recipients because the payout requirement is only 5% of the asset.

If the characteristics of corporate foundations are similar to other nonprofit organizations, tax benefit plays an important role in their reporting and giving behaviors. For instance, Yetman (2001) documents that nonprofit organizations allocate expenses from their tax-exempt to their taxable activities to reduce their tax liabilities. Moreover, Sansing and Yetman (2002) find that large and professionally managed foundations have a tendency to minimize their payouts. Thus, the tax advantage hypothesis is postulated:

Hypothesis 2a: The annual amount of contributions given by a corporate foundation does not significantly exceed its minimum payout requirement.

Still, others (Neiheisel, 1994; Werbel and Carter, 2002; Williams and Barrett, 2000) argue that managing the sponsoring corporation’s business environment is the most important reason to set up a corporate foundation. Neiheisel (1994) argues that corporations use their foundation as an extended arm to administer their public affairs,
which may reduce government interference and special interest group criticism. Werbel and Carter (2002) find that CEO’s influence on corporate charitable contribution is reduced when giving is administrated by corporate foundations. This control may in turn reduce the pressure from stockholders who assume that corporate executives use corporate giving for their personal gain rather than the benefit of the business.

Additionally, William and Barrett (2000) document that corporate charitable giving mitigates unfavorable corporate reputations caused by environmental violations. This conjecture is consistent with the findings of Study two, that corporate charitable contribution is a legitimation action undertaken by business when their business practices are in question. Corporations, therefore, use donations as the premium of social and political insurance to “purchase” a favorable business environment that may help them continue to survive.

To maintain a favorable business environment requires continuous efforts. As a result, corporate foundations become an important strategic tool for corporations to continually purchase their “social and political insurance” through stable charitable giving even if company profits are unsound and available funds are limited (Hillman, 1965; Webb, 1992).

Moreover, as documented by the findings of Study Two of this dissertation, corporations that receive poorer social performance evaluation scores tend to make more donations then corporations that receive better evaluation scores. In order to control the influence of their parent company’s legitimacy need in corporate foundation’s payout behavior, the unfavorable social performance scores of a foundation’s sponsoring
corporation should be accounted for. Thus, the strategic management hypothesis suggests that:

Hypothesis 2b: The annual amount of contribution given by corporate foundations significantly exceeds the minimum payout requirement after controlling for the legitimacy need of the parent company.

The tax advantage hypothesis and the strategic management hypothesis mentioned above are used to test the payout behavior of corporate foundations. This study does not suggest that these two hypotheses are mutually exclusive. The purpose of this examination is to identify, from the empirical results, the primary incentive of using corporate foundations as a conduit for business donations.

**Research Design**

**Sample and data collection**

181 corporate foundations collected in the newest edition of *Corporate Foundation Profiles* by the Foundation Center (Jones, 2002) are used as the sample foundations. The data of these 181 foundations contained in the profiles are used to test hypothesis 1. *Corporate Foundation Profiles* (Jones, 2002) provides information on corporate foundations that gave at least $1 million in the year of 1998 or 1999. Each profile includes foundation giving-interest areas, application guidelines, recently awarded grants, information on the sponsoring company, types of support, international giving and
others. Thus, the profiles provide standardized comparisons for corporate foundations’
giving across business companies, which are required to hypothesis 1. Corporate
foundations selected to test hypotheses 2a and 2b are primary based on the set of 181
foundations used to test hypothesis 1. However, in order to control for the legitimacy
needs of the sponsoring firms, the parent company of a foundation must also have
reported KLD social performance scores. There were 108 foundations that met the
criteria.

The amount of foundation giving and required minimum payout are obtained
from the annual tax returns filed by corporate foundations with the IRS in Form 990-PF
(Return of Private Foundation). The 1996 Taxpayer Bill of Rights 2 requires tax-exempt
organizations to disclose their tax returns. Moreover, the IRS has agreed to provide the
optically scanned Form 990 (Return of Organization Exempt From Income Tax) to
institutions such as The Foundation Center, Guide Star, and the National Center for
Charitable Statistics (NCCS), where return data are available to the general public.

Form 990-PF presents the basic financial statements of private foundations.
Although the report is financial in nature, other relevant information is also included (see
Appendix). For instance, Part I of Form 990-PF is an analysis of revenue and expenses:
the amount of all revenue, operating and administrative expenses are listed where the
total amount of contribution received and given are reported. Compensation of officers,
directors, trustees and key employees are stated. Part II and III contain detailed reports of
balance sheet items. Part IV reports capital gains or losses on investment income. Part V
provides detailed payout information for five previous years. Foundations use this
information to determine whether they qualify for the reduced 1% tax on net investment income. The payout information for the past five years and the payout amount reported in the current tax returns (in Part X to XII) make six years of panel data available.

The 990-PF tax returns for the year of 2002 of the 108 corporate foundations were collected from the Foundation Center, a non-profit research organization that archives Form 990s. The Part V of the tax returns contains six-years of data for each foundation but due to the availability of the KLD data, the years of 1998 to 2002 data were used in this study. This formed a panel data set including 540 observations that is used to examine hypothesis two.

**Measurements**

The measurements of hypothesis one in this study were obtained from *Corporate Foundation Profile* (Jones, 2000), which contains information of 181 corporate foundations for the year of 1998 or 1999. Hypothesis one, the relationship between the current tax policy and the fulfillment of corporate foundations’ social function, is measured by the difference between the amount of grant money donated to support traditional charities and the amount donated to support research and public policies studies. The amounts given by corporate foundations are dichotomized into funds for research organizations and for charities according to the mission and the nature of the receiving organization. In this study, institutions undertaking any preventive, discovery, and policy-related studies are considered to be research organizations. On the other hand, examples of charitable organizations provided by IRS (Publication No. 557) include, but
are not limited to, the following: the organization’s purpose is for relief of the poor, the
distressed, or the underprivileged; advancement of religion; improvement of education or
science; maintenance of public buildings, lessening the burdens of government and other
activities with similar goals.

Among these charitable donations, the purpose of grants to educational
organizations is unclear whether it is used to add new buildings or to support research.
According to the IRS (Publication No. 557), contributions to schools can be used to
improve facilities, to endow a professorial chair, to pay employees’ salaries, to fund
student activities, or to support research. For the purpose of this study, the contributions
to higher educational institutions are assumed to be used for research purpose. Under this
assumption, the amount of research grant money given by corporate foundations for
research is inflated or overstated. If there is still a significant difference between the
amount of grant money given to traditional charities and the amount of inflated research
grant money, the test result of hypothesis one will be strongly supported. In addition,
Galaskiewicz (1997) reports that the industry attributes of the sponsoring company are
likely to affect the amount of grant money to certain social institutions. Thus corporate
foundations sponsored by pharmaceutical companies may be more likely to support
medical related studies and research. This study, however, does not control for this
possible industry effect because, as stated previously, inflated research amounts may
strengthen the findings if hypothesis one is supported. Hypothesis 1 is tested by paired
samples T-test.
The data used to test hypotheses two were obtained directly from tax returns of corporate foundations (990-PF). Hypothesis two, which is concerned with the primary motivation for corporate foundations giving, is measured by the difference between the amount of total grant money and the minimum amount of payout requirement. The total giving amount and the fair market value of average assets of each corporate foundation over a six-year period are reported on Part V of Form 990-PF. The minimum amount of payout requirement is equaled to 5% of the total average asset’s market value.

The control variable, the legitimacy need of the parent company, is measured by the sum of the concerns scores reported by the social research firm Kinder, Lydenberg, Domini’s (KLD) Socrates database⁹. Although several other corporate social performance reports are available, the numbers of companies or the dimensions of corporate social performance covered by these reports are limited. On the other hand, KLD data offer several desirable qualities. KLD has quantifiable social records of over 3,000 publicly traded U.S. companies across a range of dimensions pertaining to business related social concerns. Moreover, KLD’s data have been used extensively in a growing body of largely management-based U.S. research on corporate social performance issues (e.g. Waddock and Graves, 1997a, 1997b; Griffin and Mahon, 1997; Agle et al., 1999; Berman et al., 1999; Greening and Turban, 2000; Hillman and Keim, 2001; Ruf et al., 2001; Rehbein et al., 2004), and recently have also been applied in accounting research (e.g. Cho, Patten and Roberts, 2005), and the second study of this dissertation. Most

⁹ Socrates is a proprietary database program issued by Kinder, Lydenberg, Domini & CO. Inc. that provides access to KLD’s ratings and other data pertaining to the social records of over 3,000 publicly traded U.S. companies.
importantly, these data have been validated as the best currently available measurements of corporate social performance (Sharfman, 1996; Szwajkowski and Figlewicz, 1999). A complete and detailed description of the KLD rating system is available from Waddock and Graves (1997a, 1997b) and KLD’s website (www.kld.com).

KLD separately assigns strengths and concerns across eight social performance dimensions. These dimensions are community, corporate governance, diversity, employee relations, environment, human rights, product, and others (KLD, 2003). The sum of the concern scores of the eight dimensions are used to measure the sponsoring corporations’ needs of legitimacy for the selected years.

Hypotheses 2a and 2b are tested by regression. The difference between the amount of total contributions (total grant monies plus administrative expenditures\(^{10}\)) and the amount of minimum payout requirement is the dependent variable. KLD concern scores are the control variables. If the coefficient of the constant is significant with a negative sign, then hypothesis 2a is supported, which indicates that the annual amount of contributions given by a corporate foundation does not significantly exceed its minimum payout requirement after their parent company’s legitimacy needs are accounted for. This result suggests that the giving behavior of corporate foundations is primarily guided by tax benefits. On the other hand, if the coefficient of the constant is significant with a positive sign, then hypothesis 2b prevails, which support that the annual amount of contribution given by corporate foundations significantly exceeds the minimum payout requirement after controlling for the legitimacy need of the parent company. Thus, the

\(^{10}\) On average the amount of administrative expenditures is 4.19% of the total contributions with a range of 0% to 63.21%.

118
main motivation of corporate foundations’ giving is to strategically manage firms’ environment.

**Analysis of the Results**

**Analytical procedures**

The description of the sample corporate foundation is presented in Table 3-2. The average ending asset was $49.43 million, with a range of 0 to $441.25 million. The average age of the foundation at the end of 1998 or 1999 was 30.90, with a range of 1 to 82. The foundation donated, on average, $9.52 million to various organizations, with the least amount donated being $1.10, and the highest amount donated being $67.89 million.

<table>
<thead>
<tr>
<th>Table 3-2 Summary of Sample Corporate Foundations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Assets*a</td>
</tr>
<tr>
<td>Age</td>
</tr>
<tr>
<td>Total Grant given</td>
</tr>
<tr>
<td>Grants to Charities</td>
</tr>
<tr>
<td>Grants to research/public policy studies</td>
</tr>
</tbody>
</table>

*a in million except for age. N=181
Source: *Corporate Foundation Profiles* by The Foundation Center (2002).

Hypothesis one, the difference between the amount of grant money to traditional charities and to research and public policies studies, was tested by paired samples T-Test.
and is significant at the 0.000 level with a $t$ score statistic of 11.61. A summary of corporate foundation grant money distribution by recipient and percentage is presented in Table 3-3. The corporate foundations gave, on average, approximately $8.10 million to traditional charities, which accounted for 85.08 percentage of the total grant money; followed by higher education $1.21 (12.71%), public policy studies $0.09 (0.95%), medical research $0.08 (0.84%), and other research $0.04 million (0.42%).

Table 3-3
Summary of Corporate Foundation Payout Behaviors by Recipient and Percentage

<table>
<thead>
<tr>
<th></th>
<th>Charities</th>
<th>Higher Education</th>
<th>Public Policy</th>
<th>Medical Research</th>
<th>Research</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount * (mean)</td>
<td>8.10</td>
<td>1.21</td>
<td>0.09</td>
<td>0.08</td>
<td>0.04</td>
</tr>
<tr>
<td>Percentage</td>
<td>85.08</td>
<td>12.71</td>
<td>0.95</td>
<td>0.84</td>
<td>0.42</td>
</tr>
</tbody>
</table>

* in millions

Hypothesis two was tested using Ordinary Least Squares (OLS) regression with group dummy variables, and Hausman tests indicate random model is appropriated for the data set. Table 3-4 presents the descriptive statistics of the variables, and the test results of the model are presented in Table 3-5.

Table 3-4
Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>S. D.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount above</td>
<td>-1,269.29</td>
<td>161,848.76</td>
<td>12,386.99</td>
<td>17,955.85</td>
</tr>
</tbody>
</table>

120
The difference between the amount of grant monies and the required payout, on average, is $12,386.99 thousand with a range of $-1,269.29 to $161,848.76 thousand. The sponsoring company’s legitimacy needs, on average, is 3.60 with a range of 0 to 16, as measured by KLD rating scores. The correlation between the KLD scores and the amount of grant monies above the required payout is 0.279, which is significant at the 0.01 level.

Table 3-5
Regression results for corporate foundation giving motivation test
Dependent variable = difference between the amount of total contributions and required payout for 1998-2002.

<table>
<thead>
<tr>
<th>Expected sign</th>
<th>OLS Random Model</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Parameter estimates</td>
</tr>
<tr>
<td>KLD</td>
<td>+</td>
</tr>
<tr>
<td>Constant</td>
<td>+/-</td>
</tr>
</tbody>
</table>

Model Statistics
- Model:  \(F\)-statistic = 20.22
- Sig.: Sig. at the 0.000 level
- \(R\)-squared: Adjusted \(R^2 = 0.79\)

\(N = 540\). Mean KLD score is 3.60 with a range of 0 to 16.

The random model is significant at the 0.000 level with a \(F\) score statistic of 20.22, and the adjusted coefficient of correlation (\(R^2\)) for the random model is 0.79. The control
variable (KLD) and constant are both significant with a positive sign. The overall results support hypothesis 2b.

**Discussion of research findings**

The particular social functions of private foundations such as corporate sponsored foundations are theorized to provide alternative solutions to social issues by supporting research and public policy studies. However, the empirical results indicate that corporate foundations gave more than 85% of their grant monies to traditional charities, and less than 15% of their grant monies were used to carry out their social function. Whether the resources of foundations should be used primarily to substitute governmental expenditures, to mitigate social inequality or to support research that may provide answers to challenging social problems are important public policy issues. The current tax laws do not appear to require that foundations fulfill their commonly agreed upon specific social function. Amendments to the current tax laws may be necessary if society agrees that the social function of foundations is different from that of charities and desire foundations to carry out their specific social roles.

The timing for corporations to donate (transfer) funds to their sponsored foundations, as suggested by many economic studies, may be primarily motivated by tax advantages. The research results, however, reveal that one primary motivation of corporate foundation giving, the resources outflow from foundations to society, is a strategic desire to manage their parent company’s business environment. Corporate foundations gave more grant monies than the amount required by the tax laws. Moreover,
corporate foundations donate even more monies when their parent company’s social legitimacy need is high. After the influence of sponsoring corporation’s legitimacy need is controlled, foundations still gave out more grant money than necessary. These research findings provide a strong support to hypothesis 2b that corporations use their foundation giving as the premium of social and political insurance to manage their business environment. In addition, the giving behavior of corporate foundation seems to be different from that of other private foundation. Sansing and Yetman (2002) document that private foundation in general have a tendency to minimize their payouts. The results of this current study concentrated only on corporate foundations, however, indicate that the annual amount of contribution given by corporate foundations extensively exceeds the minimum payout requirement.

According to the results of this current study, one may question the social value of corporate foundations in their current practices. As private foundations, they do not provide adequate funds to support research; as corporate foundations, they are used by their parent company as a strategic instrument to manage the sponsoring company’s social legitimacy and business surroundings.

**Conclusions and Limitations**

There were two purposes in this study. The first one was to empirically test the relationship between the current tax laws and the fulfillment of corporate foundations’ social roles. The second objective was to examine whether tax advantage or strategic management desire is the primary motivation of corporate foundation giving. The results
indicate that the current tax laws do not provide incentives for foundations to support research and public policy studies. The research findings also reveal that corporate foundation giving is motivated more by a desire for strategic management than tax benefits. However, this study does not exclude tax advantage as one of the motivations of corporate foundation giving.

Several future research directions are suggested by the findings of this present study. First, the effects of tax laws on the selection of recipients or grant monies allocation between charities and research could be tested by experimental studies. Second, this study could be refined using direct measures of managers’ understanding of their legitimacy needs as control variable. Finally, the social functions of foundations could be further identified by historical review.

As with any research, this study has certain limitations. This study has relied on the categorization scheme provided by Corporate Foundation Profiles; a detailed breakdown as to who were the recipients of corporate foundations giving was beyond the scope of this current study. The empirical tests were performed on large corporate foundations that may restrict the generalizability of the findings. The social roles of foundations adopted by this study may be subject to debate.
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GENERAL CONCLUSION

This dissertation consists of three studies related to accounting disclosure at the interface of organizations and society. The first study investigates the overlapping perspectives of legitimacy theory, institutional theory, resource dependence theory, and stakeholder theory and integrates these theories into a more cohesive meta-theory of the organization-society interface. Although the primary function of business entities is economic in nature, business entities must pursue their economic roles in a socially acceptable matter. Study one concludes that some corporations may initiate social activities to gain economic benefit but others may undertake the same social activities to win social acceptance. Thus, this comprehensive meta-theory provides a sound theoretical foundation to substantiate the value of social and environmental accounting research because social activities participation is necessary for business to maintain their societal legitimacy.

The second study examines how corporate managers rationalize their charitable contributions while their corporations are concurrently facing other business-related social issues. Even though Carroll (1979) hypothesizes that managers would allocate more resources to attend to their business-related social problems and thus have less resources available for philanthropy, the empirical results support the competing hypothesis forwarded by Dowling and Pfeffer (1975). Dowling and Pfeffer posit that business-related social issues would jeopardize corporation’s social legitimacy. Thus, corporate executives would give more donations in an attempt to manage their legitimacy.
These study findings suggest that corporations should be required to disclose all their social and environmental performance information along with the amount of their donations. It is because the amount of money and resources donated by corporations seems to be associated with questionable business practices rather than an indicator of social friendliness, as misperceived by the public.

The third study analyzes the relationship between the current tax laws and the fulfillment of corporate foundations’ social functions. Using data from corporate foundations’ tax returns, this study concludes that amendments to the current tax laws appear to be necessary. Under current tax laws, corporate foundations do not carry out their functions to support research and public policy studies. Moreover, although we should not forget the fact that corporations foundations do really give donations, corporations appear to use their foundations as a tool to manage their business environment and purchase their social legitimacy.

In sum, these three studies build upon prior theoretical and empirical work to substantiate and advance social and environmental accounting research. The empirical findings of this dissertation all have important public policy applications.
APPENDIX
RETURN OF PRIVATE FOUNDATION
## Form 990-PF

**Return of Private Foundation**  
or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation

**Department of the Treasury Internal Revenue Service**

**2004**

**Note:** The organization may be able to use a copy of this return to satisfy state reporting requirements.

**For calendar year 2004, or tax year beginning , 2004, and ending , 2004.**

### G Check all that apply:  
- Initial return  
- Final return  
- Amended return  
- Address change  
- Name change

#### H Check type of organization:  
- Section 501(c)(3) exempt private foundation  
- Section 4947(a)(1) nonexempt charitable trust  
- Other taxable private foundation

#### I Fair market value of all assets at end of year from Part II, col. (c),(d)

#### J Accounting method:  
- Cash  
- Accrual  
- Other (specify)

#### Part I Analysis of Revenue and Expenses (The total of amounts in columns (b), (c), and (d) may not necessarily equal the amounts in column (e) (see page 11 of the instructions))

<table>
<thead>
<tr>
<th>Column</th>
<th>Description</th>
<th>Formula</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Contributions</td>
<td>(a) + (b) + (c)</td>
<td>Revenue</td>
</tr>
<tr>
<td>2</td>
<td>Check if the foundation is not required to attach 8910</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Dividends and interest from securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Gross rents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Net rental income or (loss)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6a</td>
<td>Net gain or (loss) from sale of assets not on line 10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6b</td>
<td>Gross sales price for all assets on line (a)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Capital gain net income (from Part IV, line 2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Net short-term capital gain</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Income modifications</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10a</td>
<td>Gross sales less returns and allowances</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10b</td>
<td>Less: Cost of goods sold</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10c</td>
<td>Gross profit or (loss) (attach schedule)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Other income (attach schedule)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Total, add lines 1 through 11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Compensation of officers, directors, trustees, etc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Other employee salaries and wages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Pension plans, employee benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16a</td>
<td>Legal fees (attach schedule)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16b</td>
<td>Accounting fees (attach schedule)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Taxes (attach schedule) (see page 14 of the instructions)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Depreciation (attach schedule) and depletion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Occupancy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Travel, conferences, and meetings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Printing and publications</td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Other expenses (attach schedule)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>Total operating and administrative expenses. Add lines 13 through 23</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Contributions, gifts, grants paid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>Total expenses and disbursements. Add lines 24 and 25</td>
<td></td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>Subtract line 26 from line 12.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a</td>
<td>Excess of revenue over expenses and disbursements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b</td>
<td>Net investment income (if negative, enter &quot;(0)&quot;&quot;)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c</td>
<td>Adjusted net income (if negative, enter &quot;(0)&quot;&quot;)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

For Privacy Act and Paperwork Reduction Act Notice, see the instructions.  
Cat. No. 11160K  
Form 990-PF (2004)
### Part II Balance Sheets

<table>
<thead>
<tr>
<th></th>
<th>Beginning of year</th>
<th>End of year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a) Book Value</td>
<td>(b) Book Value</td>
</tr>
<tr>
<td>1</td>
<td>Cash—non-interest-bearing</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Savings and temporary cash investments</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Accounts receivable</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Less: allowance for doubtful accounts</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Pledges receivable</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Less: allowance for doubtful accounts</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Grants receivable</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Receivables due from officers, directors, trustees, and other disqualified persons (attach schedule) (see page 15 of the instructions)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Less: allowance for doubtful accounts</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Inventories for sale or use</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Prepaid expenses and deferred charges</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Investments—U.S. and state government obligations (attach schedule)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Investments—corporate stock (attach schedule)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Investments—corporate bonds (attach schedule)</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Investments—land, buildings, and equipment—basis</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Less: accumulated depreciation (attach schedule)</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Mortgage loans</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Investments—other (attach schedule)</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Land, buildings, and equipment—basis</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Less: accumulated depreciation (attach schedule)</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Other assets (describe)</td>
<td></td>
</tr>
</tbody>
</table>

### Liabilities

<table>
<thead>
<tr>
<th></th>
<th>Beginning of year</th>
<th>End of year</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>Accounts payable and accrued expenses</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Grants payable</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Deferred revenues</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Loans from officers, directors, trustees, and other disqualified persons</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Mortgages and other notes payable (attach schedule)</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Other liabilities (describe)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Beginning of year</th>
<th>End of year</th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td>Total liabilities (add lines 17 through 20)</td>
<td></td>
</tr>
</tbody>
</table>

### Net Assets or Fund Balances

<table>
<thead>
<tr>
<th></th>
<th>Beginning of year</th>
<th>End of year</th>
</tr>
</thead>
<tbody>
<tr>
<td>22</td>
<td>Organizations that follow SFAS 117, check here □ and complete lines 24 through 26 and lines 30 and 31.</td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Unrestricted</td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>Temporarily restricted</td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Permanently restricted</td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>Organizations that do not follow SFAS 117, check here □ and complete lines 27 through 31.</td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>Capital stock, trust principal, or current funds</td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>Paid-in or capital surplus, or land, bldg., and equipment fund</td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>Retained earnings, accumulated income, endowment, or other funds</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Total net assets or fund balances (see page 17 of the instructions)</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Total liabilities and net assets/fund balances (see page 17 of the instructions)</td>
<td></td>
</tr>
</tbody>
</table>

### Part III Analysis of Changes in Net Assets or Fund Balances

<table>
<thead>
<tr>
<th></th>
<th>Beginning of year</th>
<th>End of year</th>
</tr>
</thead>
<tbody>
<tr>
<td>32</td>
<td>Total net assets or fund balances at beginning of year—Part II, column (a), line 30 (must agree with end-of-year figure reported on prior year's return)</td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>Total net assets or fund balances at end of year (line 4 minus line 5)—Part II, column (b), line 30,</td>
<td></td>
</tr>
</tbody>
</table>

Form 990PF (2006)
### Part IV Capital Gains and Losses for Tax on Investment Income

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>a</td>
<td>Gross sales price</td>
<td>b</td>
<td>Depreciation allowed (or allowable)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>c</td>
<td>Cost or other basis Plus expense of sale</td>
</tr>
<tr>
<td></td>
<td></td>
<td>d</td>
<td>e</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>f</td>
</tr>
</tbody>
</table>

Complete only for assets showing gain in column (b) and owned by the foundation on 12/31/69.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>f</td>
<td>F.V.M. as of 12/31/69</td>
</tr>
<tr>
<td>g</td>
<td>Adjusted basis as of 12/31/69</td>
</tr>
<tr>
<td>h</td>
<td>Excess of col. (i) over col. (j), if any</td>
</tr>
<tr>
<td>i</td>
<td>Sale (Col. (h) gain minus col. (i), but not less than 0) or Losses (from col. (j))</td>
</tr>
</tbody>
</table>

### Part V Qualification Under Section 4940(e) for Reduced Tax on Net Investment Income

(For optional use by domestic private foundations subject to the section 4940(e) tax on net investment income.)

If section 4940(d)(2) applies, leave this part blank.

Was the organization liable for the section 4942 tax on the distributable amount of any year in the base period?  
- Yes  
- No  

If "Yes," the organization does not qualify under section 4940(e). Do not complete this part.

1. Enter the appropriate amount in each column for each year; see page 18 of the instructions before making any entries.

<table>
<thead>
<tr>
<th></th>
<th>Adjusted qualifying distributions</th>
<th>Net value of noncharitable-use assets</th>
<th>Distribution ratio (col. (b) divided by col. (d))</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Total of line 1, column (d).

3. Average distribution ratio for the 5-year base period—divide the total on line 2 by 5, or by the number of years the foundation has been in existence if less than 5 years.

4. Enter the net value of noncharitable-use assets for 2004 from Part X, line 5.

5. Multiply line 4 by line 3.

6. Enter 1% of net investment income (1% of Part I, line 27b).

7. Add lines 5 and 6.

8. Enter qualifying distributions from Part XII, line 4.

If line 8 is equal to or greater than line 7, check the box in Part VI, line 1b, and complete that part using a 1% tax rate. See the Part VI instructions on page 18.
Part VI  Excise Tax Based on Investment Income (Section 4942(a), 4943(b), 4946(e), or 4948—see page 18 of the instructions)

1a Exempt operating foundations described in section 4944(a)(2), check here □ and enter "N/A" on line 1.

   Date of ruling letter: ____________________________ (attach copy of ruling letter if necessary—see instructions) □

b Domestic organizations that meet the section 4943(a)(9) requirements in Part V, check here □ and enter 1% of Part I, line 27b.

c All other domestic organizations enter 2% of line 27b. Exempt foreign organizations enter 4% of Part I, line 12, col. 8.

d Tax under section 511 (domestic section 4947(a)(1) trusts and taxable foundations only. Others enter -0-)

3 Add lines 1 and 2.

4 Subtract Item (4) from line 3.

5 Tax based on investment income. Subtract line 4 from line 3. If zero or less, enter -0-.

6 Credits/Payments:

   a 2004 estimated tax payments and 2005 overpayment credited to 2004

   b Exempt foreign organizations—tax withheld at source

   c Tax paid with application for extension of time to file (Form 8826)

   d Backup withholding erroneously withheld

7 Total credits and payments. Add lines 6a through 6d.

8 Enter any penalty for underpayment of estimated tax. Check here □ if Form 2220 is attached.

9 Tax due. If the total of lines 5 and 8 is more than line 7, enter amount owed.

10 Overpayment. If line 5 is more than the total of lines 8 and 6, enter the amount overpaid.

11 Enter the amount of line 10 to be Credited to 2005 estimated tax □ Refunded □

Part VII-A Statements Regarding Activities

1a During the tax year, did the organization attempt to influence any national, state, or local legislation or did it participate or intervene in any political campaign?

1b Did it spend more than $100 during the year (either directly or indirectly) for political purposes (see page 19 of the instructions for definition)?

   If the answer is "Yes" to 1a or 1b, attach a detailed description of the activities and copies of any materials published or distributed by the organization in connection with the activities.

1c Does the organization file Form 1120-POL for this year?

1d Enter the amount (if any) of tax on political expenditures (section 4955) imposed during the year:

   (1) On the organization. □ $__________ (2) On organization managers. □ $__________

1e Enter the reimbursement (if any) paid by the organization during the year for political expenditure imposed on organization managers. □ $__________

2 Has the organization engaged in any activities that have not previously been reported to the IRS?

   If "Yes," attach a detailed description of the activities.

3 Has the organization made any changes not previously reported to the IRS, in its governing instrument, articles of incorporation, by-laws, or other similar instruments? If "Yes," attach a conforming copy of the changes.

4a Did the organization have unrelated business gross income of $1,000 or more during the year?

   If "Yes," has it filed a tax return on Form 990-T for this year?

4b If "Yes," has it filed a tax return on Form 990-T for this year?

5 Was there a liquidation, termination, dissolution, or substantial contraction during the year?

   If "Yes," attach the statement required by General Instruction T.

6 Are the requirements of section 501(e) (relating to sections 4941 through 4943) satisfied either:

   • By language in the governing instrument, or
   • By state legislation that effectively amends the governing instrument so that no mandatory directions that conflict with the state law remain in the governing instrument?

7 Did the organization have at least $5,000 in assets at any time during the year? If "Yes," complete Part II, col. (c), and Part XIV.

8a Enter the states to which the foundation reports or with which it is registered (see page 19 of the instructions).

b If the answer is "Yes" to line 7, has the organization furnished a copy of Form 990-PF to the Attorney General (or designate) of each state as required by General Instruction G? If "No," attach explanation.

9 Is the organization claiming status as a private operating foundation within the meaning of section 4942(b)(3) or 4942(j)(6) for calendar year 2004 or the taxable year beginning in 2004 (see instructions for Part XIV on page 29)? If "Yes," complete Part XIV.

10 Did any person become a substantial contributor during the tax year? If "Yes," attach a schedule listing their names and addresses.

11 Did the organization comply with the public inspection requirements for its annual return and exemption application?

   Web site address □

12 The books are in care of □ (Telephone no. □)

   Located at □ (ZIP 4)

13 Section 4947(a)(1) nonexempt charitable trusts filing Form 990-PF in lieu of Form 1041—Check here □ and enter the amount of tax-exempt interest received or accrued during the year □
### Part VII-B  Statements Regarding Activities for Which Form 4720 May Be Required

**File Form 4720 If Any Item Is Checked in the "Yes" Column, Unless an Exception Applies.**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1a</strong></td>
<td>During the year did the organization (either directly or indirectly):</td>
</tr>
<tr>
<td></td>
<td>Borrow money from, lend money to, or otherwise extend credit to (or accept it from) a disqualified person?</td>
</tr>
<tr>
<td></td>
<td>Furnish goods, services, or facilities to (or accept them from) a disqualified person?</td>
</tr>
<tr>
<td></td>
<td>Pay compensation to, or pay or reimburse the expenses of, a disqualified person?</td>
</tr>
<tr>
<td></td>
<td>Transfer any income or assets to a disqualified person (or make any of either available for the benefit or use of a disqualified person)?</td>
</tr>
<tr>
<td></td>
<td>Agree to pay money or property to a governmental official? (Exception. Check &quot;No&quot; if the organization agreed to make a grant to or to employ the official for a period after termination of government service, if terminating within 90 days.)</td>
</tr>
</tbody>
</table>

**b If any answer is "Yes" to 1a(1-6), did any of the acts fail to qualify under the exceptions described in Regulations section 53.4944A-3 or in a current notice regarding disaster assistance (see page 20 of the instructions)?**

**Organizations relying on a current notice regarding disaster assistance check here.**

**c Did the organization engage in a prior year in any of the acts described in 1a, other than excepted acts, that were not corrected before the first day of the tax year beginning in 2004?**

**2 Taxes on failure to distribute income (section 4942) (does not apply for years the organization was a private operating foundation defined in section 4942(j)(3) or 4942(j)(6)):**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>a</strong></td>
<td>At the end of the tax year 2004, did the organization have any undistributed income (lines 6a and 5a, Part XIII) for tax years beginning before 2004?</td>
</tr>
<tr>
<td><strong>b</strong></td>
<td>Are there any years listed in 2a for which the organization is not applying the provisions of section 4942(a)(2) (relating to incorrect valuation of assets) to the year's undistributed income?</td>
</tr>
</tbody>
</table>

**c If any provisions of section 4942(a)(2) are being applied to any of the years listed in 2a, list the years here.**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>3a</strong></td>
<td>Did the organization hold more than a 2% direct or indirect interest in any business enterprise at any time during the year?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>3b</strong></td>
<td>If &quot;Yes,&quot; list the years:</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>4a</strong></td>
<td>Did the organization invest during the year any amount in a manner that would jeopardize its charitable purposes?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>4b</strong></td>
<td>Did the organization make any investment in a prior year that had not been removed from jeopardy before the first day of the tax year beginning in 2004?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>5a</strong></td>
<td>During the year did the organization pay or incur any amount to:</td>
</tr>
<tr>
<td></td>
<td>Carry on propaganda, or otherwise attempt to influence legislation (section 4946(e))?</td>
</tr>
<tr>
<td></td>
<td>Influence the outcome of any specific public election (see section 4955); or to carry on, directly or indirectly, any voter registration drive?</td>
</tr>
<tr>
<td></td>
<td>Provide a grant to an individual for travel, study, or other similar purposes?</td>
</tr>
<tr>
<td></td>
<td>Provide a grant to an organization other than a charitable, etc., organization described in section 509(a)(1), (2), or (3), or section 4944(c)(2)?</td>
</tr>
<tr>
<td></td>
<td>Provide for any purpose other than religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>5b</strong></td>
<td>If any answer is &quot;Yes&quot; to 5a(1-9), did any of the transactions fail to qualify under the exceptions described in Regulations section 53.4946-8 in a current notice regarding disaster assistance (see page 20 of the instructions)?</td>
</tr>
</tbody>
</table>

**Organizations relying on a current notice regarding disaster assistance check here.**

**c If the answer is "Yes" to question 5a(4), does the organization claim exemption from the tax because it maintained expenditure responsibility for the grant?**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>5b</strong></td>
<td>If &quot;Yes,&quot; attach the statement required by Regulations section 53.4945-5(a).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>6a</strong></td>
<td>Did the organization, during the year, receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>6b</strong></td>
<td>Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?</td>
</tr>
</tbody>
</table>

*If you answered "Yes" to 5b, see Form 8870.*
## Part VIII  Information About Officers, Directors, Trustees, Foundation Managers, Highly Paid Employees, and Contractors

1. List all officers, directors, trustees, foundation managers and their compensation (see page 20 of the instructions).

<table>
<thead>
<tr>
<th>(a) Name and address</th>
<th>(b) Title and average hours per week devoted to position</th>
<th>(c) Compensation</th>
<th>(d) Contributions to employee benefit plans and deferred compensation</th>
<th>(e) Expense account, other allowances</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

2. Compensation of five highest-paid employees (other than those included on line 1—see page 21 of the instructions). If none, enter “NONE.”

<table>
<thead>
<tr>
<th>(a) Name and address of each employee paid more than $50,000</th>
<th>(b) Title and average hours per week devoted to position</th>
<th>(c) Compensation</th>
<th>(d) Contributions to employee benefit plans and deferred compensation</th>
<th>(e) Expense account, other allowances</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tr>
</tbody>
</table>

**Total number of other employees paid over $50,000:**

3. Five highest-paid independent contractors for professional services (see page 21 of the instructions). If none, enter “NONE.”

<table>
<thead>
<tr>
<th>(a) Name and address of each person paid more than $50,000</th>
<th>(b) Type of service</th>
<th>(c) Compensation</th>
</tr>
</thead>
<tbody>
<tr>
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</tbody>
</table>

**Total number of others receiving over $50,000 for professional services:**

## Part IX-A  Summary of Direct Charitable Activities

List the foundation’s four largest direct charitable activities during the tax year. Include relevant statistical information such as the number of organizations and other beneficiaries served, conferences sponsored, research papers produced, etc.

<table>
<thead>
<tr>
<th></th>
<th>Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
</tr>
</tbody>
</table>
### Part IX-B Summary of Program-Related Investments (see page 22 of the instructions)

Describe the two largest program-related investments made by the foundation during the tax year on lines 1 and 2.

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>

All other program-related investments: See page 22 of the instructions.

3

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
</table>

Total. Add lines 1 through 3

### Part X Minimum Investment Return (All domestic foundations must complete this part. Foreign foundations, see page 22 of the instructions)

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
</table>
| 1 | Fair market value of assets not used (or held for use) directly in carrying out charitable, etc., purposes:  
   a. Average monthly fair market value of securities. .................................................. | 1a |
|   | Average of monthly cash balances ................................................................................. | 1b |
|   | Fair market value of all other assets (see page 22 of the instructions) ........................ | 1c |
|   | Total (add lines 1a, b, and c) ...................................................................................... | 1d |
| 2 | Reduction claimed for blockage or other factors reported on lines 1a and 1c (attach detailed explanation) ........................................................................ | 1e |
| 3 | Acquisition indebtedness applicable to line 1 assets .................................................... | 2 |
| 4 | Subtract line 2 from line 1d ........................................................................................... | 3 |
| 5 | Cash deemed held for charitable activities. Enter 1/10% of line 3 (for greater amount, see page 23 of the instructions) ................................................................. | 4 |
| 6 | Net value of non charitable-use assets. Subtract line 4 from line 3. Enter here and on Part V, line 4 | 5 |
| 7 | Minimum investment return. Enter 5% of line 5 ................................................................ | 6 |

### Part XI Distributable Amount (see page 23 of the instructions) (Section 4942(j)(3) and (j)(5) private operating foundations and certain foreign organizations check here □ and do not complete this part.)

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Minimum investment return from Part X, line 6 .........................................................</td>
</tr>
<tr>
<td>2</td>
<td>Tax on investment income for 2004. From Part VI, line 5 ........................................</td>
</tr>
<tr>
<td></td>
<td>Income tax for 2004. (This does not include the tax from Part VI) .........................</td>
</tr>
<tr>
<td>3</td>
<td>Add lines 2a and 2b .......................................................................................................</td>
</tr>
<tr>
<td>4</td>
<td>Distributable amount before adjustments. Subtract line 2c from line 1 .................</td>
</tr>
<tr>
<td>5</td>
<td>Recoveries of amounts treated as qualifying distributions .......................................</td>
</tr>
<tr>
<td>6</td>
<td>Add lines 3 and 4 .........................................................................................................</td>
</tr>
<tr>
<td>7</td>
<td>Deduction from distributable amount (see page 23 of the instructions)..................</td>
</tr>
<tr>
<td>8</td>
<td>Distributable amount as adjusted. Subtract line 6 from line 5. Enter here and on Part XIII, line 1</td>
</tr>
</tbody>
</table>

### Part XII Qualifying Distributions (see page 23 of the instructions)

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
</table>
| 1 | Amount paid (including administrative expenses) to accomplish charitable, etc., purposes:  
   a. Expenses, contributions, gifts, etc. (total from Part I, column d), line 26 .................. | 1a |
|   | Program-related investments (total from Part IX-B) ................................................... | 1b |
| 2 | Amounts paid to acquire assets used (or held for use) directly in carrying out charitable, etc., purposes:  
   a. Suitability test (prior IRS approval required) ....................................................... | 2a |
|   | Cash distribution test (attach the required schedule) ................................................ | 2b |
| 3 | Amounts set aside for specific charitable projects that satisfy the:  
   a. Suitability test (prior IRS approval required) ....................................................... | 3a |
|   | Cash distribution test (attach the required schedule) ................................................ | 3b |
| 4 | Organizations that qualify under section 4942(e) for the reduced rate of tax on net investment income. Enter 1% of Part I, line 27b (see page 24 of the instructions) .......... | 4 |
| 5 | Adjusted qualifying distributions. Subtract line 5 from line 4 .................................. | 5 |

Note: The amount on line 6 will be used in Part V, column b. In subsequent years when calculating whether the foundation qualifies for the section 4942(e) reduction of tax on those years.
### Part XIII Undistributed Income (see page 24 of the instructions)

<table>
<thead>
<tr>
<th></th>
<th>(a) Corpus</th>
<th>(b) Years prior to 2003</th>
<th>(c) 2003</th>
<th>(d) 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Distributable amount for 2004 from Part XII, line 7.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Undistributed income, if any, as of the end of 2003.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a Enter amount for 2003 only</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>b Total for prior years: 20</td>
<td></td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>3</td>
<td>Excess distributions carryover, if any, to 2004.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a From 1999</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>b From 2000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>c From 2001</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>d From 2002</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>e From 2003</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>f Total of lines a through e</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Qualifying distributions for 2004 from Part XII, line 4.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a Applied to 2003, but not more than line 2a</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>b Applied to undistributed income of prior years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Electoral required—see page 24 of the instructions)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>c Treated as distributions out of corpus (Electoral required—see page 24 of the instructions)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>d Applied to 2004 distributable amount</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>e Remaining amount distributed out of corpus</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Excess distributions carryover applied to 2004</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(If an amount appears in column (d), the same amount must be shown in column (e).)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Enter the net total of each column as indicated below:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a Corpus: Add lines 3b, 4c, and 4e. Subtract line 5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>b Prior years’ undistributed income. Subtract line 4b from line 2a</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>c Enter the amount of prior years’ undistributed income for which a notice of deficiency has been issued, or on which the section 4842(a) tax has been previously assessed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>d Subtract line 6c from line 6b. Taxable amount—see page 25 of the instructions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>e Undistributed income for 2003. Subtract line 4a from line 2a. Taxable amount—see page 25 of the instructions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>f Undistributed income for 2004. Subtract lines 4d and 5 from line 1. This amount must be distributed in 2005</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Amounts treated as distributions out of corpus to satisfy requirements imposed by section 170(b)(1)(C) or 4942(a)(6) (see page 25 of the instructions)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Excess distributions carryover from 1999 not applied on line 5 or line 7 (see page 25 of the instructions)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Excess distributions carryover to 2005. Subtract lines 7 and 8 from line 6a</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Analysis of line 9:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a Excesses from 2000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>b Excesses from 2001</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>c Excesses from 2002</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>d Excesses from 2003</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>e Excesses from 2004</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Part XIV Private Operating Foundations (see page 25 of the instructions and Part VII-A, question 9)

2a. Enter the lesser of the adjusted net income from Part I or the minimum investment return from Part X for each year listed . . . . .

b. 85% of line 2a . . . . .

c. Qualifying distributions from Part III, line 4 for each year listed . . . .

d. Amounts included in line 2c not used directly for active conduct of exempt activities . .

e. Qualifying distributions made directly for active conduct of exempt activities. Subtract line 2d from line 2c . .

3. Complete 3a, b, or c for the alternative test relied upon:
   a. "Assets" alternative test—enter:
      
      (1) Value of all assets . . . .

      (2) Value of assets qualifying under section 4942(j)(3)(B)(i)

   b. "Endowment" alternative test—enter the % of minimum investment return shown in Part X, line 1 for each year listed . . .

   c. "Support" alternative test—enter:
      
      (1) Total support other than gross investment income (interest, dividends, rents, payments on securities loans (section 512(b)(3)), or royalties)

      (2) Support from general public and 5 or more exempt organizations as provided in section 4942(j)(3)(B)(iii)

      (3) Largest amount of support from an exempt organization

      (4) Gross investment income

### Part XIV Supplementary Information (Complete this part only if the organization had $5,000 or more in assets at any time during the year—see page 28 of the instructions.)

1. Information Regarding Foundation Managers:
   a. List any managers of the foundation who have contributed more than 2% of the total contributions received. the foundation before the close of any tax year (but only if they have contributed more than $6,000). (See section 801(g)(2).)

   b. List any managers of the foundation who own 10% or more of the stock of a corporation (or an equally large portion of the ownership of a partnership or other entity) of which the foundation has a 10% or greater interest.

2. Information Regarding Contribution, Grant, Gift, Loan, Scholarship, etc., Programs:
   Check here ▶ if the organization only makes contributions to preselected charitable organizations and does not accept unsolicited requests for funds. If the organization makes gifts, grants, etc. (see page 29 of the instructions) to individuals or organizations under other conditions, complete items 2a, b, c, and d.

   a. The name, address, and telephone number of the person to whom applications should be addressed:

   b. The form in which applications should be submitted and information and materials they should include:

   c. Any submission deadlines:

   d. Any restrictions or limitations on awards, such as by geographical areas, charitable fields, kinds of institutions, or other factors:
### Part XV  Supplementary Information (continued)

#### 3  Grants and Contributions Paid During the Year or Approved for Future Payment

<table>
<thead>
<tr>
<th>Recipient</th>
<th>Recipient is an individual who is related to any corporation, foundation, partnership, trust, or substantial contributor to any foundation or corporation</th>
<th>Foundation status of recipient</th>
<th>Purpose of grant or contribution</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name and address (home or business)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**a  Paid during the year**

<table>
<thead>
<tr>
<th>Total</th>
<th>3a</th>
</tr>
</thead>
</table>

**b  Approved for future payment**

<table>
<thead>
<tr>
<th>Total</th>
<th>3b</th>
</tr>
</thead>
</table>

Form 990-PF (2004)
### Part XVI-A Analysis of Income-Producing Activities

Enter gross amounts unless otherwise indicated.

<table>
<thead>
<tr>
<th></th>
<th>Unrelated business income</th>
<th>Excluded by section 512, 513, or 514</th>
<th>Related or exempt function income due to page 28 of the instructions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a) Business code</td>
<td>(b) Amount</td>
<td>(c) Exclusion code</td>
</tr>
<tr>
<td>1</td>
<td>Program service revenue:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f</td>
<td>Fees and contracts from government agencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Membership dues and assessments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Interest on savings and temporary cash investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Dividends and interest from securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Net rental income or (loss) from real estate:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a</td>
<td>Debt-financed property</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b</td>
<td>Not debt-financed property</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Net rental income or (loss) from personal property</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Other investment income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Gain or (loss) from sales of assets other than inventory</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Net income or (loss) from special events</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Gross profit or (loss) from sales of inventory</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Other revenue:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Subtotal. Add columns (b), (d), and (e)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Total. Add line 12, columns (b), (d), and (e)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Part XVI-B Relationship of Activities to the Accomplishment of Exempt Purposes

Explain below how each activity for which income is reported in column (e) of Part XVI-A contributed importantly to the accomplishment of the organization’s exempt purposes (other than by providing funds for such purposes). (See page 27 of the instructions.)

---

Form 990-PF (2004)
### Part XVII - Information Regarding Transfers To and Transactions and Relationships With Noncharitable Exempt Organizations

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Transfers from the reporting organization to a noncharitable exempt organization of:

- (1) Cash:  
- (2) Other assets:  

b. Other transactions:

- (1) Sales of assets to a noncharitable exempt organization:  
- (2) Purchases of assets from a noncharitable exempt organization:  
- (3) Rental of facilities, equipment, or other assets:  
- (4) Reimbursement arrangements:  
- (5) Loans or loan guarantees:  
- (6) Performance of services or membership or fundraising solicitations:  

- c. Sharing of facilities, equipment, mailing lists, other assets, or paid employees:  

d. If the answer to any of the above is "Yes," complete the following schedule. Column (b) should always show the fair market value of the goods, other assets, or services given by the reporting organization. If the organization received less than fair market value in any transaction or sharing arrangement, show in column (d) the value of the goods, other assets, or services received.

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Amount Involved</th>
<th>Name of Noncharitable Exempt Organization</th>
<th>Description of Transfers, Transactions, and Sharing Arrangements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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</tr>
</tbody>
</table>

2a. Is the organization directly or indirectly affiliated with, or related to, one or more tax-exempt organizations described in section 501(c) of the Code (other than section 501(c)(3)) or in section 5077?  □ Yes  □ No

b. If "Yes," complete the following schedule.

<table>
<thead>
<tr>
<th>Name of Organization</th>
<th>Type of Organization</th>
<th>Description of Relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer or fiduciary) is based on all information of which preparer has any knowledge.

**Sign Here**

- Signature of officer or trustee:  
- Date:  
- Title:  

**Preparer’s Signature**

- Preparer’s GIN or PTIN:  
- Check if self-employed:  
- Date:  
- Check if self-employed:  
- Phone no.:  

Form 990-PF (2004)