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CORPORATE ART SUPPORT THROUGH FOUNDATIONS

This study explores the impact of the board of directors of corporations on the choice of support methods and social areas for this support. We dichotomize support methods as whether support was pursued through corporate foundations or not, and whether the support was for arts or non-arts areas. We found that the larger the board is, the more likely the corporation would be to support society through corporate foundation. In terms of support areas, we found that the larger the board is and the more independent is the foundation of the founding corporation, the more likely is the corporation to support arts rather than other areas.

Keywords: corporate art support; foundation; board of directors.

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КОРПОРАТИВНА ПІДТРИМКА РОЗВИТКУ МИСТЕЦТВА ШЛЯХОМ ЗАСНУВАННЯ ФОНДІВ

У статті досліджено вплив складу ради директорів корпорацій на вибір методів соціальної роботи корпорацій. Методи соціальної політики та роботи розглянуто в дихотомії: підтримка шляхом заснування фондів – робота без створення окремого фонду; підтримка розвитку мистецтва – підтримка інших соціальних сфер. Результати аналізу даних показали, що, чим більше рада директорів за розміром – тим більше вона схильна до ідеї заснування фонду. Крім того, чим більша рада директорів і чим більш незалежним є фонд у своєму управлінні від материнської компанії – тим вище вірогідність підтримки проектів саме з розвитку мистецтва.

Ключові слова: корпоративна підтримка мистецтва; фонд; рада директорів.

Рис. 1. Табл. 5. Літ. 48.

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КОРПОРАТИВНАЯ ПОДДЕРЖКА РАЗВИТИЯ ИСКУССТВА ЧЕРЕЗ СОЗДАНИЕ ФОНДОВ

В статье исследовано влияние состава советов директоров корпорацій на выбор методов социальной работы корпорацій. Методы социальной политики и работы рассмотрены в дихотомии: поддержка через создание фондов – работа без создания фонда; поддержка развития искусства – поддержка других социальных сфер. Результаты анализа данных показали, что, чем больше совет директоров по размеру – тем более он склонен к созданию фонда. Кроме того, чем больше совет директоров и чем более независим фонд в своём управлении от материнской корпорації – тем выше вероятность поддержки проектов именно по развитию искусства.

Ключевые слова: корпоративная поддержка искусства; фонд; совет директоров.

Introduction. The size of corporate support for society is growing quickly. According to "Giving USA", the amount of social support in 2009 was about 13.4 bln USD in total, and support via corporate foundations was about 4.7 bln USD. While early forms of corporate support for society were more philanthropically oriented, recent ones were more strategically looking as social support became a vital aspect for corporations. Corporations would try to enhance their images and promote sales through corporate support for society (Turgeon and Colbert, 1992).

However, there are also growing concerns that corporate support has been opportunistically exploited to enhance personal benefits of top executive officers

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(Godfrey, 2005; Karl and Katz, 1987; Barnard, 1997). To prevent this problem, known as agency costs, the role of board of directors has been of interest since the board is supposed to monitor managers and keep the firm transparent to shareholders (Fama and Jensen, 1983). Especially, corporate foundations have strict monitoring systems to report the board of founding corporations on the details of donations they made.

Prior research has been more interested in dynamic impacts of corporate philanthropy, board of directors, and/or corporate governance (Coffey and Wang, 1998; Bartkus et al., 2002; Warbel and Carter, 2002; Petrovits, 2006; Brammer and Millington, 2006), while we expand this stream of research to empirically explore how corporate art support may be affected by the features of board of directors. More specifically, we focus on board size, and cross-positioning across funding corporations and foundations. Then we classify the types of corporate support activities into art and non-art areas as well as foundation and non-foundation based, to see if the board features play certain role in choosing among the types of corporate support.

Further, we review theoretical backgrounds and draw testable hypotheses. Based on the data of 235 corporations that made various types of supports in 2010, we empirically test our hypotheses. Conclusions and implications are discussed.

Literature review and hypotheses.

1. Corporate support for society. Corporate philanthropy started as early as in the ancient Greek period, but modern corporate support for society started from the early 1900s when the Carnegie raised the issue of social development (Hall, 2006). There have been debates on how a corporation can correctly perceive social responsibility. On the one hand, Friedman (1970) argued that the only social responsibility that a corporation should focus on is to realize profits first and then share profits with society. On the other hand, Drucker (1984) argued that a corporation has a responsibility not only to its shareholders but also to other stakeholders. If a corporation successfully takes care of its stakeholders, it can survive longer and make greater profits. Though these arguments are somewhat contradictory, especially on the causal relationship between private and public duties of a corporation, they still suggest a positive interaction between profit pursuing and profit sharing.

Corporations can choose among monetary donations and product or service contributions when they decide to support. Monetary donations have been more popular because product or service contributions are harder to implement and difficult to measure their effects (Burlingame and Frishkoff, 1996). On the other hand, product or service contributions could be more effective than monetary donations in terms of time flexibility, money, and energy that the giving corporations have (Yankey, 1996). Whether it would be money or products, corporations may pursue various benefits by making corporate support. Giving grants to shine up their corporation names or brands can catch attention of society. Cash donations to social or political groups may create publicity, even though it can also be seen as lobbying (Young and Burlingame, 1996). Even the term SROI, Social Return on Investment, which focuses on the broader concept of corporate assets such as environmental or social assets, explains how corporations can build up their social capital by making donations (Wikipedia.com).

Social capital can be obtained in foreign countries, too. Corporate supports in foreign countries could lead to enhancing publicity and creating additional opportu-

nity for economic benefits (Martorella, 1996a; Hess et al., 2002). Proper corporate support activities may help corporations build reputation at a new market, strengthen marketing and brand power, improve the relationship with regional governments.

Ironically, however, scholars have found that the benefit of corporate support does not always increase the corporation value, but sometimes only benefit managers in supporting corporations (Galaskiewicz and Colman, 2006; Barnard, 1997; Brudney and Ferrell, 2002). For example, during the 1950s, top executive officers almost exclusively made decisions on corporate donations. Their "pet causes" to use the power of corporations for their personal purposes were hidden but dominant, so even though corporate donations didn't bring any benefits to corporations, large amounts of funds were often contributed too generously (Barnard, 1997: 1162). Previous research has found that managers may have motivations different from stockholders in pursuing corporate philanthropy (Petrovits, 2006; Werbel and Carter, 2002; Brudney and Ferrell, 2002).

2. Corporate art support. Art support is one type of corporate supports that include mecenat movements, arts sponsorships etc. (Martorella, 1996a; Young and Burlingame, 1996). The term "corporate patronage" has been widely used in America because private corporations have supported arts more actively than federal or local governments. For European countries, on the other hand, the term "sponsorship" has been more familiar because European governments played more important roles than corporations in supporting arts. There are other variations of terms, such as corporate philanthropy, art partnerships etc. (Martorella, 1996b; Galaskiewicz and Colman, 2006).

In America, more specifically, supporting arts has been regarded as a responsibility of corporations that are supposed to value citizenship, and the government indirectly encouraged corporations to support arts. After the 1960s, corporations began to get involved more actively in charity and contributing to art projects (Martorella, 1996a). Marketing/sponsorship budget grew to the largest portion of corporate art support funding sources, followed by social contribution budget and advertisement/publicity budget (Business Committee for the Arts, 2007). Here, corporations can support arts roughly in two ways: through corporate giving/charity programs, and through corporate-sponsored foundations. In another words, corporations can contribute directly through giving programs, indirectly through foundations, or both (Petrovits, 2004).

3. Corporate support through foundations. In 2010, grant-making corporate foundations in America counted approximately 2,700 and the total amount of the fund was up to 4.7 bln USD (Foundation Center, 2011). American corporations have the longest history and the largest fund in managing their corporate foundations, and most prior research used the data of American corporations (e.g., Bartkus et al., 2002; Prewitt, 2006; Katz, 2006; Warbel and Carter, 2002; Galaskiewicz and Colman, 2006).

Corporations that make donations through their foundations are required to report details of these donations. In general, when corporations transfer money to a foundation, they report it as social support expenses. Although foundations are independent institutions, they usually maintain close relationship with the funding corporation and report the use of funds to the corporation (Petrovits, 2006). Thus, cor-

porations have much influence on the decisions of corporate foundations (Brown et al., 2006; Margo, 1996). The use of corporate foundations to support outside has been believed to decrease agency problems when it is compared to the case when corporations directly donate, because foundations have formal reporting systems to funding corporations so that stakeholders can easily monitor foundations' donation activities.

4. Hypotheses. The purpose of this study is to investigate corporate support activities in terms of support methods and support areas. First, we take all corporations that make social support and test if the board size of these corporations has any impact on if they use foundations to support (a test for support methods). Second, we take the group of art-supporting corporations and test if these board size of the corporations has any impact on if they use foundations to support (another test for support methods). Lastly, we take the group of foundation-managing corporations and test if the board size and board mix have any impact on the decision of supporting arts (the test for support areas). Figure 1 shows the model of this study.

Support Methods

	Foundation	Non-Foundation
Arts	A	B
Non-Arts	C	D

Support Areas

Figure 1. Study model, authors'

Previous studies found a positive relationship between the size of a corporation and the size of donations (Brammer and Millington, 2006; Brown et al., 2006), as well as between the size of a corporation and the size of corporate board of directors (Lehn et al., 2009). An ideal size for the board of directors varies with the size of corporation (Eisenberg et al., 1998). Cheng (2008) argued that a larger board of directors will require a longer time to come to an agreement, so they do not make radical decisions that bring about big changes. Also, the larger is the board of directors, the bigger is the ratio of outside directors, and the outside directors value their reputations to make more discreet decisions (Eisenberg et al., 1998).

Generally, corporations with large boards tend to have corporate foundations, making large corporate giving (Brown et al., 2006; Bartkus et al., 2002). Foundations could efficiently handle large donations while not interfered by various stakeholders with complex interests. In addition, large corporations may have various tax benefits by having corporate foundations. When a corporation records a large earning, it can donate to corporate foundation and get tax deductions (Galaskiewicz and Colman, 2006). Thus, we set a hypothesis below (in Figure 1 – preference of A + C out of A + B + C + D).

H1-1. Corporations with a larger board of directors will support society through corporate foundations.

There can be a number of benefits that corporations may gain from supporting arts rather than other fields. Corporations may gain prestigious and unique images that certain types of artworks have, especially when artworks carry images of wealth and authority. However, not only corporations but also managers may gain personal prestigious images, while decreasing the stakeholders' value.

One of the most cautious issues of support-making corporations would be the agency problems, and intrinsic conservatism of large size of the board may be able to persuade stakeholders not to concern about agency problems (Brumm, 2002), especially when supporting activities involve art-supports that can easily enhance managers' reputation in a society. Thus, if board is large, art-supporting corporations would take more conservative ways of using foundations (in Figure 1 – preference of A out of A + B).

H1-2. Corporations with a larger board of directors will support arts through corporate foundations.

On the other hand, corporate foundations that make support for society can either support arts or not. We expect that, among the corporations that support society through foundations, corporations with large board of directors are more likely to support arts. Arts and culture in America have received support not so much from local governments but from private and non-profit organizations.

For example, social support patterns of non-profit organizations in 2009 showed that a significant amount of donations went to arts and culture areas, and corporate foundations made the most of donations (Chong, 2003). Corporate foundations would be conservative in making donations if the fund from founding corporations is not enough, and large corporations would prefer more prestigious images by supporting arts. Thus, the larger is the board of directors of founding corporations, the more likely foundations would be to support arts (in Figure 1 – preference of A + C).

H2-1. Corporations with a larger board of directors and corporate foundations will likely support arts rather than other areas.

The arts have been supported by politically or economically powerful families since the Medici era, and this tradition is still in effect in the sense that corporate giants are making major supports for arts. However, as we described above, corporations are not free from their stakeholders' concerns about agency problems. Actually this is one of the reasons why corporations build foundations to make social support transparent as well as efficient.

Thus, the boards of directors of corporate foundations are supposed to oversee if any decisions made by foundations would violate the primary rules of not decreasing the value of shareholders of founding corporations. To achieve this purpose, the function of foundations directors need not to be overlapped with the ones of directors of founding corporations. In many cases, however, the directors of founding corporations have cross-positions in the boards of foundations, because it would increase efficiency of transferring information to foundations and orchestrate interdependent jobs between founding corporations and foundations. This cross-positioning would provoke concerns of stakeholders that foundations would support arts for the sake of

founding corporations' top executives' personal interests, such as achieving good images that artwork may carry. So, if there are no overlapped directors in the foundation, which means the foundation is managed independently, corporate foundation are likely to support arts without concerns. Thus, we set a hypothesis below (in Figure 1 – preference of A out of A + C).

H2-2. Corporations that have independently managed foundations are likely to support arts rather than other areas.

Methodology.

1. Data and method. The data in this study was obtained from the American Foundation Center in 2010. The American Foundation Center was established in 1956 to provide comprehensive charity data in the United States. We searched Corporate Giving Online database that provides corporate fundraising information of 3,800 corporations and 2,800 corporate foundations on approximately 1,400 corporate giving programs. Then we limited our sample to "Fortune 500" companies published in May 2011 to find company information such as industry classification, number of employees, number of directors, financial data and the year of establishment from various sources. Grant-maker search provided information on corporate foundations and giving programs, as well as the purpose of support, support type, support area of interest, regional boundary of support, and foundation board members. Finally, 235 corporations were qualified in the sample. For data analysis, a binomial logistic regression was conducted using SPSS 18.0 since we had dichotomized groups for dependent variables for each hypothesis.

2. Variables.

Dependent variables. Figure 1 has 4 cells that represent the groups of corporations in the model. The number of data in each cell was 138, 40, 56, and 1 for A, B, C and D respectively. The hypothesis 1-1 was about if corporations supported society through foundations (A + C, in Figure 1 hereafter) among all (A + B + C + D). The hypothesis 1-2 was whether if corporations supported arts through foundations (A) among all art-supporting corporations (A + B). Also, for the hypotheses 2-1 and 2-2, we tested if corporate foundations supported arts (A) among all corporate foundations (A + C). We could find in corporate grant-making search if corporations had giving programs themselves or through corporate foundations, and if these programs were in arts fields, such as fine arts, or performing arts, or other areas such as environment, education etc.

Independent variables. The first independent variable for the hypotheses 1-1, 1-2, and 2-1 was Board Size measured by the number of directors in founding corporations. The second independent variable for hypothesis 2-2 was Cross-Position measured by the number of overlapped directors in founding corporation and corporate foundation. We found this information via biographic intelligence from corporate profiles, and in the case of missing information, Forbes.com (where information on corporate directors or corporate officers is available) was used as a supplementary data source.

Control variables. The control variables were selected basing on the previous studies that found influential factors as to corporate support: the existence of International Subsidiaries, Industry (Brammer and Millington, 2005, 2006; Brown et al., 2006); Number of Employees (Burlingame and Friskhkoff, 1996); Operation

Year, amount of net Assets and total Sales (Martorella, 1996; Amato and Amato, 2007); and Percentage of Insides board members (Wang and Coffey, 1992; Coffee and Wang, 1998; Bartkus et al., 2002; Brown et al., 2006). International operation availability – the presence of international operation – was collected from the 2010 corporate profiles from Corporate Giving Online and coded "1" if any and "0" if not. Financial information such as the number of employees, total net assets and total sales were also collected from the same source. For the industry classifications, 2-digit Standard Industrial Classification codes of corporations were collected from the US Securities and Exchange Commission EDGAR search, and grouped into 8 categories. With regards to missing information on the established years, Wikipedia.com was searched as a supplementary data source.

Results. In order to verify the hypotheses proposed in this study, the correlation analysis was run between the selected variables. As visible in the statistics in Table 1, the smallest size of the board of directors per corporation was 5, and the total number of directors in the corporation with the largest size of board of directors was 22.

Table 1. The basic statistics of the sample, authors'

	N	Min	Max	Average	S.D
Support through foundations	235	0	1	.59	.49
Foundation art support	235	0	1	.17	.38
SIC (10~14) Mining	235	0	1	.03	.16
SIC (15~17) Construction	235	0	1	.00	.07
SIC (20~39) Manufacturing	235	0	1	.44	.50
SIC (40~49) Public utilities	235	0	1	.14	.35
SIC (50~51) Wholesale trade	235	0	1	.03	.16
SIC (52~59) Retail trade	235	0	1	.12	.33
SIC (60~67) Finance	235	0	1	.18	.39
SIC (70~89) Service	235	0	1	.06	.24
Int'l subsidiaries	235	0	1	.77	.42
Number of employees	235	4,000	2,100,000	68,390.71	152,912
Operation year	235	11	220	79.81	45.84
Total assets (in mln)	235	1,050	2,264,909	87,076.90	227,832
Total sales(in mln)	235	3,001	421,849	30,500.41	36,452
Insiders in board of directors	235	1	7	1.72	.88
Board size	235	7	21	11.82	2.36
Cross-position	188	0	1	.88	.33

In order to verify the hypothesis proposed in this study, the correlation analysis was run between the selected variables. Table 2 shows the correlations between each variable of those corporations that support art through foundations, and some factors that affect corporate giving were used as variables in this regression analysis, which could lead to a multi-collinearity problem among some variables, therefore a multi-collinearity test was run.

In order to verify the hypothesis of this study, a binomial logistic regression analysis was run. Table 3 summarizes the results of the binomial logistic regression analysis for the hypothesis 1-1. Here, Board Size was positively and significantly related to the use of foundation among 235 corporations (A + C among A + B + C + D in Figure 1, hereafter). Thus, H1-1 was supported.

Table 2. Correlation table, authors'

	1	2	3	4	5	6	7	8	9	10
1. Support through foundations	1									
2. Foundation art support	-.54**	1								
3. Int'l subsidiaries	-.01	.09	1							
4. Number of employees (logged)	.17**	-.18**	.19**	1						
5. Operation year (logged)	.17*	-.03	.16*	.13	1					
6. Total assets (logged)	.14*	-.03	.00	.38**	.14*	1				
7. Total sales (logged)	.12	-.07	.13*	.70**	.11	.70**	1			
8. Insiders in board of directors	.03	-.06	.04	.01	.07	.13*	.05	1		
9. Board size	.27**	-.17**	.06	.25**	.13*	.47**	.36**	.37**	1	
10. Cross-position	.22**	-.17*	-.07	.04	.08	.06	.04	.04	.05	1

** $p < 0.01$, * $p < 0.05$, + $p < 0.1$.

Table 3. Binomial test for H1-1, authors'

Variables	Model 1	Model 2
Constant	7.65 (6.22)	10.99+ (6.44)
Industry dummies included		
Int'l subsidiaries	1.01 (.56)	1.14* (.58)
Number of employees (logged)	.77 (.26)	.82** (.27)
Operation year (logged)	-.11 (.29)	-.17 (.30)
Total assets (logged)	-.54 (.36)	-.86* (.41)
Total sales (logged)	.13 (.41)	.21 (.42)
Insiders in board of directors	.52 (.31)	.26 (.32)
Board size		.29* (.12)
N	235	235
Nagelkerke R ²	.23	.27
Accuracy	84.7	86.0
chi ²	34.32**	41.36**

** $p < 0.01$, * $p < 0.05$, + $p < 0.1$.

Table 4 shows the test results for the hypothesis 1-2. Here, Board Size was positively and significantly related to the use of foundation among 178 art-supporting corporations (A among A + B). Thus, H1-2 was supported.

Table 5 shows the test results for the hypothesis 2-1 and 2-2. In Model 1, Board Size was positively and significantly related to the support for art among 194 corporate foundations (A among A + C). Also, in Model 2, Cross-position was negatively and significantly related to the support for art among 194 corporate foundations (A among A + C). Thus, H2-1 and H2-2 were all supported.

Table 4. Binomial test for H1-2, authors'

Variables	Model 1	Model 2
Constant	2.40 (6.65)	6.32 (6.95)
Industry dummies included		
Int'l subsidiaries	.99 (.60)	1.09 ⁺ (.62)
Number of employees (logged)	.73* (.29)	.75* (.30)
Operation year (logged)	.03 (.29)	-.05 (.32)
Total assets (logged)	-.50 (.40)	-.79 ⁺ (.45)
Total sales (logged)	.29 (.46)	.30 (.48)
Insiders in board of directors	.46 (.33)	.15 (.35)
Board size		.35** (.14)
N	178	178
Nagelkerke R ²	.28	.33
Accuracy	81.5	80.9
chi ²	35.58**	43.22**

** $p < 0.01$, * $p < 0.05$, + $p < 0.1$.

Table 5. Binomial test for H2-1 and H2-2, authors'

Variables	Model 1	Model 2	Model 3	Model 4
Constant	-5.59 (5.75)	-3.68 (5.81)	-2.25 (5.95)	.08 (6.08)
Industry dummies included				
Int'l subsidiaries	-.09 (.46)	-.02 (.47)	-.56 (.49)	-.48 (.51)
Number of employees (logged)	.17 (.23)	.19 (.24)	.24 (.24)	.28 (.25)
Operation year (logged)	.65* (.26)	.69* (.27)	.61* (.28)	.66* (.28)
Total assets (logged)	.36 (.26)	.17 (.27)	.27 (.27)	.07 (.28)
Total sales (logged)	-.22 (.36)	-.23 (.37)	-.26 (.37)	-.27 (.37)
Insiders in board of directors	-.11 (.21)	-.33 (.23)	-.24 (.22)	-.50* (.25)
Board size		.24** (.09)		.25** (.10)
Cross-position			-1.25* (.51)	-1.33* (.52)
N	194	194	184	184
Nagelkerke R ²	.14	.19	.19	.24
Accuracy	73.7	74.7	73.9	77.2
chi ²	19.58 ⁺	27.20*	25.59*	33.10*

** $p < 0.01$, * $p < 0.05$, + $p < 0.1$.

Conclusion. This study followed the stream of studies on corporate philanthropy (Brown et al., 2006; 2006; Brammer and Millington, 2006), corporate arts support (O'Hagan and Harvey, 2000) and corporate foundations (Werbel and Carter, 2002; Petrovits, 2006), connecting them to theoretical arguments on agency problems (Bartkus et al., 2002; Cheng, 2008) to investigate if the size of board affects corporate decisions on support methods (if foundation is used) and support areas (if arts area is selected), and given the foundation is used, if cross-position between the boards of corporation and foundation discourages supports for arts. The results and brief implications are summarized below.

First, we confirmed that large board size leads to corporations' support both arts and general areas through corporate foundations. This result implied that agency issues including board size can be precursors for corporate support methods. In other words, large number of directors may lead corporations to be conservative and transparent in the ways of spending fund for social issues.

Second, among the corporations that established foundations, we found that the large size of board leads to supporting arts. This result implied that agency issues including board size can also be precursors for corporate support areas. As we explained earlier, we presume that corporate foundations would be conservative in selecting support areas, and large corporations would prefer more prestigious images by supporting arts.

Third, among the corporations that established corporate foundations, we found that independently managed foundations are likely to support arts. This result implied that agency issues including board member characteristics can be precursors for corporate support areas. If corporations' executives are also in the board of foundations, stakeholders may assume that the foundation is affected by founding corporation, and support for arts that potentially creates prestigious images for managers would be discouraged. Thus, independency of foundation from founding corporation would be important to have autonomy of support activities in terms of selecting support areas.

The limitations of this study are as follows. First, we investigated only American corporations whose social supports are relatively active, plus their data is easy to obtain. The data from other countries may provide different results. Second, we measured board characteristics by the number of directors and cross-positioning, as well as percentage of inside directors as a control variable, but there can be other board features having impact on social support decisions. Further studies may find deeper insights from more extended research.

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Стаття надійшла до редакції 12.05.2015.