The Strategic Use of Corporate Philanthropy: Evidence from Bank Donations

Seungho Choi[1], Raphael Jonghyeon Park[2], and Simon Xu[3]
[1]Queensland University of Technology; [2]University of New South Wales; [3]SRI Research Lab.

Abstract

Using data on bank donations to nonprofit organizations, we examine the strategic nature of banks' charitable giving. We find that bank donation decisions are driven by local market competition and such donations subsequently lead to a higher local market share. We confirm our results by using two exogenous shocks: the application of antitrust laws in bank mergers and natural disasters.

We further show that bank donations lead to increases in local mortgage originations and in the likelihood of entry into new markets through branch openings. Overall, our evidence suggests that banks participate in corporate philanthropy strategically to enhance performance.

Introduction

Giving USA 2019 reports that corporate charitable giving increased by 5.4% in 2018, totaling $20.05 billion. Out of this amount, corporate foundation grantmaking constituted $6.88 billion in 2018, an increase of 6.5% from 2017.

Banks are one of the largest donors in corporate philanthropy:

- In 2015, seven banks were included in the list of the twenty most generous companies of the Fortune 500 in terms of cash contributions.
- Goldman Sachs donated 3% of its pre-tax profits in 2015 and Wells Fargo gave 2% of its pre-tax profits to charity in 2019.

Despite the active engagement of banks in corporate philanthropy, little attention has been given to their donations. Even less attention has been given to the “strategic” nature of these donations.

Research Questions

Strategic use of corporate philanthropy in the context of the banking industry

- What is driving donation decisions?
  - Competitive environment of local deposit markets.
- Do donations lead to added benefits?
  - For donations to be truly strategic, they must pay off for the bank in terms of additional value.
  - Donations have a material impact on the banks' local deposit market share.
- Separate out the effects of the direct and indirect channel.
  - Banks donate to local nonprofits to build relationships which in turn attracts these nonprofits as banks' customers.
  - Banks use donations to attract socially responsible customers.
- Additional economic consequences of bank donations:
  - Lending activity.
  - New market entry.

Identification Strategies

Exploiting the application of the antitrust screening process in bank mergers, we examine drivers of bank donations.

- This screening process is based on a pro forma analysis that involves both the predicted post-merger level of the HHI and the predicted change in the HHI resulting from the merger.
- Regulators will intervene and require branch divestitures in any market where the HHI is predicted to rise by at least 0.02 points to a level above 0.18 as a result of the merger.
- The purpose of these divestitures is to ensure that a high level of competition is maintained in banking markets where mergers could adversely affect competition.
- Treated group: Banking markets where antitrust laws are required to maintain competition.
- Control group: Banking markets where antitrust laws are not executed (competition will decrease as a result of the mergers being completed).

Using natural disasters at county-level, we investigate whether donations translate into a greater deposit share.

- Natural disasters serve as an exogenous shock to the local demand for donations.
- Natural disasters incentivize banks to donate to the affected areas for reasons other than profitability.
- Treated counties: Counties experienced a natural disaster in a year.
- Control counties: Adjacent counties that did not experience a natural disaster during the same year.

Empirical Results

Drivers of bank donations (the application of antitrust laws):

Dep. variable: *Donation*	(1)	(2)	(3)	(4)
$PostMerger_1$	-0.045***	-0.041*	-0.052***	-0.008
	(-3.32)	(-1.73)	(-4.22)	(-0.77)
$PostMerger_1 \times Treated_m$	0.052***	0.060***	0.071***	0.027***
	(3.92)	(3.13)	(5.85)	(2.80)
$PostMerger_2$			-0.025	0.006
			(-1.22)	(0.34)
$PostMerger_2 \times Treated_m$			0.018	0.018
			(1.02)	(1.14)
Controls	Yes	Yes	Yes	Yes
Year F.E.	Yes	No	Yes	No
Bank F.E.	Yes	No	Yes	No
Merger F.E.	Yes	Yes	Yes	Yes
Banking market F.E.	Yes	Yes	Yes	Yes
Bank × Year F.E.	No	Yes	No	Yes
Observations	5,650	5,569	7,454	7,380
R^2	0.68	0.88	0.66	0.86

Donations and deposit market share (natural disasters):

Dep. variable: *Deposit share*	OLS		Difference-in-differences		
	(1)	(2)	(3)	(4)	(5)
Donation	0.039***	0.002**	0.042***	0.043***	0.043***
	(11.82)	(2.57)	(6.35)	(4.77)	(4.74)
$PostShock_1 \times Treated_c \times Donation$			0.005***	0.005***	0.004***
			(2.73)	(3.20)	(3.00)
$PostShock_2 \times Treated_c \times Donation$				0.004*	0.004*
				(1.93)	(1.69)
$PostShock_3 \times Treated_c \times Donation$					0.001
					(0.24)
Controls and other interactions	Yes	Yes	Yes	Yes	Yes
Year F.E.	Yes	Yes	No	No	No
Bank F.E.	Yes	No	No	No	No
County F.E.	Yes	No	No	No	No
Cohort F.E.	No	No	Yes	Yes	Yes
Bank × County F.E.	No	Yes	No	No	No
Bank × Year F.E.	No	No	Yes	Yes	Yes
County × Year F.E.	No	No	Yes	Yes	Yes
Observations	84,423	84,211	37,218	41,683	46,334
R^2	0.66	0.94	0.77	0.77	0.78

Direct channel:

Dep. variable: *Deposit share*	Treated sample		Full sample	
	(1)	(2)	(3)	(4)
Donation	0.074***	0.076***	0.059***	0.061***
	(3.18)	(3.13)	(4.20)	(4.06)
$PostMerger_1$	-0.008***	-0.008***	0.003	0.003
	(-4.09)	(-3.84)	(1.01)	(0.76)
$PostMerger_1 \times Donation$	0.015***	0.012***	-0.002	-0.004
	(4.53)	(3.79)	(-0.44)	(-0.80)
$PostMerger_1 \times Treated_m \times Donation$			0.012**	0.011**
			(2.40)	(2.20)
Controls and other interactions	Yes	Yes	Yes	Yes
Merger F.E.	Yes	Yes	Yes	Yes
Banking market F.E.	Yes	No	Yes	No
Bank × Year F.E.	Yes	Yes	Yes	Yes
Banking market × Year F.E.	No	Yes	No	Yes
Observations	4,630	4,559	7,380	7,287
R^2	0.64	0.65	0.59	0.60

Indirect channel:

Dep. variable: *Deposit share*	OLS	Difference-in-differences		
	(1)	(2)	(3)	(4)
$Adj.\ donation_{\geq 1}$	0.006***			
	(3.04)			
Adj. donation		0.003	0.003	0.001
		(1.11)	(1.01)	(0.44)
$PostShock_1 \times Treated_{c,j} \times Adj.\ donation$		0.003**	0.005***	0.003**
		(2.31)	(2.87)	(2.07)
$PostShock_2 \times Treated_{c,j} \times Adj.\ donation$			0.002	0.003
			(0.97)	(1.05)
$PostShock_3 \times Treated_{c,j} \times Adj.\ donation$				0.002
				(1.00)
Controls and other interactions	Yes	Yes	Yes	Yes
Year F.E.	Yes	No	No	No
Bank F.E.	Yes	No	No	No
County F.E.	Yes	No	No	No
Group F.E.	No	Yes	Yes	Yes
Bank × Year F.E.	No	Yes	Yes	Yes
County × Year F.E.	No	Yes	Yes	Yes
Observations	50,809	7,522	9,868	11,493
R^2	0.72	0.91	0.90	0.90

Additional economic consequences of bank donations:

Dep. variable: *ln(Mortgage origination)*	OLS		Difference-in-differences			
	(1)	(2)	(3)	(4)	(5)	(6)
Donation	0.451***	0.107***	-0.020	-0.037	-0.073*	-0.107***
	(6.58)	(8.01)	(-0.45)	(-1.02)	(-1.82)	(-2.76)
$PostShock_1 \times Treated_c \times Donation$			-0.002	0.014	0.018	0.010
			(-0.07)	(0.38)	(0.38)	(0.19)
$PostShock_2 \times Treated_c \times Donation$				0.125***	0.124**	0.159**
				(2.75)	(2.10)	(2.26)
$PostShock_3 \times Treated_c \times Donation$					0.109**	0.146**
					(2.14)	(2.52)
$PostShock_4 \times Treated_c \times Donation$						0.085
						(1.19)
Controls and other interactions	Yes	Yes	Yes	Yes	Yes	Yes
Year F.E.	Yes	Yes	No	No	No	No
Bank F.E.	Yes	No	No	No	No	No
County F.E.	Yes	No	No	No	No	No
Cohort F.E.	No	No	Yes	Yes	Yes	Yes
Bank × County F.E.	No	Yes	No	No	No	No
Bank × Year F.E.	No	No	Yes	Yes	Yes	Yes
County × Year F.E.	No	No	Yes	Yes	Yes	Yes
Observations	77,535	77,307	32,919	38,340	41,815	43,446
R^2	0.73	0.84	0.88	0.88	0.88	0.87

Dep. variable:	OLS			3SLS		
				First stage	Third stage	
	$M\&A^{existing}$	$M\&A^{new}$	BR^{new}	*Pre-donation*	$M\&A^{new}$	BR^{new}
	(1)	(2)	(3)	(4)	(5)	(6)
Donation	-0.002					
	(-0.88)					
Pre-donation		0.006	0.064***		-0.005	0.101***
		(1.55)	(3.88)		(-0.62)	(3.14)
Natural disaster				0.120**		
				(2.20)		
Year F.E.	Yes	Yes	Yes	No	Yes	Yes
Bank × County F.E.	Yes	Yes	Yes	No	Yes	Yes
Observations	83,856	83,341	83,341	90,468	79,567	79,567

Conclusions

- In this paper, we provide evidence that coincides with the view that corporate philanthropy can be used strategically.
- Banks' donation decisions appear to be mainly motivated by the competitive environment of local deposit markets.
- These donations attract nonprofits and individual customers which leads to an increase in deposit market share.
- The increase in funding translates to greater lending activities. Banks also use donations to attract customers when they enter into new markets.