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Corporate Philanthropic Catastrophe Relief: Drivers and Consequences

Luis F Ballesteros
Doctoral Student
Wharton Management Department

2063 Steinberg Hall-Dietrich Hall
3620 Locust Walk
University of Pennsylvania
Philadelphia, PA 19101-6370
(215) 746 7954
luisf@wharton.upenn.edu

Faculty Advisor:

Keith Weigelt
Marks-Darivoff Family Professor
Management Department
2112 Steinberg Hall-Dietrich Hall
215.898.6369
weigelt@wharton.upenn.edu
**Descriptive Summary of the Project**

There is a long history of private corporations helping communities mitigate catastrophe risk and recover from catastrophes (Crampton and Patten, 2008). These activities range from direct interventions aimed at vulnerability reduction to in-kind and monetary donation for post-disaster relief. Corporate philanthropic catastrophe response (CPCR) has increased in the last years (Muller and Kräussl, 2011), it is becoming part of *business life* (Fritz Institute, 2005) and is raising “corporate philanthropy to new levels” (Urma, 2005).¹ However, the factors that shape the decision of managers to invest firm’s resources in CPCR remain understudied.

Particularly interesting of the study of CPCR is that this behavior presents an anomaly for neoclassic economic theory (Douty, 1970; Muller and Kräussl, 2011). Given the (potential) destruction of wealth, the theory predicts that managers of firms affected or expected to suffer from the economic consequences of these events would tend to disinvest in non-market activities, like charity giving (Douty, 1970, Hirshleifer, 1963, De Alessi, 1975). However, studies have shown that firms operating in catastrophe-stricken communities have shown greater levels of CPCR (Muller and Kräussl, 2011; Muller and Whiteman, 2009). One line of argument to explain this behavior is the existence of strategic motivations: managers expect to create reputational capital (Godfrey, 2005), enhance stakeholder relationships (Hillman and Keim, 2001), and improve firm’s access to post-disaster resources (Jones, 1995). In this sense, firm idiosyncrasies—e.g., performance and size—and the characteristics of the catastrophe—e.g., magnitude, associated economic damage and frequency—may shape the likelihood of CPCR.

An alternative explanation centers on social preferences. Catastrophes may prompt the generation of a selfless and cooperative economic behavior that some authors have called the *disaster syndrome* (Hirshleiffer, 1963; Darcy and Kunreuther, 1958; Douty, 1971, Alessi, 1975).

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¹ Nowadays, CPCR can be a significant portion of the funding for catastrophe response and recovery at the global level. For instance, regarding the total relief effort, estimations of CPCR account for about one-third of Hurricane Katrina’s (Muller and Whiteman, 2008), 20 percent of the 2010 Haitian Earthquake’s, and almost 50 percent of the 2010 Chilean Earthquake’s (Ballesteros, 2010). Additionally, more than half of the Global Fortune 500 corporations allocated resources worth over US$ 1.2 billion to the 2004 Asian Tsunami (Muller, et al., 2006), which accounts for 18 percent of the total amount of pledges. Finally, corporate donations represented 30 percent—$ 2.8 billion—of the private giving to the 9/11 terrorist attacks. In some cases, CPCR has been greater than donations coming from governments and multinational agencies, like in the Chilean case (Ballesteros, 2010).
Community ideosyncracies—e.g., economic development and access to the state—and firm-community linkages—e.g., location of company's headquarters or subsidiaries in the stricken community and percentage of top managers whose origin is from the affected area—may shape the likelihood of this behavior.

In this study, I draw on theories of social preferences, corporate social responsibility, rational choice, and prospect theory to analyze some of the drivers of CPCR. I will examine the dynamic relationship between the characteristics of 1) the firm, 2) the catastrophe and its impact, and the 3) stricken community with the likelihood of the firm to engage in CPCR. Using data from the National Directory of Corporate Giving (Foundation Center), Lexis Nexis, Compustat, the Center on Philanthropy at Indiana University, and the Centre for Research on the Epidemiology of Disasters, I will conduct a multi-event analysis of CPCR behavior with special focus on S&P corporations. Additionally, I will assess whether firms that opt into CPCR have a lower (higher) negative (positive) post-event impact in firm value. The study may represent the first step toward the understanding of decision-making in CPCR and corporate prosocial behavior, in general—phenomena that continue to pose a theoretical challenge for social-sciences scholars.

This research project has been discussed with Dr. Erwann Michel-Kerjan and Professor Michael Useem. I will present an outline of the project in the Catastrophic Risk Team Meeting in March.

References


2 This behavior has been observed during contemporary catastrophes. For example, five days after the tsunami hit the coast of Japan in 2011 more than 20 percent of the products were out-of-stock in the stricken area. Despite this massive market shortage, estimated inflation was less than one percent. The events in the aftermath of the Chilean 2011 Earthquake show a similar situation. Researchers detected price volatility, but not a definitive trend in prices (Rigobon, 2011). This implies that managers in firms decided to sell goods at prices below the market clearing level.