

Analysis the Determinants of Corporate Philanthropy: A Case Study in the Jordanian Commercial Banks

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Abstract: Problem statement: Corporate philanthropy measurement has been the concern of many corporations who have tried to develop determinants for it. Hence, this study explores the determinants of corporate donations listed on ASE-index for 12 commercial banks over the four year period 2005-2008. Simple and multiple regression techniques have been used for gauging the determinants of corporate philanthropy after collecting data from audited financial reports of banks. **Approach:** A sample study was derived from all banks that have been listed on the Amman Stock Exchange (ASE) during the 4 year period were sampled. Twelve banks qualified to be included in the study sample. **Results:** Provide some support for the theory that giving enhanced shareholder value, as firms in the same industry tend to adopt similar giving practices and firms that advertise more intensively also give more to charity. But much of our evidence indicated that agency costs play a prominent role in explaining corporate giving it was found that there is a statistically significant between earning before tax, firm size, advertising intensity, number of employees and salaries and wage expenses on Philanthropy measured by donations in every year and all the period of the study. **Conclusion:** The main recommendation presented in this study is that there is a need to motivate the corporate sector towards social involvement. To achieve that Ministry of finance or governments should recognize highest corporate philanthropists with awards and appreciations at national level. Build human resource development through technical support, training or internships in the management of philanthropic organizations.

Key words: Corporate philanthropy, corporate governance, agency cost

INTRODUCTION

In recent years, the world has experienced a number of intense natural disasters. While it is usual for national governments, Non-Governmental Organizations (NGOs) and Inter-Governmental Organizations (IGOs) to take the lead in relief efforts, companies have increasingly emerged as major players including not only do companies donate cash to help fund relief and reconstruction efforts; they also provide goods and services as well as playing key roles in logistics and support activities (Fritz Institute, 2005)

Jordanian corporate sector was widely criticized on the basis of accumulating wealth and not contributing towards social betterment of society. Until that time there was no research on corporate philanthropy to reveal the truth. As a result, international and multinational companies were evolved around the globe and were not paying proper attention towards environment. But with the passage of time stakeholders in collaboration with humanitarian, social and environmental groups started to pressurize corporate

powerhouses to pay attention to their social responsibilities.

A robust operational definition of philanthropy can be drawn from the accounting literature: Philanthropy is “an unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner (Financial Accounting Standards Board, 1993), through Fisman (2001) and Bertrand *et al.* (2004). So literature on government-firm networks shows that political connections are a valuable asset for firms .Previous research on corporate philanthropy has focused on the timing and responsiveness of aggregate contributions to taxes, corporate earnings and other market characteristics (Brown *et al.*, 2006).

Corporate philanthropy: Most previous research has focused on aggregate contributions by corporations and on their timing and responsiveness to taxes, aggregate corporate earnings and other market characteristics

(Brown *et al.*, 2006). Benefits may arise, for example, from goodwill that is created by corporate involvement with charitable causes, leading to enhanced employee morale, customer loyalty and more lenient treatment by regulators or government officials (Godfrey, 2005). Also, managers may use philanthropic contribution for their personal private benefits.

Strategic philanthropy perspective: The most widely cited reason for corporate philanthropy is that firms are profit motivated and choose an optimal amount of giving to maximize profits (Petrovits, 2006). Corporate giving can increase the firm's name recognition and reputation among consumers.

Research has consistently found a positive association between advertising and corporate giving (Schwartz, 1968; Navarro, 1988; Boatsman and Gupta, 1996). In support of a cost side motive, Navarro (1988) finds that the level of contributions rises as the ratio of labor costs to costs of goods sold increases. In addition, firms use philanthropy to appease special interest groups and regulators.

As a summary, strategic philanthropy suggests that managers use corporate resources invest in personal political connection in order to insure this kind of relational wealth as well as shareholders wealth. However, agency costs theory shows that, managers would also build up personal reputation and consume private benefits during philanthropic contribution. Furthermore, institutional environments are outside governance mechanisms that condition corporate philanthropic contribution (Detomasi, 2008).

The benefits of corporate philanthropy: To the extent that corporate philanthropy is prompted by the demands of socially conscious individuals, at least some of whom are stakeholders of concern to the firm, the relationship between corporate philanthropy and financial performance should be placed in the context of interaction between the firm (or the firm's top managers) and its stakeholders (Wang *et al.*, 2008), especially the relationship with government in China. Resource dependence theory suggests that because the allocation and use of the resources necessary for a firm's continued survival are often not fully controlled by the firm, but rather by some key stakeholders, the firm faces uncertainty in securing those resources (Frooman, 1999).

Viewed from a resource dependence perspective, corporate philanthropy can be regarded as a means by which a firm can reduce the risks associated with resource acquisition (Berman *et al.*, 1999; Haley, 1991) and get sustainable benefits from governments. As

corporate philanthropy enhances a firm's public image, the firm's key stakeholders, including governments as well as current and prospective employees, customers, suppliers, shareholders and the community are likely to feel more positively about being associated with such a firm and thus more willing to cooperate by providing resources (Backhaus *et al.*, 2002).

In addition to helping a firm secure the acquisition of new resources, corporate philanthropy may help a firm to reduce the risk of losing resources it already controls (Barnett and Salomon, 2006; Brammer and Millington, 2004; Godfrey, 2005). However, a firm's prior investments in philanthropy can help to maintain valuable goodwill that offsets or ameliorates negative publicity (Barnett and Salomon, 2006).

Previous research on corporate philanthropy has focused on the timing and responsiveness of aggregate contributions to taxes, corporate earnings and other market characteristics (Brown *et al.*, 2006). In contrast, we focus on firm-specific giving practices and evaluate both a "philanthropy insurance-like protection" theory, which postulates that corporate giving generates insurance-like protection for a firm's relational wealth such as political connection benefits which protect shareholder wealth (Godfrey, 2005) and an "agency costs" theory, which postulates that managers and board members increase their own utility through corporate Philanthropy.

Firm may, however, has an economic interest in various political connection benefits such as low tax rates and access to debt finance (Faccio *et al.*, 2006; Fan and Wong, 2007). Thus, one reason why companies may donate is to maintain the political connection in ways that improve firm performance. An alternative reason why companies may donate is that, while companies do not have political preferences, their managers do. In this view, philanthropic contribution need not be associated with firm performance and, in fact, may damage firm returns as they represent a form of perquisites consumption for the firm's managers. While these two possibilities for why firms donate are not mutually exclusive, they do have very different implications for the firm and its shareholders. Under the first view, philanthropic giving is an investment in political connection that should, in expectation, generate positive returns for the firm. Under the second view, philanthropic giving is symptomatic of an agency problem that should lower returns for the firm. Hess *et al.* (2002) in a survey of 1000 consumers in USA found that 43% of respondents were impressed by corporations which donate more towards social development. Saiia *et al.* (2003) highlight the corporate philanthropy the perceptions of firm in the eyes of

customers, suppliers, investors, employees, volunteering groups and regulators. Waddock and Graves (1997) found strong link between corporate social performance and financial performance.

Problem of the study: Many corporate managers admit that well managed philanthropy not only boost company image in the eyes of customers but also could be a competitive advantage. Expectations of society from corporate sector are changing from bilateral fruitful exchange to human values. Thinking is being developed that government cannot solve all social issues with scarce resources alone and it needs private-public partnership to address the social development issues. It is seen that customers and employees stay more loyal due to philanthropic activities of a firm.

Routes of corporate social responsibility go back to religions of the world. Islam, Christianity, Judaism and Buddhism emphasize on philanthropy explicitly. Religious charity like Zakat, Ushr, Sadqa and Fitrana provide strong foundations to compulsory and optional donations for social causes.

The present study focuses on ASE index for 12 commercial banks and measures the impact of earnings before tax, firm size and advertising intensity on corporate philanthropy through multiple regression techniques.

Importance of the study: The importance of corporate philanthropy and its related philosophy of corporate social responsibility have captured the attention of researchers and humanitarian groups in WTO era. Corporate donations have been considered as a critical tool to improve corporate image in a highly competitive environment.

Objectives: The objective of this study was to analysis the determinants of corporate philanthropy in the Jordanian commercial banks through the achievement of the following sub-goals:

- To show the concept of the corporate philanthropy; its importance, the benefits of corporate philanthropy and Strategic philanthropy perspective.
- To provide a determinants of corporate philanthropy
- To provide how to measure the influence of earning before tax, firm size, Advertising Intensity, Number of Employees and Salaries and wage expenses on corporate philanthropy
- To provide a set of conclusions and recommendations to enhance the level of literature review of corporate responsibility

Limitations and determinants: Research is limited to ASE index banks, which is important but small segment of corporate sector of Jordanian ASE companies are also structurally different than firms with lesser revenue. They have strong corporate structure which may truss them to contribute more in philanthropic activities which may reduce representativeness of the sample and generalization of findings. This study is limited to listed banks sector; not all sectors and because the data for non listed and private limited companies is not available publicly, it was not possible to include them in the study. Therefore the results of this study cannot be generalized to non-listed and private sector.

MATERIALS AND METHODS

This study measures the influence of earnings before tax, assets size, advertising intensity, number of employees and their salaries on corporate philanthropy. The empirical model to be developed here hypothesizes that corporate donations are effected by firm's profitability in terms of earnings before tax, size of the firm in terms of total assets and advertising intensity in terms of annual advertising expenses.

Model of study:

Dependent variable: Following the previous studies and considering the limitations of data availability only contributions shown under the head 'donations' whether cash or kind are considered as corporate philanthropy for the purpose of this research. Data was available from the audited annual reports of ASE index of all commercial banks.

Independent variables:

Earnings before tax: Corporations usually contribute donations from their pretax earnings in order to minimize the after tax cost of contributions. They like to donate to those charitable organizations that have been registered with federal board of revenue in order to gain tax deductibility from their donations. Otherwise they have to make personal donations out of after tax dividend or net profit after tax Porter and Kramer (2002). That's why earnings before tax were selected as independent variable rather than earnings after tax.

Firm size: Literature review shows that firm size significantly affects corporate giving. Boatsman and Gupta (1996) while studying relationship between tax and corporate charity examined large companies donate more than small enterprises. In the same way, Useem

(1988) while exploring the factors of corporate contributions concluded that large firms contribute more donations regardless of their profits. Amato and Christie (2007) study a broad range of firm size and charitable contributions and find evidence of cubic relationship between charitable giving and firm size. He concluded that small and large firms give more as compare to medium firms. Considering the importance of firm size in charitable giving, it can be taken as independent variable.

Advertising intensity: Some corporations view strategic management of corporate philanthropy increasing corporate images same like advertising and public relation expenses. Fry *et al.* (1982) found the charitable giving level was related to advertising because donations play important role in creating favorable corporate image partly

Number of employees and Salaries and wage expenses: Majority of banks in ASE employ thousands of workforce and paying thousands of Jordanian diners as salaries and wages. More employees in an organization make the company more visible in the society. An organization with high number of employees faces ethical pressure from its employees as well as from general public to contribute for humanitarian and social cause. Millington and Brammer (2006) concludes that more visible is an organization higher would be corporate philanthropic expenditure:

$$\begin{aligned} YDON = & \beta_0 + \beta_1(EBT) + \beta_2(ASSET) \\ & + \beta_3(ADVERTISING) + \\ & \beta_4(NO. OF EMPLOYEES) \\ & + \beta_5(SALARIES EXP) + \epsilon_i \end{aligned}$$

Hypotheses: This study has tested the following null hypotheses on relation between the determinants of corporate philanthropy listed commercial banks:

- H1: There is no significant relationship between earning before tax and donations' of Jordanian commercial banks.
- H2: There is no significant relationship between firm size and donations' of Jordanian commercial banks.
- H3: There is no significant relationship between Salaries and Wage expenses and donations' of Jordanian commercial banks.
- H4: There is no significant relationship between Advertising intensity and donations' of Jordanian commercial banks.

H5: There is no significant relationship between Number of Employees and donations' of Jordanian commercial banks.

Population and sample: The empirical investigation on the determinants of corporate philanthropy sampled commercial banks. All banks that have been listed on the Amman Stock Exchange (ASE) during the four-year period, 2005-2008, were sampled. Twelve banks qualified to be included in the study sample. The data for the empirical analysis were derived from the financial statements of these firms.

Statistical methods: Determinants of corporate philanthropy were measured through simple and multiple regression techniques with five independent variables for each of the 4 years period. SPSS was used for analysis and results in whole of this study.

RESULTS

Determinants of corporate philanthropy were measured through multiple regression techniques for each of the 4 years period. SPSS was used for analysis and results in whole of this study.

Table 1 illustrates mean, minimum, maximum standard deviation for different dependent and independent variables for every year and all years. The mean of donations contributed by ASE for 12 banks is Rs. 732631.5 with a range from zero to Rs. 3333985. Average earnings before tax and number of employees remained Rs. 3.6E+07 and 891.0 respectively, but the average assets, advertising intensity and salaries and wage expenses is 1.0E+09, 6523270 and 775139.7 respectively.

Table 2-6 present the regression model summaries run for 2005-06-07-08. High coefficient of determination (R^2) in all 4 years shows strong power of intellectual capital in predicting the dependent variable, i.e. profitability of a bank. Explanatory power of regression equation over the 4 year period 97.8, 99.4, 99.3, 38.1 and 71.1%. The results are much significant than the study done by Williams (2003) who found explanatory power of 11 and 27% while conducting the research on influence of women board members on corporate philanthropy. Further, Amato and Christie (2007) found R^2 30 and 27% only through linear and cubic regression models while measuring the effect of firm size and industry on corporate giving. Significant and positive t-value of advertising expenses is consistent with Fry *et al.* (1982) who argue that advertising and corporate giving could be the part of strategic efforts by a firm to enhance its goodwill.

Table 1: Descriptive statistics for (EBIT, ASSET, AD-EXP, N-EM, SAL-EXP, DEN-CAS) in every year and in overall years

Year	Index	EBIT	ASSET	AD-EXP	N-EM	SAL-EXP	DEN-CAS
2005	Mean	3.4E+07	1.0E+09	6523270	891.00	775139.7	775139.0
	N	12	12	12	12.00	12	12.0
	Std. Dev	26397402.7	832715565.4	5409059.01	715.29	585729.5	585729.5
	Minimum	3718930	3.2E+09	1663432	224.00	2082980	74378.0
	Maximum	1.1E+08	1.7E+08	1.9E+09	1975.00	2412407	2412407.0
2006	Mean	3.02+07	2.2E+09	7546069	891.00	1.4E+07	745985.0
	N	12	12	12	12.00	12	12.0
	Std. Dev	35044793.8	3816338645	6067402.4	715.20	12531712.2	831783.0
	Minimum	4867640	1.4E+10	2117235	224.00	2268980	96550.0
	Maximum	1.3E+08	1.6E+08	2.3E+07	1975.00	3.8+07	3199985.0
2007	Mean	3.4E+07	1.4E+09	8952276	891.00	1.4E+07	718162.4
	N	12	12	12	12.00	12	12.0
	Std. Dev	42560966.9	1278071067	7491940.7	715.20	12250487.1	888257.7
	Minimum	3573870	2.2E+08	2501437	224.00	2694198	80056.0
	Maximum	1.6E+08	5.0E+09	2.8E+07	1975.00	4.2E+07	3333985.0
2008	Mean	4.6E+07	1.5E+09	1.1E+07	891.00	0.1.6E+07	691240.0
	N	12	12	12	12.00	12	12.0
	Std. Dev	51064848.26	1379914263	9540877.5	715.20	13891336.1	810637.0
	Minimum	6014760	2.7E+08	3005690	224.00	3340890	150678.0
	Maximum	1.5E+08	5.3E+09	3.6E+07	1975.00	4.9E+07	2958660.0
2005 To 2008	Mean	3.6E+07	1.5E+09	8436621	891.00	1.4E+07	732631.5
	N	48	48	48	48.00	48	48.0
	Std. Dev	0.38946398.8	2145105631	7242000.2	692.08	0.11854179.8	762676.5
	Minimum	3573870	1.6E+08	1663432	224.00	2082980	74378.0
	Maximum	1.6E+08	1.4E+10	3.6E+07	1975.00	4.9E+07	3333985.0

Table 2: Regression analysis of the factors of corporate philanthropy (2005)

Dependent variable: Donations' whether cash

Year	Index	EBIT	ASSET	AD-EXP	N-EM	SAL-EXP	Total
2005	R	0.989	0.905	0.773	0.529	0.740	0.996
	R ²	0.978	0.819	0.598	0.280	0.548	0.992
	Adj-R ²	0.975	0.801	0.558	0.207	0.503	0.985
	SIG	0.000***	0.000***	0.003***	0.077*	0.006*	0.000***
	F-test	-	-	-	-	-	149.495
	T-test	20.844	6.724	3.857	1.970	3.482	-
	Coefficient of Beta	0.989	0.905	0.773	0.529	0.740	-

*: Significant at p<0.10; **: Significant at p<0.05; ***: Significant at p<0.01

Table 3: Regression analysis of the factors of corporate philanthropy (2006)

Dependent variable: Donations' whether cash

Year	Index	EBIT	ASSET	AD-EXP	N-EM	SAL-EXP	Total
2006	R	0.997	0.281	0.877	0.570	0.579	0.998
	R ²	0.994	0.079	0.769	0.325	0.336	0.996
	Adj-R ²	0.993	-0.013	0.746	0.258	0.269	0.993
	SIG	0.000***	0.377	0.000***	0.053*	0.043**	0.000***
	F-test	-	-	-	-	-	312.867
	T-test	40.624	0.925	5.773	2.195	2.247	-
	Coefficient of Beta	0.997	0.281	0.877	0.570	0.579	-

*: Significant at p<0.10; **: Significant at p<0.05; ***: Significant at p<0.01

Table 4: Regression analysis of the factors of corporate philanthropy (2007)

Dependent variable: Donations' whether cash

Year	Index	EBIT	ASSET	AD-EXP	N-EM	SAL-EXP	Total
2007	R	0.996	0.973	0.875	0.546	0.821	0.999
	R ²	0.993	0.947	0.765	0.299	0.674	0.998
	Adj-R ²	0.992	0.942	0.741	0.229	0.641	0.996
	SIG	0.000***	0.000***	0.000***	0.066*	0.001***	0.000***
	F-test	-	-	-	-	-	585.249
	T-test	37.626	13.347	5.705	2.064	4.543	-
	Coefficient of Beta	0.996	0.973	0.875	0.546	0.821	-

*: Significant at p<0.10; **: Significant at p<0.05; ***: Significant at p<0.01

Table 5: Regression analysis of the factors of corporate philanthropy (2008)

Dependent variable: Donations' whether cash							
Year	Index	EBIT	ASSET	AD-EXP	N-EM	SAL-EXP	Total
2008	R	0.617	0.935	0.824	0.473	0.789	0.980
	R ²	0.381	0.874	0.679	0.224	0.622	0.961
	Adj-R ²	0.319	0.862	0.647	0.146	0.584	0.929
	SIG	0.033**	0.000***	0.001***	0.120	0.002***	0.000***
	F-test	-	-	-	-	-	29.641
	T-test	2.479	8.340	4.596	1.697	4.057	-
	Coefficient of Beta	0.617	0.935	0.824	0.473	0.789	-

*: Significant at p<0.10; **: Significant at p<0.05; ***: Significant at p<0.01

Table 6: Regression analysis of the factors of corporate philanthropy (2005-2008)

Dependent variable: Donations' whether cash							
Year	Index	EBIT	ASSET	AD-EXP	N-EM	SAL-EXP	Total
2005-2008	R	0.843	0.497	0.799	0.524	0.715	0.895
	R ²	0.711	0.247	0.638	0.275	0.511	0.800
	Adj-R ²	0.704	0.231	0.630	0.259	0.501	0.776
	SIG	0.000***	0.000***	0.001***	0.000***	0.000***	0.000***
	F-test	-	-	-	-	-	33.633
	T-test	10.628	3.884	9.011	4.175	6.939	-
	Coefficient of Beta	0.843	0.497	0.799	0.524	0.715	-

*: Significant at p<0.10; **: Significant at p<0.05; ***: Significant at p<0.01

Overall results although mixed but support the argument that all five determinants of corporate philanthropy used in this study have strong impact on donations of a firm suggesting a firm with high advertising expense, number of employees, assets, salaries expenses and earnings before tax would be contributive in philanthropic activities in every year and all years for the period of study at significant level at p<0.01, 0.05, 0.10.

DISCUSSION

Using firm-specific data, we evaluate two hypotheses for corporate philanthropy. Agency cost theory suggests the hypothesis that corporate giving reflects managers' tastes for using firm resources to satisfy personal preferences for charitable giving. An alternative, but not mutually exclusive, hypothesis is that firms design their giving programs, much like advertising, to maximize value for stockholders. Charitable giving may be a way for firms to enhance their public reputations and to create goodwill with customers, employees and regulators my contribution to the previous literature is twofold. First, I investigate the determinants of corporate philanthropy. I allow for the possibility of companies providing corporate giving to satisfy personal interests of individual managers or board member and thus lead to agency cost. Second, I control for companies conducting corporate philanthropy that has little strategic content or long-term value. There is a statistically significant between

earning before tax, firm size, Advertising intensity, number of employees and Salaries and Wage expenses on Philanthropy measured by donations in every year and all the period of the study. This result is consistent with previous literature that finds that firms engage in corporate giving to preempt the introduction of new government regulations; to avoid environmental scandals, consumer boycotts, or law suits; to increase their reputations in their communities and among various stakeholder groups. To achieve those benefits, firms need to only be known to policy makers and stockholders groups for being involved in Philanthropy but not necessarily spend more or conduct any special strategic projects which are not likely to bring any additional financial or tangible benefits. Another important observation is that firms in service and retail sectors as well as firms in high advertising intensity sectors are much more likely to employ a giving program for their corporate philanthropy and give significantly more. This result is consistent with previous empirical findings that corporations substitute corporate contributions for more traditional advertisements (Navarro, 1988).

CONCLUSION

To enhance the corporate image in the eyes of stakeholders companies should have clear policy on corporate philanthropy. Secondly, Pakistani corporate sector should allocate at least 1% of their earnings before tax for education, health and social causes as

practiced by many companies in USA and UK (Cambell and Moore, 2002). Finally, to motivate the corporate sector towards social involvement, government should recognize highest corporate philanthropists with awards and appreciations at national level. The results of this study have several implications for practices. The findings suggest that the rights question for shareholders to ask is not whether corporate philanthropic contributions are uniformly good or bad, but trade off between the benefits of maintaining the managers' personal political connection with governments and agency costs of perquisites consumption. So, the optimal level of philanthropic contribution is dependent on the value of managers' personal political connection and shareholders should concern about large level of giving. It is also much better that the firm invests the money on the corporate relational wealth such as brand reputation, firm image but not on the transferable relational wealth such as managers' personal political connection.

Recommendations: Motivate the corporate sector towards social involvement. To achieve that Ministry of finance or governments should recognize highest corporate philanthropists with awards and appreciations at national level. Build human resource development through technical support, training or internships in the management of philanthropic organizations. Establishment of a clearinghouse and databases to share information. Networking and exchanges to enable staff and principals of philanthropic organizations to share experiences, jointly consider issues of common interest and facilitate international philanthropic cooperation

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