

**School of Accounting**

**Corporate Philanthropic Discourse**

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**This thesis is presented for the Degree of  
Doctor of Philosophy  
of  
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## **Declaration**

To the best of my knowledge and belief this thesis contains no material previously published by any other person except where due acknowledgement has been made.

This thesis contains no material which has been accepted for the award of any other degree or diploma in any university.

Signature:

Date: 12 November 2010

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*“Thanks to ALLAH the Greatest for the continuous guidance and for giving me the courage and determination to complete this thesis”*

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## Dedication

*To my loving and supportive family*

My husband: Aminurrashid Omar

My sons: Wan Imran Daniel, Wan Muhammad Ariff and Wan Hazeeq Farhan

My daughter: Puteri Farha Nabeela

***“Thanks for being a wonderful part of my life. I can never make it without your endless love and support”***

*In loving memories*

My parents: Hj. Raja Ahmad Raja Abdullah and Hajjah Raba’ah Razali

***“Thank you so much for providing me with the best of upbringing. May Allah reward you for all your good deeds”***

My daughter: Puteri Nurul Iman

***“Your patience really inspires me. You live forever in my heart”***

*With love and respect*

My mother-in-law: Halijah Basar

My father-in-law: Haji Omar Beche

***“Thank you so much for being so understanding and for assisting me in all possible ways”***

## **Abstract**

This thesis derives important insights concerning the corporate philanthropic discourse of Australian listed firms. Corporate philanthropic discourse is analysed in two phases: (i) corporate philanthropic communication (Phase I) and (ii) corporate philanthropic involvement (Phase II). The first phase examines the non-communication of corporate philanthropy. The second phase details the types and factors of corporate philanthropic involvement. In Phase I, a model on philanthropic communication is presented to better understand this (non-) communication and how such gift-giving is (or is not) communicated and in what form. In Phase II, the types and factors of corporate philanthropic involvement are examined. Data are gathered from over 1,500 annual reports and stand-alone sustainability reports for 2008.

The findings of Phase I reveal that only 16.86 percent of Australian listed firms communicate any philanthropic information. This could be due to lack of clear reporting guidelines and absence of mandatory requirement for such disclosure. Further, it could also be argued that such muting is due to strategic reasons as communication opens the door for increased scrutiny. Yet more information dissemination, especially with better disclosure could enhance stakeholders' confidence. Multivariate analyses indicate overwhelming evidence that firm size and profitability have a positive and statistically significant association with the extent of corporate philanthropic communication.

Phase II focuses on corporate philanthropic involvement. Firms engage in various activities ranging from monetary to various types of non-monetary giving. Multiple regression results reveal that lagged free cash flow and firm size are statistically highly significant associated with corporate philanthropic involvement. These findings are consistent with slack resources theory tenets.

Overall, the results from this thesis have implications for firms, regulators, investors, community and other interested parties. The key findings highlight over 80 percent (more than 1,200 Australian listed firms) choose to be completely silent on this key societal element. Given corporate philanthropy's high prominence, the findings suggest that a more proactive effort to promote transparent and effective discourse is required with possible need for regulatory intervention.

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## Glossary of Key Terms

Corporate philanthropy	“The voluntary business giving of money, time or in-kind goods, without any direct commercial benefit, to one or more organisations whose core purpose is to benefit the community’s welfare” (Madden et al. 2006 p. 49).
Corporate Philanthropic Discourse (CP Discourse)	The overview term used in this thesis to represent all corporate philanthropy. It is the aggregate of CP Communication and CP Involvement. Said differently, CP Discourse = CP Communication (Phase I of this thesis) + CP Involvement (Phase II of this thesis).
Phase I and Phase II	<p>The analyses of CP Discourse in this thesis are divided into two phases: Phase I focuses on CP Communication while Phase II concentrates on CP Involvement. In Phase I, the broader picture of corporate philanthropy is examined (n = 1,548). Specifically, in Phase I, the extent of CP Communication is investigated. In addition, the firm-specific factors that contribute to CP Communication are examined.</p> <p>In Phase II, the focus is solely on the firms that communicate some information on corporate philanthropy (n = 261). Specifically, in Phase II, the types of CP Involvement are highlighted and factors that contribute to CP Involvement are analysed.</p>
Corporate Philanthropic Communication (Phase I) (CP Communication)	Phase I of this thesis examines CP Communication. CP Communication is the process of the communication for corporate philanthropic information by firms in either annual report and/or stand-alone sustainability report. In this thesis, the terms ‘Non-CP Communicator’ and ‘CP Communicator’ are used when the analysis is for the two groups of CP Communication while the terms ‘Opaque’, ‘Translucent’ and ‘Transparent’ are used when the analysis is for the three groups of CP Communication. For ease of referencing, this thesis labels two-group analysis (Non-CP Communicator and CP Communicator) as ‘CP Communication <sup>2Groups</sup> ’, while three-group analysis (Opaque, Translucent and Transparent) as ‘CP Communication <sup>3Groups</sup> ’. CP Communication is the focus of the Phase I analysis.

Corporate Philanthropic Communicator(s) [CP Communicator(s)]	Firms that communicate some kind of corporate philanthropic information in either the annual report and/or stand-alone sustainability report. CP Communicators are further labelled ‘Translucent’ and ‘Transparent’ firms.
Translucent	Firms that communicate some details about their corporate philanthropic information in either annual report and/or stand-alone sustainability report. However, the corporate philanthropic information is limited to narrative and/or numeric disclosure only without any monetary quantification of the giving amount.
Transparent	Firms that communicate details about their corporate philanthropic information in either annual report and/or stand-alone sustainability report. The corporate philanthropic information is not limited to the narrative and/or numeric disclosure but it is supported with monetary quantification of the giving amount.
Non-Corporate Philanthropic Communicator(s) [Non-CP Communicator(s)]	Firms that do not communicate any kind of corporate philanthropic information. In essence, Non-CP Communicators are ‘Opaque’ firms.
Opaque	Firms that do not communicate any kind of corporate philanthropic information. The term opaque is used where corporate philanthropic information is silent.
Corporate Philanthropic Involvement (Phase II) (CP Involvement)	The aggregate of charitable contributions as reported by firms in their key reports. It includes Monetary (Cash) and various other Non-Monetary (Non-Cash) giving <sup>1</sup> . CP Involvement is the focus of the Phase II analysis.

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<sup>1</sup> In this thesis, the ‘types’ of CP Involvement is analysed based on two-category model, four-category model, and fifteen-category model (see Table 3.4 and Figure 3.2). The two-category model is referred to as Monetary and Non-Monetary. At times, this thesis makes reference to the fifteen-category model as ‘Cash’ and ‘Non-Cash’. Cash refers to funds (in cash) given to support charitable activities or any support for community-based programmes. Non-Cash refers to other types of CP Involvement, i.e., Sponsorship, Scholarship, Grant, Award, Disaster Relief, Foundation Giving, Employee Giving, Matched Employee Giving, Fundraising Event, Shareholders Donation, Management Cost, In-Kind, Volunteering and Partnership.

## **Glossary of Key Abbreviations**

ANOVA	Analysis of Variance
ASX	Australian Stock Exchange
CP Communication	Corporate Philanthropic Communication
CP Communicator	Corporate Philanthropic Communicator
CP Discourse	Corporate Philanthropic Discourse
CP Involvement	Corporate Philanthropic Involvement
GICS	Global Industry Classification Standard
GRI	Global Reporting Initiatives
LBG	London Benchmarking Group
Non-CP Communicator	Non-Corporate Philanthropic Communicator
VIF	Variance Inflation Factors

## Related Thesis Publications

### Journal Articles

Raja Ahmad, R.A., Tower, G. and Van der Zahn, M., (2009). Exploratory analysis of corporate philanthropy disclosure practices and influencing factors in Australia, *Financial Reporting, Regulation and Governance*, 8 (1): 1-27.

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Raja Ahmad, R.A. (2010). Slack resources theory tenets and corporate philanthropic involvement. Paper presented at *Curtin Business School Doctoral Colloquium*, September 30 - October 1, 2010, Perth, Australia.

Raja Ahmad, R.A., Tower, G., and Van der Zahn, M. (2010). Disclosing of corporate philanthropy practices by Australian companies: An exploratory analysis. Paper presented at the *2010 American Accounting Association Annual Meeting*, July 31-August 4, 2010, San Francisco, CA, USA.

Raja Ahmad, R.A., Tower, G., and Van der Zahn, M. (2010). Communication of corporate philanthropy. Paper presented at the *2010 Accounting & Finance Association of Australia and New Zealand Conference*, July 4-6, 2010, Christchurch, New Zealand.

Raja Ahmad, R.A, Tower, G., and Van der Zahn, M. (2010). Strategic ambiguity of corporate philanthropic communication. Paper presented at the *33<sup>rd</sup> European Accounting Association Annual Congress*, May 19-21, 2010, Istanbul, Turkey.

Raja Ahmad, R.A, Tower, G., and Van der Zahn, M. (2009). The relationship between free cash flow and corporate philanthropy. Paper presented at the *Twenty-First Asian-Pacific Conference on International Accounting Issues*, November 22-25, 2009, Las Vegas, NV, USA.

Raja Ahmad, R.A. (2009). Ambiguity surrounding corporate philanthropy. Paper presented at *Curtin Business School Doctoral Colloquium*, October 2-3, 2009, Perth, Australia. (Awarded best paper at the colloquium).

Raja Ahmad, R.A, Tower, G., and Van der Zahn, M. (2009). Looking through an opaque mirror: Philanthropic donations by Australian companies. Paper presented at the *2009 American Accounting Association Annual Meeting*, August 1-5, 2009, New York, NY, USA.

Tower, G., Raja Ahmad, R.A. and Van der Zahn, M. (2009). Corporate philanthropy by Australian companies. Paper presented at the *32<sup>nd</sup> European Accounting Association Annual Congress*, May 12-15, 2009, Tempere, Finland.

Raja Ahmad, R.A. (2008). The relationship between free cash flow and corporate philanthropy: An Australian study. Paper presented at *Curtin Business School Doctoral Colloquium*, October 1-2, 2008, Perth, Australia.

## Other Publications

### Journal Articles and Book Chapters

Raja Ahmad, R.A., Tower, G., Plummer, J. and Aripin, N. (2010). Transparency and clarity of water accounting reporting, *Asia Pacific Centre for Environmental Accountability Journal*, 16: 4-19..

Tower, G, Raja Ahmad, R.A., Pignatell, I., and Hans, T. (2010). Transparency of social and environmental disclosures by the top French companies. *Journal of Contemporary Issues in Business and Government*. 16 (1): 27-52.

Tower, G, Aripin, N, Raja Ahmad, R.A., and Tower, S. (2010). Corporate governance systems' impact on the global automotive industry's communication of financial ratios. *Journal of Contemporary Issues in Business and Government*. 16 (1): 100-123.

Mohamed Saat, M. and Raja Ahmad, R.A. (2009). Ethical exposure in practical training, *Accountants Today*, 22 (7): 14-16.

Raja Ahmad, R.A., Razi, N.S.M., Wan Ismail, W.A. and Kamarudin, K.A. (2009). Determinants of external audit pricing: Malaysian evidence, in *Financial Reporting in Malaysia Further Evidence*, Chapter 6: 97-113. UPENA.

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Raja Ahmad, R.A., Tower, G., Plummer, J. and Aripin, N. (2010). Accountability and communication of water. Paper presented at the *33<sup>rd</sup> European Accounting Association Annual Congress*, May 19-21, 2010, Istanbul, Turkey.

Tower, G., Raja Ahmad, R.A., Pignatell, I., and Hahn, T. (2010). Transparency of social and environmental disclosures by the top French companies. Paper accepted at the *33<sup>rd</sup> European Accounting Association Annual Congress*, May 19-21, 2010, Istanbul, Turkey.

Abdul Nasser, A.T., Raja Ahmad, R.A. and Othman, A.M.A. (2008). Benchmarking working capital management performance between Malaysia Airlines, Air Asia and Qantas. Paper presented at *2008 International Accounting and Business Conference*, August 18-19, 2008, Johor, Malaysia.

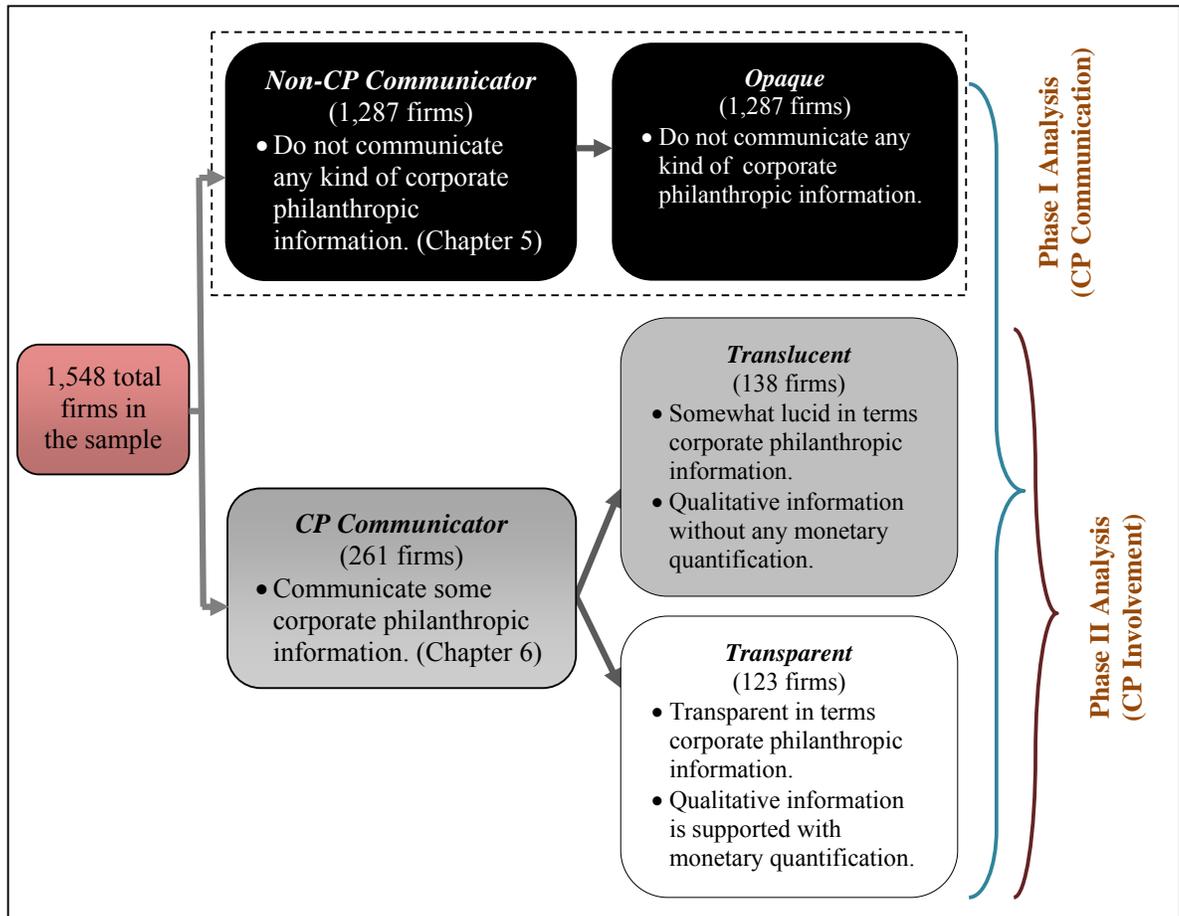
# Chapter 1. Introduction

## 1.1 Thesis Overview

Corporate philanthropy provides a rich environment to study as it serves as a key link between firms and communities. Corporate philanthropy covers various issues such as the voluntary giving of money or other resources, (including ‘in-kind’ support e.g., contributions of equipment, supplies or other property or employee voluntarism), by companies for community purposes. There is a lack of consensus on a meaning of corporate philanthropy with various definitions proposed. This thesis follows the definition offered by Madden et al. (2006). That is, corporate philanthropy is defined as “the voluntary business giving of money, time or in-kind goods, without any direct commercial benefit, to one or more organisations whose core purpose is to benefit the community’s welfare” (Madden et al. 2006 p. 49). This definition is adopted because of its broader perspective in conceptualising corporate philanthropy.

Whilst there are numerous interesting unanswered empirical questions surrounding corporate philanthropy, this thesis focuses on the extent, type and determinants of corporate philanthropic discourse (hereafter, CP Discourse). For purposes of analysis, discourse is decomposed into ‘communication’ and ‘involvement’. Specifically, the main analysis of this thesis is two-fold: (i) to empirically investigate the extent of corporate philanthropic communication (hereafter, CP Communication) and the factors that determine CP Communication (Phase I); and (ii) to identify the types of corporate philanthropic involvement (hereafter, CP Involvement) and the factors that influence CP Involvement (Phase II). Figure 1.1 presents a summary of the Phase I and Phase II analysis.

**Figure 1.1:** Thesis analysis: Phase I and II



As depicted in Figure 1.1, this thesis examines corporate philanthropy in two distinct phases: Phase I and Phase II. Phase I focuses on CP Communication while Phase II concentrates on CP Involvement. These two concepts are deemed to represent CP Discourse<sup>2</sup>. In Phase I, the broader picture of corporate philanthropy is examined (n = 1,548). Specifically, in Phase I, the extent of CP Communication is investigated. In addition, factors that may help explain CP Communication are examined.

<sup>2</sup>CP Communication refers to the process of the communication of corporate philanthropic information by firms in either annual report and/or stand-alone sustainability report. CP Involvement, on the other hand refers to the aggregate of charitable contributions as reported by firms in their key reports. It includes Monetary (Cash) and various other Non-Monetary (Non-Cash) giving. The sum of the CP Communication and CP Involvement is referred to as CP Discourse.

In Phase II, the focus is solely on the firms that disseminate information on CP Involvement (n = 261). Specifically, in Phase II, the types of CP Involvement are first highlighted with factors that contribute to CP Involvement then analysed (refer to ‘Glossary of Key Terms’ and Section 1.3 for further explanation of Phase I and II).

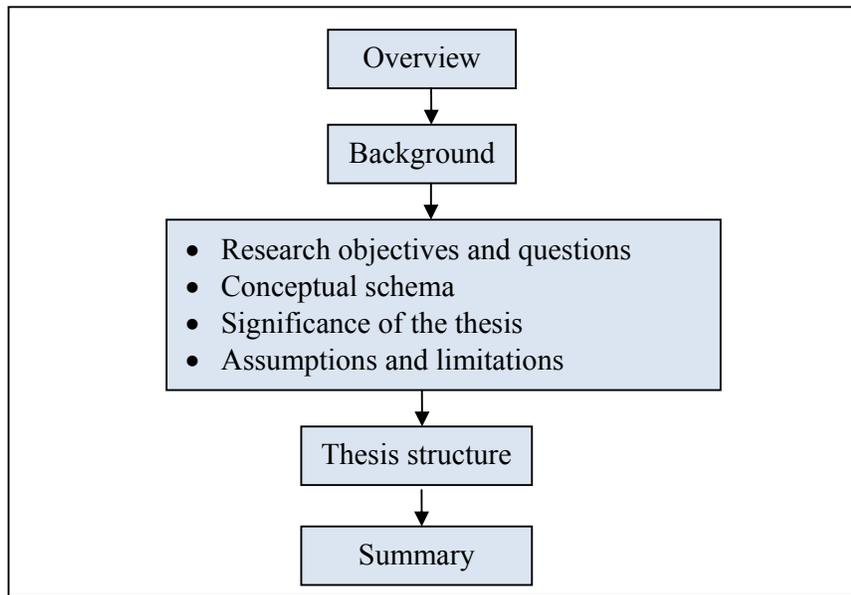
This thesis initially begins by examining all publicly listed firms on the Australian Stock Exchange (ASX) as at June 30, 2008 to provide a comprehensive reflection of the CP Discourse. Data evidence is gathered from 2008 annual reports and stand-alone sustainability reports<sup>3</sup>. Thesis findings enable a clearer understanding of the extent of CP Communication and the firm-specific factors that determine CP Communication (Chapter 5). In addition, this thesis also provides insights into the various activities of CP Involvement as well as the factors that contribute to CP Involvement in Australia (Chapter 6).

This chapter begins with an overview and background of the research. Following that, the research objectives and questions are identified. Next, the conceptual schema developed for this thesis is illustrated to provide a clear direction of the thesis. Significance of the thesis is then highlighted followed by the assumptions and limitations. Finally, the thesis structure is presented. The outline of Chapter 1 is displayed in Figure 1.2.

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<sup>3</sup>As discussed by the Australian Stock Exchange (ASX), the term ‘corporate responsibility’, ‘corporate social responsibility’ and ‘sustainability’ are used interchangeably (Parliamentary Joint Committee on Corporations and Financial Services 2006). For ease of referencing, the term ‘stand-alone sustainability report’ is used in this thesis to refer to any additional report produced by a firm on corporate social responsibility.

**Figure 1.2:** Outline of Chapter 1



## 1.2 Background

Philips and Taylor (2009) state the unselfish regard for the well-being of others, and the desire to help the less fortunate, has been the greatest delight of mankind. It has long been recognised that the issue of social commitment, where businesses are expected to contribute to society and not just the bottom line, is not confined to the present epoch of globalisation. In a 1919 interview, Henry Ford, the founder of Ford Motor Company, declared that “[a] business that makes nothing but money is a poor kind of business.”<sup>4</sup>

According to Hendersen and Malani (2008), in order to answer the normative question of whether corporations should engage in philanthropy, it is best to understand why firms give in the first place. They (Hendersen and Malani 2008) further elucidate that the understanding of *corporate* giving lies on the premise of understanding *individual* giving where it can be explained via the competing economic theory of altruism. In economic theory, altruism is typically expressed as the preference of the welfare of others and disregard of one’s own selfishness, normally termed as ‘*pure altruism*’ (Konow 2002). Some people would enjoy the

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<sup>4</sup>Quoting from <http://www.modelt.org/tquotes.html> accessed on 26 February 2009 and Wulfson (2001).

pleasure of benevolent feelings when helping others. Happiness, the ultimate aim of giving may be derived from being the giver or perhaps by knowing that someone has received a gift (Henderson and Malani 2008). Economists term the utility of a good feeling derived from giving as ‘*warm glow*’. The combination of these two motives (‘pure altruism’ and ‘warm glow’) is known as ‘*impure altruism*’; where the donor feels a strong concern about the well-being of recipient and simultaneously derives pleasure from giving per se (Konow 2002). In the words of Hendersen and Malani (2008 p. 11), “[p]hilanthropy exists because individuals have preferences for altruism and philanthropic organisations are simply third parties that offer individuals the opportunity to satisfy these preferences in an efficient manner (relative to self production)<sup>5</sup>”. This view is further supported by Shaw and Post (1993) who state that corporate philanthropy is an extension of personal giving.

In answering the question of whether firms should give or not, Hendersen and Malani (2008) divide the normative debate into three camps. Firstly, the scholars who believe that corporate philanthropy improves the bottom line where economic and social goals are viewed as being integrally connected (see for example Porter and Kramer 2002; Simon 1995). Secondly, those who argue corporate philanthropy is an example of managerial graft where corporate money is spent on pet charities of executives instead of returning money to company owners (Hemphill 1999; Wulfson 2001). Thirdly, members of the so-called ‘corporate social responsibility’ movement where the corporation is expected to focus on a wider responsibility (i.e., social and environment) than merely economic issues (Moir 2001).

Much ink has been spilled debating the normative questions of whether firms should engage in corporate philanthropy, and the motives behind such action<sup>6</sup>. Shaw and Post (1993) view the rationale of corporate philanthropy as an amalgamation of altruism, good citizenship, prudence and sound investment strategy. The position

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<sup>5</sup>The parentheses text is original from Hendersen and Malani (2008).

<sup>6</sup>This thesis is not seeking to gain an agreement on whether firms should engage in corporate philanthropy or otherwise. Nor is this thesis attempting to examine all the detailed motives of corporate philanthropy. In fact, it has a more defined area of focus by examining the communication of corporate philanthropy and the determinants of its involvement, an area that has been largely ignored in prior studies.

adopted by this thesis is consistent with the properties outlined by Shaw and Post (1993). These are the common grounds underpinning the motives of key stakeholders of companies when brought together. However, whatever the motives, it is important not to miss the forest for the trees. Improving the well-being of society should be the ultimate goal of any social investment as Carnegie's (1906) philosophy that wealth creators are 'trustees of the surplus'.

Corporate philanthropy is a vehicle by which corporations demonstrate concern for society. This concept is seen as a subset of the larger domain of corporate social responsibility (Buchholtz et al. 1999) whereby it refers to a certain degree of nobility and altruism (Gan 2006). Porter and Kramer (2002) recognise corporate philanthropy as a key component of corporate social responsibility. They (Porter and Kramer 2002) further explain that corporate philanthropy can be used to improve the quality of the business environment by bringing together social and economic goals, thus enhancing future business prospects. In other words, corporate philanthropy is viewed as creating a win-win situation as benefits accrue to the firms as well as those of the beneficiaries (e.g., society and charitable organisations) (Collins 1994). By assisting those in need, firms are providing social benefits, and building a good corporate reputation that assists in gaining community trust. This reservoir of social goodwill can be portrayed tangibly through the positive outcome to the firm's bottom line (Fombrun and Shanley 1990; Simon 1995). In many instances, there is proof that firms are able to improve performance by investing in socially responsible activities. For instance, Orlitzky et al. (2003) conducted a meta-analytical investigation of the relationship between corporate social performance and financial performance based on 30 years of empirical data, and found that corporate social performance is positively correlated with corporate financial performance. The result is further supported by Allouche and Laroche (2005) who also performed a meta-analysis on the relationship between corporate social performance and corporate financial performance and found that out of 82 studies, 75 reported a positive relationship. This highlights the significant contribution of social investment upon economic performance.

Milton Friedman, a famous Nobel Prize winner in Economics, offers a strongly contrasting viewpoint to benefits of corporate philanthropy. He (Milton Friedman) wrote almost four decades ago, an article whose title perfectly summarises the narrower point of view – *The Social Responsibility of Business is to Increase its Profit*. In the words of Friedman (1970 p. 33), “there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud”. This famous insertion from the neo-classical economic perspective that states the only objective of the firm is economic, may have provided the impetus for the argument that any expenditure beyond economic activities is considered as a violation of the management’s responsibility towards the shareholders. Supporters of Friedman’s (1970) view opine that firms incur additional cost by engaging in philanthropic activities, thereby, placing the firm at a competitive disadvantage whilst diminishing overall performance and reducing shareholder wealth (Aupperle et al. 1985; Ruf et al. 2001; Ullmann 1985).

A rising chorus, however, seriously challenges Friedman’s (1970) view, arguing corporate philanthropy is – and should be – an essential element in a firm’s business arsenal. It is suggested that rather than destroy firm value, corporate philanthropy can significantly enhance corporate competitive performance and shareholder wealth. Opponents of Friedman’s (1970) free-market liberalist views (see for example Bowman and Haire 1975; Cochran and Wood 1984), who see the benefits of corporate social investment from a far broader perspective, contend that the firm’s responsibility extends beyond those of the shareholders. Specifically, community impact must be factored in. Corporations are important bastions comprehensively intertwined into the society’s social fabric. Due to this complete integration, actions of the corporation aiding society have direct and indirect spill-over effects to the firm.

Moir (2001) and Kolstad (2007) argue that firms should pursue ends that are more important from a social view point than simply the making of as much money as

possible for shareholders. This does not mean firms should abandon profit maximisation objective. Rather, in addition to this economic objective, firms can address social responsibility issues in the corporate decision making. Those that argue in similar vein suggest that firms benefit from socially responsible actions through enhanced community reputation and corporate image, increased product or service awareness and customer loyalty, and increased employee morale as well as productivity (Bennett 1998; Fombrun and Shanley 1990; Owen and Scherer 1993; Sumner et al. 2004; Wulfson 2001).

Corporate management's perception towards corporate social responsibility and the relationship with market share was voiced through a survey conducted by Owen and Scherer (1993). They (Owen and Scherer 1993) found that out of nine corporate social responsibility issues studied<sup>7</sup>, corporate actions related to environmental pollution, corporate philanthropy, and the disclosure of social information are perceived by corporate management as having the greatest impact on market shares. This finding emphasises the importance of corporate social responsibility, generally, and corporate philanthropy, specifically, in managerial decision making.

It is notable that in the recent capital market driven by globalisation, intense competition coupled with an increasing pace of technological advancement with much of the firm's market capitalisation embodying intangible resources, focusing on profitability alone is insufficient (Anand 2009). To be sustainable, firms must interact with other stakeholders aside from shareholders, and must undertake social efforts in an attempt to maximise shareholder wealth (Godfrey 2005). According to a recent *McKinsey Quarterly global survey* (2008), corporate philanthropy can be an effective tool in meeting the rising expectations of customers. The survey (*McKinsey Quarterly global survey* 2008) found 84 percent of the corporate executives around the globe (that participated in the survey) believed firms are now required to take a much more proactive role in societal and environmental issues than ever before. The

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<sup>7</sup>The nine corporate social responsibility issues studied by Owen and Scherer (1993) are: (i) environmental pollution, (ii) corporate philanthropy, (iii) disclosure of social information, (iv) representation of women on board of directors, (v) representation of minorities on board of directors, (vi) conventional weapons-related manufacturing, (vii) nuclear weapons-related contracting, (viii) involvement/investment in South Africa, and (ix) animal testing of products.

*McKinsey Quarterly global survey 2008* results further highlight the importance of corporate philanthropy.

In Australia, a comprehensive national research project on philanthropy, *Giving Australia* (2005), indicates an increase of 88 percent in individual giving since 1997. *Giving Australia* (2005) also points out that business giving has more than doubled since the last time a survey of business giving was conducted by the Australian Bureau of Statistics in 2000/2001 that reported \$1.5 billion of corporate philanthropy. During 2003/2004, the total businesses giving in money, goods and services amounted to \$3.3 billion (Giving Australia 2005). Nevertheless, Australia still lags behind European and American counterparts in terms of corporate philanthropy (Madden 2006). A survey conducted in 2001 by Irving Saulwick and Associates, *The Shareholders' Project*, reveals that one-fifth of Australian shareholders identified company contributions to the community is a top priority. Being part of the community, businesses are expected to engage in philanthropic activities to build a better society and also to ensure survival in a highly competitive environment. In addition, the *Millennium Poll* on corporate social responsibility, which was conducted to identify the role of large corporations in society, reveals that Australian citizens place greater emphasis on corporate contributions (45 percent) than making profits (8 percent) (Corporate Community Investment in Australia 2007). The expectations of Australian citizen on the role of large corporations to go beyond the profit maximisation objective is even higher compared to other countries, such as Great Britain (39 percent), the United States (35 percent), Japan (33 percent) and Russia (23 percent) (Corporate Community Investment in Australia 2007). This is further supported by a recent world survey, the *World Giving Index 2010*, that ranked Australia (equal with New Zealand) as the most charitable nation in the world (Charities Aid Foundation 2010). This is consistent with the findings of Suggett and Goodsir (2002) which indicate that meeting social obligations and creating community partnerships are of paramount importance for Australian society.

Taken together, the above review portrays the credence that corporate philanthropy has shifted from being a margin concern to being a mainstream issue. The practice of

corporate philanthropy has evolved to a point where it has become an important part of business strategy (Hess et al. 2002). Accordingly, firms are expected to engage in corporate philanthropy as it not only has societal benefits but also direct benefits to the corporations.

### **1.3 Research Objectives and Questions**

The study of corporate philanthropy raises various interesting issues: (a) evolution of corporate philanthropy (Sharfman 1994), (b) motives for corporate philanthropy (Moir and Taffler 2004; Ricks and Williams 2005; Sánchez 2000), (c) characteristics of givers and corporate philanthropy (Adams and Hardwick 1998; Amato and Amato 2007), (d) relationship between corporate philanthropy and social performance, and (e) effect of corporate philanthropy on firm financial performance (Choi and Wang 2007; Seifert et al. 2003). While most of prior studies on Australian charitable giving are conducted at an individual level (see for example Fishel 2002, Lyons, McGregor-Lowndes, and O'Donoghue 2006, Madden and Scaife 2008), it is also crucial to understand the giving at the corporate level. Specifically, it is important to understand the current level of corporate giving and the extent of its communication. The amount of corporate giving in Australia is growing and shareholders as well as the society place greater emphasis on corporate giving (refer Section 1.2). In addition, firms are involved in various types of giving than simply giving away cash. This is justified on the grounds that most prior studies concentrate on cash giving (see for example Atkinson and Galaskiewicz 1988, Sánchez 2000, Seifert et al. 2004) and largely ignores other types of giving. Thus, understanding the various types of giving enables firms to better organise their corporate philanthropy programmes. Further, as noted by *Giving Australia* (2008), the main factor that hinders or impedes the facilitation of corporate giving is that the resources are committed elsewhere. Hence, identifying the factors that may influence corporate giving leads to better understanding of corporate philanthropy phenomenon and generates considerable insights into this issue.

This thesis adopts the view that the study of corporate philanthropy should not be considered as a single dimensional issue. Rather, corporate philanthropy should be analysed in terms of integrated elements such as items associated with CP Discourse; namely communicated corporate philanthropic information and the actual level of corporate philanthropic involvement. Therefore, this thesis looks at these two significant aspects within this framework of CP Discourse. Discourse can be broadly characterised as extended communication on a broad array of topics while CP Discourse refers to extended communication dealing with corporate philanthropic issue. Specifically, in this thesis, CP Discourse is used as an overview term to represent all corporate philanthropy. Given this direction, this thesis will have two specific identifiable phases: Phase I and Phase II (see Glossary of Key Terms).

For purposes of analysis and generic ease of understanding, this thesis examines the two pivotal aspects of CP Discourse (i.e., CP Communication and CP Involvement) in two Phases (i.e., Phase I and Phase II). In Phase I, the broader picture of corporate philanthropy is examined (n = 1,548). Specifically, the extent of CP Communication is investigated. The term ‘CP communication’ is used as the representation of the transmission of corporate philanthropic information to the shareholders and the general public via annual reports and stand-alone sustainability report. These two mediums are important parts of the firm’s communication repertoire (Guthrie and Farneti 2008, Roberts 1992). In addition, firm-specific factors that may influence CP Communication are examined. In Phase II, the focus is solely on firms that specifically communicated information on corporate philanthropy (n = 261). In Phase II, the types of CP Involvement are highlighted, and factors that contribute to CP Involvement are analysed.

Overall, this thesis seeks to provide answers to the following key research questions:

- 1. What level of communication and ambiguity exists within Australian listed firms’ communication of corporate philanthropy?*
- 2. What factors explain the varying levels of CP Communication (and non-communication) for Australian listed firms?*
- 3. What types of CP Involvement are made by Australian listed firms?*

4. *What are the factors that explain CP Involvement made by Australian listed firms?*

In summary, in Phase I, this thesis examines the level of communication (and ambiguity within the possible level of communication) of corporate philanthropy to better understand how Australian listed firms report on gift-giving activities. To shed additional light on the extent of CP Communication, firm-specific characteristics are examined to identify the factors that could explain the ambiguity surrounding CP Communication. Next, in Phase II, the thesis identifies the various forms of corporate philanthropy as reflected in the Australian listed firms' key reports<sup>8</sup>. This is to provide a comprehensive reflection of the scope and nature of Australian corporate philanthropy. In addition, firms that disclose corporate philanthropic information are specifically analysed to determine the factors that influence CP Involvement of Australian listed firms. The insights from Phase I and II will lead to a better understanding of overall CP Discourse.

#### **1.4 Conceptual Schema**

The key variables used in this thesis are depicted diagrammatically in Figure 1.3 and Figure 1.4. As stated in the previous section, Phase I focuses on CP Communication while Phase II focuses on CP Involvement. This focus is summarised as follow:

$$\text{CP Discourse} = \text{CP Communication (Phase I)} + \text{CP Involvement (Phase II)}$$

As shown in Figure 1.3a, the total firms in the sample (n=1,548) are divided into two main groups: (i) 'Non-Corporate Philanthropic Communicator' (hereafter 'Non-CP Communicator') and (ii) 'Corporate Philanthropic Communicator' (hereafter, 'CP Communicator')<sup>9</sup>. Analysis in this part of Phase I is undertaken to identify the level

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<sup>8</sup>In this thesis, key reports refer to annual reports and stand-alone sustainability reports.

<sup>9</sup>Non-CP Communicator refers to the firms that do not communicate any kind of corporate philanthropic information. In essence, Non-CP Communicators are 'Opaque' firms. CP Communicators, on the other hand, refers to firms that communicate some kind of corporate philanthropic information in either annual report and/or stand-alone sustainability report. In essence,

of communication and ambiguity that exists within this communication of corporate philanthropy by Australian listed firms.

To better understand the extent of CP Communication, further analysis is also conducted whereby the CP Communication is polarised into three clusters known as ‘Opaque’, ‘Translucent’ and ‘Transparent’. ‘Opaque’ firms are defined as those that do not communicate any kind of corporate philanthropic information in either the annual report or stand-alone sustainability report. Opacity can be characterised by a firm’s silence about corporate philanthropy. ‘Translucent’ firms are those entities that communicate some details about corporate philanthropic activities in either the annual report and/or stand-alone sustainability report. However, the corporate philanthropic information is limited to narrative and/or numeric disclosure only without any monetary quantification. ‘Transparent’ firms are those that communicate details about corporate philanthropic activities in either annual report and/or stand-alone sustainability report. For ‘Transparent’ firms, the corporate philanthropic details is not limited only to the narrative and/or numeric disclosure but is supported with monetary quantifications.

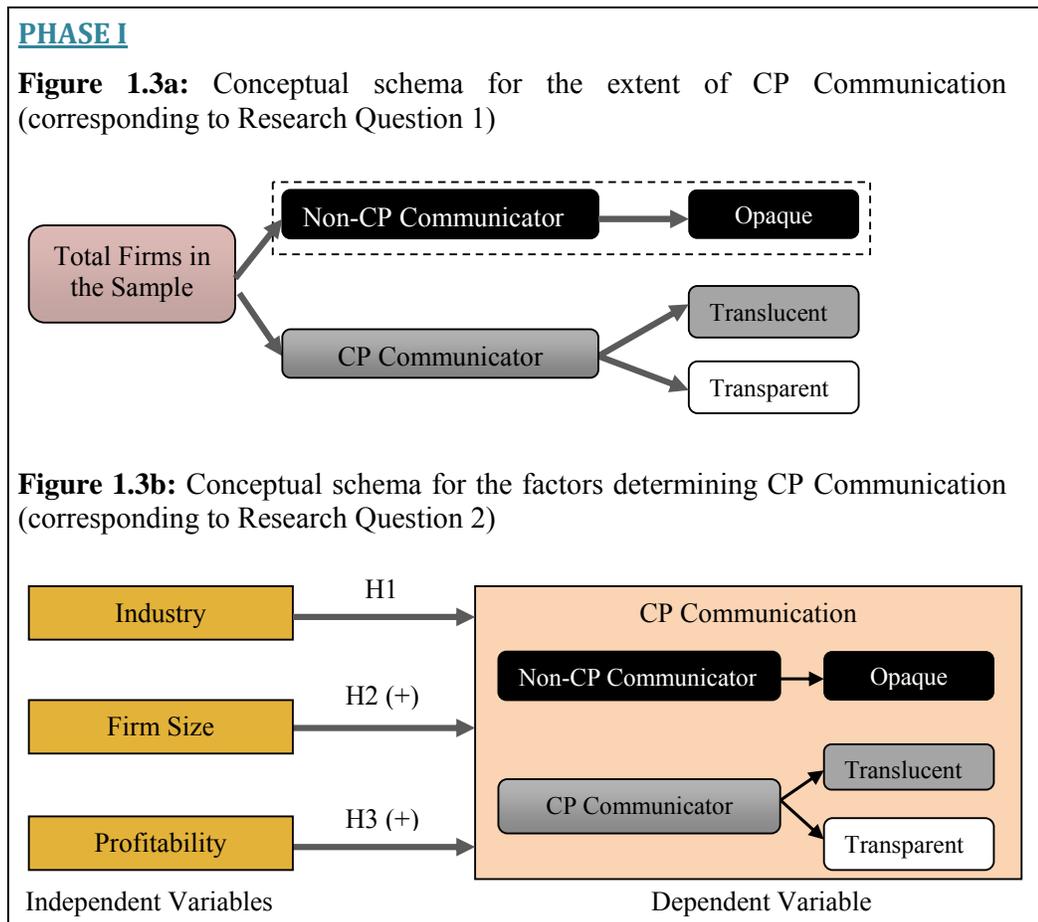
For ease of referencing, this thesis labels the two-group analysis (Non-CP Communicator and CP Communicator) as CP Communication<sup>2Groups</sup> and the three-cluster analysis (Opaque, Translucent and Transparent) as CP Communication<sup>3Groups</sup>.

In Figure 1.3b, three firm-specific factors are examined to determine the influence on CP Communication. These key factors are (i) industry, (ii) firm size, and (iii) profitability.

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CP Communicators are ‘Translucent’ and ‘Transparent’ firms (further discussions on ‘Opaque’, ‘Translucent’, and ‘Transparent’ are in Section 2.4).

**Figure 1.3:** Conceptual schema for Phase I (CP Communication)



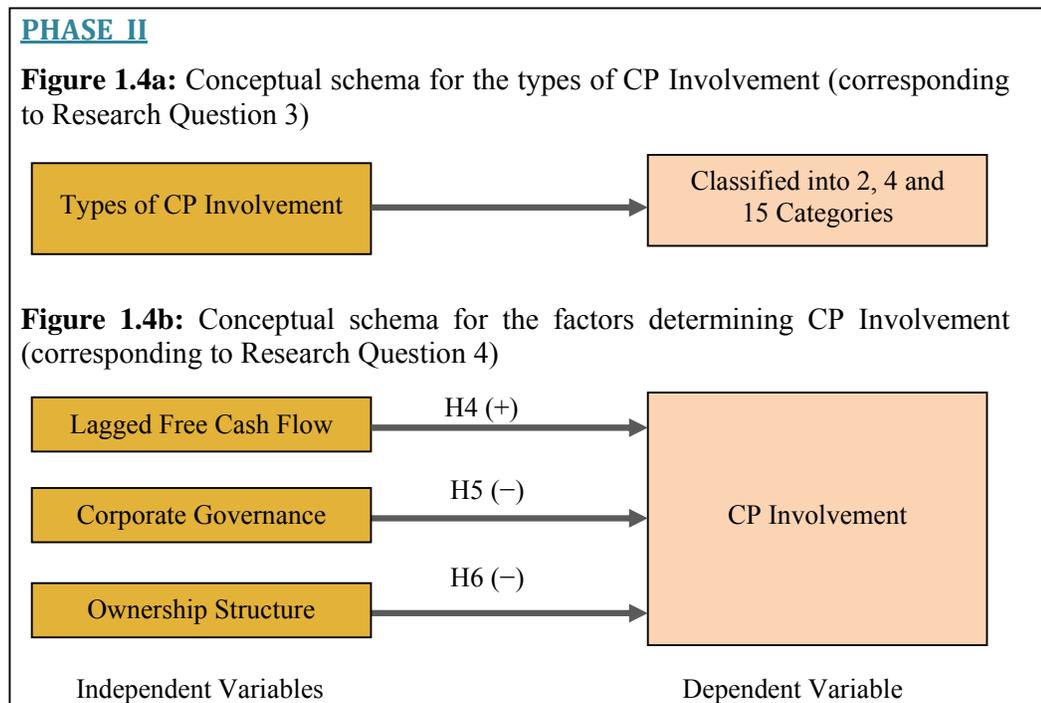
Legend: Phase I focuses on CP Communication where the extent of CP Communication is examined (Figure 1.3a). In addition, three firm-specific factors (industry, firm size and profitability) are investigated to identify the factors that contribute to the varying levels of CP Communication (Figure 1.3b).

In contrast to Phase I, Phase II focuses solely on the type of CP Involvement of firms that highlight at least some information on corporate philanthropic activities (n = 261).

Specifically, in Phase II the types of corporate philanthropy are analysed in detail where CP Involvement is categorised into various monetary and non-monetary giving (corresponding to Research Question 3). This is to better reflect the themes under which Australian listed firms are involved in gift-giving. Further, factors (i.e., lagged free cash flow, corporate governance and ownership structure) that may influence CP Involvement are examined (corresponding to Research Question 4).

Figure 1.4 reflects diagrammatically Phase II analysis. As illustrated in Figure 1.4a, the types of CP Involvement are classified into 2, 4 and 15 categories. The different way of categorising CP Involvement enriches the analysis as this enables a better understanding of the detailed components of CP Involvement. Figure 1.4b depicts the three factors that could influence CP Involvement: (i) free cash flow, (ii) corporate governance, and (iii) ownership structure (while controlling for firm size and industry effect).

**Figure 1.4:** Conceptual schema for Phase II (CP Involvement)



Legend: Phase II focuses on CP Involvement where the types of CP Involvement is polarised into 2, 4 and 15 different categories (Figure 1.4a). In addition, three factors (lagged free cash flow, corporate governance, and ownership structure) are investigated to identify the factors that contribute to CP Involvement (Figure 1.4b).

In summary, Section 1.4 outlines the conceptual schema used for this thesis where overall CP Discourse is being investigated in two distinct phases: Phase 1 (CP Communication) and Phase II (CP Involvement). The following section elaborates on the major contributions of this thesis.

## 1.5 Significance of the Thesis

This thesis contributes to the developing stream of research on corporate philanthropy in a number of ways.

Firstly, although the research in the area of corporate social responsibility has ebbed and flowed for a number of decades (Deegan 2002), the study of corporate philanthropy and associated discourse, though important, is still very sparse and neglected (Campbell and Slack 2008). As this area is under-researched, this thesis is expected to advance knowledge and understanding on this issue. Furthermore, corporate philanthropy is an important area to be investigated being a growing discretionary item for firms. In Australia, corporate donations for 1992 totalled \$510 million (Cohn 1992). By 2003-04 the amount of corporate donations has increased to \$3.3 billion (Sargeant and Crissman 2006). The fivefold increase within a decade signifies the mounting importance of corporate philanthropy. Further, the Parliamentary Joint Committee on Corporations and Financial Services (2006) advanced the view that Australian firms should at least seek to undertake corporate social responsibility activities for the benefits of society and the best interest of the company from a commercial perspective. Sargeant and Crissman (2006) call for more research on corporate giving. This doctorate answers this call by providing considerable additional insights into the issue of CP Discourse.

Secondly, this thesis examines the types of CP Involvement Australian listed firms participate in, as disclosed in key reports. This offers valuable insights into the scope and nature of Australian corporate philanthropy. In essence, this thesis measures corporate philanthropy from a broader perspective to include monetary and non-monetary giving. Most of the prior literature only focuses on the monetary contributions (see for example Atkinson and Galaskiewicz 1988; Sánchez 2000; Seifert et al. 2004) and largely ignores other types of giving. Accordingly, this thesis fills an important void in knowledge, and moves the literature in a more dynamic direction.

Thirdly, the disclosure pattern is not only analysed based on the annual reports but also incorporates stand-alone sustainability reports. Traditionally, the annual report is used as the primary avenue to disseminate information to various stakeholders (Guthrie and Parker 1989; Roberts 1992; Wiseman 1982). Nevertheless, over the past decade, a stand-alone sustainability report has become a vital extension to the annual report. Thus, relying solely on annual reports may provide limited insights into corporate philanthropy practices and may not provide a comprehensive view of the firm's extended performance (Guthrie and Farneti 2008). This empirical endeavour provides a better understanding of CP Discourse with findings contributing to the understanding of the role of accounting as a useful communication process for corporate accountability and stewardship (Gray et al. 1996; Kuasirikun and Sherer 2004).

Fourthly, this thesis addresses the ambiguous communication (and non-communication) practices of corporate philanthropy. This is a key issue neglected in prior studies. Possible determinants are studied, and explanations advanced to explain the ambiguity surrounding CP Communication. A model on CP Communication is presented to better understand the various levels of disclosure practices, and how such gift-giving is (or is not) communicated. Analysis from this thesis provides unique and valuable initial insights as the area is still at the embryonic research stage, and the level of communication for corporate philanthropy is still far from clear.

Fifthly, the majority of the previous studies investigating CP Involvement do so using stakeholder theory (Adams and Hardwick 1998; Gan 2006; Moir and Taffler 2004; Seifert et al. 2004), whereby, corporate giving is viewed as a fulfilment of the firm's social responsibility. However, this thesis looks at specific CP Involvement from a more innovative slack resources theory by examining the relationship between lagged free cash flow and corporate philanthropy.

In addition, corporate governance and ownership structure are examined to identify their influence on CP Involvement. Corporate governance is an important issue as

good practices are viewed to ensure corporate managements act in the best interests of stakeholders, and ensures goal congruence. The literature provides ample an examination of corporate governance, yet the link between corporate philanthropy and corporate governance has received very little attention. Furthermore, of limited prior research (e.g., Bartkus et al. 2002; Wang and Coffey 1992) examining the relationship between corporate governance and corporate philanthropy, very restricted number of corporate governance attributes are being employed. For instance, Bartkus et al. (2002) measure corporate governance as concentrated stock ownership, insider stock ownership and board control (i.e., board size, CEO duality and director's independence). Meanwhile, Wang and Coffey (1992) examine the board composition (i.e., ratio of insiders to outsiders, percentage of insider stock ownership and proportion of female and minority board members) and corporate philanthropy. This thesis examines a wider range of corporate governance attributes through the usage of a 25-item matrix. Thus, this thesis offers a more comprehensive view of the influence of corporate governance on corporate philanthropy. Similarly, the possible impact of ownership concentration on corporate philanthropy has been scarcely captured in previous studies (Adams and Hardwick 1998; Bartkus et al. 2002). Again, this doctorate provides unique contribution and valuable insights into this issue.

Sixthly, most of the previous studies on corporate philanthropy are based on United States (Atkinson and Galaskiewicz 1988; Chen et al. 2008; Saiia et al. 2003; Seifert et al. 2003) and United Kingdom samples (Brammer and Millington 2003b; Brammer and Millington 2005b; Campbell et al. 2002). These themes have received very little attention in other global locales. Importantly, a recent major first-time international survey (153 countries, representing 95 percent of the world's population), commissioned by the Charities Aid Foundation, ranked Australia (equal with New Zealand) as the most charitable nation in the world<sup>10</sup> (Charities Aid Foundation 2010). Thus, findings from this thesis could provide insights into firms

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<sup>10</sup>The index ranked countries based on an average score of three charitable categories: (i) the percentage of the population that donated money to a charity, (ii) the percentage of the population that volunteered time to an organisation, and (iii) the percentage of the population that helped a stranger, or someone they did not know who needed help (Charities Aid Foundation 2010).

from a charitable-oriented economy; to assess whether a reputation for giving at an individual level is pronounced at a corporate level and is actively communicated.

Finally, since managerial decision-making has become critical in today's volatile and turbulent economic situation, the understanding of factors that contribute to CP Involvement, and roles that free cash flow plays in enabling corporate managers to effectively and efficiently manage corporate philanthropy programmes. This in turn enables corporate management to tie corporate philanthropy to the firm's strategy and entrench it into the firm's corporate culture. Ultimately, this will assist to reduce poverty and inequalities as well as minimise (if not solve) social problems (Campbell et al. 1999). Additionally, it can create a win-win situation (Duncan 2004) where the benefits accrue to the recipients as well as to the firm by 'doing better by doing good' (Leisinger 2007; Stroup et al. 1987).

In summary, the aforementioned review highlights the significant contribution of the thesis in which the findings can be important for firms, shareholders, government and other stakeholders, as well as the public at large.

## **1.6 Assumptions and Limitations**

This thesis rests on a number of assumptions whilst several main limitations are acknowledged.

This thesis gathers information on corporate philanthropy by Australian listed firms from two main sources of publicly available information (i.e., annual reports and stand-alone sustainability reports). Since corporate philanthropy disclosures are voluntary, it may well be that some firms do not disclose their corporate philanthropy via these mediums. This thesis assumes figures revealed by firms in the key reports represent the aggregate of the firm's corporate philanthropy. Also, there are potentially occasions where firms give yet fail to disclose the amount. For this thesis, it is assumed that if a firm does not disclose any information on corporate

philanthropy, then the firm did not undertake any material corporate philanthropic activities. Also, from this thesis, corporate philanthropic giving excludes support for political donation. This exclusion is justified in that it is outside the scope of the definition of corporate philanthropy underpinning this thesis.

It is acknowledged that there are other various possible avenues for communicating corporate philanthropic involvement such as community meetings, newsletters, public speeches, presentations, firm-specific websites, focus groups, computer-based forums and consultation programmes that are available to firms. However, for the purpose of this thesis, only annual reports and stand-alone sustainability reports are used as the data source. This selection criteria is justified because the former represents the main channel for corporate communication (Gray et al. 1995a) whilst the latter represents an extended document to communicate social involvement (Guthrie and Farneti 2008). Prior research on social and environmental reporting has predominantly concentrated on disclosures in the annual reports (see for example Adams et al. 1995; Adams et al. 1998a; Hackston and Milne 1996; O'Donovan 2002; Wiseman 1982). The exclusive focus on annual reports has been questioned by Unerman (2000). He (Unerman 2000) postulates that the sole examination of annual report disclosure may have the tendency to leave out important information conveyed by other mediums. In the worse scenario, it may lead to erroneous conclusions (Holland and Foo 2003). According to Frost et al. (2005), discrete sustainability reports are increasingly used as the main medium to channel sustainability information for Australian listed firms. Hence, it is argued that this thesis examination of corporate philanthropic information in annual reports and stand-alone sustainability reports provides a comprehensive reflection of CP Communication having focused on its pivotal forms of communication. This study also paints a broader picture of corporate philanthropy that better reflects the significant effort devoted by firms in providing a more informative disclosure relating to social issues.

This thesis is not without limitations. One limitation of this thesis is that it is a cross-sectional study conducted across a single fiscal year (i.e., firms with year ends between 1 January 2008 and 31 December 2008 inclusive). As firm activities vary

over time, results from this study may not be completely comparable with different time periods. In addition, there are other factors (such as economic conditions, cultural influences and government policy) that may influence corporate philanthropy and are not directly accounted for in this thesis.

Another limitation is that this thesis utilises only publicly available information and self-reported corporate philanthropic information. As the disclosure of corporate philanthropy in Australia is still voluntary, there is a possibility that the donation is never made public.

The measurement of the concept of CP Involvement is based on self-reported publicly available information only. Because this reporting is voluntary, there may be many CP activities not reported by companies. So, the measurement of actual CP Involvement may be biased. Prior studies of CP Involvement have obtained data from independent directories of corporate charitable activity levels. There also may be a loose-coupling phenomenon between corporate philanthropy practices and corporate philanthropy disclosure by companies.

The sample for this study uses 2008 data. This year was impacted by the Global Financial Crisis. The free cash flows and the overall level of CP Involvement in 2008 was probably lower than other years. This would mean that caution should be exercised in generalizing the results findings to other years.

Despite these limitations and assumptions, this thesis contributes to the literature in a number of important ways. It offers new insights that may assist firms in better planning and developing corporate philanthropic strategies especially in Australia and possibly worldwide. This thesis also sheds some light on the understanding of CP Discourse and two key subcomponents (CP Communication and CP Involvement), and possible factors that influence CP Discourse. Overall, this thesis provides a fertile ground for further studies that seek to understand Corporate Philanthropic Discourse.

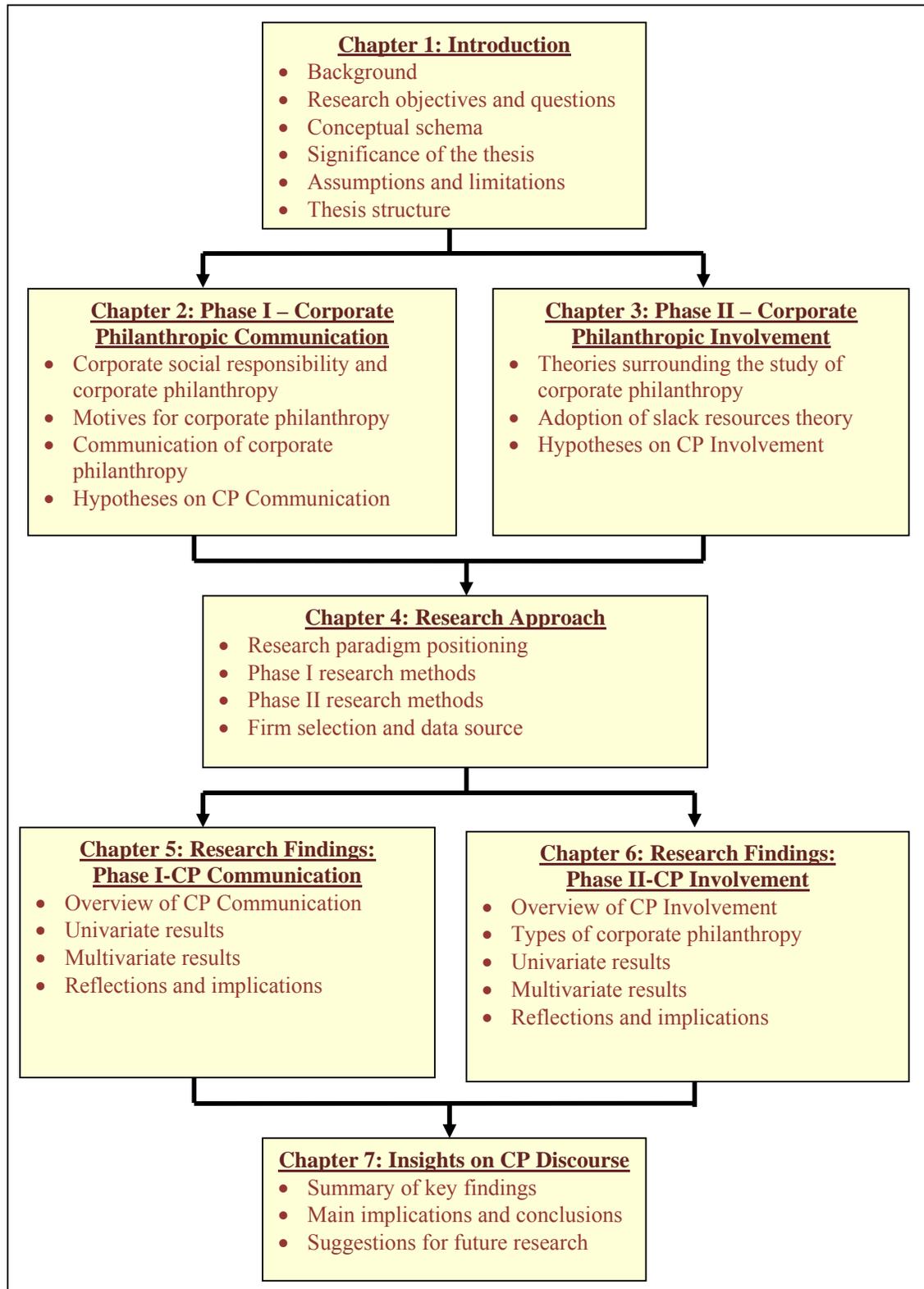
## **1.7 Thesis Structure**

This thesis is organised into seven chapters. Diagrammatically, the thesis structure is displayed in Figure 1.5. Chapter 1 introduces the thesis where the background of the research is presented and the research setting is outlined. Following that, research objectives and questions, conceptual schema, significant contributions of the thesis, and, assumptions and limitations are described.

Chapter 2 focuses on CP Communication (Phase I). First, corporate philanthropy is critically reviewed to assess how it fits within the domain of corporate social responsibility. The chapter then summarises the motives of corporate philanthropy as highlighted in other studies to better understand the drivers of community investment. Next, the issues of transparency, and the communication of corporate philanthropy, are discussed. The chapter then develops a model of CP Communication. In addition, it also presents a set of testable hypotheses in relation to CP Communication.

Chapter 3 presents the theoretical background pertaining to the study of CP Involvement (Phase II). This review leads to the rationale for the selection of slack resources theory as the theoretical foundation underpinning the examination of the determinants of CP Involvement in this thesis. Subsequently, a review of key studies on corporate philanthropy is undertaken with hypotheses derived from the literature are outlined.

**Figure 1.5:** Thesis structure



Note: Figure 1.5 simply outlines the main points of discussion for each chapter in this thesis. Further details are provided diagrammatically at the onset of every chapter.

Chapter 4 details the research approach for this thesis. At the onset of Chapter 4, the research paradigm positioning is presented to explain the research design of the thesis. The measurement of variables used in Phase I and II are explained. The statistical analyses for each phase are then followed. It also elaborates on the selection process of sample firms and the data source for this thesis.

Chapter 5 reports the research findings for Phase I (CP Communication) where both the descriptive and inferential statistical results are presented. The first section documents findings from univariate statistics. This is followed by multivariate results where the relationship between firm-specific characteristics and CP Communication is investigated. Discussion and reflections of Phase I analysis is provided at the end of the chapter with insights into the communication (and non-communication) of corporate philanthropy are highlighted.

Chapter 6 primarily concentrates on the major findings of Phase II where the types of CP Involvement are reviewed, and factors that contribute to CP Involvement are analysed. Key implications and reflections of Phase II findings are then discussed.

Finally, Chapter 7 summarises the thesis where key findings are compared with the research objectives and questions. The empirical results are brought in alignment with the research questions, and objectives and significant contributions of the thesis are highlighted. General conclusions are then made. This chapter ends with recommendations for future research and concluding remarks.

## **1.8 Summary**

This chapter presents an introductory overview of the thesis. Background of the study is provided to set the scene of the research direction leading to the research objectives and questions. A conceptual schema is depicted followed by the significance of the research. Next, the thesis assumptions and limitations are

outlined. It ends with the thesis structure to provide a better overview of the organisation of this thesis.

The following chapter reviews the relationship between corporate philanthropy and corporate social responsibility. Next, it explores the key literature with regard to corporate philanthropy. Subsequently, it presents a model of CP Communication leading to hypothesis development in relation to the level of CP Communication (Phase I).

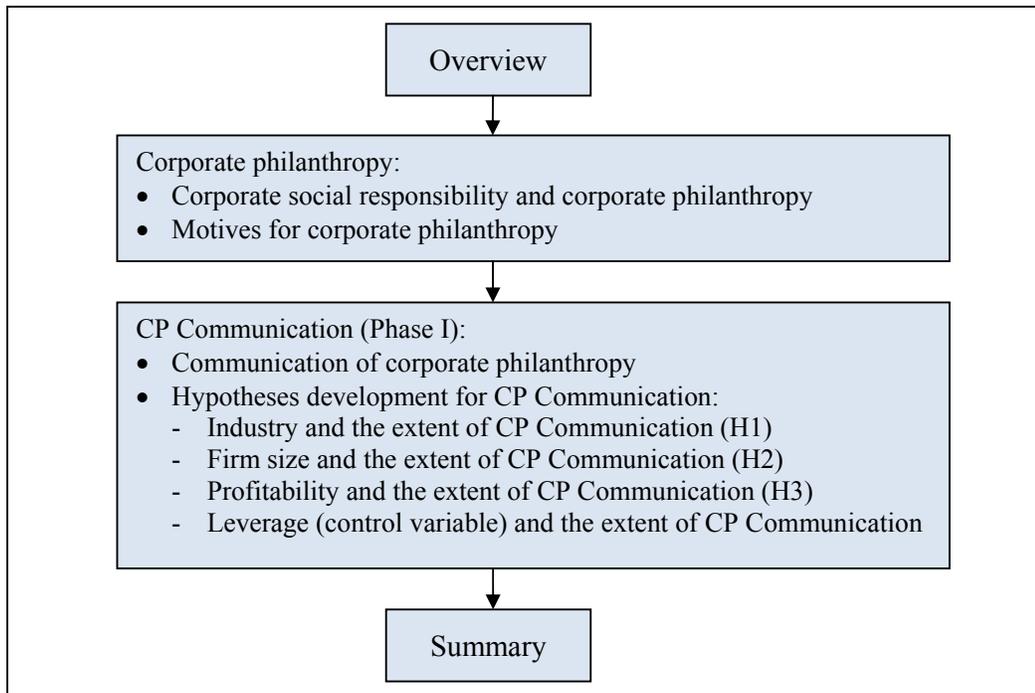
## **Chapter 2. Phase I: Corporate Philanthropic Communication**

### **2.1 Overview**

The preceding chapter introduces an overview of the thesis where the purpose and background on corporate philanthropy is outlined. A conceptual schema is displayed diagrammatically to provide a clear understanding of the direction of the thesis where it divides the thesis into two phases (Phase I and Phase II). The significance of the thesis is then highlighted, followed by the assumptions and limitations. Finally, the thesis outline is presented to demonstrate a clear overview of the thesis structure.

This chapter begins with an explanation of the relationship between corporate philanthropy and corporate social responsibility. This is to better understand how corporate philanthropy fits within the domain of corporate social responsibility. Then, the motivations of corporate philanthropy are explained. Next, this chapter advocates the examination of CP Communication on a sliding scale of clarity (labelled Opaque, Translucent and Transparent). The extent of CP Communication is evaluated based on this framework, with results reported in Chapter 5. This chapter ends with the hypotheses developed from the literature with regard to CP Communication. Figure 2.1 illustrates the outline of Chapter 2.

**Figure 2.1:** Outline of Chapter 2



## **2.2 Corporate Social Responsibility and Corporate Philanthropy**

Corporate social responsibility is a prominent concept utilised in the study of business and society relations (Windsor 2001). This concept has attracted the attention of governments, non-government organisations, national and multi-national corporations, and scholars around the globe. It emerged from the basic idea that a business should act, and be held accountable for, activities with respect to the wider society and environment, beyond legal responsibilities to protect and maximise shareholder wealth (Robins 2005). Many increasingly agree that firms need to divert from the narrow path of profit maximisation and should focus on a wider perspective to include other stakeholders (Clarkson 1995; Holmes 1976).

Corporate social responsibility, at its basic level, implies that the responsibility of the firm extends beyond those of the shareholders to include a much wider group of stakeholders. These stakeholders include government, investors, political groups,

suppliers, trade associations, employees, communities and customers (Donaldson and Preston 1995).

Although there is no universal definition (Godfrey and Hatch 2007), corporate social responsibility at a basic level relates to firms voluntarily incorporating the social and environmental commitments into business operation. According to The World Business Council for Sustainable Development 2000 publication “*Making Good Business Sense*” by Lord Holme and Richard Watts, corporate social responsibility is defined as:

...the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large (p.1).<sup>11</sup>

Corporate social responsibility relates to complex issues encompassing areas such as health and safety, environmental protection, employee relationships, suppliers and customers, and relationships with the local community and the society at large (Branco and Rodrigues 2006). Carroll (1979; 2004) provides more detail by categorising corporate social responsibility in a more exhaustive manner: economic, legal, ethical and discretionary. Specifically,

- From an economic perspective, a firm is viewed as an economic institution that has an economic responsibility to produce goods and services that are required by the society.
- From a legal perspective, society expects the firm to operate within a legal framework. Carroll (1979; 2004) further explains that society assumes the firm treats the claimants ethically, although those behaviours and activities are not codified into the law.

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<sup>11</sup>WBCSD (2000). *Corporate Social Responsibility: Making good business sense*. World Business Council for Sustainable Development. ISBN 2-94-024007-8.  
[http://www.wbcsd.org/web/publications/corporate\\_social\\_responsibility2000.pdf](http://www.wbcsd.org/web/publications/corporate_social_responsibility2000.pdf) accessed on 2<sup>nd</sup> February 2008.

- From an ethical perspective, what amounts to ‘ethical responsibilities’ is still an unresolved debate, yet, suffice to say that a firm should not do harm to society and should be held accountable for all activities and actions.
- Finally, from a discretionary perspective, social responsibility activities are viewed as purely voluntary, and not required by law. Carroll (1979) lists philanthropic contributions as an example for discretionary responsibility. In addition, a great deal of the past literature (Aupperle et al. 1985; Choi and Wang 2007; Seifert et al. 2003) agrees that corporate philanthropy fits well within the discretionary designation of corporate social responsibility. This categorisation implies that corporate donation is voluntary rather than compulsory, and subject to the discretion of the corporate management (Seifert et al. 2003).

Carroll’s (1979; 2004) conceptualisation of corporate social responsibility has multiple components and highlights the multi-dimensional nature of the firm’s responsibility. Corporate philanthropy is a voluntary activity undertaken by a firm to demonstrate the firm’s social concern for the community to improve the well-being of the society.

Corporate philanthropy has become an increasingly common practice among business (Godfrey and Hatch 2007). This concept is continuing to move from the margins to the mainstream of business practice (Sparkes and Cowton 2004). This is evidenced by initiatives and actions taken by various bodies such as the Global Reporting Initiative, International Organization for Standardization, World Resources Institute (WRI), the United Nations, and SustainAbility; that target improvements in social involvement<sup>12</sup> (Godfrey and Hatch 2007).

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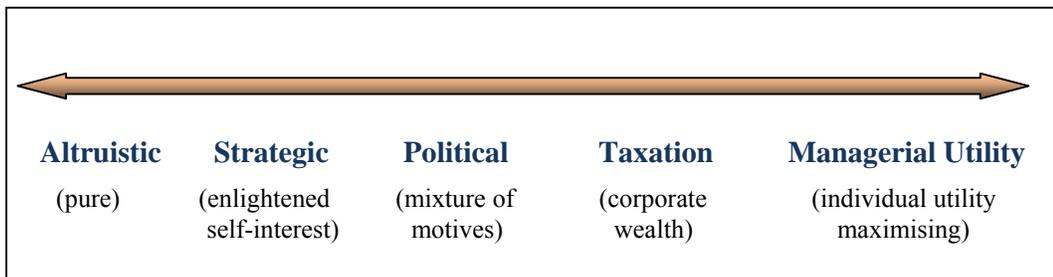
<sup>12</sup>Global Reporting Initiative is a network-based organisation that pioneered the development of world renowned sustainability reporting framework (i.e., GRI 2006). International Organization for Standardization (ISO) is the world’s largest developer and publisher of International Standards. For instance, ISO 14000 series offer a source of guidance on environmental management systems. World Resource Institute is a think tank targeting at environmental protection. The United Nations is an international organisation promoting social progress and better living standards. SustainAbility is a strategy consultant providing solutions and advice on sustainability issues.

Furthermore, an increasing perception by key stakeholders is that organisations need to demonstrate concerns about social responsibility including those related to the community (Ricks and Williams 2005). Corporate philanthropy is a valid corporate activity demonstrating such concern.

### 2.3 Motives for Corporate Philanthropy

There are various motives for corporate philanthropy. These motives can be arrayed along a continuum ranging from pure altruistic to increasingly utilitarian (see Figure 2.2).

**Figure 2.2:** Motives for corporate philanthropy



Source: Developed for this thesis based on the analysis of past literature.

Moir and Tafler (2004) explain various motives of corporate philanthropy range from altruism (societal interest) to neo-classical (business interest). These different motives encapsulate the range of authentic endeavours of corporate giving; that is to benefit the community and the giving firm. At one end of the continuum, corporate philanthropy is about the genuine attempt to gratify altruistic impulses where donations are made independent of any gain either socially or materially. Meanwhile, at the other end of the ‘motives’ continuum, corporate philanthropy is driven by the individual managers’ utility. Strategic, political and taxation motivations are argued to be different blends of altruistic and utilitarian influences. Each of the five motives is discussed below.

The altruistic motive assumes that firms give with a sole motive of helping others with nothing expected in return. According to Amato and Amato (2007), altruistic corporate philanthropy is when firms give as a result of a sense of social responsibility independent of any material gain. Altruism is the most frequently cited motive for corporate philanthropy (Campbell et al. 1999; Haley 1991; Meijer et al. 2006; Ricks and Williams 2005; Sánchez 2000). It is used to justify actions that are right and desirable for society where business offers benefits with the intention of maximising societal welfare. This motive is referred to as corporate benevolence by Campbell et al. (1999) whereby the firm gives as a result of a sense of social responsibility. Lee (1996), as cited in Sargent and Crissman (2006), in a survey of the top 400 donating firms in the UK, indicates that 60 percent of managers believe that corporate donations are made genuinely with no return expected. Meanwhile, the Lee (1996) survey results show 67 percent of management express the view that worthwhile relationships between the donating firm and the community can be developed without a need to link corporate donations made to sales of the firm's products. Meijer et al. (2006) also conducted a survey of the motives of corporate philanthropy in the Netherlands from 1995 to 2003. They (Meijer et al. 2006) find that the most important motives of corporate giving cited by managers surveyed is altruism.

Corporate philanthropy can also be driven by dual agenda motives where firms donate with an intention to benefit not only the recipients, but the givers as well. Some authors refer to this motive as the 'strategic motive' (Mescon and Tilson 1987) (or 'enlightened self-interest' (Stendardi 1992)) whereby corporate philanthropy is undertaken in order to reach marketing and other business-related objective (Ricks and Williams 2005).

In a critical review paper, Ricks and Williams (2005) examine the situation where a corporation voluntarily donates a portion of the firm's resources to a societal cause from the strategic perspective. Strategic philanthropy is defined as the synergistic deployment of core competencies and other resources to address key stakeholder interests in order to gain social and organisational benefits (Ricks and Williams

2005). Ricks and Williams (2005) and Campbell et al. (1999) argue that corporate philanthropy creates a win-win situation for both the giver as well as the receivers. The concept of corporate philanthropy, from a strategic perspective thus, mutates from the traditional position of being a single tool to assist the less fortunate to being a strategic mechanism, for achieving business related objectives.

Empirically, Atkinson and Galaskiewicz (1988) find support for the perspective that firms engaging in charitable giving feel the investment in the community will generate future benefits to the firm. The authors (Atkinson and Galaskiewicz 1988) note that firms that rationalise corporate giving as being in the firm's enlightened self-interest, give more money to charity. According to Saiia et al. (2003), the literature also observes a steady movement towards strategic motives of corporate philanthropy which is seen as contributing to the improvement in the company's bottom line (Mescon and Tilson 1987) as well as enabling businesses to garner a competitive advantage (Porter and Kramer 2002). Navarro's (1988) empirical finding also supports the view that strategic social actions aimed at profit maximisation is an important motive driving contributions. In addition, in-depth interviews with the corporate giving personnel of seven Australian firms conducted by Noble et al. (2008), reveal the desire to improve the firm's bottom line (i.e., strategic reason) emerged as a primary motive for corporate giving.

Meanwhile, Bennett (1997) conducted a survey of 281 United Kingdom corporate donors to identify whether philanthropic donations are made altruistically, or alternatively is being used as a marketing communication tool. Bennett's (1997) findings reveal that most of the respondents acknowledge the advantages associated with corporate philanthropy, particularly in the facilitation of overall public relations that can be used as a vehicle for improving the corporation's reputation. Donors feel corporate philanthropy creates opportunities to build social connections with key stakeholders (Bennett 1997).

Corporate philanthropy can also be driven by political motives. This motivational view refers to the building of corporate image and the promotion of corporate

political interests. According to Neiheisel (1994), as cited in Campbell et al. (2002), political motives can be visualised as a mixture of the altruistic and profit-maximising models, but with a wider horizon to include political and environmental concerns. Sánchez (2000) uses a political and institutional power model of corporate philanthropy to explain the political motives of corporate giving. The Sánchez (2000) model posits that a firm uses corporate philanthropy to maximise the political return on investment. This is because corporate philanthropy enables the firm to create a positive image when the firm sponsors high-profile community events. Sánchez (2000) also explains that politicians and the community become beholden to the firms; consequently, this enhances the corporate image. Sánchez (2000) claims that firms engage in corporate philanthropy to portray an image of good corporate citizenship with external constituencies such as government, the media, customers and the public at large.

Another motive for corporate philanthropy can be linked to taxation. Under this argument, corporate philanthropy enables the firm to maximise profit by reducing corporate income taxes (Sánchez 2000). Boatsman and Gupta (1996) provide empirical evidence that increases in corporate income tax leads to higher corporate giving since firms seek to gain incentives from the tax deductibility of approved corporate donations. Also, according to Andrews (1953) and Bremner (1987) (as cited in Sharfman 1994), a huge increase of corporate philanthropy is observed in the U.S. when the excess profits tax was imposed on firms in 1942, but declined when the excess profits tax was repealed in 1946<sup>13</sup>.

Finally, managerial utility motives suggest managers convey personal values through corporate philanthropy with managers using corporate positions to express these values. The managerial utility motive highlights the role of the individual firm's senior management or the key decision maker within the business realm. Bardi and

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<sup>13</sup>As cited in Sharfman (1994), Andrews (1952) and Bremner (1987) reported ninefold increase of corporate philanthropy from 1936 to 1945 reaching approximately \$270 million but the amount decreased to about \$52 million in 1946. Although there could be other reasons for the observed patterns of corporate philanthropy during these periods, it was widely argued (Andrews 1952, Bremner 1987, Eells 1956, and Heald 1970), (as cited in Sharfman (1994)) that the real impetus was attributable to taxation incentives.

Schwartz (2003) observe that people normally behave in ways that express important personal values, or promote activities that will accomplish these values. Thus, according to Choi and Wang (2007), these values are fundamental to the manager's decision making process. Therefore, corporate philanthropy is viewed as mirroring the utility of managers that desire to promote personal values.

Whilst the five motives of corporate philanthropy shown in Figure 2.2 are discussed individually, it is important to note that these motives are not necessarily mutually exclusive. Chen et al. (2008) test such propositions by empirically examining whether corporate philanthropy is used as an indicator of social performance or an act of corporate legitimisation. Corporate charitable contribution and firm social performance in their (Chen et al. 2008) study is analysed from three different domains of action; (i) employee relations, (ii) environmental issues, and (iii) product safety. Chan et al. (2008) suggest corporate philanthropy can be used as a means to mitigate negative exposure brought about by poor performance in other social domains, and that firms use philanthropic donations more as a mechanism to address legitimacy concerns than being a purely altruistic sharing of resources.

Overall, the key argument is that corporate philanthropy provides a fertile avenue to create a win-win situation, regardless of the motives. Many appear to agree that corporate giving is a pivotal part of community investment which can be a source of competitive advantage (Adkins 1999; Porter and Kramer 2002; Rindova and Fombrun 1999; Varadarajan and Menon 1988) rather than a cost to the firm.

## **2.4 Communication of Corporate Philanthropy**

Communication is used to transmit information from one party to another. Due to the divorce of ownership and control between the shareholders and management, corporate communication is very important to explain material business decisions undertaken by management that may affect the firm's performance and value (Balmer and Gray 1999; Lewis 2001). There are various mediums used to convey

information including annual reports, stand-alone sustainability reports, firm-specific website, newsletters and community meetings.

Campbell (1975) proposes that basic biological human nature is in agreement with traditional religious moral teachings, and that philanthropic norms have been deeply embedded in human culture and religious teaching. He (Campbell 1975) suggests that human civilisation and social evolution have gradually developed beliefs that encourage individuals to consider the welfare of others so as to counter individual selfish tendencies. Accordingly, corporate philanthropy, an action when businesses contribute a portion of the firm's resources for societal causes, represents an extension of such norms of social responsibility. There is one philosophical strand of thought that suggests firms like to donate so as to improve the well-being of society, and a desire to assist those less fortunate, since people as well as corporation managers, find pleasure in giving (Phillips and Taylor 2009). This perspective is portrayed in the following phrase referring to the late Princess Diana; "Nothing brings me more happiness than trying to help the most vulnerable people in society. It is a goal and an essential part of my life – a kind of destiny"<sup>14</sup>.

Campbell and Slack (2008) provide useful insights into the voluntary disclosure pattern of corporate philanthropy of United Kingdom firms in annual reports. The narrative descriptions in the reports are analysed for the extent to which these represent the expression of 'philanthropy strategy' and 'strategic philanthropy'. The former is interpreted as the issue surrounding the disbursement of corporate donations while the latter is identified as the type of content that would signal, partially or wholly, the strategic approach to philanthropy. Campbell and Slack (2008) posit that an optimal accountability exists when all material costs that affect profits and dividends are transparently accounted for. Accordingly, though not mandatory, appropriate detailed disclosure entails good accounting practice as this provides assurance to shareholders and reduces ambiguity.

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<sup>14</sup>Quoting from <http://www.brainyquote.com/quotes/quotes/p/princessdi200393.html> assessed on 12 August 2009.

Campbell and Slack (2008) further express concern about the lack of mandatory requirements to disclose policies effectively, or best practices introduced for corporate philanthropy disclosure. Such a discretionary loophole leaves room for managers to pursue private interests without a need to provide an explanation to key stakeholders. Therefore, full disclosure is desirable and inherently necessary to provide assurance that corporate social investment serves a strategic end and shareholder money is being managed appropriately and effectively. The findings of Campbell and Slack (2008) suggest the majority of corporate giving disclosure patterns are very patchy and inconsistent.

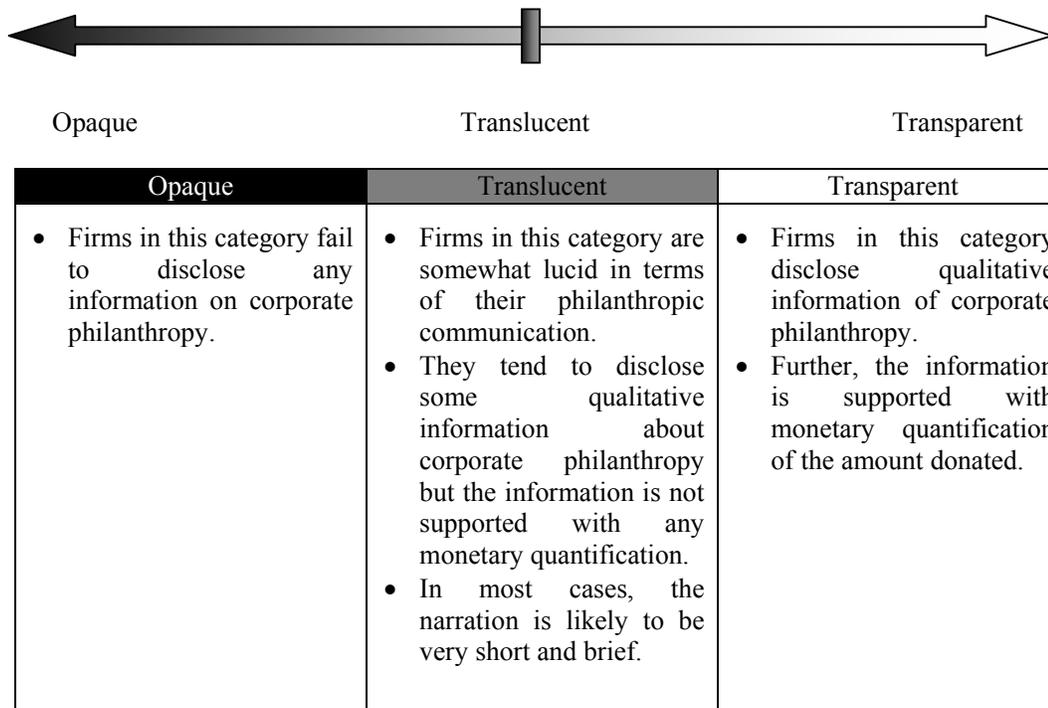
Manheim and Pratt (1986) argue that lack of effective corporate philanthropic communication results in minimum benefits to the firm. Genest (2005) asserts that corporate philanthropy is an extension of corporate communication, or is a public relation function. Hence, corporate philanthropy needs to be appropriately communicated to the public to align corporate behaviour with stakeholder expectations.

Firms are often confronted with conflicting agendas in communicating information with regard to economic, social and environmental concerns. While legally required to prepare financial statements that reports economic performance, firms engage in social and environmental communication on a voluntary basis. Although there are some international guidelines on how to disseminate such activities, (e.g., the Global Reporting Initiative (2006)), there is no truly clear benchmark for reporting corporate philanthropy. Accordingly, there remains a blind spot on how to report such an activity and the extant disclosure of corporate donations is very inconsistent and erratic (Campbell and Slack 2008). If sustainability is a core element of business policy, then sustainability reporting should form part of the essential communication strategy (Condon 2008). Furthermore, as the practice of corporate philanthropy shifts to the mainstream of business strategy (Hess et al. 2002), it is argued that shareholders are entitled to receive relevant information on corporate charitable contributions (Gillmor and Berner 1999).

To gain a better understanding of CP Communication, this thesis first examines the extent of CP Communication by dividing the total Australian listed firms into two main categories: ‘Non-CP Communicator’ and ‘CP Communicator’. The former category refers to a firm that does not communicate any kind of corporate philanthropic information in either the annual report or a stand-alone sustainability report. The latter category, on the other hand, refers to a firm that communicates some kind of corporate philanthropic information in either the annual report and/or stand-alone sustainability report.

In addition, to enrich the analysis and shed additional insights on CP Communication, this thesis suggests that the level of CP Communication can be further classified into three categorical groups based on a sliding scale of clarity labelled ‘Opaque’, ‘Translucent’, and ‘Transparent’. Figure 2.3 provides a fuller explanation of each category.

**Figure 2.3:** Mirroring dialogue: Different levels of CP Communication



Source: Developed for this thesis based on the analysis of corporate philanthropy as reported in the Australian listed firms’ 2008 key reports.

As depicted in Figure 2.3, there are arguably vastly different levels of clarity underpinning the communication of corporate philanthropy. Opacity can be viewed by a firm's silence about philanthropy. In such scenarios, stakeholders simply are not informed about the occurrence, frequency or magnitude of corporate gift-giving in the firm's key reports. Opacity may arise for several reasons (as further discussed in Section 5.6). Firstly, it may be due to a technical interpretation of materiality. Secondly, there may be concern that too much disclosure may lead to an overwhelming number of charitable requests from non-profits. Thirdly, non-disclosure may also be used as a protective tool by managers that fear stakeholder wrath if the specific details of the extent and type of gift-giving are made public.

Opacity can also exist because there is no giving at all. Complete non-giving, however, is unlikely as firms, especially those large enough to be on a stock exchange, can be assumed to have at least some charitable giving. Hence, it is posited that there are 'thought-out' reasons for non-communication. For this thesis, this position is viewed as 'silence' strategies. These 'silence' strategies may include the deemed immateriality of the amount donated, weariness of being bombarded by other charities, or alternatively concerned about the cost effectiveness of the donations and related stakeholder discontent. Opaque-style silence is aided and abetted by the absence of clear reporting guidelines (further discussion on the possible reasons for non-communication is in Section 5.6).

A second set of firms may follow a 'Translucent' mode of communication where only the broad outline of gift-giving is highlighted. Firms in the Translucent category tend to disclose qualitative information of corporate philanthropy. Some firms in this category may provide numeric disclosures such as the number of shelters provided, the number of volunteer hours spent and the number of homeless people assisted but the monetary quantities are not revealed. In most cases, the narration is also likely to be very short and brief.

Meanwhile, a third category of firms ('Transparent') provide qualitative and quantitative data on gift-giving. Firms in the Transparent category are assumed to

disclose greater detail about corporate philanthropic information, with information presented not only confined to qualitative disclosure but includes quantitative information. The best communicators in the Transparent category would also elaborate on the various types of contributions made supported with the monetary amount.

The discussion outlined on Figure 2.3 raises a key question. How can such a wide range of communication policies exist? There remains a philosophical and practical gulf between firms that have clear involvement in corporate philanthropy, firms that broadly (somewhat vaguely) communicate corporate philanthropy and firms that remain completely silent. Therefore, this thesis seeks to bridge this gap by examining the reporting patterns of the gift-giving.

## **2.5 Hypotheses Development for Phase I: CP Communication**

The thesis investigates several explanatory variables that may predict the extent of voluntary communication of corporate philanthropy. Based on the prior empirical disclosure studies, industry, firm size and profitability have been found as plausible predictors of such corporate social responsibility disclosure. The following discussions relate to the hypotheses development for Phase I for the three aforementioned factors.

### **2.5.1 Industry and the Extent of CP Communication**

A voluminous body of research relating to the level of corporate social responsibility disclosure indicates such disclosure varies across industry type (Cowen et al. 1987; Eng and Mak 2003; Gao et al. 2005). Industry is one of the most common variables used to explain the extent of social responsibility disclosure (see for example Adams et al. 1998a; Araya 2006; Cowen et al. 1987; Gao et al. 2005; Gray et al. 1995b; Meijer et al. 2006; Reverte 2009). Variations in disclosure among industries is reasonable to expect given the difference that exist in terms of the public responsibilities and the level of public exposure of different industries (Clarke and

Gibson-Sweet 1999). Further, each industry possesses unique characteristics that may provide scope for differences such as the risk to society and potential growth (Gao et al. 2005).

Newson and Deegan (2002) assert that firms operating in high profile industries (such as raw material extraction) are more exposed to the political and social environment compared to the low profile firms. Low profile firms are those that operate in less politically charged industries such as services, healthcare, computers and electronics (Newson and Deegan 2002). Consistent with Patten (1991), in this thesis, firms that reside in a high profile industry are assumed to have greater incentives to communicate more social information, as an effort to portray a positive image of good corporate citizenship.

According to Cowen et al. (1987), with regard to social disclosure, consumer-oriented industries tend to exhibit greater concern towards social responsibility as the corporate image can more directly influence the level of revenue generated. Clarke and Gibson-Sweet (1999) and Line et al. (2002) indicate the finance and service industries generally report more information on society and philanthropic involvement due to the high visibility among consumers. This is because of the ability of such disclose to shape a more favourable public opinion that highlights the firm's commitment towards corporate social responsibility (Hooghiemstra 2000). It can also act as a unique mechanism to legitimise the corporation's action while conveying the image of good corporate citizenship (Handelman and Arnold 1999).

Cowen et al. (1987) examine the influence of industry on corporate social responsibility disclosure of various key categories; environment, energy, fair business practices, human resources, community involvement, products and others. They (Cowen et al. 1987) find that community involvement and energy disclosures appear to be significantly influenced by industry membership. In a study of Australian companies, Kelly (1981) divides the industry into three categories: primary, secondary and tertiary. Kelly's (1981) study indicates that community involvement information is disclosed more by firms that lie in tertiary industries

rather than firms in primary and secondary industries. In another study, Haron et al. (2004) divided industry into high profile (i.e.; industrial products, mining, plantation and trading/services) and low profile (i.e.; closed end funds, construction, consumer products, finance, infrastructure project companies, hotel, property and trust). Their (Haron et al. 2004) findings indicate community involvement disclosure is mainly communicated by firms in the finance, trading/services, industrial product, construction and hotel industries. Haron et al. (2004) suggest community themes are mainly the focus of firms where the firm's activities relate to community interaction.

According to Cho (2009), high profile firms are exposed to constant ethical and social pressure around the globe and, therefore, are expected to provide more disclosure than the low profile firms. Consequently, in this thesis, a significant difference is anticipated in the extent of CP Communication and the industry affiliation. Thus, it is hypothesised that:

*H1: The extent of CP Communication is greater for firms in high profile industries than firms in low profile industries.*

## **2.5.2 Firm Size and the Extent of CP Communication**

Firm size is another important variable found in prior studies to be an important determinant of corporate social responsibility disclosure. This is often explained on the grounds that larger firms tend to receive more attention than smaller firms, and are under greater pressure to demonstrate social concerns (Trotman and Bradley 1981). Furthermore, larger firms may have more shareholders who are conscious about the firm's social commitment and philanthropic activities. Knox et al. (2005) argue that larger firms tend to have better corporate social responsibility communication because these firms are at the vanguard of social responsibility practices and face immediate consequences from stakeholder activism. Thus, enhanced communication is seen as a reflection of an effort to demonstrate concern towards a wider set of stakeholders.

In an early study on the disclosure of corporate social responsibility information of Australian listed firms, Trotman and Bradley (1981) find larger firms disclose more social responsibility information. This is consistent with Reverte's (2009) empirical results of Spanish listed firms. Reverte (2009) notes higher corporate social responsibility disclosure rating is associated with larger firms. In another study, Gao et al. (2005) detect a positive correlation between firm size and the level of corporate social and environmental disclosure by Hong Kong listed firms from 1993 to 1997.

Overall, the generally accepted notion is that larger firms publish more social information than smaller firms (Cowen et al. 1987; Hackston and Milne 1996; Kelly 1981; Patten 1991). Ahmed and Courtis (1999) conducted a meta-analysis investigation of 29 studies. They (Ahmed and Courtis 1999) find a significant positive relationship between disclosure and firm size, regardless of whether firm size is measured by total revenue, total market value, book value of assets or total number of shareholders.

Despite the extant literature on firm size and voluntary disclosure, the specific association of the effect of firm size on CP Communication has scarcely been studied. Much of the prior literature on size effects have generally focused on the broader dimension of corporate social responsibility (see for example Chen and Bouvain 2009; Gao et al. 2005; Knox et al. 2005; Morsing and Schultz 2006; Sweeney and Coughlan 2008; Trotman and Bradley 1981; Udayasankar 2008). For the narrower focus, most studies predominantly concentrate on environmental issues (see for example Al-Tuwaijri et al. 2004; Brammer and Pavelin 2008; Deegan and Rankin 1996, 1999; Patten 2002; Wiseman 1982) rather than social concerns.

Even though there are a few studies on corporate philanthropy and firm size (Adams and Hardwick 1998; Amato and Amato 2007; Boatsman and Gupta 1996), their focus is more on CP Involvement rather than CP Communication. For instance, Adam and Hardwick (1998) conduct a study using 1994 data drawn from 100 United Kingdom listed firms and state that the decision to contribute funds to charities is positively related to the firm size. Adam and Hardwick (1998) share the views of

Roberts (1992) that larger firms are more likely to be the subject of public and government scrutiny and are more likely to be politically visible. Engaging in discretionary corporate giving can be seen as a reflection of societal concern and an effort to mitigate risk (e.g., higher taxation and regulatory compliance costs) (Adam and Hardwick 1998). Further, many argue that larger firms have more resources, and gain economies of scale that reduce cost compared to smaller counterparts (Porter 1985). Hence, larger firms are better able to be involved in discretionary corporate philanthropy.

Cowen et al. (1987) conducted a study of corporate social responsibility disclosure and concluded firm size significantly influenced certain types of social responsibility disclosure (i.e., community involvement, environmental, energy, fair business practice, and other disclosures). Such findings on these reported by Cowen et al. (1987) suggest larger firms are more inclined to communicate information about community involvement. Thus, integrating, and extending the existing perspective, it is hypothesised that:

*H2: There is a positive relationship between firm size and the extent of CP Communication.*

### **2.5.3 Profitability and the Extent of CP Communication**

Profitability is another important explanatory variable that may affect voluntary disclosure. Profitability is a reflection of a well-run firm, and an indicator of good management. When the rate of return is high, there is a propensity to disclose more voluntary information (Meek et al. 1995). Belkaoui and Karpik (1989) posit that profitable companies are run by management who have superior skills and knowledge. Consequently, this knowledge (that includes the understanding of corporate social responsibility) could then be reflected in a socially responsive firm through social disclosure (Belkaoui and Karpik 1989).

It may also be argued that profitable firms have extra resources to voluntarily disseminate information. As higher level of profits heightens the firm's visibility

(Zmijewski and Hagerman 1981), more profitable firms have incentives to portray a good image by disclosing involvement in community well-being to the public and other stakeholders.

Viewed from a different perspective, Inchausti (1997) points out that management in profitable firms may provide extensive social disclosures to support the manager's position and compensation. The availability of slack resources has also been widely accepted as an explanation for social disclosure. This is to say that more profitable firms have greater available economic means and resources that can be directed towards social activities that lead to greater voluntary social disclosure (Cowen et al. 1987; Hackston and Milne 1996; Pirsch et al. 2007)<sup>15</sup>. This argument is further developed in Chapter 3.

Haniffa and Cooke (2005) assert that management in a more profitable firm has the freedom and flexibility to undertake and communicate social activities to the public than the less profitable ones. The majority of prior empirical studies examining the link between profitability and disclosure indicate that more profitable firms are more likely to voluntarily disclose information. Thus, it is hypothesised that:

*H3: There is a positive relationship between firm profitability and the extent of CP Communication.*

#### **2.5.4 Phase I Control Variable – Leverage**

Voluntary disclosures may occur with increased leverage to reduce agency costs (Meek et al. 1995). It is believed that disclosure facilitates the debt supplier's assessment of the firm's ability to meet debt obligations. Hence, disclosure provides more information to debtholders which then reduces agency costs. According to Roberts (1992), the power of creditors to influence a firm depends on the degree to which a firm is leveraged. It follows that a firm would have greater incentives to disclose its social commitment to respond to creditor expectations concerning a

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<sup>15</sup>However, Reverte's (2009) findings fail to indicate profitability as an explanatory factor for social responsibility disclosure practices for Spanish listed firms.

firm's role in serving the wider public interest (Roberts 1992). In other words, a firm that relies on debt financing (i.e., highly leveraged) tends to have a greater level of corporate social disclosure.

Empirical research finding, however, are mixed. A positive association, for example, is reported by Hossain et al. (1995) while a negative relationship is reported by Meek et al. (1995). Studies by Brennan and Hourigan (2000), Aitken et al. (1997) and Reverte (2009) do not support a relationship. In this thesis, leverage is used as a control variable.

Overall, as discussed in Section 2.5, this thesis aims to test three key hypotheses to explain the determinants of (non-)communication of corporate philanthropic information.

## **2.6 Summary**

This chapter presents the overview of corporate philanthropy to assess how it fits within the domain of corporate social responsibility. The motives of corporate philanthropy are then explored. The analysis of CP Involvement (discussed in Sections 6.7 and 7.5) provides insights to the literature on motives for corporate philanthropy. For instance, the understanding of factors that contribute to CP Involvement can be tailored to the motives of such involvement (such as altruistic, strategic, political, taxation and managerial utility motives) as discussed in Section 2.3. Additionally, the analysis will benefit future studies in that it can link these motives to the community needs and assist in identifying how it can generate reciprocal tangible benefits. Subsequently, the extent of CP Communication is evaluated in two ways based on: (i) two groups (Non-CP Communicator and CP Communicator) and (ii) three groups (Opaque, Translucent, and Transparent). Three hypotheses are formulated to test the association between firm-specific characteristics (industry, firm size, and profitability) and the extent of CP Communication.

The next chapter elaborates on the theoretical background pertaining to CP Involvement (Phase II). Justifications for the selection of slack resources theory underpinning the examination of CP Involvement are then presented. Three hypotheses are developed to test the association between a set of variables (lagged free cash flow, corporate governance, and ownership structure) and the level of CP Involvement.

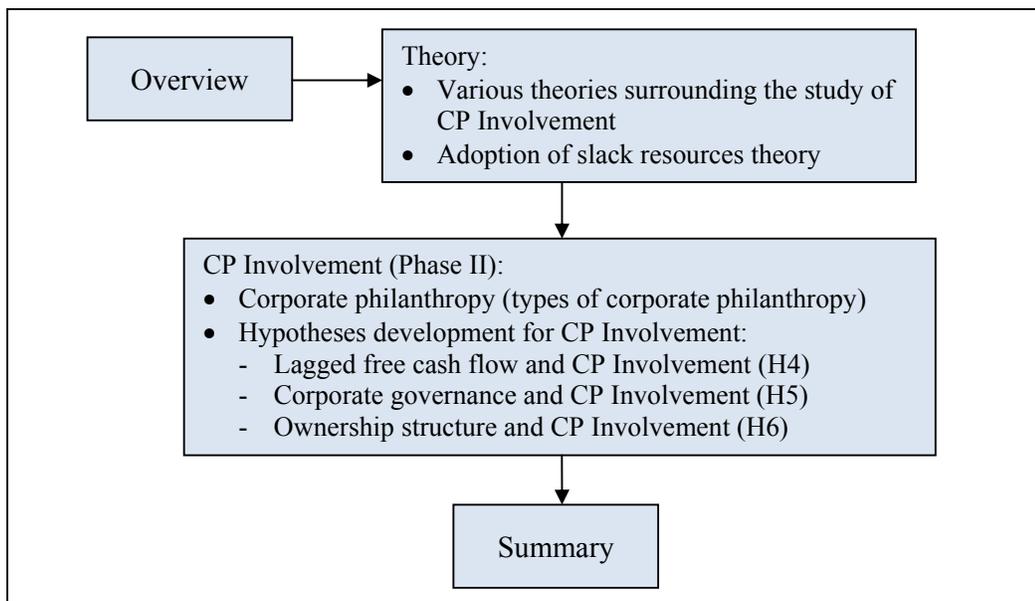
## Chapter 3. Phase II: Corporate Philanthropic Involvement

### 3.1 Overview

This thesis divides CP Discourse into CP Communication (Phase I) and CP Involvement (Phase II). While Chapter 2 explains CP Communication (where a model of CP Communication is proposed and hypotheses in relations to factors determining CP Communication are formulated), this chapter provides rationalisation for the factors influencing CP Involvement.

Chapter 3 begins with in-depth discussion on the theoretical background surrounding the study of corporate philanthropy to offer an insightful understanding of CP Involvement. This leads to the selection of slack resources theory as the theoretical foundation to analyse the factors influencing specific gift-giving. Against the backdrop of this theory, hypotheses in relation to the determinants of CP Involvement are evolved. Figure 3.1 depicts the outline of this chapter.

**Figure 3.1:** Outline of Chapter 3



### 3.2 Various Theories Surrounding the Study of CP Involvement

It is argued by many that in the new world of business, the focus should not be based on capitalism alone (Kolstad 2007; Wulfson 2001). Firms need to deviate from the sole maxim of profit maximisation, and should focus on a wider perspective where firms play a more explicit role in the well-being of the community (Kolstad 2007). This position is even more important in the current more volatile economic situation.

Preservation of the environment, consequences of business activities on local and global economies, the welfare of the local community and the society at large are among the concerns of corporate managers today (Bird et al. 2007). Accordingly, this has raised interest in the study of corporate philanthropy from various perspectives; among others,

- (i) the motives for corporate philanthropy (Moir and Taffler 2004; Ricks and Williams 2005; Sánchez 2000),
- (ii) the characteristics of givers and corporate philanthropy (Adams and Hardwick 1998; Amato and Amato 2007),
- (iii) the effect of taxation on corporate philanthropy (Boatsman and Gupta 1996),
- (iv) the evolution of corporate philanthropy (Sharfman 1994),
- (v) the relationship between corporate philanthropy and organisational performance (Mullen 1997; Wokutch and Spencer 1987),
- (vi) the relationship between resources and corporate philanthropy (Buchholtz et al. 1999; Seifert et al. 2004),
- (vii) corporate governance and corporate philanthropy (Bartkus et al. 2002; Wang and Coffey 1992),
- (viii) ownership structure and corporate philanthropy (Atkinson and Galaskiewicz 1988; Wang and Coffey 1992),
- (ix) culture and corporate philanthropy (Genest 2005), and
- (x) the effect of corporate philanthropy on firm financial performance (Choi and Wang 2007; Seifert et al. 2003).

The different study streams examining corporate philanthropy issues employ various theories to explain the corporate philanthropy phenomena from diverse dimensions. A theory is defined as “a coherent set of hypothetical, conceptual and pragmatic principles forming the general framework of reference for a field of inquiry” (Hendriksen 1970 p. 1). Theory is used to explain and predict accounting practices or prescribe accounting practices (Deegan 2005). With regard to corporate philanthropy, various theories are applied.

The most widely used theory surrounding the study of corporate philanthropy is agency theory. Agency theory is promoted by Jensen and Meckling (1976 p. 308) where the agency relationship is defined as a “contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent”. In essence, agency theory focuses on the delegation of the decision making process and rests on the assumption that managers act in a self-interest perspective with opportunistic manners (Eisenhardt 1989). Further, this economic-based theory also assumes that both the principal (shareholder) and agent (manager) are rational actors aiming to maximise personal economic utility (Atkinson and Galaskiewicz 1988)<sup>16</sup>.

According to Coffey and Wang (1998), corporate philanthropy is an issue in which principals and agents are likely to have conflicting views. Examining corporate philanthropy from an agency theory perspective may provide central insights into this debate (Coffey and Wang 1998). For the purpose of this thesis, agency theory assumptions, to a certain extent, may be relevant when examining the relationship

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<sup>16</sup>Opportunistic behaviour within the context of agency theory can lead to diminishing efficiency and increasing costs (Deegan 2005). Due to the divergence of interest between shareholders and managers, monitoring mechanisms are required to prevent misappropriation of the principal’s assets. With less and ineffective monitoring, agents can exercise greater discretion and, thus, make decisions for personal interests, and are more likely to pursue actions that may put shareholders in a disadvantaged situation.

According to Bartkus et al. (2002) from an agency perspective, corporate philanthropy is desirable due to the ability to increase brand-name recognition and heighten community cooperation. Nonetheless, excessive amounts of giving may be perceived by shareholders as unnecessary and inappropriate. Further, the agents (i.e., the executives in charge of corporate philanthropy decision) may enhance their own self-interests at the expense of the shareholders (such as giving to their pet charities).

between corporate philanthropy and: (a) corporate governance and (b) ownership structure. Nonetheless, agency theory is not adopted as the main theoretical perspective. This is because resolving the conflicting issues<sup>17</sup> between the principals and agents are not the primary focus of this thesis.

Stakeholder theory is also widely used in the study of corporate philanthropy. This theory was popularised by Freeman (1984 p. 46) where a stakeholder is defined as “any group or individual who can affect or is affected by the achievement of the organisation’s objective”. Agency theory adopts a traditional view of the firm’s actions whereby an entity is deemed as having a binding fiduciary duty to the owners (i.e., shareholders) to maximise the value of the firm. In contrast, stakeholder theory is concerned about the effect of the firm’s action on others<sup>18</sup>. In the societal context, corporate giving is considered to fulfill the firm’s social responsibility.

Freeman (1984) argues firms have to balance the interests of various stakeholders over time. Firms have an arduous task balancing competing interests. Further, there is some difficulty in identifying the boundary of firm’s obligation towards the various stakeholders. Due to these concerns, stakeholder theory is considered inappropriate for application in this thesis. Stakeholder theory is overly broad and less applicable given the focus of this thesis on the resource availability and corporate philanthropy.

Legitimacy theory has also been applied in a number of corporate philanthropy studies (see for example Dowling and Pfeffer 1975; Sánchez 2000). Legitimacy theory posits that the relationship between a firm and society is based on the concept of a social contract (Gray et al. 1988, Henderson et al. 2008, Patten 1991, 1992). This concept suggests that so long as the behaviours and activities of the firm are

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<sup>17</sup>Coffey and Wang (1998) identify the conflicting issues between principals and agents could be due to the fact that some philanthropic actions may be more self-serving (i.e., manager’s personal interest) than firm-serving (i.e., firm’s best interest such as improve the firm’s performance).

<sup>18</sup>Cornell and Shapiro (1987) further divide stakeholders into two categories; those that have explicit contracts with the firm such as shareholders and debtholders, and those that have implicit contracts with the firm such as customers and employees.

consistent with the society's desired values and norms, the firm's continued survival is assured (Guthrie and Parker 1989, Henderson et al. 2008).

From a legitimacy theory perspective, firms are involved in corporate philanthropy to demonstrate a sense of moral obligation and maintain social legitimacy. The degree of legitimacy varies from one organisation to another depending on the level of the firm's visibility and the reliance on social and political support (Dowling and Pfeffer 1975; Oliver 1991). A legitimacy 'gap' exists when there is a disparity between an entity's value system and the value system of the larger social system of which the entity is a part (Dowling and Pfeffer 1975). As the role and expectations of business on society escalate (Golob and Bartlett 2007) firms have a wider responsibility, and need to consider the impact of the firm's conduct upon society. Therefore, legitimacy theory posits that firms engage in corporate philanthropy initiatives with an intention to close the gap between social expectations and organisational activities. For the purpose of this thesis, legitimacy theory is again considered less relevant due to the insufficient focus of the theory on firms' financial characteristics.

Brammer and Millington (2004b) use resource dependency theory to explain the allocation of departmental responsibility for the management of corporate philanthropy. Resource dependency theory focuses on pressures external to the firm, as well as the relationship among business units within the firm where coalitions emerge from social exchanges. Brammer and Millington (2004b) argue that the management of corporate philanthropy is influenced by the extent and type of managerially perceived stakeholder pressures, organisational size, and industry characteristics. In other words, the firm's choice of departmental responsibility for the management of corporate giving emerges from the desire to effectively and efficiently managing stakeholder pressures. Consistent with the concept of resource dependence, larger firms are more likely to adopt a decentralised management approach to corporate philanthropy within a corporate social responsibility department. As resource dependency theory focuses on inter- and intra-organisational relations based on the exchange resources, it is deemed less relevant to

this thesis. This is because this thesis examines the relationship between resource availability, corporate governance and ownership structure and CP Involvement.

Aside from the theories already noted, other theories have been used to explain corporate philanthropy. These additional theories include profit maximisation theory (Brammer and Millington 2005b; Ricks and Williams 2005; Saiia et al. 2003), political and institutional power theory (Sánchez 2000), and resource-based theory (Branco and Rodrigues 2006). These theories are deemed less relevant for adoption in this thesis as the theoretical foundation. Table 2.5 below summarises the theories surrounding the study of corporate philanthropy from various dimensions.

**Table 3.1:** Theories of corporate philanthropic giving

<b>Dimension</b>	<b>Theory</b>	<b>Representative scholarship</b>	<b>Relevancy of each theory to the current thesis perspective</b>
Motivation: <ul style="list-style-type: none"> <li>• Altruistic/ Ethical</li> <li>• Strategic</li> <li>• Political</li> </ul>	Stakeholder theory	Moir and Tafler (2004); Gan (2006)	Less relevant
	Legitimacy theory	Dowling and Pfeffer (1975)	Less relevant
	Profit maximisation theory	Saiia et al. (2003) Brammer and Millington (2005b); Ricks and Williams (2005); Navarro (1988); Sánchez (2000); Gan (2006)	Somewhat relevant
	Institutional theory	Saiia et al. (2003)	Less relevant
	Resource based theory	Branco and Rodrigues (2006)	Less relevant
	Legitimacy theory	Sánchez (2000)	Less relevant
Political and institutional power theory	Sánchez (2000)	Less relevant	
Antecedents / corporate characteristics of givers: <ul style="list-style-type: none"> <li>• Firm size</li> <li>• Industry</li> </ul>	Slack resources theory	Amato and Amato (2007)	Most relevant

• Leverage • Profitability	Stakeholder theory	Adams and Hardwick (1998)	Less relevant
Taxation	Profit maximisation theory	Boatsman and Gupta (1996)	Somewhat relevant
Evolution	Institutional theory	Sharfman (1994)	Less relevant
Reputation	Resource based theory	Bowen (2007)	Somewhat relevant
Resources	Slack resources theory	Seifert et al. (2004); Buchholtz et al. (1999)	Most relevant
Corporate Governance	Agency theory	Bartkus et al. (2002) ; Wang and Coffey (1992)	Reasonably relevant
Ownership Structure	Agency theory	Atkinson and Galaskiewicz (1988); Wang and Coffey (1992)	Reasonably relevant
	Managerial control theory	Atkinson and Galaskiewicz (1988)	Less relevant
Financial Performance	Agency theory	Seifert et al. (2003); Choi and Wang (2007)	Reasonably relevant
Social Performance	Stakeholder theory	Seifert et al. (2004)	Less relevant
	Organisation theory	Choi and Wang (2007)	Less relevant
Disclosure	Agency theory	Campbell and Slack (2008)	Reasonably relevant
Management of corporate philanthropy	Institutional theory	Brammer and Millington (2004a)	Less relevant
	Resource dependency theory	Brammer and Millington (2004a)	Less relevant
Top management influence on corporate philanthropy	Agency theory	Werbel and Carter (2002)	Somewhat relevant
	Stewardship theory		Less relevant
Market value	Resource based theory	Godfrey (2005); Patten (2008)	Somewhat relevant

Sources: Adams and Hardwick (1998), Amato and Amato (2007), Atkinson and Galaskiewicz (1988), Bowen (2007), Brammer and Millington (2004a), Brammer and Millington (2005b), Boatsman and Gupta (1996), Branco and Rodrigues (2006), Buchholtz et al. (1999), Campbell and Slack (2008), Choi and Wang (2007), Dowling and Pfeffer (1975), Gan (2006), Godfrey (2005), Moir and Tafler (2004), Navarro (1988), Patten (2008), Ricks and Williams (2005), Saiia et al. (2003), Sánchez (2000), Seifert et al. (2003), Sharfman (1994), Werbel and Carter (2002).

As outlined in Table 3.1, there are numerous theoretical options that may form the theoretical basis of this thesis. Given the empirical positivist paradigm adopted, this thesis selects slack resources theory as the most appropriate framework to explain corporate philanthropic involvement. A detailed review and explanation of this theory is offered in the next section.

### **3.3 Adoption of Slack Resources Theory**

Slack resources theory has been used in a number of corporate philanthropy studies (see for example, Amato and Amato 2007; Seifert et al. 2004). The concept of organisational slack can be traced back to the 1930s but the theory's conceptual period lies in the late 1950s and early 1960s (Sigerstad 2004). Cyert and March (1963) is cited frequently and is credited with the introduction of the idea of organisational slack. Following the seminal discussion of slack by Cyert and March (1963), the concept of organisational slack has been studied in various disciplines including strategic management, organisational behaviour, human resource management, organisational performance, and allocation efficiency. In the literature, slack is defined in a number of ways (see Table 3.2).

**Table 3.2:** Various definitions of ‘slack resources’

Authors	Definition of slack resources
Cyert and March (1963 p. 42)	“the disparity between the resources available to the organisation and the payments required to maintain the coalition”.
Dimmick and Murray (1978 p. 616)	“those resources which an organisation has acquired which are not committed to any necessary expenditure. In essence, these are resources which can be used in a discretionary manner”.
Bourgeois (1981 p. 30)	“the cushion of actual or potential resources which allows an organisation to adapt successfully to internal pressure for adjustments or to external pressures for change in policy, as well as to initiate changes in strategy with respect to the external environment”.
Sharfman et al. (1988 p. 602)	Sharfman et al. (1988) adopts the definition offered by Bourgeois (1981) while addressing two major differences. Firstly, for the resources to be considered as slack, it must be visible to the managers and employable in the future. Secondly, they approach organisational slack based on the degree of discretionary and flexibility of the resources. Resulting from this, the division of organisational slack into high discretionary resources and low discretionary resources are made. The former is defined as including cash, cash equivalents, credit lines, raw materials inventory, low skilled labour and highly flexible machine capacity. Whilst the latter is defined as including work-in-progress to finished goods, skilled labour, and low flexibility machine capacity.
Nohria and Gulati (1996 p. 1246)	“the pool of resources in an organisation that is in excess of the minimum necessary to produce a given level of organisational output”.
DeMarco (2002 p. 6)	“the catalytic ingredient of all change...Slack is the time when reinvention happens. It is time when you are not 100 percent busy doing the operational business of your firm”.
George (2005 p. 661)	“potentially utilizable resources that can be diverted or redeployed for the achievement of organizational goals”.
This thesis definition of ‘slack resources’	The excess resources that can be used in a discretionary manner by management to pursue strategic options and competitive opportunities.

Sources: Bourgeois (1981), Cyert and March (1963), DeMarco (2002), Dimmick and Murray (1978), George (2005), Nohria and Gulati (1996), Sharfman et al. (1988).

The key attributes in the various definitions of organisational slack in the literature as outlined in Table 3.2 can be summarised as follows:

1. Organisational slack is the excess resources in an organisation, over and above those that are required for production such as extra cash and extra machine capacity.
2. The usage of slack resources is subject to managerial discretion.
3. Organisational slack performs various functions in an organisation such as to address unforeseen circumstances, countering threats and exploiting opportunities.

For the purpose of this thesis, slack resources is defined as:

*the excess resources that can be used in a discretionary manner by management to pursue strategic options and competitive opportunities.*

This definition is consistent with that offered by Dimmick and Murray (1978). The definition adopted for this study is chosen for three reasons. Firstly, slack resources are viewed as the extra resources. Since slack resources are ‘extra’, such resources are not directly committed to any necessary expenditure. Thus, slack resources can be used for other activities such as innovation development and corporate donations (i.e., activities other than the normal operation of the firm). Secondly, the application of uncommitted resources is subject to the discretion of management. On the assumption that managers are rational, management will utilise slack resources to pursue strategic options and competitive opportunities. Given that corporate philanthropy can be viewed from a strategic perspective, it is reasonable to assume management may use the slack resources to invest in the community (i.e., corporate philanthropy). Thirdly, this definition is preferred because it examines slack from the financial perspective rather than the broad organisational theory perspective. Thus, it is appropriately aligned with the research direction of this thesis.

Efficient management of resources and human capital is crucial for an organisation to ensure sustainability in an overwhelming globally competitive landscape, and to

maintain a competitive advantage. The role of slack resources has been discussed in prior research. Some argue corporate financial slack provides resources for innovation, thereby, improving the organisation's long-term survival (Cyert and March 1963; Herold et al. 2006; Mohr 1969; Nohria and Gulati 1996, 1997). Others posit that slack is associated with inefficiency and negative perceptions that creates unnecessary cost to an organisation (Cheng and Kesner 1997). The concept of slack has also been used as a key predictor in explaining various organisational phenomena. Singh (1986) and Nohria and Gulati (1996) use slack resources as an explanatory factor for innovation. Meanwhile, Bromiley (1991), Tan (2003), Tan and Peng (2003), and George (2005) apply slack resources as a predictor of organisational performance. Tan (2003) and Tan and Peng (2003) find that there is a curvilinear relationship between organisational slack and performance during economic transition. Specifically, a positive association between slack and performance is true within a certain range. Once slack passes the optimal level, it tends to be overwhelmed by the cost, leading to a negative association (Tan 2003). George (2005) argues that firms endowed with greater slack resources are more likely to have the ability to respond to competitive situations, thus, influencing performance. George (2005) examines the influence of slack resources on the performance of privately held firms and notes a positive relationship between slack and performance.

Slack resources theory states slack resources serve as the means to achieve flexibility in building strategic alternatives (Greenley and Oktemgil 1998). Demands on today's dynamic organisations are very intense, including increased need for knowledge and innovation, intensive research and development, greater flexibility and speed, in addition to the efficient management of resources. Accordingly, slack resources are important for the short term efficiency and long term effectiveness of an organisation as it may be a source of competitive advantage (Hitt et al. 2005; Tan 2003). Dimmick and Murray (1978) recognise that slack resources are assets acquired by an organisation and can be used in a discretionary manner by the management to pursue market and competitive opportunities. This is because slack resources are not overly committed to any necessary expenditure. Cash is the most liquid and easily transferable of a firm's resource base. Free cash flow is an example of slack

resources. Since corporate philanthropy is a discretionary item, it is reasonable to assume that free cash flow plays a significant role in determining the company's involvement in corporate philanthropic activities.

Interestingly, only a few studies consider the effect of slack resources on corporate philanthropy (Amato and Amato 2007; Seifert et al. 2004). This leaves a major gap in understanding the effect of slack resources and the discretionary use by the managers for a possible strategic gain. As such, this thesis intends to fill this void by examining free cash flow as a proxy of slack resources. The language employed by slack resources theory is well aligned to this thesis as it views slack as readily available resources. In the following section it is posited that the availability of free cash flow (as the most mobile form of slack resources) enables firms to better pursue corporate philanthropic activities (further elaboration on free cash flow as a measure of slack resources is presented in Section 3.5.1).

Prior to explaining the definition of free cash flow, Section 3.3 first elaborates the broader picture of slack resources. Slack resources has been conceptualised differently in the literature. This thesis takes the stand that free cash flow best represents slack resources because it symbolises the available spare resources that an organisation possesses which can be used for various discretionary purposes including corporate philanthropy.

In the literature, slack resources has been viewed and operationalised in a number of ways. According to Cheng and Kesner (1997), most studies tend to polarise slack resources into three categories (see for example Bourgeois and Singh 1983; Geiger and Cashen 2002; Sharfman et al. 1988) to differentiate the extent to which resources are available, which are:

- a. *Available resources* – resources that are untapped or not yet committed to organisational design or a specific expenditure and are readily available such as excess liquidity. Some would refer this as *unabsorbed* since the

resources have not been absorbed into the firm (Singh 1986). Greenley and Oktemgil (1998) describe available resources as *generated* slack since such resources are generated by exploiting the current environment to improve performance such as surplus profit.

- b. *Recoverable resources* – resources that have already been embedded into the operation system in the form of excess costs such as excess overhead expenditures. In other words, the expenses that have been absorbed are more than those that are required by the firms. However, these resources can be recovered through organisation redesign or when the firms face financial difficulty. As such, these resources are referred to as recoverable resources. Sometimes, these resources are referred to as *absorbed* slack since they have been absorbed into the firm (Singh 1986). Absorbed slack also indicate that the resources have been committed to factors of production which can be freed for other alternative uses solely by actions that lead to greater efficiency (Williamson 1975). Greenley and Oktemgil (1998) also describe this type of slack as *invested* slack since these have been deployed and, thus, reduces the opportunity to develop strategic options for future flexibility.
  
- c. *Potential resources* – capacity to generate future resources from the environment. Prior studies has measured potential slack as the debt-to-equity ratio, which reflects a lack of potential slack (Bromiley 1991; Hambrick and D'Aveni 1988), and the interest coverage ratio, which indicates the presence of potential slack (Bromiley 1991). A firm with a high debt-to-equity ratio indicates a high commitment towards debt. It follows that the ability to obtain additional funding through debt is relatively low, thus, leads to a lower level of potential slack. In contrast, a firm with a greater interest coverage ratio (i.e., higher income relative to interest charges) is in a better position to gain additional funding or extra debt than the one with smaller interest coverage ratio; thus, has more potential slack.

In addition to the above categorisation, other studies have divided slack differently. For example, Geiger and Cashen (2002) view slack from an *internal* versus *external perspective*. Internal slack are those resources that are within the firm that are either readily available or already absorbed within the organisation. In contrast, external slack refers to those resources that are not currently within the organisation (e.g., availability of debt financing). Meanwhile, Sharfman et al. (1988) and George (2005) make a distinction along the managerial discretion continuum between *high* and *low discretionary* slack based on the flexibility of the slack resources. Cash and cash equivalents, raw materials and inventory are examples of high discretionary slack. On the other hand, processed inventory and skilled labour are examples of low discretionary slack.

Slack resources provide the means to gain flexibility and therefore enable firms to respond to various dynamic environments characterised by high levels of uncertainty (Greenley and Oktemgil 1998). Organisational slack resources can take many forms ranging from managerial perceptions to accounting ratios and has been operationalised differently in the empirical literature as depicted in Table 3.3.

**Table 3.3:** Empirical studies of organisational slack resources

Study	Hypotheses	Slack measurement	Findings
Organisational Slack and Performance			
Singh (1986)	<ul style="list-style-type: none"> <li>Slack is positively associated with performance</li> </ul>	<ul style="list-style-type: none"> <li>Working capital to sales ratio (absorbed slack)</li> <li>Selling, general and administrative expenses to sales ratio (absorbed slack)</li> <li>Cash and marketable securities to current liabilities ratio (unabsorbed slack)</li> </ul>	Only working capital to sales ratio and administrative expenses to sales ratio positively associated with ROE, ROA and perceived performance.
Bromiley (1991)	<ul style="list-style-type: none"> <li>Nonlinear relationship of slack and performance. High and low slack associated with</li> </ul>	<ul style="list-style-type: none"> <li>Current ratio</li> <li>Administrative expenses to sales ratio</li> <li>Debt to equity ratio</li> <li>Interest coverage ratio</li> </ul>	Slack is seemingly associated with ROA, but a nonlinear relationship is not supported.

	better performance whereas moderate slack leads to low performance.		
McArthur and Nystrom (1991)	<ul style="list-style-type: none"> <li>Slack is positively associated with performance</li> </ul>	<ul style="list-style-type: none"> <li>Debt to equity ratio</li> </ul>	Slack positively associated with ROI.
Oktemgil and Greenley (1996)	<ul style="list-style-type: none"> <li>Slack is positively associated with performance</li> </ul>	<ul style="list-style-type: none"> <li>Managerial perceptions of capital slack in their firms</li> </ul>	Slack is negatively associated with ROI, sales growth and market share.
Oktemgil and Greenley (1998)	<ul style="list-style-type: none"> <li>Slack is positively associated with performance</li> </ul>	<p>Generated slack:</p> <ul style="list-style-type: none"> <li>Cash flow/Investment</li> <li>Debt/Equity</li> <li>EBIT/Interest cover</li> <li>Market value/Book value</li> <li>Current assets/Current liabilities</li> </ul> <p>Invested slack:</p> <ul style="list-style-type: none"> <li>Administration costs/Sales</li> <li>Dividend payout</li> <li>Sales/Total assets</li> <li>Working capital/Sales</li> </ul>	There are some significant differences in the extent of slack in high and low performing companies.
Tan (2003)	<ul style="list-style-type: none"> <li>Slack is positively related to financial performance (first-order effect).</li> <li>The relationship between slack and financial performance is curvilinear (i.e., the second-order effect is negative).</li> </ul>	<ul style="list-style-type: none"> <li>Depreciation (absorbed slack resources)</li> <li>Retained earnings (unabsorbed slack resources)</li> </ul>	Generally, the results support a positive impact of organisational slack on performance. It is clearer when slack resources were further divided into unabsorbed and absorbed resources. Further analysis shows that the impact of slack on performance resembles a curvilinear relationship.
<b>Organisational Slack and Innovation</b>			
Nohria and Gulati (1996)	<ul style="list-style-type: none"> <li>The relationship between organisational slack and innovation is</li> </ul>	<ul style="list-style-type: none"> <li>Measure slack by asking departmental managers two questions: (1) 'Assume that due to some sudden</li> </ul>	Inverse U-shaped relationship between slack and innovation; positive impact of slack on

	inverse U-Shaped.	development, 10 percent of the time of all people working in your department has to be spent on work totally unconnected with the tasks and responsibilities of your department. How seriously will your output be affected over the next year?' (2) 'Assume that due to a similar development, your department's annual operating budget is reduced by 10 percent. How significantly will your work be affected over the next year?'	innovation (used as a proxy of performance) peaks when the level of slack is moderate.
Geiger and Cashen (2002)	<ul style="list-style-type: none"> <li>• The relationship between <i>available</i> organisational slack and innovation is inverse U-Shaped.</li> <li>• The relationship between <i>recoverable</i> organisational slack and innovation is inverse U-Shaped.</li> <li>• The relationship between <i>potential</i> slack and innovation is positive.</li> </ul>	<ul style="list-style-type: none"> <li>• Quick ratio (available slack)</li> <li>• Selling, general, and administrative expenses divided by sales (recoverable slack)</li> <li>• Debt to equity ratio (potential slack)</li> </ul>	The results support all three hypotheses. Innovation is measured as research and development intensity, calculated as research and development expense/sales.

Legend: ROA = Return on Assets, ROE = Return on Equity and ROI = Return on Investment.  
Sources: Bromiley (1991), Geiger and Cashen (2002), McArthur and Nystrom (1991), Nohria and Gulati (1996), Oktemgil and Greenley (1996), Oktemgil and Greenley (1998), Singh (1986), Tan (2003).

As depicted in Table 3.3, most of the prior studies measure organisational slack resources from the financial perspective (see for example, Bromiley 1991; Geiger and Cashen 2002; McArthur and Nystrom 1991; Oktemgil and Greenley 1998; Singh 1986; Tan 2002). Only a few operationalised organisational slack resources from the managerial perspective (see for example, Nohria and Gulati 1996; Oktemgil and Greenley 1996).

In summary, this section prescribes the various definitions of slack resources and how it has been operationalised in prior literature. This thesis takes the view that free cash flow best represents slack resources because it symbolises the available spare resources that an organisation possesses which can be used for various discretionary purposes including corporate philanthropy. The next section describes corporate philanthropy and the various types of corporate philanthropy ranging from cash to various in-kind giving. Following that, the hypotheses developed for CP Involvement are explained.

### **3.4 Corporate Philanthropy Activities**

Although the topic of corporate social responsibility enjoys a rich history of debate in the literature, according to Brammer and Millington (2004a), corporate philanthropy remains as a relatively underdeveloped area of study. The section examines corporate philanthropy in more detail.

Traditionally, firms operate in a marketplace that is solely driven by the yardstick of maximum profit (Bird et al. 2007). Increasingly, in today's competitive environment, firms tend to address other issues beyond the pursuit of single bottom line. Corporate philanthropy has become increasingly sophisticated and this entails a paradigm shift from a mere profit focus to the demonstration of caring and benevolent behaviour to improve the community vitality.

Corporate philanthropy, a type of organisational behaviour, is an element of the broader corporate social responsibility framework, whereby, the relationship between business and society is reflected (He 2004). Philanthropy, according to the Greek root word, means “love of humankind” (Shorter Oxford English Dictionary 2007 p. 2,184). Philanthropy refers to “the disposition or effort to promote the happiness and well-being of one's fellow people; practical benevolence” (Shorter Oxford English Dictionary 2007 p. 2,184). Philanthropy studies can either be scrutinised from an individual or corporate perspective (Sargeant and Crissman 2006). Following the precedent of most previous studies, this thesis focuses on philanthropy from the corporate viewpoint as the corporation is a major contributor of philanthropic donations. Furthermore, corporations play an important role in today’s society being expected to make money whilst at the same time setting higher standards and helping to build a better society (Parliamentary Joint Committee on Corporations and Financial Services 2006).

Corporate philanthropy refers to the voluntary giving of money or other resources (including ‘in-kind’ support like contributions of equipment, supplies or other property, or employee voluntarism) by companies for community purposes. By supporting education and training, health and safety, arts and culture, sports and recreation, community services and welfare, and the environment, corporations are providing resources to strengthening non-profit organisations in addition to building a better society. As such, corporate philanthropy serves as a key link between business organisations and the community.

In the literature, the term corporate philanthropy has been used interchangeably with:

- (i) ‘corporate charitable involvement’ (Campbell et al. 2002; Hess et al. 2002),
- (ii) ‘corporate charitable contributions’ (Chen et al. 2008),
- (iii) ‘corporate giving’ (Amato and Amato 2007),
- (iv) ‘corporate contributions’ (Atkinson and Galaskiewicz 1988),
- (v) ‘corporate community contributions’ (Brammer and Pavelin 2005),

- (vi) 'corporate gift' or 'corporate giving' (Meijer et al. 2006; Sargeant and Crissman 2006),
- (vii) 'corporate charity' or 'corporate charitable giving' (Brammer and Millington 2005b; Mullen 1997),
- (viii) 'corporate grant making' or 'corporate donation' (Adams and Hardwick 1998; Seifert et al. 2003),
- (ix) 'corporate generosity' (Seifert et al. 2004), and
- (x) 'corporate benevolence' (Campbell et al. 2002)<sup>19</sup>.

Generally, corporate philanthropy means that firms contribute a portion of the firm's resources to society. Choi and Wang (2007, p. 349) define corporate philanthropy as the "gifts given by corporations to social and charitable causes". In a similar manner, Wymer (2006 p. 1) labels corporate philanthropy as "the act of corporations donating a portion of their profits or resources to non-profit cause or organisation". Madden et al. (2006 p. 49) define corporate philanthropy as "the voluntary business giving of money, time or in-kind goods, without any direct commercial benefit, to one or more organisations whose core purpose is to benefit the community's welfare".

Viewed from a CP Involvement lens, there are a spectrum of activities that have been identified by scholars as being representative of corporate philanthropy including monetary and non-monetary contributions, in-kind donations of products, employee volunteerism (i.e., corporate employees allowed time away from work to perform charitable work), sponsorships and cause-related marketing (Wymer 2006). For this thesis, the definition of Madden's et al. (2006) is employed because their (Madden et al. 2006) definition conceptualises corporate philanthropy from a broader perspective to include monetary and non-monetary items as opposed to the narrow view that only considers the monetary donation. The definition of Madden et al. (2006) is also used as it assists to classify corporate philanthropy into various monetary and non-monetary categories. Table 3.4 provides details of the classification of different 'types' of corporate philanthropy covered by this thesis.

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<sup>19</sup>This thesis also uses these terms interchangeably to reflect corporate philanthropy.

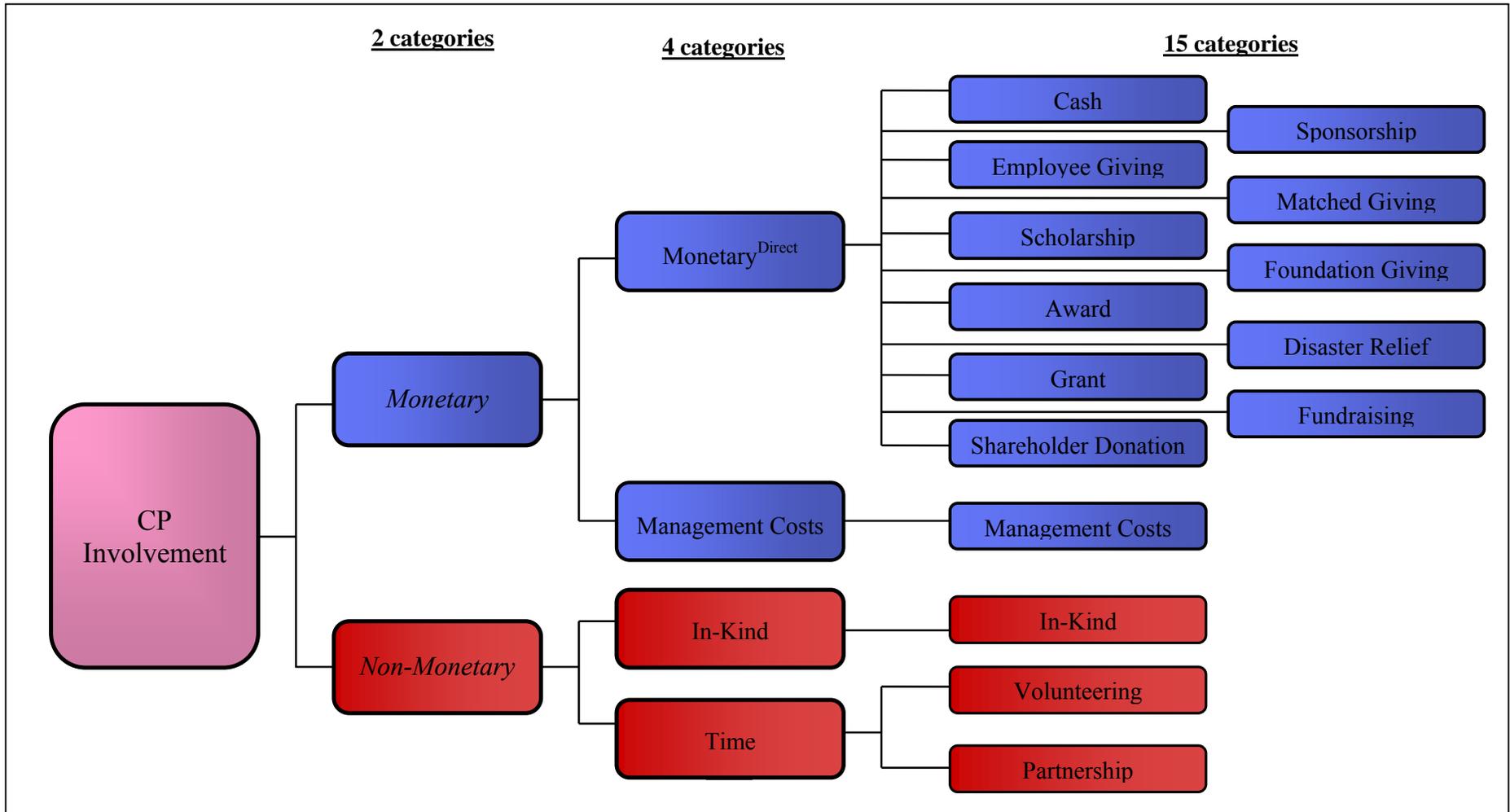
**Table 3.4:** Types of CP Involvement

Category	Type	Explanation
<b>MONETARY</b>	Cash*	Funds (in cash) given to support charitable activities or any support for community-based programmes.
	Sponsorship	Firms may also sponsor some community events and non-profit organisations.
	Scholarship	This is the amount of contribution given to support education program whereby scholarships are given to students to pursue their studies.
	Grant	Donation via a grant to assist specific social or community projects.
	Award	Firms provide awards to recognise individual, group or organisational achievements.
	Disaster Relief	Firms' response to communities affected by storms, floods, fires, and cyclones either locally or abroad. Assistance given to enable quicker victim recovery.
	Foundation Giving	Firms set up a foundation to support and assist in improving the community with support via this foundation.
	Employee Giving	Giving program whereby employees make direct deductions from pay to chosen charitable organisations. Usually firms engage to a limited number of charitable organisations to simplify administration and management of payroll. Usually automatic tax reduction for employees.
	Matched Employee Giving	Program whereby firms match employee contributions, either dollar for dollar or a proportionate amount.
	Fundraising Event	Firm assists in raising money from the public for various community support programmes.
	Shareholders Donation	Some firms would offer shareholders the opportunity to donate all or part of their bi-annual dividend to charity.
Management Costs *	This is the cost incurred in association with the management of corporate philanthropy expenditure.	
<b>NON-MONETARY</b>	In-Kind*	In-kind contributions with firms giving products or provide services to the community (e.g., fee-free banking and management services, distribution of free products).
	Volunteering (Time)*	Programme designed to engage employees with the community. Employees, either individually or groups, work with community organisations or involved in any community projects as volunteers. Some firms give paid leave for staff involvement.
	Partnership	Firms work closely with key community groups for a shared aim. Normally partnership over a long-term period rather than ad hoc.

Source: Developed for this thesis [Categories based on analysis of Australian listed firms' annual reports and stand-alone sustainability reports as adapted from Raja Ahmad et al. (2009a, 2009b)].

\*denotes the four categories as per the LBG (London Benchmarking Group) model.

**Figure 3.2:** Chart depicting three models of CP Involvement



Legend: Monetary, Monetary<sup>Direct</sup> and Cash are terms used to distinguish when cash/monetary giving is being referred to in either 2 categories, 4 categories or 15 categories respectively. Figure 3.2 shows the polarisation of the types of corporate philanthropy for analysis purposes in this thesis. The two-category model (*Monetary* and *Non-Monetary*) reflects an extension of prior literature whereby most of the prior literature concentrates on monetary contribution only (for example Atkinson and Galaskiewicz 1988; Sánchez 2000; Seifert et al. 2004). The four-category model (Monetary<sup>Direct</sup>, Management Costs, In-Kind, and Time) represents the division of charitable donation as per LBG (London Benchmarking Group) model. Further classification of the fifteen-category model is established based on the analysis of the types of CP Involvement as reported in the Australian listed firms' key reports.

Broadly, corporate philanthropy can be divided into *monetary* and *non-monetary* activities. Most of the prior research solely examine monetary giving, or only a partial element of monetary giving such as: (i) annual total tax-deductible cash contributions (Atkinson and Galaskiewicz 1988), (ii) amount of self-reported cash donation (Sánchez 2000), (iii) corporate philanthropic giving via foundation (Werbel and Carter 2002), or (iv) corporate philanthropic giving to disaster response (Muller and Whiteman 2009). *Non-monetary* giving has largely being ignored. To fill the void, this thesis examines both types of giving to reflect the aggregate of corporate giving.

The London Benchmarking Group (LBG) model serves as a useful extension for the categorisation of philanthropic contributions in this thesis. LBG is a group comprising over 100 firms across the world working together to measure and benchmark corporate community investment. The model was originally developed by six leading United Kingdom firms in 1994. In Australia, LBG Australia/New Zealand (an affiliate of LBG International) was launched in August 2005 and as at 25 August 2008, there were 37 members across Australia and New Zealand<sup>20</sup>.

Based on the LBG model, total community contributions are divided into four categories: (i) Monetary<sup>Direct</sup><sup>21</sup>; (ii) Management Costs; (iii) In-Kind; and (iv) Time (LBG Australia/New Zealand 2007, 2008). After reviewing corporate key reports, the majority of Australian firms do not report the firm's total community contributions based on the proposed LBG model. Therefore, the LBG model is expanded and adapted to categorise philanthropic contributions based on items most frequently reported by Australian listed firms. Accordingly, this thesis further divides the four categories into 15 sub-categories as depicted in Table 3.4 and Figure 3.2.

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<sup>20</sup> Figures obtained from <http://www.lbg-australia.com/> accessed on 22 April 2009.

<sup>21</sup>The London Benchmarking Group (LBG) labels this as 'Cash'. However, for the purpose of this thesis, the term 'Monetary<sup>Direct</sup>' is used instead. This is to distinguish between 'Cash' (as per the fifteen-category model of this thesis) and 'Cash' (as per the LBG model).

### **3.5 Hypotheses Development for Phase II: CP Involvement**

This section reviews the key literature in relation to lagged free cash flow and CP Involvement, and the relationship between corporate governance as well as ownership structure with CP Involvement. The linkages are discussed in the following subsections where three hypotheses (*H4*, *H5* and *H6*) are formulated.

#### **3.5.1 Lagged Free Cash Flow and CP Involvement**

Slack resources theory posits that along the continuum of managerial discretion (Sharfman et al. 1988), cash represents the high discretionary dimension of financial resources (George 2005). Since corporate philanthropy is a form of managerial discretion, this thesis is based on the premise that the availability of free cash flow prompts CP Involvement.

Cash is the most liquid asset of a firm and reflects the firm's liquidity, solvency and financial flexibility (ability to react and adjust to opportunities and adversities) (Subramanyam and Wild 2009). In simple terms, *cash* refers to the residual balance of cash inflows less cash outflows for all prior periods of a firm while *cash flow* refers to the current period's cash inflows less cash outflows (Subramanyam and Wild 2009). *Free cash flow*, meanwhile, reflects the amount of cash available after allowances are made for financing (i.e., maintaining assets in place) and investing requirements (Richardson 2006; Subramanyam and Wild 2009). Hence, free cash flow is an important consideration in accounting as it represents available resources that can be used for various other activities including discretionary purposes. Most studies of free cash flow focus on: (a) the free cash flow hypothesis which postulates that excessive free cash flow leads to overinvestment (Richardson 2006; Wei and Zhang 2008), and (b) the agency cost perspective where firms with surplus free cash flow allied to low-growth opportunities are involved in non-value maximising activities (Gul and Tsui 1998; Jensen 1986; Vogt 1994). There are very few studies that consider the effect of free cash flow on corporate philanthropy.

In a study where the relationship between corporate social performance and corporate financial performance is investigated, Waddock and Grave (1997) argue firms with fewer resources (as measured by the level of profitability) are less likely to engage in socially responsible corporate activities than firms that are more profitable. This is because firms with fewer resources have less resources to spare for socially responsible programmes than more profitable counterparts. Nonetheless, this thesis adds an important twist to this issue by viewing profit as the end result of philanthropic activities and cash flow as the antecedent.

This thesis argues that free cash flow (instead of profit) is more realistically used as a proxy for organisational slack resources since this represents the available resources that can be used for donations and other discretionary purposes. The profit figure is derived from an accrual system of income measurement which permits the introduction of a variety of alternative accounting treatments and may consequently lead to distortions and manipulations (Subramanyam and Wild 2009). Further, profit does not always equate to actual cash availability. A firm that reports on abundance of profit does not necessarily have sufficient cash to pursue corporate objectives and undertake discretionary activities. As such, this thesis advocates free cash flow as a measure of slack resources since it bypasses the distortions in accrual accounting and more suitably represents slack resources.

This view is supported by Buchholtz et al. (1999). They (Buchholtz et al. 1999) argue the profit figure is not solely sufficient to explain corporate philanthropic contribution because its value does not give a real indication of whether firms have already absorbed those profits or otherwise. In their study, Buchholtz et al. (1999) develop and test an integrated model of the relationship between the firm's resources and corporate philanthropy. The mediating effect of managerial discretion and managerial values are also investigated. A survey instrument is employed where questionnaires were sent to chief executive officers and top managers of mid-sized public firms. Study findings indicate firm resources have a positive effect on corporate philanthropy. This effect is fully mediated by managerial discretion, and partially mediated by managerial values. The current thesis takes a similar stand to

that of Buchholtz et al. (1999) where the profit measure is not used to represent slack resources. According to Buchholtz et al. (1999), if the profit has been absorbed, then the possibility of this value being used elsewhere will be unavailable. Furthermore, corporate philanthropy is more likely to be related to the organisational slack resources, as measured by free cash flow rather than profit.

In another study, Seifert et al. (2003) examine the relationship between resource availability and corporate philanthropy. Their (Seifert et al. 2003) study uses a matched pair analysis where a total of 41 pairs for big givers are matched with the small givers. The purpose of using a matched-pair is to identify the size effect while controlling for the industry and environmental conditions. Their finding indicates that there is a positive relationship between a firm cash resources and cash donations. It further supports the view that organisational slack plays a significant role in corporate cash contributions. The current thesis takes a slightly different approach in terms of corporate philanthropy measurement where it further examines various combinations of corporate philanthropy instead of just a single type of giving. This can be justified on the ground that corporate philanthropy consists of various components, and firms are normally involved in more than just cash giving. Other types of giving include Sponsorship, Scholarship, Grant, Award, Disaster Relief, Foundation Giving, Employee Giving, Matched Employee Giving, Fundraising Events, Shareholders Donation, Management Costs, In-Kind, Volunteering, and Partnership (see Figure 3.2). This may better reflect the amount of corporate philanthropy made.

Seifert et al. (2004) acknowledge the assumption that charitable giving is dependent upon the availability of the slack resources of an organisation. Nonetheless, the empirical research on this area is still minimal. Buchholtz et al. (1999) find a positive relationship between the availability of resources and corporate philanthropy. However, Brammer and Millington (2005b), while examining the drivers of corporate giving, report no significant relationship between resource availability and corporate charitable donations.

Despite the obvious benefits of giving, such as enhancing the firm's image and reputation, improving publicity, improving staff morale, strengthening customers, clients and vendors relationships, and creating healthier communities for business viability (Bennett 1998; Fombrun and Shanley 1990; Owen and Scherer 1993; Sumner et al. 2004; Wulfson 2001), there are a number of barriers that hinder corporations from making donations. As identified in *Giving Australia* (2005 p. 34), the main factor that hinders or impedes the facilitation of corporate giving is that the resources are committed elsewhere. This implies that resources generally, and cash specifically, is a vital predictor of corporate giving. Therefore, this thesis examines the relationship between free cash flow and corporate philanthropy to empirically test whether cash availability relates to CP Involvement.

As previous researchers have indicated that slack resources facilitate the adaptive response such as innovation (Nohria and Gulati 1996), this thesis proposes that organisational slack resources facilitate the pursuit of competitive opportunity such as investing in corporate philanthropic programmes. Slack resources theory is employed in this thesis in explaining CP Involvement as it suggests causality running from slack resources to charitable contributions (Amato and Amato 2007). Further, as suggested by Johnson and Greening (1999), firms with slack resources are better able to invest in corporate philanthropy initiatives than firms without slack resources.

Free cash flow is used to measure organisational slack resources as it represents the available resources or the uncommitted money that are available for donations and other activities that are subject to the discretion of management (Seifert et al. 2004). Thus, it is theorised that these available resources will be utilised by the managers for charitable causes. Additionally, it is also posited that managers may need some time to decide on the slack resources that are available for discretionary purposes. Therefore, lagged free cash flow is examined in this thesis. Based on the above arguments, and insights from the literature review, this thesis hypothesises that:

*H4: There is a positive relationship between lagged free cash flow and CP Involvement.*

### 3.5.2 Corporate Governance and CP Involvement

Over the last decade, there has been considerable interest in the study of corporate governance following the Asian financial crisis and the high-profile collapses in the U.S. (Enron Corporation, WorldCom and Tyco). Corporate governance, to a large extent, is concerned with the mechanisms established to help shareholders get the appropriate return on their investment and are protected against expropriation by corporate management (La Porta et al. 2000; Shleifer and Vishny 1997). The separation of ownership and control implies a loss of effective control by shareholders over managerial decisions (Shleifer and Vishny 1997). Thus, corporate governance is thought to act as a set of mechanisms to deal with issues of accountability and fiduciary duty in ensuring good ethical conduct and protection of shareholder's interest. Boards of directors play a pivotal role residing at the apex of the control system of a corporation (Fama and Jensen 1983). The board endorses the firm's strategy, formulates directional policy, determines the top management's compensation, supervises managerial actions and monitors the overall day-to-day running of the firm.

Prior studies on corporate governance predominantly focus on the relationship with: (i) firm performance (Bhagat and Bolton 2008; Core et al. 1999; Klapper and Love 2004; Lam and Lee 2008), (ii) market value (Carter et al. 2003), (iii) agency cost (McKnight and Weir 2009), (iv) corporate restructuring (Gibbs 1993), and (v) disclosure practices (Haniffa and Cooke 2002; Taylor et al. 2008). Whilst corporate governance has been extensively researched in other areas, the empirical evidence on the relationship between corporate governance and CP Involvement remains an area inadequately explored (Chesters and Lawrence 2008).

Corporate governance is an important consideration, especially within the managerial discretion perspective (such as the ability to distribute slack resources). This is because corporate governance mechanisms are designed to prevent managers from opportunistically diverting the firm's resources unnecessarily. Putting it differently, without effective control over management, resources of the firm may be directed towards projects that enhance the manager's own utility rather than investing in

projects that yield returns to shareholders. Brammer and Millington (2005b) identify two conditions that must be met for corporate philanthropy to be optimal. Firstly, the organisation needs to have excess resources over which managers are able to exercise discretion. Secondly, the utility derived from corporate donations should be more than the alternative discretionary use of the resources.

Taking agency theory as a basis, Bartkus et al. (2002) examine corporate philanthropy from a corporate governance perspective. Bartkus et al. (2002) argue although corporate philanthropy can be justified strategically and socially, an excessive amount of corporate philanthropy is not necessary as it may be subject to managerial self-interest. Shareholders may prefer to donate to their favourite charities rather than have the 'firm entity' make contributions on their (shareholders) behalf (Werbel and Carter 2002).

Friedman (1970) asserts that a firm's sole objective is economic with any expenditure beyond economic activities seen as a violation of management's responsibility towards the shareholders. His (Friedman 1970) classical argument is based on the fact firms are owned by shareholders while managers, acting as the agents, have a duty to serve the interests of the principals (i.e., shareholders) and protect shareholder's property rights. Distributing to charities may amount to misappropriation of the shareholders' wealth. Aupperle et al. (1985), Coffey and Wang (1998), and Ruf et al. (2001) argue firms incur additional cost by engaging in philanthropic activities since it represents economic diversions, thereby, placing the firm at a competitive disadvantage whilst diminishing overall performance and reducing shareholder value. They (Aupperle et al. 1985; Coffey and Wang 1998; Ruf et al. 2001) further argue managers have no right to spend shareholders' money for any activities that do not add to the creation of shareholder wealth. Spending on socially responsible activities, such as expenditure on corporate donations, is viewed as stealing an investor's money and levying an 'illegal tax' on the firm (Balabanis et al. 1998). It is posited that since the assets legally belong to shareholders, and the fiduciary duty of the managers is to act in the best interest of the shareholders, managers have no right spending money for charitable causes. Instead, firms should

distribute the profits as dividends and let the shareholders decide on the distribution (Wulfson 2001). Baron (2007) further argues that shareholders purchase shares in profit maximising firms with a focus on financial returns, and would receive greater personal satisfaction from making individual gifts to social causes.

Choi and Wang (2007) present a similar rationale for corporate philanthropy. They (Choi and Wang 2007) suggest corporate philanthropy may lead to a decrease in firm value and shareholder wealth. This is because corporate philanthropy activities divert the firm's resources that could otherwise be spent on activities that increase organisational efficiency.

As an extension of the above economic-oriented position, Kolstad (2007) presents four arguments to support the profit maximisation position. Firstly, managers, acting as the agents should pursue the interest of the shareholders; thus, it would be illegitimate to pursue other objectives than profit maximisation. Secondly, pursuing other objectives would be detrimental to the shareholders wealth. Thirdly, focusing on tasks outside the usual business spectrum would make the firm less efficient. Finally, pursuing other issues besides profit maximisation objective increases firm costs. This in turn makes the firm less competitive in comparison to competitors that do not assume such responsibilities. In the light of these narrow-based arguments, corporate philanthropy is viewed as unnecessary and not in the interests of the shareholders.

Wang and Coffey (1992), meanwhile, find a significant positive relationship between the ratio of board members (insiders to outsiders) and corporate philanthropy. With managers driven by self-interest, they (managers) are likely to make corporate donations to pursue personal interests, enhance personal capital and job entrenchment and secure their position. In the presence of outside directors, insiders will have less freedom to pursue personal discretionary authority (Wang and Coffey 1992). For this reason, in this thesis, corporate governance is viewed as acting as a potential cap on the amount of philanthropic donation. This is because although corporate philanthropy is desirable, it requires approval and legitimacy from the

investors. Extremely generous amounts of philanthropy may be viewed as unnecessary.

The availability of resources that is linked to governance (such as good management to monitor ethical decision making and effective code of corporate conduct) enables firms to maintain and have an effective corporate governance system that prevents unnecessary diversions of firm resources and, thus, potentially protects shareholder interests. Consequently, based on the above arguments, and drawing from the aforementioned literature review, this thesis hypothesises that:

*H5: There is a negative relationship between corporate governance and CP Involvement.*

### **3.5.3 Ownership Structure and CP Involvement**

Ownership structure and decision making in corporate choices is of considerable interest to scholars. One important component is ownership concentration; this refers to the extent of share ownership dispersion (Carney and Gedajlovic 2002). Berle et al. (1991) assert that diffused ownership makes shareholders become potentially powerless in controlling the decisions of corporate managers. They (Berle et al. (1991)) further argue that with untethered power, managers may divert and ineffectively use corporate resources. Useem (1984) suggests firms with widely dispersed ownership tend to pursue markedly different goals from concentrated ones. The more concentrated the ownership, the more extensive the monitoring of managerial decisions. Brammer and Millington (2004a) remark that the ability of shareholders to influence decisions on corporate contributions depends on their ability to influence corporate decision makers. Shareholder concentration is used by Navarro (1988), Adams and Hardwick (1998), and Brammer and Millington (2004a) as a proxy for shareholder influence. According to Adams and Hardwick (1998), managers in firms with concentrated ownership are subject to more intense monitoring from the shareholders; thus, management is less likely to make discretionary philanthropic contributions without the consent of the shareholders.

Atkinson and Galaskiewicz (1988) argue ownership concentration limits the discretion that managers have about making corporate donations. This is because as the ownership becomes more concentrated, it limits the options available to the managers on discretionary resources (such as free cash flow); hence, contributions are potentially smaller. Seifert et al. (2004) find a negative relationship between ownership concentration (number of blockholders) and the amount of donations. The findings of Bartkus et al. (2002) also indicate that some governance mechanisms, such as powerful owners, are related to corporate philanthropy. The presence of powerful owners discourages excessive corporate philanthropy (Bartkus et al. 2002). High levels of corporate philanthropy may be perceived as excessive and unnecessary; hence, influential shareholders can act as a governance mechanism to curtail this<sup>22</sup>.

Bartkus et al. (2002) indicate that the existence of blockholder (own at least 5 percent of a firm's stock) and institutional owners limit the donation amount. This suggests excessive amounts of giving may be perceived as unnecessary and some kinds of governance mechanism are required to protect the misappropriation of shareholders wealth. This is to say that shareholders, having a sizable investment at stake, would provide closer scrutiny of managerial actions, and use their (shareholders) power to actively monitor management to ensure that investment interests are protected. Galaskiewicz (1997) suggests firms under greater control give less. However, he finds no relationship between large blockholders (defined as owning at least 10 percent of a firm's stock) and corporate philanthropy (Galaskiewicz 1997). Even though the findings of previous studies vary, ample empirical evidence is furnished

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<sup>22</sup>Ownership structure can also be examined from the managerial ownership and control perspective. Coffey and Wang (1998), in the study of ownership structure look at the relationship between managerial control and corporate philanthropy. They (Coffey and Wang (1998)) define managerial control as when the management is able to influence the board decision, proxied by the percentage of shares own by managers. It is suggested that as the control increases, the amount of corporate donation decreases. This is because the manager-owners, preoccupied with short-term profits, would prioritise dividends and remuneration increment as compensation, over corporate donation with uncertain return. It is also worthwhile to note that when agents are principals themselves, they become less generous in spending for charitable causes (Atkinson and Galaskiewicz 1988). This finding is further supported by Navarro (1988a) where evidence indicates that owner-manager firms contribute less to non-profits.

to support the view that ownership structure puts a cap on the amount of giving (Atkinson and Galaskiewicz 1988; Bartkus et al. 2002; Navarro 1988)

In this thesis, ownership concentration is measured by the percentage of top twenty shareholdings (Taylor et al. 2010; Taylor et al. 2008). The more concentrated the ownership structure, the lesser the amount of charitable donations. Consistent with this rationale, it is expected that there is a negative relationship between ownership structure (as measured by the ownership concentration) and corporate philanthropic involvement. In this light, the following hypothesis is proposed:

*H6: There is a negative relationship between ownership concentration and CP Involvement.*

Based on slack resources theory as well as corporate governance and ownership structure tenets, three hypotheses (*H4*, *H5*, and *H6*) are evolved. In summary, the availability of lagged free cash flow enables firm to invest in corporate charitable activities. Thus, it is hypothesised that the more resources (proxied by lagged free cash flow) the firm has, the greater the CP Involvement (*H4*). It is also hypothesised that unnecessarily high amount of corporate philanthropy is not in the best interest of larger shareholders. Accordingly, the availability of resources enables a firm to provide an effective corporate governance system that potentially puts a cap on the giving amount (*H5*). In addition, concentrated ownership limits the options available to the discretionary managers and thus, suppresses CP Involvement (*H6*).

#### **3.5.4 Phase II Control Variables – Firm Size and Industry**

Consistent with prior literature, key control variables are included to control for the compounding influences of cross-sectional factors. Based on related research, two factors may have a bearing on CP Involvement. Amato and Amato (2007) state firm size and industry should be considered in the analysis for CP Involvement.

Firm size has been found to have a significant positive correlation with CP Involvement (Adams and Hardwick 1998; Amato and Amato 2007; Boatsman and

Gupta 1996; Brammer and Millington 2006; Buchholtz et al. 1999; Johnson 1966). This is because larger firms are expected to have gained economies of scale and reduced costs compared to smaller firms (Porter 1985). Johnson and Greening (1999) suggest that larger firms are better able to be involved in community initiatives because larger firms have more resources than the smaller counterparts.

As for industry, Ussem (1988) states firms in tertiary industries, (such as retailing and banking), give more than firms in primary industries, (such as mining). Brammer and Millington's (2003b) findings of United Kingdom corporate charitable contributions indicate industries characterised by significant stakeholder pressure (such as the tobacco and alcoholic drinks industries) give more to charities. They (Brammer and Millington (2003b)) reason charitable giving can be viewed as an act to legitimise the firm's corporate action, and minimises the impact of adverse publicity, regulation and negative consumer perceptions (Brammer and Millington 2003b). Amato and Amato (2007) also agree that CP Involvement varies across industries. For this thesis, firm size and industry are control variables in the analysis of CP Involvement.

### **3.6 Summary**

This chapter critically reviews the theories surrounding the study of corporate philanthropy leading to the selection of slack resources theory as the main theoretical framework for the analysis of CP Involvement. This chapter also elaborates on the definition of corporate philanthropy and the various types of CP Involvement ranging from Monetary (Cash) to various Non-Monetary (Non-Cash) giving.

Slack resources theory assumes that firms engage in corporate philanthropy when slack resources permit. This leads to *H4* where it hypothesised that there is a positive relationship between lagged free cash flow and CP Involvement. Next, the effect of corporate governance and ownership structure are painted into the picture. This is to reflect the belief that although corporate philanthropy is desirable, extremely

generous amount of giving is viewed as unnecessary. Some kinds of governance mechanism act as a cap on the giving amount. Thus, *H5* and *H6* are developed.

Chapter 4 turns the attention to the research paradigm and the thesis position. It also elaborates on the research methodology that is employed, which gives a detailed description of the variables (dependent, independent, and control) used in this thesis.

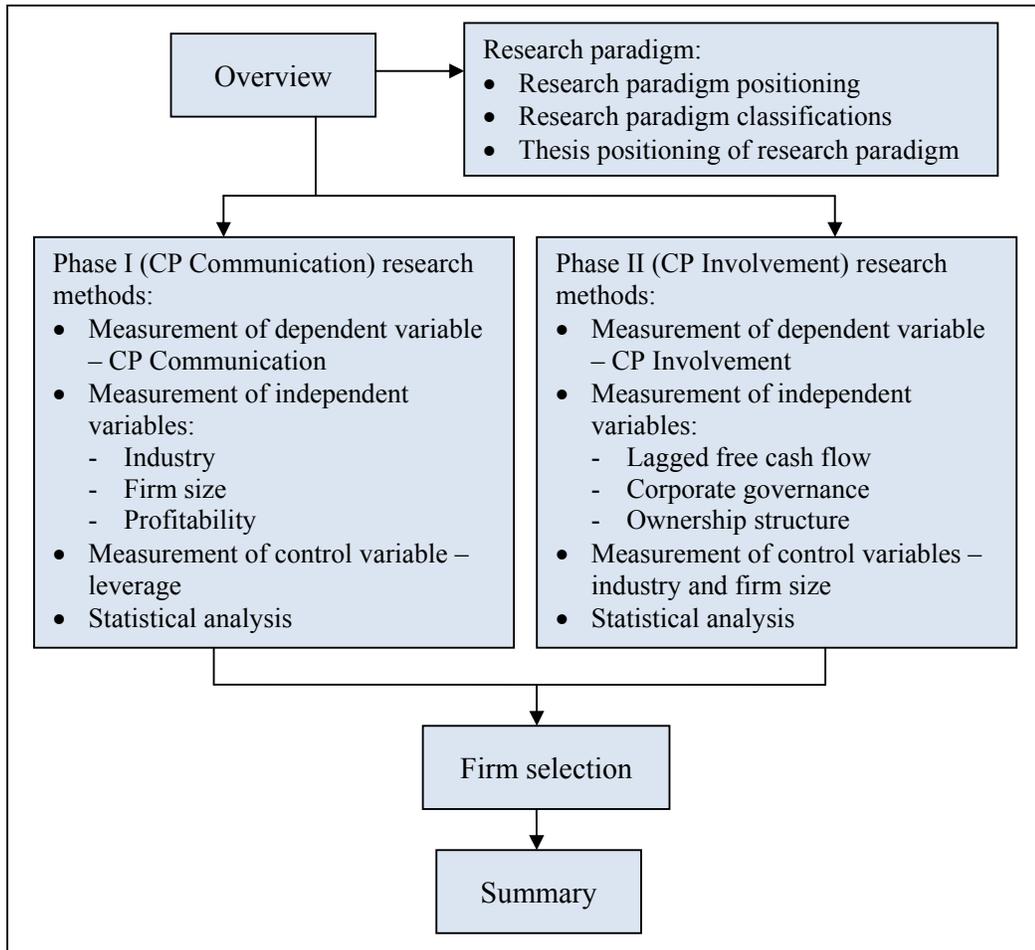
## **Chapter 4. Research Approach**

### **4.1 Overview**

This chapter begins with an explanation of research paradigms that are relevant to corporate philanthropy with a particular focus on the paradigm underpinning this thesis. This discussion is useful in expounding the thesis' direction and philosophical stance. The definition and the measurement of the dependent, independent and control variables are then established. The sample selection process and the model used for the analysis are then specified. Finally, the summary of the chapter is outlined. Figure 4.1 presents the outline of Chapter 4.

This thesis applies a 'zoom-in' approach that first employs a macro perspective that is then funnelled into a micro perspective (see Figure 4.1). The macro perspective (i.e., analysis of the whole population,  $n = 1,548$ ) is used to identify the incidence of corporate philanthropy. This macro perspective facilitates the Phase I examination of the extent of CP Communication and factors that determine CP Communication. For the micro perspective, only firms that were found to be communicating corporate philanthropy information are analysed ( $n = 261$ ). The micro perspective is used to identify types of CP Involvement and factors that associated with such involvement, leading to Phase II investigation.

**Figure 4.1:** Outline of Chapter 4



## **4.2 Research Paradigm Positioning**

This section first explores the concept of research paradigms and the key components. A clear statement of paradigm for this thesis is then made.

### **4.2.1 Research Paradigm Classifications**

Research can be viewed as a systematic and organised investigation to examine a specific problem that needs a solution (Sekaran 2003). Essentially, research involves the process of inquiry, investigation, examination and experimentation (Sekaran 2003). Research process is governed by “a set of assumptions about the social world, and about what constitute proper techniques and topics for inquiry” (Punch 2005 p.

27). This set of assumptions is known as the *research paradigm*. This term is labelled differently by different authors. Collis and Hussey (2003) use the term *paradigm* or *philosophy* whilst Godfrey et al. (1997) identify this concept as a *theoretical perspective* or *perspective*. Burrell and Morgan (1979), meanwhile, refer to it as a *dimension* whilst Creswell (2003) uses the word *approach*. This thesis applies the term ‘paradigm’ and ‘theoretical perspective’ interchangeably as the label for the philosophical stance undertaken in the research process.

Understanding the research paradigm is crucial in making sense of the social world. Furthermore, careful reflection of the paradigm provides a basis on how the research should be conducted and the direct influence on the *research design* and *research methodology* (Collis and Hussey 2003). The underpinning research paradigm directs the researcher towards the essential properties with reference to each paradigm.

The overarching concept of a research paradigm can be divided into a number of categories. Following Collis and Hussey (2003), this thesis classifies and divides research paradigms into two extremes across a broad continuum, *positivist* and *phenomenological*. This is done to provide a clear contrast. Collis and Hussey (2003) however, prefer the term *positivist* and *phenomenological* rather than *quantitative* and *qualitative* on the grounds that though the positivistic paradigm is always allied to measurement, it is possible to produce qualitative data and vice versa. The positivist is often tagged as quantitative, objectivist, scientific, experimentalist, traditionalist and rationalist whilst the phenomenological is commonly referred to as qualitative, subjectivist, humanistic, interpretivist, social constructionist, and constructivist (Collis and Hussey 2003; Creswell 1994). Table 4.1 summarises the alternative terms used for the two continuum research paradigms.

**Table 4.1:** Contrasting research paradigms

Positivistic paradigm		Phenomenological paradigm	
Positivist	Collis and Hussey (2003); Crossan (2003); Pool (1997)	Humanistic	Collis and Hussey (2003)
Quantitative	Collis and Hussey (2003); Creswell (1994)	Qualitative	Collis and Hussey (2003); Creswell (1994)
Objectivist	Collis and Hussey (2003); Pool (1997)	Subjectivist	Collis and Hussey (2003)
Scientific	Collis and Hussey (2003)	Social constructionist	Pool (1997)
Experimentalist	Collis and Hussey (2003)	Interpretivist	Collis and Hussey (2003); Johnson and Onwuegbuzie (2004)
Traditionalist	Collis and Hussey (2003)	Constructivist	Johnson and Onwuegbuzie (2004)

Sources: Collis and Hussey (2003), Creswell (1994), Crossan (2003), Johnson and Onwuegbuzie (2004), Pool (1997).

Paradigm is a very broad term covering a range of components including *ontology*, *epistemology*, *axiology*, *rhetoric*, *methodology* and *method* (Collis and Hussey 2003; Creswell 2003). The understanding of each of these components enables the investigator to identify the specific method of research that is most appropriate.

The ontological assumption is concerned with the very nature or essence of the social phenomena investigated (Cohen and Manion 1989) where it addresses the questions of: (i) What is the nature of reality? and (ii) What can we know about it? Positivists view the world as objective and external to the researcher. On the other hand, phenomenologists regard the world or social reality as subjective and dynamic. Phenomenologists perceive individuals experience reality in different ways and there is no one right way of doing things. Therefore, according to phenomenologists, social reality can be best understood by examining the perceptions of these individuals (i.e., what individuals think, feel or perceive).

The epistemology assumption is concerned with the study of the nature of knowledge, and how it is acquired and communicated to other human beings (Cohen and Manion 1989). Epistemological and ontological issues are closely intertwined and often emerge simultaneously (Crotty 1998). This is because how the researcher views the world is closely related to the relationship between the researcher and what is being researched. Positivists believe that social reality is objective and external; thus, the researcher is independent from the object being researched and seeks to better understand the facts whilst creating models that reflect the system or process that exist in the real world. For the phenomenologists, as social reality is viewed as subjective and multiple, the researcher may interact and become involved with what is being researched and strive to minimise the gap (between the researcher and what is being researched).

An axiology assumption is about the value of the paradigm. Positivists view the value as neutral and unbiased, and that the researcher is detached from what is being researched (Collis and Hussey 2003). What is being studied is seen as an object that is unaffected by the research activities. In contrast, phenomenologists acknowledge, though not always made explicit, the value system existing within the researcher (Collis and Hussey 2003). Thus, the researcher is viewed by phenomenologists to be intrinsically involved with that being researched.

The rhetorical assumption is related to the language used in the research. Words such as 'relationship', 'comparison', and 'within-group' normally form the glossary of a positivistic study while words such as 'understanding', 'discover', and 'meaning' are more often found in a phenomenological study (Creswell 1994, p. 6). The concept for positivists is well-defined, based on a set of accepted definitions; while the concept is more of an evolving decision for phenomenologists (Creswell 1994). Accordingly, a more formal, impersonal, and passive voice are normally used in a positivistic study while a less formal, personal, and active voice are more often present in a phenomenological study (Collis and Hussey 2003).

The methodological assumption relates to the entire process of the research by which knowledge is obtained. Some authors use the term methodology and method interchangeably, while others differentiate the two. Methodology refers to “the overall approach to the research process, from the theoretical underpinning to the collection and analysis of data” while method refers to the “various means by which data can be collected and/or analysed” (Collis and Hussey 2003 p. 55). Positivists would ensure that the concepts used can be operationalised to enable measurement. In the positivist world, the deductive process is normally in place where it moves from generalisation to prediction. In contrast, phenomenologists normally employ a number of research methods to gain different perceptions about the phenomena being studied. Also, analysis is undertaken to understand and explain the scenario of interest while observing specific patterns that may exist (Collis and Hussey 2003). According to Collis and Hussey (2003 p. 150), “a method is not necessarily phenomenological or positivistic by its label, but by how it is used”. Methods like sampling, document analysis, and questionnaires are normally employed by positivists whilst focus groups, interviews, and observation are normally used by phenomenologists.

Table 4.2 highlights some key differences between the positivistic and phenomenological paradigms.

**Table 4.2:** Analysing the nature of social science research from contrasting paradigms

<b>Assumption</b>	<b>Question</b>	<b>Positivist</b>	<b>Phenomenologist</b>
Ontological	What is the nature of reality?	Reality is objective and singular, apart from the researcher	Reality is subjective and multiple as seen by participants in a study
Epistemological	What is the relationship of the researcher to that researched?	Researcher is independent from that being researched	Researcher interacts with that being researched
Axiological	What is the role of values?	Value-free and unbiased	Value-laden and biased
Rhetorical	What is the language of research?	Formal Based on set definitions Impersonal voice Use of accepted quantitative words	Informal Evolving decisions Personal voice Use of accepted qualitative words
Methodological	What is the process of research?	Deductive process Cause and effect  Static design – categories isolated before study  Context-free Generalisations leading to prediction, explanation and understanding  Accurate and reliable through validity and reliability  Associated methodologies include cross-sectional studies, experimental studies, longitudinal studies, and survey	Inductive process Mutual simultaneous shaping of factors Emerging design – categories identified during research process Context-bound Patterns, theories developed for understanding  Accurate and reliable through verification  Associated methodologies include action research, case studies, ethnography, feminist perspective, grounded theory, hermeneutics, and participative enquiry
Method	What is the means of data collection and/or analysis?  OR What is the specific research technique used?	Questionnaires Sampling Document analysis Measurement and scaling	Critical incident technique Diaries Focus groups Interviews Observation Protocol analysis

Source: Adapted from Collis and Hussey (2003) and Crotty (1998).

Clarifying the various assumptions is important in the research planning process (Crossan 2003) as it determines the direction of the research. Table 4.3 below polarises the contrasting features of these two main divergent paradigms.

**Table 4.3:** Features of the two research paradigms

<b>Positivist paradigm</b>	<b>Phenomenological paradigm</b>
Tends to produce quantitative data	Tends to produce qualitative data
Uses large samples	Uses small samples
Concerned with hypothesis testing	Concerned with generating theories
Data is highly specific and precise	Data is rich and subjective
The location is artificial	The location is natural
Reliability is high	Reliability is low
Validity is low	Validity is high
Generalises from sample to population	Generalises from one setting to another

Source: Collis and Hussey (2003 p. 55).

#### **4.2.2 Thesis Positioning of Research Paradigm**

This thesis adopts the positivistic paradigm. The positivistic approach applies scientific explanation to help understanding in certain occurrences (Babbie 2002) while seeking “the facts or causes of social phenomena, with little regard to the subjective state of the individual” (Collis and Hussey 2003 p. 52). Table 4.4 recapitulates the position of this thesis where each assumption is explained.

**Table 4.4:** This thesis positivist paradigm and its assumptions

Assumption	Thesis position
Ontological	Social reality is seen as <i>objective</i> . It is also <i>external</i> to the researcher.
Epistemological	The researcher is an observer and thus, independent from that being researched. Knowledge is the key goal of the scientific approach and it is viewed as being hard, real, and can be transmitted into tangible form.
Axiological	The role of values to validate this research is assumed to be free and unbiased. The researcher is not only going to make justification, but will also critically analyse the findings to enable the reader to make fair appraisal and informed judgment as to validate the research.
Rhetorical	Most parts of this thesis use impersonal voice and quantitative wording.
Methodological	<p>This thesis uses deductive process where it moves from generalisations leading to predictions (i.e., moving from general to specific).</p> <div data-bbox="812 913 1104 1102" style="text-align: center;"> <p>The diagram is a blue inverted pyramid divided into three horizontal sections. The top section is the widest and contains the word 'General'. The middle section is narrower and the bottom section is the narrowest and contains the word 'Specific'. This visualizes the deductive process of moving from general concepts to specific ones.</p> </div> <p>This thesis adopts the <i>cross-sectional approach</i> for its research methodology since it intends to obtain information on variables in different contexts, but in the same time frame.</p>
Method	This thesis uses annual reports and stand-alone sustainability reports to gather data. This data is analysed using descriptive and inferential statistics.
Summary	A positivistic paradigm is adopted for this thesis because of its ability to explain real world phenomena relating to corporate philanthropy. It focuses on facts while examining the relationship between firm-specific characteristics and CP Communication (Phase I) as well as the relationship between lagged free cash flow, corporate governance and ownership structure with CP Involvement (Phase II). Hypotheses are formulated and tested using statistical techniques to provide precise empirical observations to enable prediction of general patterns of CP Communication and factors that contribute to CP Involvement.

Source: Adapted from Cohen and Manion (1989), Collis and Hussey (2003), Corssan (2003) and Pool (1997).

According to Cohen and Manion (1989), science provides a researcher with the clearest possible idea of knowledge since it provides objective, valid, accurate, and

certain facts and information. Accounting is a social science and accounting research is grounded in a common set of assumptions about social science and society (Belkaoui and Jones 2002). Social refers to people and their behaviour, while science refers to the way people and their behaviours are studied (Punch 2005). Thus, social science is arguably a study about human behaviour using scientific principles, where data is gathered, and theories used to explain the data.

This thesis explicitly adopts the positivistic theoretical perspective because of the ability to provide a scientific explanation for real world phenomena. The positivist approach better explains and predicts ‘what’ the phenomenon is and the reason for the phenomenon’s existence (Godfrey et al. 1997). Accordingly, this thesis uses the positivism stance to explain the firm-specific characteristics and the extent of CP Communication (Phase I). The same approach is applied to explain the factors that contribute to CP Involvement (Phase II). The positivistic approach, where the tenets are drawn from the scientific faith, is employed because the approach can provide the researcher with the use of precise quantitative data, statistics, and objective measures. This enables the relationship between firm-specific characteristics and CP Communication, as well as factors influencing CP Involvement to be examined.

As the positivist approach follows empiricist tradition, this thesis limits the enquiry to what can be firmly established (Cohen and Manion 1989). Logical reasoning is applied to enable objective, accurate and precise investigation of the research question. Thus, any speculative attempt to gain knowledge by normative reasoning alone is ignored.

Positivists perceive the world as external and objective. This paradigm inquires about the facts and causes of the social phenomena with very minimum emphasis on the subjective state of the individual (Collis and Hussey 2003). In contrast with the phenomenologist, a positivist views reality as one; thus, by studying in parts, the whole can be understood. In this thesis, a cross-sectional sample data analysis is undertaken and the results, where possible, can be generalised to the whole population.

This thesis looks specifically at the CP Communication (Phase I) and CP Involvement (Phase II). In Phase I, three firm-specific factors are examined to determine the influence on CP Communication. These factors are industry, firm size, and profitability (while controlling for leverage effect). In Phase II, three factors that could influence CP Involvement (Phase II) are examined. These factors are lagged free cash flow, corporate governance, and ownership structure (while controlling for firm size and industry effect). This thesis does not study the humanity or psychological side of corporate philanthropy. Although corporate philanthropy could possibly be influenced by the personal values or attitudes of the charitable decision maker, or the manager's characteristics, (such as in the study of motives for corporate philanthropy) these are not the focus of this thesis, having been studied extensively in prior literature (see for example Bennett 1997, 1998; Campbell et al. 1999; Jones 2007; Madden et al. 2006; Meijer et al. 2006; Noble et al. 2008; Sánchez 2000; Sargeant and Crissman 2006). Therefore, in this thesis, the communication pattern and the antecedents of corporate philanthropic involvement are studied on a positivist basis relying on a structured research design. It follows that hypotheses are tested using statistical analysis and an appropriate theoretical framework is applied to explain the phenomena or patterns that appear in the data.

Overall, this section describes the research paradigm positioning of the thesis where the research design is explained. Section 4.3 and 4.4 presents the research methods for Phase I (CP Communication) and Phase II (CP Involvement) respectively.

### **4.3 Phase I Research Methods: CP Communication**

This section specifies the variables used to test the extent of CP Communication. The first subsection introduces the measurement of the dependent variable. The second, third, and fourth subsections explain the measurement of the three independent variables. Subsequently, the measurement of the control variable is explained, followed by the description on the statistical method for CP Communication.

### 4.3.1 Phase I: Measurement of Dependent Variable – The Extent of CP Communication

As explained in Section 2.4, this thesis measures CP Communication in two ways. Firstly, it uses a simple dichotomous construct (i.e., communication or non-communication) as the *presence* of CP Communication. Qualitative or quantitative sophistication contained in the disclosure is not weighted. In other words, a dichotomous scoring approach is used to minimise the subjectivity in the scoring procedure. Past research indicates that the use of a weighted or un-weighted scoring approach fundamentally produces similar results where there are a large number of items (Marston and Shrives 1991).

In the case of the second measure, corporate philanthropy disclosure is divided into three categorical terms on a sliding scale of clarity; these are labelled Opaque, Translucent, and Transparent to better understand the *extent* of CP Communication<sup>23</sup>. For the three tier analysis, a score of: (a) 0 is given if the firm fails to disclose any information on corporate philanthropy, (b) 1 is given if the firm discloses information on corporate philanthropy either in the form of narrative or supported with numeric disclosure or (c) 2 is given if the firm provides any additional monetary information on this issue. Table 4.5 provides an example of the three category (tripartite) analysis.

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<sup>23</sup>For ease of referencing, this thesis uses CP Communication<sup>2Groups</sup> to refer to the *presence* of CP Communication (i.e., referring to CP Communicator and Non-CP Communicator) while CP Communication<sup>3Groups</sup> is used to refer to the *extent* of corporate philanthropic disclosure (i.e., referring to the three categories of CP Communication labelled ‘Opaque’, ‘Translucent’ and ‘Transparent’). N.B. Non-CP Communicator and ‘Opaque’ are in fact the same, referring to the firms that do not disclose any kind of corporate philanthropy in their key reports. However, the term ‘Non-CP Communicator’ is used when the analysis is done for two groups while ‘Opaque’ is used when the analysis is done for three groups.

**Table 4.5:** Examples of corporate philanthropic tripartite dialogue

Scale	Opaque	Translucent	Transparent
Score	0	1	2
Disclosure type	Absence of corporate philanthropic information.	Disclose corporate philanthropic information either narrative only and/or supported with numeric disclosure.	Disclose corporate philanthropic information either narrative only and/or supported with numeric disclosure. In addition, the disclosure is supplemented with monetary amount of donation.
Example	—	<p>“On a regular basis, RREEF is directly involved with ... the local community providing many opportunities to make a significant local and national impact. For example, in the last year RREEF commenced a national partnership with the Make-A-Wish Foundation®.” (Dexus Property Group, Corporate Responsibility and Sustainability Report 2008 p. 28). (An example of narrative disclosure).</p> <p>“The team supported the distribution of more than 600 bags of food to underprivileged people in the area including orphanages and homes for the aged.” (Clough Annual Report 2008, p. 19) (An example of narrative and numeric disclosure).</p>	<p>“There are many ways in which the Tabcorp Group contributes to the communities in which it operates, including donating casino and hotel facilities and services, supporting fundraising events, sponsoring local community partnerships and employee volunteering. The Group’s businesses, people and brands contributed approximately \$2 million to communities during the year.” (Tabcorp Concise Annual Report 2008 p. 9). (An example of narrative and monetary disclosure).</p>

Source: Corporate philanthropic tripartite dialogue is developed for this thesis based on the analysis of Australian listed firms’ 2008 key reports. In Table 4.5, specific references are made to Dexus Property Group Corporate Responsibility and Sustainability Report 2008, Clough Annual Report 2008, and Tabcorp Concise Annual Report 2008.

In summary, the CP Communication is analysed in terms of *presence* and *extent*. The former bifurcates the usable sample into ‘CP Communicator’ and ‘Non-CP Communicator’ groups, while the latter divides the usable sample into a more detailed categorisation labelled ‘Opaque’, ‘Translucent’ and ‘Transparent’ to better reflect the CP Discourse and shed additional insight into the patterns of CP Communication. Formally, analysis of the *presence* of CP Communication is denoted as  $CP\_Comm_{j,t}^{2Groups}$  while analysis of the *extent* of CP Communication is denoted as  $CP\_Comm_{j,t}^{3Groups}$ .

#### **4.3.2 Phase I: Measurement of Independent Variable - Industry**

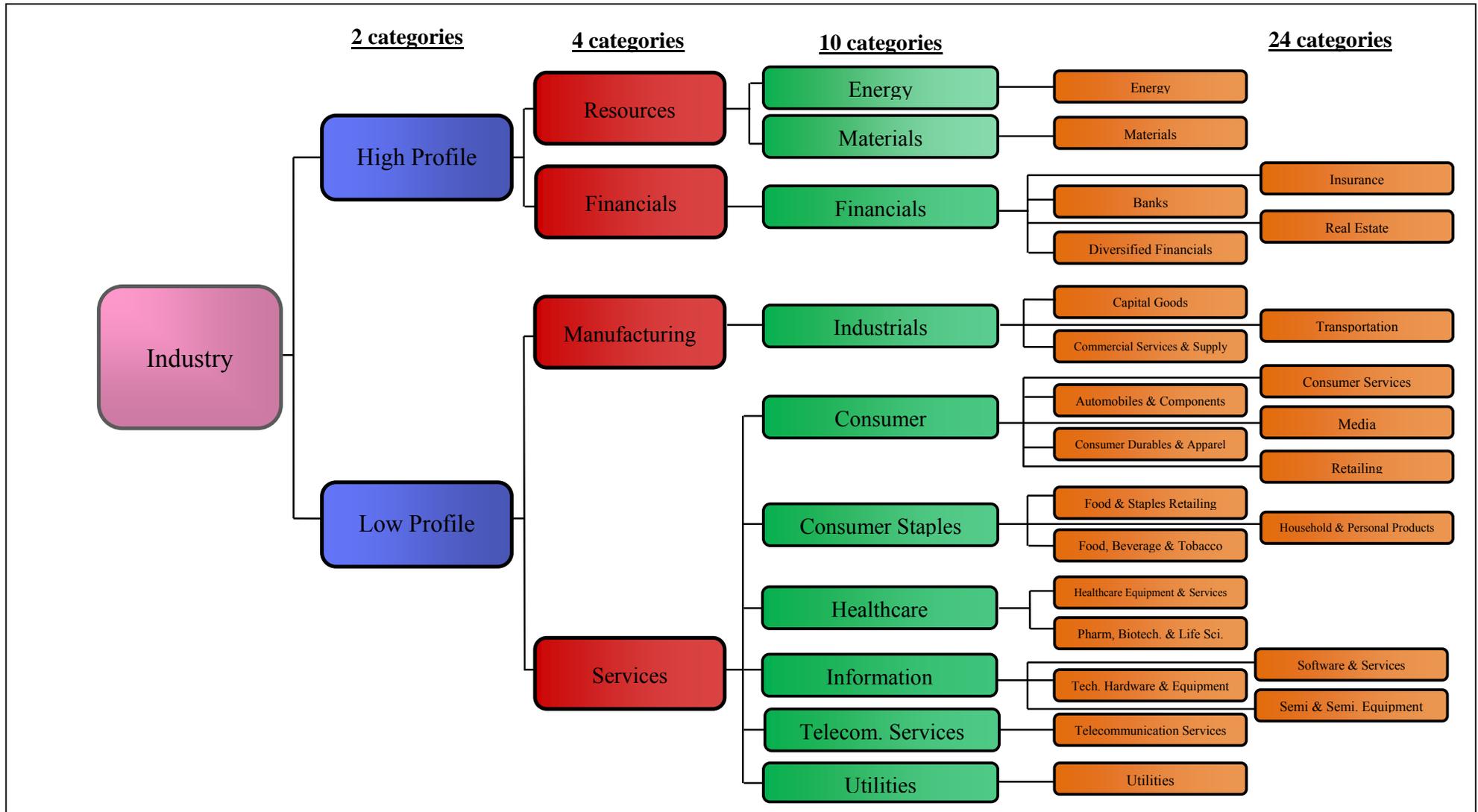
Empirical studies have shown that corporate social disclosure varies across industries (Cormier and Magnan 2003; Gray et al. 1995a; Hackston and Milne 1996). The initial industry classification is based on the well-known Global Industry Classification Standard (GICS). According to the ASX, it consists of 10 sectors as aggregated from 24 Industry Groups. The 10 and 24 categories shown in Figure 4.2 are based on the GICS classification. Following Taplin et al. (2002), this thesis further divides the ten industry sector classification into four major categories: (1) Resources (2) Financials (3) Manufacturing and (4) Services and then further partitions it into high profile and low profile.

From the four major industry categories, Resources and Financial categories are classified as high profile while Manufacturing and Services are labelled as low profile industries. Resource firms are considered high profile because this industry sector accounts for a very important and visible strategic part of the Australian business and community landscape. Jenkins and Yakovleva (2006) argue corporate social responsibility has become an increasingly important issue for the mining (resources) industry. According to Golob and Bartlett (2007), based on the 2005 KPMG international survey on corporate social responsibility reporting, a large majority (68 percent) of the top 100 Australian companies involved in triple bottom line reporting are from the mining and resources sector. Thus, Resource firms are categorised as being in a high profile industry in this thesis.

The Financial industry is also classified as high profile given the dominant and publically exposed nature of these firms in the Australian setting. Classification of the resource and financial industries as high profile is also consistent with Newson and Deegan's (2002) classification of industry categories for Australian, Singaporean and South Korean firms. Newson and Deegan (2002) assert that high profile firms are those operating in industries such as raw material extraction, and more exposed to the political and social environment. On the other hand, low profile firms are those that operate in less politically changed industries such as services, healthcare, computers and electronics (Newson and Deegan 2002). Accordingly, in this thesis, Manufacturing and Services are clustered as low profile industries. The purpose of dividing the industry category into two categories is to maximise the cell size analysis (Clarke and Gibson-Sweet 1999). Formally, for industry (denoted as  $Ind_{j,t}$ ), firm  $j$  is scored zero [0] if operated in a low profile industry, otherwise one [1] if operated in a high profile industry.

Figure 4.2 maps the industry classification used for this thesis. The main statistical analysis for this thesis uses the two-industry category (low versus high profile).

**Figure 4.2:** Industry classification for the thesis



Legend: Telecom. Services = Telecommunication Services; Pharm, Biotech. & Life Sci. = Pharmaceutical, Biotechnology & Life Sciences; Tech. Hardware & Equipment = Technology Hardware & Equipment; Semi. & Semi. Equipment = Semiconductors & Semiconductor Equipment. Source: Adapted from ASX GICS Sectors <http://www.asx.com.au/products/indices/gics.htm>. The main analysis for this thesis divides the industry into two categories (low profile and high profile).

### **4.3.3 Phase I: Measurement of Independent Variable – Firm Size**

There are various measures of firm size. The most widely used measure is the book value of total assets (see for example Belkaoui and Karpik 1989; Bewley and Li 2000; Branco and Rodrigues 2008a, 2008b). Following prior research, the logarithmic transformation is taken to minimise the skewness on the regression iteration process (Hair et al. 2006). Formally, firm size (denoted as  $Size_{j,t}$ ) is defined as the logarithmic transformation of the book value of total assets of firm  $j$  at the end of the financial year  $t$ .

### **4.3.4 Phase I: Measurement of Independent Variable – Profitability**

A firm's financial performance can either be appraised by accounting-based or market-based measures. The merit of using a market-based measure, such as Tobin's Q is that it is less subject to bias by either managerial manipulation or past performance (McGuire et al. 1988). Nevertheless, market-based measures can be influenced by the perceptions of investors and speculation; thus ignoring many other stakeholders groups (McGuire et al. 1988). Consequently, for this thesis, an accounting-based measure, return on assets (ROA), is used to operationalise the level of firms' profitability. This is consistent with Belkaoui and Karpik (1989), Bewley and Li (2000), Brammer and Pavelin (2008), Gray et al. (2001) and Patten (1991). Formally, profitability (denoted as  $Profit_{j,t}$ ) is defined as the proportion of net profit to the book value of total assets of firm  $j$  at time  $t$ .

### **4.3.5 Phase I: Measurement of Control Variable – Leverage**

Aside from the dependent and independent variable, a control variable, leverage is included in the analysis. Past studies indicate more indebted firms may not have the ability, or resources, to provide additional disclosure beyond the minimum mandatory requirements (Cormier et al. 2009; Cormier and Magnan 2003). Therefore, highly leveraged firms are normally found to provide less voluntary disclosure (or nil voluntary disclosure) than the less leveraged counterpart. In this thesis, leverage is taken as a control variable and measured by taking the total debts

divided by the total assets (Leuz and Verrecchia 2000). Formally, leverage (denoted as  $Lev_{j,t}$ ) is defined as the proportion of total debts to the book value of total assets of firm  $j$  at time  $t$ .

Table 4.6 provides a summary of the variables and measures used in Phase I of this thesis.

**Table 4.6:** Summary of Phase I variables and proxy measures

Variable	Description
Dependent variable (two types of analyses; <i>presence</i> and <i>extent</i> )	
$CP\_Comm_{j,t}^{2Groups}$	The dichotomous scoring of firm $j$ at time $t$ where firm $j$ is scored zero [0] if it is a Non-CP Communicator (i.e., firm $j$ does not communicate any kind of corporate philanthropic information in either annual report or stand-alone sustainability report), otherwise firm $j$ is scored one [1] if it is a CP Communicator (i.e., firm $j$ communicates some kind of corporate philanthropic information in either the annual report and/or stand-alone sustainability report).
$CP\_Comm_{j,t}^{3Groups}$	The tripartite scoring of firm $j$ at time $t$ , where firm $j$ is scored zero [0] if it is an Opaque firm (i.e., firm $j$ does not communicate any kind of corporate philanthropy activities in either annual report or stand-alone sustainability report), one [1] if it is a Translucent firm (i.e., firm $j$ communicates its corporate philanthropic information either narrative only and/or supported with numeric disclosure), otherwise firm $j$ is scored two [2] if it is a Transparent firm (i.e., firm $j$ supplements its corporate philanthropic information (either narrative only and/or supported with numeric disclosure) with monetary amount of donation).
Independent variables	
$Ind_{j,t}$	Firm $j$ is scored zero [0] if operated in a low profile industry, otherwise one [1] if operated in a high profile industry.
$Size_{j,t}$	The logarithmic transformation of the book value of total assets of firm $j$ at the end of the financial year $t$ expressed in Australian dollars.
$Profit_{j,t}$	The proportion of net profit for the year to the book value of total assets of firm $j$ at time $t$ expressed as a percentage.
Control variable	
$Lev_{j,t}$	The proportion of total debts to the book value of total assets of firm $j$ at time $t$ expressed as a percentage.

#### 4.3.6 Statistical Methods for Phase I: CP Communication

Several different statistical techniques are employed to test the Phase I research proposition and hypotheses. This includes descriptive and inferential statistics. Descriptive statistics offer information on the basic features of the data including mean, median, standard deviation, and minimum and maximum values. The Pearson and Spearman product moment correlation coefficients are also computed to provide information on the association between variables. Furthermore, it can also be used to identify the existence of multicollinearity. As extensions to the immediate data analysis, inferential statistics include t-tests, Analysis of Variance (ANOVA), binary logistic regression<sup>24</sup>, and multinomial logistic regression analysis are also computed.

To initially test *H1* ( $Ind_{j,t}$ ), *H2* ( $Size_{j,t}$ ) and *H3* ( $Profit_{j,t}$ ), the following binary logistic regression model is used to estimate the *presence* of corporate philanthropy across the entire sample of Australian listed firms. The empirical model equation is as follows.

$$CP\_Comm_{j,t}^{2Groups} = \alpha_j + \beta_1 Ind_{j,t} + \beta_2 Size_{j,t} + \beta_3 Profit_{j,t} + \beta_4 Lev_{j,t} + \varepsilon_j$$

**Where:**

- $CP\_Comm_{j,t}^{2Groups}$  = The dichotomous scoring of firm *j* at time *t* where firm *j* is scored zero [0] if it is a Non-CP Communicator (i.e., firm *j* does not communicate any kind of corporate philanthropic information in either annual report or stand-alone sustainability report), otherwise firm *j* is scored one [1] if it is a CP Communicator (i.e., firm *j* communicates some kind of corporate philanthropic information in either the annual report and/or stand-alone sustainability report);
- $Ind_{j,t}$  = Firm *j* is scored zero [0] if operated in a low profile industry, otherwise one [1] if operated in a high profile industry;

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<sup>24</sup>Binary logistic regression is preferred in for analysing the relationship between the *presence* of corporate philanthropic information and firm-specific characteristics because it requires fewer assumptions than discriminant analysis. It requires neither normality nor homogeneity of variance-covariate assumptions (Kinnear and Gray 2009 p. 542). Further, it can handle any number of qualitative regressors. In addition, according to (Hair et al. 2006 p. 355), many researchers prefer logistic regression due to its similarity to multiple regression. For these reasons, binary logistic regression is used to examine the relationship between the *presence* of corporate philanthropic information and firm-specific characteristics. As for the analysis of the *extent* of corporate philanthropic information and firm-specific characteristics, multinomial logistic regression is employed (Norušis 2008).

$Size_{j,t}$	=	The logarithmic transformation of the book value of total assets of firm $j$ at the end of the financial year $t$ expressed in Australian dollars;
$Profit_{j,t}$	=	The proportion of net profit for the year to the book value of total assets of firm $j$ at time $t$ expressed as a percentage;
$Lev_{j,t}$	=	The proportion of total debts to the book value of total assets of firm $j$ at time $t$ expressed as a percentage;
$\beta$	=	the estimated coefficient for each item;
$\alpha_j$	=	the intercept; and
$\varepsilon_j$	=	the error terms.

By grouping all corporate philanthropy presence into a communication category, the binary logistic regression ignores potentially important information concerning the relative value of CP Communication.

To facilitate the comparison across the three types of CP Communication, where the *extent* of CP Communication is examined, multinomial logistic regression model is used. It enables analysis of a categorical dependent variable with more than two possible values (Kwak and Clayton-Matthews 2002; Norušis 2008). The empirical model equation is as follows:

$$CP\_Comm_{j,t}^{3Groups} = \alpha_j + \beta_1 Ind_{j,t} + \beta_2 Size_{j,t} + \beta_3 Profit_{j,t} + \beta_4 Lev_{j,t} + \varepsilon_j$$

**Where:**

$CP\_Comm_{j,t}^{3Groups}$	=	The tripartite scoring of firm $j$ at time $t$ , where firm $j$ is scored zero [0] if it is an Opaque firm (i.e., firm $j$ does not communicate any kind of corporate philanthropy activities in either annual report or stand-alone sustainability report), one [1] if it is a Translucent firm (i.e., firm $j$ communicates its corporate philanthropic information either narrative only and/or supported with numeric disclosure), otherwise firm $j$ is scored two [2] if it is a Transparent firm (i.e., firm $j$ supplements its corporate philanthropic information (either narrative only and/or supported with numeric disclosure) with monetary amount of donation);
$Ind_{j,t}$	=	The industry classification of firm $j$ where firm $j$ is scored zero [0] if operated in a low profile industry or one [1] if operated in a high profile industry;
$Size_{j,t}$	=	The logarithmic transformation of the book value of total assets of firm $j$ at the end of the financial year $t$ expressed in Australian dollars;
$Profit_{j,t}$	=	The proportion of net profit for the year to the book value of total assets of firm $j$ at time $t$ expressed as a percentage;
$Lev_{j,t}$	=	The proportion of total debts to the book value of total assets of firm $j$ at time $t$ expressed as a percentage;
$\beta$	=	the estimated coefficient for each item;

$\alpha_j$  = the intercept; and  
 $\varepsilon_j$  = the error terms.

As Section 4.3 describes the research methods employed for the Phase I analysis (CP Communication), the following section elaborates on the research methods for Phase II (CP Involvement) analysis.

#### **4.4 Phase II Research Methods: CP Involvement**

This section first describes the definition and measurement of the dependent variable (i.e., CP Involvement). How the independent and control variables used in the analysis of CP Involvement are operationalised is then explained. Subsequently, the statistical methods for CP Involvement are elaborated.

##### **4.4.1 Phase II: Measurement of Dependent Variable – CP Involvement**

Corporate philanthropy refers to the voluntary giving of money or other resources, including ‘in-kind’ support (contributions of equipment, supplies or other property) or employee voluntarism, by companies for community purposes. Various operational definition of corporate philanthropy has been advanced in prior studies (see Table 4.7). Most only examine the cash component of corporate philanthropy (see for example Atkinson and Galaskiewicz 1988; Sánchez 2000; Seifert et al. 2004). This thesis adopts the definition offered by Madden et al. (2006 p. 49) where corporate philanthropy is defined as “the voluntary business giving of money, time or in-kind goods, without any direct commercial benefit, to one or more organisations whose core purpose is to benefit the community’s welfare”. This definition is preferred because it conceptualises corporate philanthropy from a broader perspective to include monetary and non-monetary items, as opposed to a narrow view that only considers cash donations. The details of items that are included for the purpose of calculating the amount of CP Involvement are presented in Table 3.4.

Unlike Britain, there is no legal requirement for Australian listed firms to disclose information on corporate philanthropy activities. As such, the monetary amounts (or broader-only overview text) of corporate philanthropy disclosures of firms analysed are hand-collected from annual reports, and stand-alone sustainability reports. Accordingly, corporate philanthropy is operationalised as the self-reported community contributions made by firms, either in cash or non-cash. For the purpose of this thesis, CP Involvement (denoted as  $CP\_Inv_{j,t}$ ) is defined as the aggregate of charitable contributions as reported by firm  $j$  in the key reports at time  $t$ . It includes Monetary (Cash) and various other Non-Monetary (Non-Cash) giving.

CP Involvement for the year 2008 is selected as the key examination period because it represents the most current data available at the commencement of the thesis. Since the figure is in dollar terms, it is treated as a continuous variable for measurement and statistical purposes (Cooper and Schindler 2008).

**Table 4.7:** Operational definitions of corporate philanthropy and the data source

Study	Operational definition of corporate philanthropy	Data source
Johnson (1966)	The dollar value of donations deducted in corporate income tax returns, as reported to the Internal Revenue Service.	<ul style="list-style-type: none"> <li>• Internal Revenue Service, <i>Source Book of Statistics on Income, Corporation Income Tax Returns</i>.</li> <li>• 1936-1961.</li> <li>• U.S.</li> </ul>
Atkinson and Galaskiewicz (1988)	Corporate philanthropy is the annual total tax-deductible cash contributions for the year 1979 – 1981 inclusive (gathered from on-site interview).	<ul style="list-style-type: none"> <li>• Case study.</li> <li>• 1979-1981.</li> <li>• U.S.</li> </ul>
Wang and Coffey (1992)	The percentage of pre-tax earnings given to charities.	<ul style="list-style-type: none"> <li>• Fortune 500 firms.</li> <li>• 1984.</li> <li>• U.S.</li> </ul>
Boatsman and Gupta (1996)	The amount of corporate donation as appears in the Directory of Corporate Philanthropy.	<ul style="list-style-type: none"> <li>• Public Management Institute's (PMI) <i>Corporate 500: The Directory of Corporate Philanthropy</i> – the directory includes reports on the 500 corporations that are 'most active' in philanthropy.</li> <li>• 1984-1988.</li> <li>• U.S.</li> </ul>
Coffey and Wang (1998)	The amount of charitable contributions as appears in the report compiled by the Council of Economic Priorities (CEP). It was calculated as a percentage of pre-tax earnings.	<ul style="list-style-type: none"> <li>• Fortune 500 firms.</li> <li>• U.S.</li> </ul>
Buchholtz et al. (1999)	Managers' estimation of the approximate dollar value of in-cash contributions and in-kind contributions for the past year.	<ul style="list-style-type: none"> <li>• Mid-sized public firms.</li> <li>• Survey.</li> </ul>
Sánchez (2000)	The amount of cash donation reported by the firm.	<ul style="list-style-type: none"> <li>• Interview.</li> <li>• El Salvador.</li> </ul>
Williams and Barret (2000); Williams (2003)	Cash gifts and gifts in-kind (if appropriate) were added and divided by the firm's revenue during the period.	<ul style="list-style-type: none"> <li>• <i>Corporate 500 Directory of Corporate Philanthropy</i> and the <i>National Directory of Corporate Giving</i>.</li> <li>• 1991-1994.</li> <li>• U.S.</li> </ul>
Campbell et al. (2002)	The level of charitable donations as gathered from the <i>DataStream</i> .	<ul style="list-style-type: none"> <li>• <i>DataStream</i> using FTSE Allshare index.</li> <li>• 1985-2000.</li> <li>• U.K.</li> </ul>
Werbel and Carter (2002)	Corporate philanthropic giving through a foundation.	<ul style="list-style-type: none"> <li>• The annual <i>Corporate Foundation Profile</i> (this profile lists all corporate foundations with assets greater than \$2 millions or foundations that gave more than \$2 millions in a reporting year).</li> <li>• 1992.</li> <li>• U.S.</li> </ul>
Saiia et al. (2003)	This study measures the strategic philanthropy where it uses Strategic Philanthropy Index. This index measures the level of strategic philanthropy reported by the giving manager.	<ul style="list-style-type: none"> <li>• <i>Taft Corporate Giving Directory</i>. This directory comprises of firms that do business in the United States and have an established giving programme of at least five [5] years, with annual giving totalling at least USD200,000 in each of those years.</li> </ul>

Seifert et al. (2003)	Cash donations only i.e., the cash a firm contributes directly to charities and/or to its corporate sponsored charitable foundation.	<ul style="list-style-type: none"> <li>• The Foundation Centre in Washington, DC. U.S. and <i>Taft Corporate Giving Directory</i>.</li> <li>• U.S.</li> </ul>
Brammer and Millington (2003a)	Community involvement as published in <i>The Directory of Social Change - Guide to U.K. Company Giving</i> .	<ul style="list-style-type: none"> <li>• Members of the <i>PerCent Club</i> (It is a confederation of approximately 300 large U.K. businesses that 'are committed to making an investment in the communities in which they operate'. Members are required to make a minimum contribution of 0.5 percent of pre-tax profits to community investment).</li> <li>• U.K.</li> </ul>
Seifert et al. (2004)	The sum of a firm's cash giving either directly to charities or to its charitable foundation(s). Exclude any non-monetary donations.	<ul style="list-style-type: none"> <li>• <i>Taft Corporate Giving Directory</i>.</li> <li>• 1997 or 1998.</li> <li>• U.S.</li> </ul>
Brammer and Millington (2005a)	Philanthropy expenditure is defined as the level of firm philanthropic giving as published in the directors' report.	<ul style="list-style-type: none"> <li>• <i>DataStream</i>. The 1985 U.K. Companies Act obliges firms to disclose donations to charities of over 200 pounds (£) in the directors' report.</li> <li>• U.K.</li> </ul>
Brammer and Millington (2005b)	The level of charitable donations made by firm normalised by firm size as measured by the level of total sales.	<ul style="list-style-type: none"> <li>• Annual reports.</li> <li>• 1999.</li> <li>• U.K.</li> </ul>
Meijer et al. (2006)	The amount of monetary donations and in-kind donations. In-kind donations refer to the total estimated money spent on corporate sponsorship.	<ul style="list-style-type: none"> <li>• Survey.</li> <li>• 1995-2003.</li> <li>• Netherlands.</li> </ul>
Choi and Wang (2007)	The gifts given by corporations to social and charitable causes.	<ul style="list-style-type: none"> <li>• Conceptual paper.</li> </ul>
Chen et al. (2008)	Cash giving (including direct giving and donations to corporate sponsored foundations) and in-kind (where applicable).	<ul style="list-style-type: none"> <li>• <i>Corporate Giving Directory</i>, the <i>Directory of Corporate and Foundation Givers</i>, and tax returns of private foundations (990-PF).</li> <li>• 1998-2000.</li> <li>• U.S.</li> </ul>
Guthrie et al. (2008)	Only analyse corporate giving to local schools. This includes cash gift, award or grant, and in-kind donation.	<ul style="list-style-type: none"> <li>• Survey.</li> <li>• 2002.</li> <li>• <i>Metropolitan Statistical Areas (MSA)</i> of the United States.</li> </ul>
Muller and Whiteman (2009)	The amount of self-reported corporate philanthropic donation to disaster response by the firm.	<ul style="list-style-type: none"> <li>• Fortune Global 500 based in North America, Europe and Asia.</li> <li>• Firm self-reporting such as corporate websites, press releases and search queries via <i>Lexis Nexis</i>.</li> </ul>
This thesis (2010)	The aggregate of charitable contributions as reported by firms in their key reports. It includes Monetary (Cash) and various other Non-Monetary (Non-Cash) giving.	<ul style="list-style-type: none"> <li>• Annual reports and stand-alone sustainability reports.</li> <li>• 2008.</li> <li>• Australia.</li> </ul>

Legend: Table 4.5 depicts the various operational definitions of corporate philanthropy that have been utilised in prior studies together with the data source. USD = U.S. dollars.

Sources: Atkinson and Galaskiewicz (1988), Boatsman and Gupta (1996), Brammer and Millington (2003a), Brammer and Millington (2005a), Brammer and Millington (2005b), Buchholtz et al. (1999), Campbell et al. (2002), Chen et al. (2008), Choi and Wang (2007), Coffey and Wang (1998), Guthrie et al. (2008), Johnson (1966), Meijer et al. (2006), Muller and Whiteman (2009), Saiia et al. (2003), Sánchez (2000), Seifert et al. (2003), Seifert et al. (2004), Wang and Coffey (1992), Werbel and Carter (2002), Williams (2003), Williams and Barret (2000).

#### 4.4.2 Phase II: Measurement of Independent Variable – Lagged Free Cash Flow

As explained in sub-Section 3.5.1, this thesis uses free cash flow as the measure of organisational slack resources. The definition offered by Lehn and Poulsen (1989) and Lang et al. (1991) is employed in this thesis to calculate free cash flow since it has been widely used in the literature. Free cash flow is defined by Lehn and Poulsen (1989) and Lang et al. (1991) as the operating income before depreciation minus taxes, interest expenses, preferred dividends and ordinary dividends. Mathematically, it can be represented as:

$$FCF_{j,t} = Inc_{j,t} - Tax_{j,t} - Int_{j,t} - Prf\_Div_{j,t} - Ord\_Div_{j,t}$$

**Where:**

$FCF_{j,t}$	=	Free cash flow for firm $j$ at time $t$ ;
$Inc_{j,t}$	=	The operating income before depreciation for firm $j$ at time $t$ ;
$Tax_{j,t}$	=	The total amount of taxes for firm $j$ at time $t$ ;
$Int_{j,t}$	=	The interest expenses on both, short-term debt and long-term debt for firm $j$ at time $t$ ;
$Prf\_Div_{j,t}$	=	The total amount of dividend for preference shares for firm $j$ at time $t$ ; and
$Ord\_Div_{j,t}$	=	The total amount of dividend for ordinary shares for firm $j$ at time $t$ .

In this thesis, it is posited that managers may need some time to decide on the free cash flow that is available for discretionary purposes. Therefore, lagged free cash flow is examined in this thesis. Since this thesis uses lagged free cash flow, 2007 financial period data is used to calculate the lagged free cash flow<sup>25</sup>. Formally, lagged free cash flow (denoted as  $FCF_{j,t-1}$ ) for firm  $j$  at time  $t-1$  is defined as the aforementioned formula of Lehn and Poulsen (1989) and Lang et al. (1991).

#### 4.4.3 Phase II: Measurement of Independent Variable – Corporate Governance

Corporate governance describes the systems by which an organisation is directed and controlled (Turnbull 1997). The board of directors plays a pivotal role in the governance system of an organisation (Lefort and Urzúa 2008). This is because the

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<sup>25</sup>Free cash flow can assume positive or negative values. A positive free cash flow reflects the available amount of money in excess of what is necessary to maintain the basic production function of the firm at the current level (Subramanyam and Wild 2009) while a negative free cash flow indicates that the firm has insufficient cash to maintain its basic production function.

board is accountable to shareholders with regard to the economic performance and ethical conduct of the business.

ASX listed companies are required to comply, or justify, instances of non-compliance with the *Principles of Good Corporate Governance and Best Practice Recommendations* (ASX Corporate Governance Council, issued March 2003, revised August 2007). These principles of best practices provide an authoritative and objective source for the selection of corporate governance attributes to measure the potential effectiveness of a board. For the purpose of this thesis, a composite proxy measure of corporate governance based on the ASX (2007) guidelines is created to capture the strength of the firm's corporate governance structure. The final measure is based on an index of twenty five [25] equally weighted corporate governance items, as tabulated in Table 4.8. The 2008 annual report of each sample firm is analysed to determine the presence of each corporate governance item shown in Table 4.8. For each of the twenty five [25] item, if a corporate governance attribute is present a score of one [1] is given; otherwise a score of zero [0] is assigned.

**Table 4.8:** Corporate governance attributes

CG item	ASX rec.	Explanation	Decision criteria
<b>Principle 1: Lay solid foundation for management and oversight</b>			
1.	1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	If there is any establishment and communication of the function, a score of 1 is given; 0 otherwise.
2.	1.2	Companies should disclose the process for evaluating the performance of senior executives.	If the company discloses such process, a score of 1 is given; 0 otherwise.
<b>Principle 2: Structure of the board to add value</b>			
3.	2.1	A majority of the board should be independent directors.	If the proportion of independent directors on the board is greater than 50 percent, a score of 1 is given; 0 otherwise.
4.	2.2	The chair should be an independent director.	If the chair is an independent director, a score of 1 is given; 0 otherwise.
5.	2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	If the role of the chairperson and the chief executive officer is exercised by different individuals, a score of 1 is given; 0 otherwise.
6.	2.4	The board should establish a nomination committee.	If the board establishes a nomination committee, a score of 1 is given; 0 otherwise.
7.	2.5	Companies should disclose the process for evaluating the performance of the board, its committees, and individual directors.	If the company discloses the process for evaluation the performance of the board, its committees, and individual directors, a score of 1 is given; 0 otherwise.
<b>Principle 3: Promote ethical and responsible decision-making</b>			
8.	3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to the practices necessary to maintain confidence in the company's integrity.	If the company establishes a code of conduct and discloses the code or a summary of the code as to the practices necessary to maintain confidence in the company's integrity, a score of 1 is given; 0 otherwise.
9.	3.1 (box 1)	Companies should establish a code of conduct that gives a clear commitment by the board and senior executives.	If the company establishes an explicit code of conduct that gives a clear commitment by the board and senior executives, and discloses it, a score of 1 is given; 0 otherwise.
10.	3.1 (box 2)	The code of conduct should detail the company's responsibilities to shareholders and the financial community generally.	If the code of conduct details the company's responsibilities to shareholders and the financial community generally, and the company discloses such details, a score of 1 is given; 0 otherwise.
11.	3.1 (box 3)	The code of conduct should specify the company's responsibilities to shareholders, employees, customers, suppliers, creditors, consumers and the broader community.	If the code of conduct specifies the company's responsibilities to shareholders, employees, customers, suppliers, creditors, consumers and the broader community, and this information is being communicated, a score of 1 is given; 0 otherwise.
12.	3.1 (box 4)	The code of conduct should describe the company's approach to the community.	If the code of conduct which describes the approach to the community exist and it is being communicated, a score of 1 is given; 0 otherwise.
13.	3.2	Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.	If the company establishes a policy concerning trading in company securities by directors, senior executives and employees, and discloses the policy or a summary of that policy, a score of 1 is given; 0 otherwise.

Principle 4: Safeguard integrity in financial reporting			
14.	4.1	The board should establish an audit committee.	If the board establishes an audit committee, a score of 1 is given; 0 otherwise.
15.	4.2	The audit committee should be structured so that it consists only of non-executive directors.	If all of the audit committee members are non-executive directors, a score of 1 is given; 0 otherwise.
16.	4.2	The audit committee should be structured so that is chaired by a person who is not chair of the board.	If the chair of audit committee is different from the board chair, a score of 1 is given; 0 otherwise.
17.	4.2	The audit committee should be structured so that is chaired by an independent chair.	If the audit committee's chair is independent, a score of 1 is given; 0 otherwise.
18.	4.2	The audit committee should be structured so that it has at least three members.	If the audit committee has at least three members, a score of 1 is given; 0 otherwise.
19.	4.3	The audit committee should have a formal charter.	If the audit committee has a formal charter, a score of 1 is given; 0 otherwise.
Principle 5: Make timely and balanced disclosure			
20.	5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirement and disclose those policies or a summary of those policies.	If the company establishes written policies designed to ensure compliance with ASX Listing Rule disclosure requirement and discloses those policies or a summary of those policies, a score of 1 is given; 0 otherwise.
Principle 6: Respect the rights of shareholders			
21.	6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	If the company designs a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and discloses the policy or a summary of that policy, a score of 1 is given; 0 otherwise.
Principle 7: Recognise and manage risk			
22.	7.1	Companies should establish policies for the oversight and management of material business risk.	If the company establishes policies for the oversight and management of material business risk and discloses such policies, a score of 1 is given; 0 otherwise.
23.	7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) or the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	If the board discloses that it has received assurance from the chief executive officer (or equivalent) or the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks, a score of 1 is given; 0 otherwise.
Principle 8: Remunerate fairly and responsibly			
24.	8.1	The board should establish a remuneration committee.	If the board establishes a remuneration committee and discloses it, a score of 1 is given; 0 otherwise.
25.	8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	If the company clearly distinguishes the structure of non-executive directors' remuneration from that of executive directors and senior executives and discloses it, a score of 1 is given; 0 otherwise.

Legend: CG item = Corporate Governance item; ASX rec. = ASX recommendation.

Source: Adapted from ASX Corporate Governance Council (2007).

After scoring a firm, all items are added to give a total that can range from zero [0] to twenty five [25]. The total corporate governance score (denoted as  $CGS_{j,t}$ ) is measured as a percentage and treated as a continuous variable. Mathematically, it is presented as:

$$CGS_{j,t} = \frac{\text{Sum of items for CG1- CG25}}{\text{Total number of CG items (25)}} \times 100$$

**Where:**

- $CGS_{j,t}$  = Corporate governance score for firm  $j$  at time  $t$ .  
 CG = Corporate governance item as defined in Table 4.8.

#### 4.4.4 Phase II: Measurement of Independent Variable – Ownership Structure

Ownership structure refers to the composition of the shareholders of a firm. In this thesis, ownership structure is measured by its concentration. This is defined as the percentage of ordinary shares held by the largest shareholders. For this thesis, the largest shareholders are confined to the top twenty [20] shareholders of each firm. Thus, ownership structure (denoted as  $OS_{j,t}$ ) is measured as the percentage of top twenty [20] shareholders at the end of the financial year (Brailsford et al. 2002; Taylor et al. 2008). It is calculated as follows:

$$OS_{j,t} = \frac{\text{Number of shares owned by top twenty ordinary shareholders}}{\text{Total number of ordinary shares issued}} \times 100$$

Where  $OS_{j,t}$  = the proportion of top twenty [20] shares for firm  $j$  at the financial year end of period  $t$ .

#### 4.4.5 Phase II: Measurement of Control Variables – Firm Size and Industry

Consistent with prior studies, this thesis includes firm size (denoted as  $Size_{j,t}$ ) and industry classification ( $Ind_{j,t}$ ) as control variables. Being the most common proxy, the book value of total assets is utilised in this thesis as a measure of firm size (see for example, Belkaoui and Karpik 1989; Bewley and Li 2000; Branco and Rodrigues 2008a, 2008b). It is represented by the logarithmic transformation of total assets to

minimise the skewness on the regression iteration process (Hair et al. 2006). It is treated as a continuous variable for statistical analysis.

As for industry, it is categorised into two major classifications as per the analysis in Phase I: low profile and high profile (see Figure 4.9). It is treated as a categorical variable in the statistical analysis. Table 4.9 provides a summary of the variables and measures used in Phase II of this thesis.

**Table 4.9:** Summary of Phase II variables and proxy measures

<b>Variable</b>	<b>Description</b>
Dependent variable	
$CP\_Inv_{j,t}$	The aggregate of charitable contributions as reported by firm $j$ in the key reports for time $t$ . It includes Cash and various other Non-Cash giving.
Independent variables	
$FCF_{j,t-1}$	The free cash flow for firm $j$ at time $t-1$ as defined by Lehn and Poulsen (1989) and Lang et al. (1991).
$CGS_{j,t}$	The total corporate governance score for firm $j$ at time $t$ based on the total sum of scores awarded per item of the twenty five [25] point, expressed as a percentage of the total possible score.
$OS_{j,t}$	The proportion of top twenty [20] shares for firm $j$ at the financial year end of period $t$ .
Control variables	
$Size_{j,t}$	The logarithmic transformation of the book value of total assets of firm $j$ at the end of the financial year $t$ expressed in Australian dollars.
$Ind_{j,t}$	Firm $j$ is scored zero [0] if operated in a low profile industry, otherwise one [1] if operated in a high profile industry.

#### 4.4.6 Statistical Methods for Phase II: CP Involvement

Two major types of analysis are undertaken to examine and test the Phase II data: namely descriptive statistics and inferential statistics. The former refers to the basic description of the sample. The latter technique, meanwhile, examines the relationship among all the variables used in this thesis by employing more comprehensive statistical procedures including t-tests, ANOVA (including post-hoc Tukey), correlation and regression analysis. For the descriptive statistics the frequency, mean, median, maximum, minimum and standard deviation are computed. To test the hypotheses, multiple regression is employed. The basic regression model is defined as:

$$CP\_Inv_{j,t} = \alpha_j + \beta_1 FCF_{j,t-1} + \beta_2 CGS_{j,t} + \beta_3 OS_{j,t} + \beta_4 Size_{j,t} + \beta_5 Ind_{j,t} + \varepsilon_j$$

**Where:**

- $CP\_Inv_{j,t}$  = The aggregate of charitable contributions as reported by firm  $j$  in the key reports for time  $t$ . It includes Cash and various other Non-Cash giving;
- $FCF_{j,t-1}$  = The free cash flow for firm  $j$  at time  $t-1$  as defined by Lehn and Poulsen (1989) and Lang et al. (1991);
- $CGS_{j,t}$  = The total corporate governance score for firm  $j$  at time  $t$  based on the total sum of scores awarded per item of the twenty five [25] point, expressed as a percentage of the total possible score (maximum of 100%);
- $OS_{j,t}$  = The proportion of top twenty [20] shares for firm  $j$  at the financial year end of period  $t$  (maximum of 100%);
- $Size_{j,t}$  = The logarithmic transformation of the book value of total assets of firm  $j$  at the end of the financial year  $t$  expressed in Australian dollars;
- $Ind_{j,t}$  = Firm  $j$  is scored zero [0] if operated in a low profile industry, otherwise one [1] if operated in a high profile industry;
- $\beta$  = the estimated coefficient for each item;
- $\alpha_j$  = the intercept; and
- $\varepsilon_j$  = the error terms.

#### 4.4.7 Phase II: Sensitivity Analysis

In this thesis, a number of sensitivity analyses are also undertaken to ascertain the robustness of the findings, and to ensure that the inferences drawn from the analysis, are not driven by one particular measure. It is also used to explain how the results may have been affected by different measures, and to narrow the degree of uncertainty of the results (Saltelli et al. 2004).

#### 4.4.7.1 Lagged Free Cash Flow

An alternative measure of free cash flow as defined by Subramanyam and Wild (2009) is used in the sensitivity analysis. This alternative measure is calculated as:

$$FCF\_SW_{j,t} = NCE_{j,t} - Prf\_Div_{j,t} - Ord\_Div_{j,t}$$

**Where:**

$FCF\_SW_j$	=	The free cash flow as defined by Subramanyam and Wild (2009) for firm $j$ at time $t$ ;
$NCE_j$	=	The net capital expenditures required to maintain production capacity for firm $j$ at time $t$ ;
$Prf\_Div_j$	=	The total amount of dividend for preference shares for firm $j$ at time $t$ ;
$Ord\_Div_j$	=	The total amount of dividend for ordinary shares for firm $j$ at time $t$ .

Since this thesis uses lagged free cash flow, 2007 financial period data is again used to calculate the lagged free cash flow. Thus, the lagged free cash flow is denoted as  $FCF\_SW_{j,t-1}$  that represents the free cash flow for firm  $j$  as defined by Subramanyam and Wild (2009) at time  $t-1$ .

#### 4.4.7.2 Ownership Structure

For the purpose of sensitivity analysis, alternative measures of ownership structure are computed. In addition to the concentration of top twenty shareholdings, the concentration of the top one (Top 1), top five (Top 5) and top ten (Top 10) shareholdings are also computed. The percentage of shares held by the directors, and the percentage of shares held by institutional investors, are also computed to identify if this results in any significant differences in terms of the ownership structure measurement. Director ownership and institutional ownership are computed as follows:

a. Director ownership

It is measured as the percentage of ordinary shares held by the directors. It is calculated as:

$$OS\_do_{j,t} = \frac{\text{Number of ordinary shares owned by the directors}}{\text{Total number of ordinary shares issued}} \times 100$$

Where  $OS_{doj,t}$  = the proportion of ordinary shares owned by directors for firm  $j$  at time  $t$ .

b. Institutional ownership

This represents the percentage of a firm's shares owned by institutions. It is calculated as:

$$OS_{ioj,t} = \frac{\text{Number of ordinary shares owned by institutions}}{\text{Total number of ordinary shares issued}} \times 100$$

Where  $OS_{ioj,t}$  = the proportion of ordinary shares owned by institutional shareholders for firm  $j$  at time  $t$ .

#### 4.5 Firm Selection and Data Source

To provide a comprehensive investigation on the corporate philanthropy reporting practice, the entire population of Australian firms listed on the Australian Stock Exchange (ASX) as at 2008 is analysed.

Initially, *Aspect Huntley FinAnalysis* is used to identify the total number of listed firms on the ASX during 2008 which represents the year with the most current available data at the commencement of the study. There are altogether 2,055 listed firms obtained from *Aspect Huntley FinAnalysis* database from 1 January 2008 to 31 December 2008 (firms that are delisted during 2008 are already excluded from the list). 161 firms are firms that are listed on the New Zealand Stock Exchange, thus, excluded. This exclusion gives a total of 1,894 firms listed on the ASX from 1 January 2008 to 31 December 2008. *Aspect Huntley DatAnalysis* is then used to identify firms that meet the criteria for this thesis. Specifically, initial public offering firms (IPOs) ( $n = 258$ ) are excluded to mitigate potential confounding effects on variables included in this thesis. For instance, empirical evidence of Clarkson et al. (1992) indicates the market responds positively to earnings forecast. They (Clarkson et al. 1992) posit that firms going public may manage the reported earnings in the hope of increasing the share prices. Also, the firms first listing during 2008 ( $n = 62$ )

are removed due to the less than 12-month period of financial information. The final sample of Australian listed firms from which data is used is 1,574. *Connect 4* database is then used to download annual reports for the 1,574 firms. Annual reports from 26 firms are found to be unavailable. These firms are excluded from the sample. The available Australian listed firm population for this thesis consists of 1,548 firms. Table 4.10 summarises the construction of the final usable sample employed in Phase I and II.

**Table 4.10:** Data collection process

	Number of firms
Total number of firms that are listed from 1 Jan 2008 to 31 Dec 2008 obtained from <i>Aspect Huntley FinAnalysis</i>	2,055
Less: Firms that are listed on the New Zealand Stock Exchange*	161
Total firms listed on the ASX from 1 Jan 2008 to 31 Dec 2008	1,894
Less: Firms that are listed during 2007 / IPOs	258
Less: Firms that are listed during 2008	62
The total population that meet this thesis criteria	<b>1,574</b>
Less: Firms where the annual reports are not available	26
<b>Total firms that are examined for this thesis to identify the incidence of CP Communication (Phase I)</b>	<b>1,548</b>
Less: Firms that do not disclose any information on corporate philanthropy - neither in annual reports nor in stand-alone sustainability reports	1,287
<b>Total firms that disclose some kind of CP Involvement (Phase II)</b>	<b>261</b>
* <i>Aspect Huntley FinAnalysis</i> provides information for all listed firms on the Australian Stock Exchange and New Zealand Stock Exchange. As such, firms that are solely listed on the New Zealand Stock Exchange are removed from the list.	

This thesis is unique because it not only examines corporate giving information in the annual reports, in addition, discrete corporate sustainability reports are also being used to provide a more comprehensive investigation on the CP Communication practices. Traditionally, annual reports are used as the primary avenue to disseminate information to various stakeholders (Guthrie and Parker 1989; Roberts 1992; Wiseman 1982). Nevertheless, over the past decade, the stand-alone sustainability report has become a vital extension to the annual report. Thus, relying solely on annual reports may provide limited insights into the corporate philanthropy practices and may not provide a comprehensive view of the firm's extended performance

(Guthrie and Farneti 2008). *Orbis* database is used to obtain stand-alone sustainability reports. *Orbis* is a global database with information on over 60 million companies<sup>26</sup>. As retrieved on 10 October 2009, there were only twelve [12] stand-alone sustainability reports available from *Orbis* database for firms listed on the Australian Stock Exchange for the financial year end 2008. Thus, each firm's website is additionally examined to assess the stand-alone sustainability report. This additional search procedure unearthed a further thirty three [33] such documents, giving a total of forty five [45] stand-alone sustainability reports altogether.

Overall, Phase I involves the analysis of 1,548 annual reports and forty five [45] stand-alone sustainability reports to identify the incidence of corporate philanthropic communication. Meanwhile, Phase II solely examines firms that disclose some kind of corporate philanthropic information (n = 261) in the annual reports or stand-alone sustainability report, or both.

#### **4.6 Summary**

The current chapter explains the definition and measurement of the variables (dependent, independent, and control variables) used in the thesis. It also describes the data collection process and specifies the data analysis where descriptive and statistical testing is presented. Prior to that, this chapter elaborates on the research direction and justification of the philosophical stance to provide a better understanding of the research approach and process. A positivistic paradigm is adopted for this thesis because of this paradigm's ability to explain the real world phenomena relating to corporate philanthropy.

This thesis provides a comprehensive view of corporate philanthropy where it examines almost the entire available population that meet the thesis criteria (i.e.,  $1,548/1,574 \times 100 = 98.35$  percent of the population of this thesis) to identify the

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<sup>26</sup><http://www.bvdinfo.com/Products/Company-Information/International/ORBIS.aspx> access on 10 October 2009. *Orbis* is a unique database because it provides information on public as well as private firms. Further, it not only provides access to annual reports, it also allows access to stand-alone sustainability reports (if any), of which, most financial databases do not give access to.

corporate philanthropic donations, instead of samples. The corporate philanthropy reported is classified into 15 category types. The overarching reporting of CP Communication is analysed in Phase I. In Phase II, those firms that communicate the monetary amount of donation are further analysed to determine the factors that contribute to CP Involvement. Consistent with many prior studies, control variables are included in the regression analysis.

Descriptive statistics are conducted to better understand the data set. In addition, t-tests, ANOVA, Post Hoc Tukey, correlations, logistic regression, multinomial regression and OLS multiple regression analysis are utilised as the main statistical methods to test the hypotheses. Chapter 5 presents the descriptive analysis and the multivariate statistical results for Phase I while Phase II results are provided in Chapter 6.

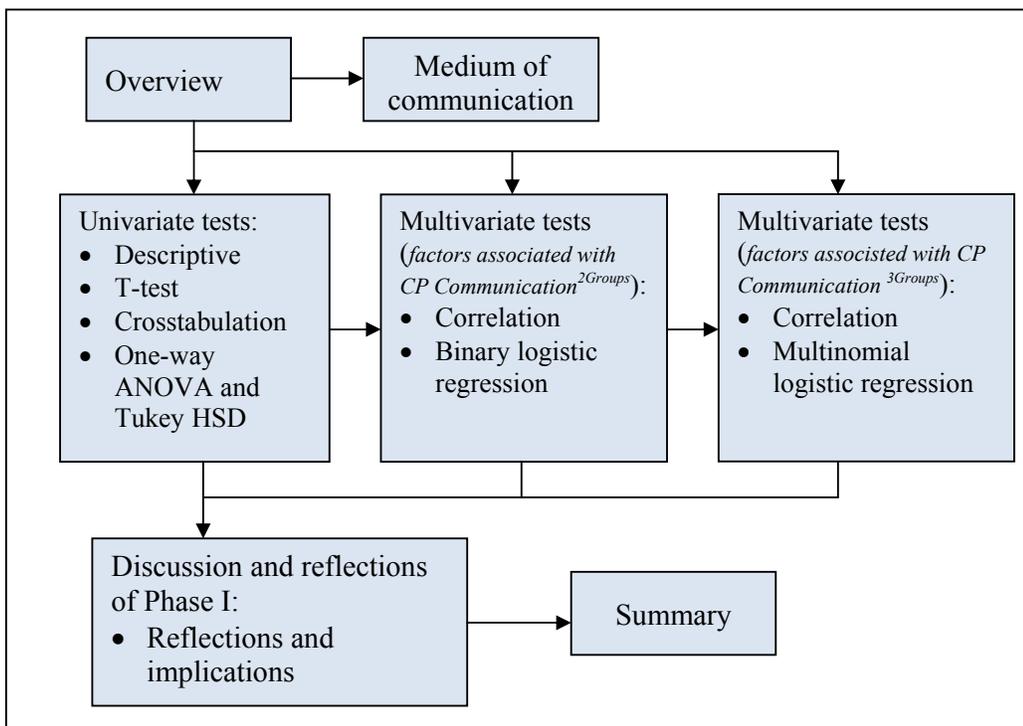
## Chapter 5. Research Findings: Phase I – Corporate Philanthropic Communication

### 5.1 Overview

The previous chapter elaborates on the research methodology and methods underpinning this thesis with the definition and measurement of variables used in Phase I and II explained. Statistical techniques used to test the hypotheses are also defined with explanation on the data collection process outlined.

This chapter reports on the empirical results of Phase I. Prior to examining CP Communication, this chapter describes the medium used to disseminate such information to better understand the reporting practices of corporate philanthropy. After that, univariate results are highlighted followed by the multivariate statistical analysis. This chapter then goes into the important discussions and reflections of Phase I research findings. Figure 5.1 illustrates the outline of Chapter 5.

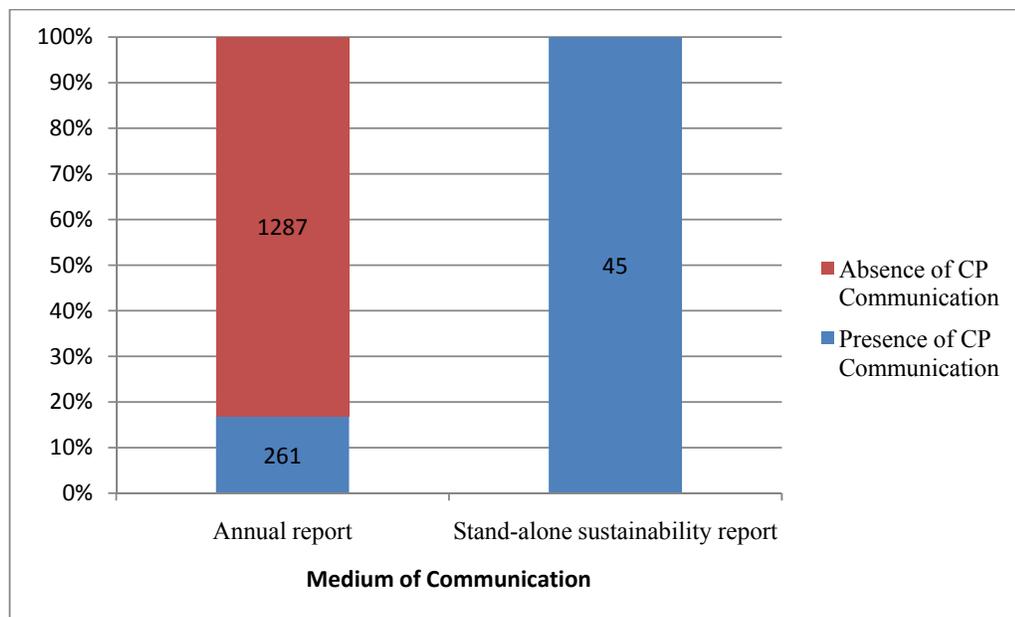
**Figure 5.1:** Outline of Chapter 5



## 5.2 Overview of CP Communication

This section provides an overview of Phase I analyses. Phase I in-depth analyses are presented in Section 5.3 until Section 5.5. Prior to examining the communication of corporate philanthropy in great detail, it is worthwhile to observe the medium used to communicate such information. This assists to generate more insight into the disclosure practices of corporate philanthropy of Australian listed firms.

**Figure 5.2:** Medium of CP Communication



Legend: n = 1,548 firms. Figure 5.2 displays bar charts indicating the number of firms that communicate corporate philanthropic information in the key reports.

As can be seen from Figure 5.2, annual reports and stand-alone sustainability reports are used to communicate corporate philanthropic information. Out of the annual reports of the 1,548 firms studied, 261 firms (16.86 percent) use this medium as a platform to convey on corporate philanthropic information (refer to Table 4.10). A thorough check on the 1,548 sample firms found only 45 firms (2.91 percent) that had stand-alone sustainability reports<sup>27</sup>. All 45 firms (100.00 percent) producing

<sup>27</sup>Searching for the stand-alone sustainability report is done by assessing the *Orbis* database [a global database with information on over 60 million companies (<http://www.bvdinfo.com/Products/Company-Information/International/ORBIS.aspx> access on 10 October 2009). As retrieved on 10 October 2009, there were 12 stand-alone sustainability reports with

stand-alone sustainability reports communicated corporate philanthropic activities in their document. Even though all firms producing stand-alone sustainability reports communicate corporate philanthropic information in these reports, comparatively, the proportion of firms that provide stand-alone sustainability report is still very low ( $45/1,548 = 2.91$  percent). An increase in use of stand-alone sustainability reports in the future may increase corporate philanthropy data dissemination.

A study by Frost et al. (2005) that examines differences in the level of coverage of sustainability reporting by Australian listed firms finds that of the Top 500<sup>28</sup> ASX listed firms, only 25 firms ( $25/500 = 5.00$  percent) produce discrete reports on sustainability issues (as benchmarked against the GRI guidelines). Yet, the Frost et al. (2005) analyses reveals that stand-alone sustainability reports remain the primary medium to disseminate information on sustainability performance, closely followed by firm-specific websites. The Frost et al. (2005) study also points out that the conventional annual report is a less ideal source of information for sustainability disclosure.

In comparison to Frost et al. (2005), findings from this thesis suggests the use of stand-alone sustainability report has increased but at a very slow rate in the Australian setting. Taking the Top 500 ASX listed firms for 2008 by market capitalisation, this thesis indicates that 43 firms ( $43/500 = 8.60$  percent) produce stand-alone sustainability reports in which social performance is reported<sup>29</sup>. Notwithstanding the small increase (average of less than one percent per year over the five year period between the Frost et al (2005) analysis and this thesis), the overall level of Australian listed firms that produce stand-alone sustainability reports

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a financial year end 2008 listed on the ASX available from *Orbis* database. In addition, each firm-specific website (where available) were examined to access the stand-alone sustainability report. This additional search procedure unearthed a further 33 such documents, giving a total of 45 stand-alone sustainability reports altogether. These documents are read, together with the annual reports to identify the *presence* and the *extent* of CP Communication.

<sup>28</sup>Frost et al. (2005) conducted the study in 2003. During the conduct of their study (2003), Top 500 represents almost 97 percent of the market capitalisation of the Australian Stock Exchange (ASX).

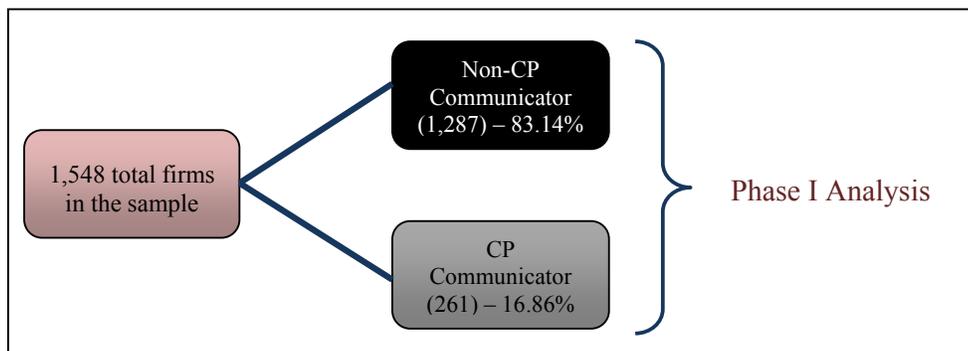
<sup>29</sup>Only 2 firms (out of the total of 45 firms that produce stand-alone sustainability reports in this thesis) are from the non-Top 500 firms by market capitalisation of the ASX.

is generally still very low if compared to other developed countries (KPMG 2008)<sup>30</sup>. However, since examining the medium used to convey corporate philanthropic information is not the main focus of this thesis; no further analysis is undertaken in this regard. However, the implication is that such a ‘special report’ should be encouraged by stakeholders and regulators.

### 5.3 Descriptive and Univariate Analysis (Two Groups)

For the purpose of Phase I analysis, this thesis first divides the 1,548 sample firms into two main categories: (i) ‘Non-CP Communicator’, and (ii) ‘CP Communicator’ as shown in Figure 5.3 This thesis labels two-group analysis (i.e., Non-CP Communicator and CP Communicator) as CP Communication<sup>2Groups</sup>. Figure 5.3 reveals that majority (1,287/1,548 = 83.14 percent) of the sample firms are Non-CP Communicators, while only a fraction (261/1,548 = 16.86 percent) are CP Communicators.

**Figure 5.3:** CP Communication<sup>2Groups</sup>



<sup>30</sup>The result of a tri-annual international survey on corporate responsibility reporting practices of the Top 100 companies conducted by KPMG indicates that 37 firms produce stand-alone sustainability report in Australia for 2008, an increase of 14 firms from 2005. However, this figure is much lower when compared to other developed countries such as Japan (88 firms), United Kingdom (84 firms), United States (73 firms), Canada (60 firms), Netherlands (60 firms), Sweden (59 firms), Italy (59 firms), Brazil (56 firms), Portugal (49 firms), and France (47 firms).

Table 5.1 presents the crosstabulation results, using chi-squared test of significance to identify industry categories associated with CP Communication<sup>2Groups</sup>. Results shown in Table 5.1 indicates that majority (899/1,548 = 58.07 percent) of the sample firms lie in high profile industry. The result of Pearson Chi-Square test of significance indicates that there is no statistically significant difference between the industry affiliation and CP Communication<sup>2Groups</sup> (p-value = 0.739)<sup>31</sup>. In other words, the result indicates that the decision to disclose corporate philanthropic information does not depend on the firm's industry classification.

**Table 5.1:** Crosstabulation of industry and CP Communication (two groups)

Industry		Non-CP Communicator	CP Communicator	Total
Low Profile	Count	542.00	107.00	649.00
	Expected count	539.58	109.42	649.00
	% within industry	83.51%	16.49%	100.00%
High Profile	Count	745.00	154.00	899.00
	Expected count	747.42	151.58	899.00
	% within industry	82.87%	17.13%	100.00%
Total	Count	1287.00	261.00	1548.00
	Expected count	1287.00	261.00	1548.00
	% within industry	83.14%	16.86%	100.00%
		Value	df	Sig.
Pearson Chi-Square		0.111 <sup>a</sup>	1	0.739
Likelihood Ratio		0.111	1	0.739
Cramer's V		0.008		0.739
N		1548		

Legend: df = degree of freedom, Sig. = Significance level.

<sup>a</sup>0 cell (0.00%) has expected count less than 5. The minimum expected count is 109.42. Therefore, the chi-squared test result offers an adequate approximation of the association between CP Communication and the firm's industry affiliation.

Table 5.2 documents the descriptive and univariate statistics for firm specific-characteristics. Panel A provides the descriptive statistics for the pooled cross section data (Cell 1) and sub-categories (Cell 2 for Non-CP Communicator and Cell 3 for CP

<sup>31</sup>To ensure that the chi-squared distribution provides an adequate approximation of the sampling distribution, the expected count should be at least five (Keller and Warrack 2000 p. 557). As indicated in Table 5.1, none of the cells has expected count of less than five. Hence, this assumption is not violated and the chi-squared test result offers an adequate approximation of the association between corporate philanthropic information and the firm's industry affiliation.

Communicator) while Panel B presents the t-test results. This table is quite revealing in several ways. From Table 5.2, it is apparent that there are huge differences in terms of the firm size ( $Size_{j,t}$ ), the level of profitability ( $Profit_{j,t}$ ) and leverage ( $Lev_{j,t}$ ) between firms that communicate corporate philanthropic data and those that do not.

**Table 5.2:** Descriptive and univariate statistics of firm-specific characteristics (two groups)

<b>PANEL A: DESCRIPTIVE STATISTICS</b>			
Statistic	$Size_{j,t}$	$Profit_{j,t}$ (%)	$Lev_{j,t}$ (%)
<b>CELL 1 - TOTAL (n = 1,548 FIRMS)</b>			
Mean	7.72	-24.03	35.90
Median	7.56	-4.92	28.19
Standard deviation	1.03	63.27	39.20
Minimum	4.81	-509.51 <sup>€</sup>	0.11
Maximum	11.82	127.48	536.15 <sup>€</sup>
<b>CELL 2 - NON-CP COMMUNICATOR (n = 1,287 FIRMS)</b>			
Mean	7.47	-29.33	33.44
Median	7.39	-8.48	22.52
Standard deviation	0.85	67.82	40.93
Minimum	4.81	-509.51 <sup>€</sup>	0.11
Maximum	10.81	127.48	536.15 <sup>€</sup>
<b>CELL 3 – CP COMMUNICATOR (n = 261 FIRMS)</b>			
Mean	8.93	2.14	48.03
Median	8.88	3.44	49.49
Standard deviation	0.97	15.36	26.08
Minimum	6.84	-74.46	0.84
Maximum	11.82	48.02	158.38
<b>PANEL B: T-TEST<sup>a</sup></b>			
Statistic	$Size_j$	$Profit_j$ (%)	$Lev_j$ (%)
Mean difference	1.46	31.48	14.59
t-value	22.555	14.875	7.383
Significant	0.000*	0.000*	0.000*

Legend: Panel A shows the descriptive statistics where the results are presented in three cells. Cell 1 documents the total firms while Cell 2 and 3 show the descriptive results for the two sub-categories; (i) Non-CP Communicator and (ii) CP Communicator respectively. Panel B reports the t-test results. <sup>a</sup>t-test was conducted by comparing the Non-CP Communicator and CP Communicator. \* significant at 0.01 confidence level. <sup>€</sup>Accuracy of these extreme figures has been confirmed. Independent third party check has also been performed to ensure the accuracy and correctness of the figures.

The average firm size, as measured by the logarithmic transformation of the book value of total assets ( $Size_{j,t}$ ), of the 1,548 sample firms is 7.72. Average Non-CP

Communicator firm size is smaller (i.e., 7.47) than CP Communicator firms (8.93). Comparing the level of profitability ( $Profit_{j,t}$ ), as measured by the proportion of net profit to the book value of total assets, CP Communicator firms have higher average profitability values, (i.e., 2.14 percent) compared to Non-CP Communicator counterparts that have very large average losses (-29.33 percent). With regard to leverage ( $Lev_j$ ), the mean for CP Communicator is higher (48.03 percent) compared to Non-CP Communicator (i.e., 33.44 percent).

T-test can be used to identify whether two group means are different (Field 2009 p. 324). T-tests are performed to examine whether differences between the means of firm size ( $Size_{j,t}$ ), the level of profitability ( $Profit_{j,t}$ ) and leverage ( $Lev_{j,t}$ ) for CP Communicator and Non-CP Communicator are significantly different. The results are presented in Table 5.2 Panel B. The result indicates that means  $Size_{j,t}$  for both groups (i.e., CP Communicator and Non-CP Communicator) are highly significantly different (p-value < 0.01). The mean difference between CP Communicator and Non-CP Communicator in regard to profitability ( $Profit_{j,t}$ ) is also highly statistically significant at 1 percent level (p-value < 0.01).

Leverage ( $Lev_{j,t}$ ) measures the proportion of the book value of total debt to the book value of total assets (Lang et al. 1996). Comparison of Cells 2 and 3 of Table 5.2 indicates that CP Communicator is highly leveraged compared to Non-CP Communicator. T-test result shown in Table.5.2 Panel B highlights the statistical difference at 1 percent level. Overall the t-test results as reported in Panel B of Table 5.2 which compare the means of Non-CP Communicator and CP Communicator indicate that there are statistically significant differences between them in terms of their financial characteristics. In summary, there are statistical significant differences for the firm size ( $Size_{j,t}$ ), the level of profitability ( $Profit_{j,t}$ ) and leverage ( $Lev_{j,t}$ ) at conventional level (1 percent) for Non-CP Communicator and CP Communicator. Clearly, CP Communicators are far larger, more profitable with higher debt percentage.

## 5.4 Descriptive and Univariate Analysis (Three Groups)

In addition to the two group cluster, a three-group categorisation is used. As shown in Figure 5.4 the sample firms are polarised into three groups namely Opaque (1,287 firms), Translucent (138 firms), and Transparent (123 firms).

**Figure 5.4:** CP Communication<sup>3Groups</sup>

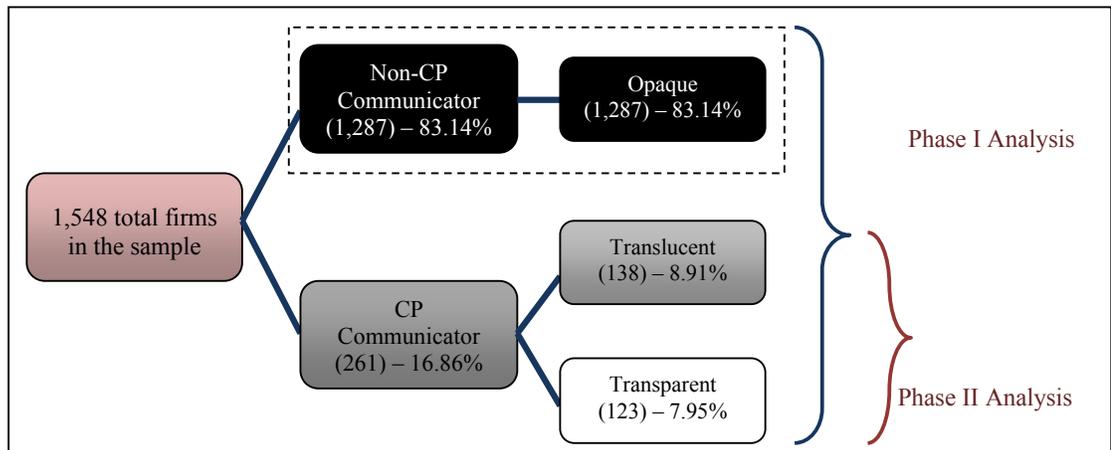


Table 5.3 presents the number of firms in each CP Communication<sup>3Groups</sup> category with an industry breakdown by low versus high profile. Comparing the Translucent and Transparent groups, there is some surprise to find firms disclosing greater philanthropic communication details (Transparent) are primarily in the low profile industry (9.09 percent compared to 7.40 percent) rather than high profile.

**Table 5.3:** Crosstabulation of industry and CP Communication (three groups)

<b>Panel A</b>					
Industry		Opaque	Translucent	Transparent	Total
Low Profile	Count	542.00	48.00	59.00	649.00
	Expected count	539.58	57.86	51.57	649.00
	% within industry	83.51%	7.40%	9.09%	100.00%
High Profile	Count	745.00	90.00	64.00	899.00
	Expected count	747.42	80.14	71.43	899.00
	% within industry	82.87%	10.01%	7.12%	100.00%
Total	Count	1,287.00	138.00	123.00	1,548.00
	Expected count	1,287.00	138.00	123.00	1,548.00
	% within industry	83.14%	8.91%	7.95%	100.00%
<b>Panel B</b>					
		Value	df	Sig.	
	Pearson Chi-Square	4.755 <sup>a</sup>	2	0.093***	
	Likelihood Ratio	4.792	1	0.091	
	Cramer's V	0.055		0.093	
	N	1548			

Legend: df = degree of freedom. \*\*\* significant at 0.10 confidence level.

<sup>a</sup> 0 cell (0.00%) has expected count less than 5. The minimum expected count is 51.57. Therefore, the chi-squared test result offers an adequate approximation of the association between CP Communication and the firm's industry affiliation.

Additional analysis is performed to identify whether there is any statistically significant difference between CP Communication<sup>3Groups</sup> and the industry affiliation. In this thesis, following Newson and Deegan (2002), it is expected that firms in the high profile industry will exhibit greater concern towards social responsibility, and this concern should be reflected by a higher level of CP Communication. Therefore, this thesis predicts a higher number of firms in the Transparent category to come from the high profile industry. Similarly, a smaller number of Opaque firms is predicted to come from high profile industry. However, results in Table 5.3 is counter-intuitive; that is, the number of Transparent firms is lower (64.00) than the expected figure (71.43) while the number of Opaque firms is marginally lower (745.00) than the expected figure (747.42) to have been in the high profile industry. The Pearson Chi-square result shown in Table 5.3 Panel B confirms there is a statistically moderate significant difference (p-value < 0.10) between the number of CP Communication<sup>3Groups</sup> and industry affiliation.

Table 5.4 documents the descriptive and univariate analyses for firm-specific characteristics of the CP Communication<sup>3Groups</sup>. Table 5.4 Panel A shows that the average firm size ( $Size_{j,t}$ ) cascades dramatically across the three groups. The far highest average firm size ( $Size_{j,t}$ ) is for the Transparent group (9.31), followed by Translucent (8.59) and Opaque (7.47). This difference is statistically significant at 1 percent level as indicated by the one-way ANOVA result (see Table 5.4 Panel B). Additional analysis using Tukey HSD post hoc test is undertaken to establish if there is any statistically significant differences between the individual CP Communication<sup>3Groups</sup> categories is reported in Table 5.4 Panel C. Results shown in Table 5.4 Panel C reveal differences in means are statistically significant (p-value < 0.01) for all the three groups: (i) Opaque and Translucent groups, (ii) Opaque and Transparent groups, and (iii) Translucent and Transparent groups.

Profitability ( $Profit_{j,t}$ ), is measured by the proportion of net profit for the year to the book value of total assets. It is an accounting-based measure of contemporaneous performance where it highlights the level of profitability of a company in relation to its total assets (McGuire et al. 1988). Transparent group reports a positive  $Profit_{j,t}$  of 4.59 percent whilst Translucent and Opaque groups document negative  $Profit_{j,t}$  of -0.04 percent and a far lower -29.33 percent respectively (see Table 5.4 Panel A). The result of one-way ANOVA indicates a statistically significant different within the groups. Table 5.4 Panel C shows statistically significant different between: (i) Opaque and Translucent, and (ii) Opaque and Transparent at 1 percent level. However, there is no statistically significant difference for the  $Profit_{j,t}$  between Translucent and Transparent.

In regard to leverage, Transparent group reports the highest level of mean leverage (54.40 percent). This is followed by Translucent (42.36 percent) and Opaque (33.44 percent). One-way ANOVA (see Table 5.4 Panel B) illustrates a significant difference within the three groups. This result is supported by Tukey HSD post hoc tests that show statistically significant different (p-value < 0.05) for all the three groups: (i) Opaque and Translucent groups, (ii) Opaque and Transparent groups, and (iii) Translucent and Transparent groups.

**Table 5.4:** Descriptive and univariate statistics of firm-specific characteristics (three groups)

Statistic	<i>Size<sub>j,t</sub></i>	<i>Profit<sub>j,t</sub></i> (%)	<i>Lev<sub>j,t</sub></i> (%)
<b>PANEL A - TOTAL (n = 1,548 FIRMS)</b>			
Mean	7.72	-24.03	35.90
Median	7.56	-4.92	28.19
Standard deviation	1.03	63.27	39.20
Minimum	4.81	-509.51	0.11
Maximum	11.82	127.48	536.15
<b>PANEL B - OPAQUE (n = 1,287 FIRMS)</b>			
Mean	7.47	-29.33	33.44
Median	7.39	-8.48	22.52
Standard deviation	0.85	67.82	40.93
Minimum	4.81	-509.51	0.11
Maximum	10.81	127.48	536.15
<b>PANEL C - TRANSLUCENT (n = 138 FIRMS)</b>			
Mean	8.59	-0.04	42.36
Median	8.51	2.45	46.53
Standard deviation	0.84	17.14	26.53
Minimum	6.84	-74.46	1.27
Maximum	11.11	48.02	131.67
<b>PANEL D - TRANSPARENT (n = 123 FIRMS)</b>			
Mean	9.31	4.59	54.40
Median	9.36	4.12	54.02
Standard deviation	0.98	12.71	24.12
Minimum	6.99	-47.06	0.84
Maximum	11.82	38.09	158.38
<b>PANEL B: ONE-WAY ANOVA</b>			
Statistic	<i>Size<sub>j,t</sub></i>	<i>Profit<sub>j,t</sub></i> (%)	<i>Lev<sub>j,t</sub></i> (%)
F	337.374	27.977	18.516
Significant	0.000*	0.000*	0.000*
<b>PANEL C: TUKEY HSD POST HOC TESTS (p-value for each pair)</b>			
Opaque and Translucent	0.000*	0.000*	0.028**
Opaque and Transparent	0.000*	0.000*	0.000*
Translucent and Transparent	0.000*	0.820	0.033**

Legend: Panel A shows the descriptive statistics where the results are partitioned into four cells. Cell 1 documents the total firms. Cell 2, 3 and 4 are the Opaque, Translucent and Transparent firms respectively. Panel B reports the one-way analysis of variance (ANOVA) performed by comparing the mean of firm size (*Size<sub>j,t</sub>*), profitability (*Profit<sub>j,t</sub>*), and leverage (*Lev<sub>j,t</sub>*) individually for all the three categories (Opaque, Translucent and Transparent). Further tests (Tukey HSD post hoc tests) were conducted to determine which pair of the three categories is statistically different. The results are reported in Panel C. \*, \*\* significant at 0.01 and 0.05 confidence level respectively. <sup>§</sup> Accuracy of these figures, including the minimum and maximum has been confirmed. Independent third party check has also been performed to ensure the accuracy and correctness of the figures.

Overall, the descriptive results indicate Transparent firms appear to be larger, report higher profits, and are more highly leveraged than Translucent counterparts. Meanwhile, Opaque firms, are the much smaller, report lower profits, and are less leveraged than firms in the other two groups.

## 5.5 Multivariate Analysis

Multivariate statistical analysis is a method designed to test simultaneously multiple measurement on objects under investigation (Hair et al. 2006). For Phase I analysis, multivariate analysis is employed to test the relationship between CP Communication and a set of variables. Specifically, CP Communication<sup>2Groups</sup> multivariate analysis (binary logistic regression) is used to test if there is any significant difference between the *presence* of CP Communication and a set of firm-specific traits ( $Ind_{j,t}$ ,  $Size_{j,t}$ , and  $Profit_{j,t}$ ) (see Table 5.5 and Table 5.6). To better understand the CP Discourse, analysis on the *extent* of CP Communication<sup>3Groups</sup> is also undertaken where the level of CP Communication is divided into Opaque, Translucent and Transparent (see Table 5.7 and Table 5.8) and tested against the same variables as in CP communication<sup>2Groups</sup> (i.e.,  $Ind_{j,t}$ ,  $Size_{j,t}$ , and  $Profit_{j,t}$ ) using multinomial logistic regression.

The correlation between CP Communication<sup>2Groups</sup>, independent variables and the control variable are computed using Pearson Product Moment correlation and Spearman correlation. Table 5.5 presents a correlation matrix with the upper half reporting Pearson correlation coefficient ( $r_p$ ) and the lower half Spearman correlation coefficient ( $r_s$ ). Correlation measures the strength of linear association between two variables (Keller and Warrack 2000 p. 657).

**Table 5.5:** Pearson and Spearman correlation matrix (two groups)

	$CP\_Comm_{j,t}^{2Groups}$	$Ind_{j,t}$	$Size_{j,t}$	$Profit_{j,t}$	$Lev_{j,t}$
$CP\_Comm_{j,t}^{2Groups}$		0.008	0.532*	0.186*	0.139*
$Ind_{j,t}$	0.008		0.020	0.020	-0.261*
$Size_{j,t}$	0.482*	0.006		0.443*	0.196*
$Profit_{j,t}$	0.285*	-0.112*	0.611*		0.211*
$Lev_{j,t}$	0.247*	-0.371*	0.401*	-0.224*	

Legend:  $n = 1,548$ .  $CP\_Comm_{j,t}^{2Groups}$  = the dichotomous scoring of firm  $j$  at time  $t$  where firm  $j$  is scored zero [0] if it is a Non-CP Communicator, otherwise firm  $j$  is scored one [1] if it is a CP Communicator;  $Ind_{j,t}$  = Firm  $j$  is scored zero [0] if operated in a low profile industry, otherwise one [1] if operated in a high profile industry;  $Size_{j,t}$  = the logarithmic transformation of the book value of total assets of firm  $j$  at the end of the financial year  $t$  expressed in Australian dollars;  $Profit_{j,t}$  = the proportion of net profit for the year to the book value of total assets of firm  $j$  at time  $t$  expressed as a percentage;  $Lev_{j,t}$  = the proportion of total debts to the book value of total assets of firm  $j$  at time  $t$  expressed as a percentage. \* significant at the 0.01 confidence level (two-tailed).

As illustrated in Table 5.5, there is a relatively strong positive correlation between  $CP\_Comm_{j,t}^{2Groups}$  ( $r_p = 0.532$  and  $r_s = 0.482$ ) and  $Size_{j,t}$ . This provides some evidence of a univariate association between CP Communication<sup>2Groups</sup> and firm size. It indicates that the larger the firm size, the greater the likelihood of CP Communication.

Table 5.5 also shows that there is a positive significant correlation between  $CP\_Comm_{j,t}^{2Groups}$  and  $Profit_{j,t}$  ( $r_p = 0.186$  and  $r_s = 0.285$ ), however, the strength of the association is low. A similar association is established for the control variable, leverage ( $Lev_{j,t}$ ) where there is a positive correlation between  $CP\_Comm_{j,t}^{2Groups}$  and  $Lev_{j,t}$ . This implies that the higher the leverage, the greater the probability of CP Communication. There is no statistically significant correlation observed between  $CP\_Comm_{j,t}^{2Groups}$  and  $Ind_{j,t}$ .

Binary logistic regression allows prediction when the predictor is a dichotomous variable with only two values (George and Mallery 2006). To ascertain whether there is any explanatory relationship between the *presence* of CP Communication<sup>2Groups</sup> and a set of firm-specific characteristics, binary logistic regression is employed.

The results of binary logistic regression are shown in Table 5.6. The model fits significantly with  $\chi^2 = 455.746$  ( $p = 0.000$ ). The reported pseudo- $R^2$  (Nagelkerke R square) value is 0.428. This indicates that the model is able to explain 42.80 percent of the variation in the CP Communication<sup>2Groups</sup>. The explanatory power is quite high if compared to other corporate social responsibility disclosure studies<sup>32</sup>. Meanwhile, the classification accuracy rate is used to evaluate the predictive accuracy of the logistic regression model (Field 2005; George and Mallery 2006). As shown in Table 5.6, the accuracy rate is 87.50 percent, suggesting that the logistic regression model has a significant high level of accuracy. In other words, the model correctly classifies 87.50 percent of the firms into the relevant categories.

**Table 5.6:** Result of binary logistic regression (two groups)

Binary logistic regression			
Model $\chi^2$		455.746	
		( $p = 0.000$ )	
% correctly classified		87.50%	
Nagelkerke R square		0.428	
Variables	Coefficient	Wald Statistics	Sig.
Constant	-14.007	0.925	0.000
$Ind_{j,t}$ <sup>a</sup>	-0.114	0.407	0.523
$Size_{j,t}$	1.532	178.028	0.000*
$Profit_{j,t}$	0.013	7.578	0.006*
$Lev_{j,t}$	0.000	0.003	0.956

Legend:  $n = 1,548$ . Table 5.6 binary logistic regression equation is stated as:  $CP\_Comm_{j,t}^{2Groups} = \alpha_j + \beta_1 Ind_{j,t} + \beta_2 Size_{j,t} + \beta_3 Profit_{j,t} + \beta_4 Lev_{j,t} + \varepsilon_j$  Where:  $CP\_Comm_{j,t}^{2Groups}$  = the dichotomous scoring of firm  $j$  at time  $t$  where firm  $j$  is scored zero [0] if it is a Non-CP Communicator, otherwise firm  $j$  is scored one [1] if it is a CP Communicator;  $Ind_{j,t}$  = Firm  $j$  is scored zero [0] if operated in a low profile industry, otherwise one [1] if operated in a high profile industry;  $Size_{j,t}$  = the logarithmic transformation of the book value of total assets of firm  $j$  at the end of the financial year  $t$  expressed in Australian dollars;  $Profit_{j,t}$  = the proportion of net profit for the year to the book value of total assets of firm  $j$  at time  $t$  expressed as a percentage;  $Lev_{j,t}$  = the proportion of total debts to the book value of total assets of firm  $j$  at time  $t$  expressed as a percentage;  $\beta$  the estimated coefficient for each item;  $\alpha_j$  = the intercept;  $\varepsilon_j$  = the error terms. <sup>a</sup> the reference category for industry is high profile. Sig. = Significant. \* significant at the 0.01 confidence level.

<sup>32</sup>A study conducted by Ahmad et al. (2003) using binary logistic regression to determine the occurrence of environmental reporting in Malaysia produce an explanatory power of 8.40 percent. Liu and Anbumozhi (2009) examine the determinant factors affecting the level of environmental disclosure using multiple regression generate an explanatory power of 41.00 percent while Branco and Rodrigues (2008a) report an explanatory power of 49.50 percent for community involvement disclosure on the internet.

Further examination of the regression result indicates that firm size ( $Size_{j,t}$ ) and profitability ( $Profit_{j,t}$ ) are highly associated with  $CP\_Comm_{j,t}^{2Groups}$ . Meanwhile industry affiliation ( $Ind_{j,t}$ ) and leverage ( $Lev_{j,t}$ ) are not significantly associated with  $CP\_Comm_{j,t}^{2Groups}$ . The directionality of the coefficient on  $Size_{j,t}$  and  $Profit_{j,t}$  are positive. This suggests that the bigger the firm, the higher the probability of CP Communication. Similarly, the more profitable the firm, the greater the likelihood of the firm being a CP Communicator. As for industry ( $Ind_{j,t}$ ), compared to high profile, low profile is less likely to communicate corporate philanthropic information. However, the result is not statistically significant (p-value = 0.523; > 0.10).

Having determined the factors associated with CP Communication<sup>2Groups</sup>, this thesis further tests possible determinants of the *extent* of CP Communication<sup>3Groups</sup> to provide insights into what drives firms to communicate corporate philanthropic information. Table 5.7 presents the correlation matrix while Table 5.8 shows the multinomial logistic regression.

Table 5.7 displays a correlation matrix with the upper half reporting Pearson correlation coefficients ( $r_p$ ) and the lower half Spearman correlation coefficients ( $r_s$ ). The results are quite similar to the correlation analysis as presented in Table 5.5, except for the dependent variable. In Table 5.5, the dependent variable ( $CP\_Comm_{j,t}^{2Groups}$ ) involves dividing of the sample into two categories (Non-CP Communicator and CP Communicator). Meanwhile, in Table 5.7 the dependent variable ( $CP\_Comm_{j,t}^{3Groups}$ ) has the sample partitioned into three categories (Opaque, Translucent and Transparent).

As shown in Table 5.7, there is a relatively strong positive correlation between  $CP\_Comm_{j,t}^{3Groups}$  ( $r_p = 0.549$  and  $r_s = 0.487$ ) and  $Size_{j,t}$ . This provides some evidence of a univariate association between CP Communication<sup>3Groups</sup> and firm size. It indicates that the larger the firm size, the greater the tendency of CP Communication. Table 5.7 also shows that there is a significant positive correlation between  $CP\_Comm_{j,t}^{3Groups}$  and  $Profit_{j,t}$  as well as  $Lev_{j,t}$ . However, there is no statistically significant correlation between  $CP\_Comm_{j,t}^{3Groups}$  and the  $Ind_{j,t}$ .

**Table 5.7:** Pearson and Spearman correlation matrix (three groups)

	$CP\_Comm_{j,t}^{3Groups}$	$Ind_{j,t}$	$Size_{j,t}$	$Profit_{j,t}$	$Lev_{j,t}$
$CP\_Comm_{j,t}^{3Groups}$		0.011	0.549*	0.180*	0.153*
$Ind_{j,t}$	-0.003		-0.020	-0.020	0.261*
$Size_{j,t}$	0.487*	-0.006		0.443*	0.196*
$Profit_{j,t}$	0.288*	0.112*	0.611*		0.211*
$Lev_{j,t}$	0.253*	0.371*	0.401*	-0.224*	

Legend:  $n = 1,548$ .  $CP\_Comm_{j,t}^{3Groups}$  = the tripartite scoring of firm  $j$  at time  $t$ , where firm  $j$  is scored zero [0] if it is an Opaque firm, one [1] if it is a Translucent firm, otherwise firm  $j$  is scored two [2] if it is a Transparent firm;  $Ind_{j,t}$  = Firm  $j$  is scored zero [0] if operated in a low profile industry, otherwise one [1] if operated in a high profile industry;  $Size_{j,t}$  = the logarithmic transformation of the book value of total assets of firm  $j$  at the end of the financial year  $t$  expressed in Australian dollars;  $Profit_{j,t}$  = the proportion of net profit for the year to the book value of total assets of firm  $j$  at time  $t$  expressed as a percentage;  $Lev_{j,t}$  = the proportion of total debts to the book value of total assets of firm  $j$  at time  $t$  expressed as a percentage. \* significant at the 0.01 confidence level (two-tailed).

Since binary logistic regression combines corporate philanthropy *presence* into a single communication category, it ignores the potentially important information concerning the relative value of CP Communication. A comparison of three different types of CP Communication enables greater insights to be generated to yield a better understanding of the *extent* of CP Communication. To facilitate the comparison across the three different types of CP Communication, multinomial logistic regression model is used as this enables analysis of a categorical dependent variable with more than two possible values (Norusis 2008).

The results of multinomial logistic regression are shown in Table 5.8. As indicated in Table 5.8 Panel A, the model is a significant fit with  $\chi^2 = 500.721$  ( $p = 0.000$ ). The reported pseudo- $R^2$  (Nagelkerke R square) is 0.406. This indicates that the model is able to explain 40.60 percent of the variation in the CP Communication<sup>3Groups</sup>.

**Table 5.8:** Results of multinomial logistic regression (three groups)

Multinomial logistic regression				
<b>Panel A</b>				
Model $\chi^2$		500.721		
		(p = 0.000)		
Nagelkerke R square		0.406		
$CP\_Comm_{j,t}^{3Groups}$	Variables	Coefficient	Wald Statistics	Sig.
<b>Panel B</b>				
Opaque <sup>a</sup>	Constant	19.358	203.707	0.000
	$Ind_{j,t}$	-0.216	0.783	0.806
	$Size_{j,t}$	-2.004	157.749	0.000*
	$Profit_{j,t}$	-0.026	8.958	0.003*
	$Lev_{j,t}$	-0.003	0.338	0.561
<b>Panel C</b>				
Translucent <sup>a</sup>	Constant	7.413	27.719	0.000
	$Ind_{j,t}$	-0.570	4.235	0.040**
	$Size_{j,t}$	-0.763	21.136	0.000*
	$Profit_{j,t}$	-0.016	2.730	0.098***
	$Lev_{j,t}$	-0.004	0.340	0.560
<b>Panel D</b>				
Translucent <sup>b</sup>	Constant	-11.945	130.888	0.000
	$Ind_{j,t}$	-0.354	2.740	0.098***
	$Size_{j,t}$	1.240	89.919	0.000*
	$Profit_{j,t}$	0.010	4.129	0.042**
	$Lev_{j,t}$	0.000	0.010	0.922

Legend: n = 1,548. Table 5.8 multinomial logistic regression equation is stated as:  $CP\_Comm_{j,t}^{3Groups} = \alpha_j + \beta_1 Ind_{j,t} + \beta_2 Size_{j,t} + \beta_3 Profit_{j,t} + \beta_4 Lev_{j,t} + \epsilon_j$  Where:  $CP\_Comm_{j,t}^{3Groups}$  = the tripartite scoring of firm  $j$  at time  $t$ , where firm  $j$  is scored zero [0] if it is an Opaque firm, one [1] if it is a Translucent firm, otherwise firm  $j$  is scored two [2] if it is a Transparent firm; See Equation in Table 5.6 for definitions of other variables. <sup>a</sup> the reference category is Transparent. <sup>b</sup> the reference category is Opaque. High profile is considered as the reference group for the multinomial logistic regression analysis. \*, \*\*, \*\*\* significant at the 0.01, 0.05 and 0.10 confidence levels respectively.

Comparison between Opaque and Transparent (see Table 5.8 Panel B) indicates that smaller firms (as proxied by  $Size_{j,t}$ ) and less profitable firms (as proxied by  $Profit_{j,t}$ ) are more likely to be in Opaque group rather than Transparent. The result is significant at 1 percent level. However, industry affiliation ( $Ind_{j,t}$ ) is not significant for the difference between Opaque and Transparent.

Comparison between Translucent and Transparent (see Table 5.8 Panel C) highlights statistically significant difference between these two groups in terms of industry, firm size and profitability. Translucent group firms are more likely to be smaller (as proxied by the  $Size_{j,t}$ ) and less profitable (as measured by  $Profit_{j,t}$ ) compared to Transparent. As for the industry ( $Ind_{j,t}$ ), compared to high profile, low profile firms are less likely to be in Translucent group. This result is consistent with crosstabulation result in Table 5.3.

Comparison between Translucent and Opaque (see Table 5.8 Panel D) reveals statistically significant difference between these two groups in terms of industry ( $Ind_{j,t}$ ), firm size ( $Size_{j,t}$ ) and profitability ( $Profit_{j,t}$ ). Compared to high profile, low profile is less likely to be Translucent group (rather than Opaque group). In other words, firms in high profile industry are more likely to communicate some information on corporate philanthropy initiatives (i.e., Translucent group) compared to those in the low profile industry. With regard to firm size and profitability, Translucent firms appear to be larger (p-value = 0.000) and more profitable (p-value = 0.042) compared to the Opaque group.

Taken together, the multinomial regression result indicates that firm size ( $Size_{j,t}$ ) and profitability ( $Profit_{j,t}$ ) are significantly associated with CP Communication<sup>3Groups</sup> ( $CP\_Comm_{j,t}^{3Groups}$ ) (regardless of whether Opaque, Translucent, or Transparent). This result is similar to the binary logistic regression findings shown in Table 5.6. Further, a comparison between Translucent and Transparent firms uncovers additional insights into the reporting practices of corporate philanthropy. While industry affiliation ( $Ind_{j,t}$ ) is not a significant predictor for Opaque and Transparent firms, this variable is a significant predictor for CP Communication for: (i) Translucent and Transparent and (ii) Translucent and Opaque. The result also indicates leverage ( $Lev_{j,t}$ ) is not a significant predictor of any of the three CP Communication<sup>3Groups</sup> categories.

In summary, as stated in Chapter 1, the overarching research questions analysed in this thesis for Phase I are:

1. *What level of communication and ambiguity exists within Australian listed firms' communication of corporate philanthropy?*
2. *What factors explain the varying levels of CP Communication (and non-communication) for Australian listed firms?*

Research Question 1 is answered by the descriptive analysis. Out of the final usable sample of 1,548 Australian public listed firms, 1,287 (i.e., 83.14 percent) are completely silent about corporate philanthropic communication (see Figures 5.3). Further analysis of three groups indicates 138 (i.e., 8.91 percent) firms communicate some information on corporate philanthropy (overview only) whilst only 123 (i.e., 7.95 percent) firms are being transparent (actual monetary amounts communicated) (see Figure 5.4). This suggests that there is an ongoing problem of lack of clear communication of the firms' resources devoted to community relations. Various reasons for this 'silent' strategy are further discussed in Section 5.6.

The overarching Research Question 2 is answered by the results of the binary logistic regression (Table 5.6) and multinomial logistic regression (Table 5.8). Results suggest that the level of CP Communication is determined by firm size ( $Size_{j,t}$ ) and the level of profitability ( $Profit_{j,t}$ ). Thus, Hypothesis 2 ( $H2$ ) and Hypothesis 3 ( $H3$ ) are supported. However, industry ( $Ind_{j,t}$ ) is not a significant determinant for CP Communication<sup>2Groups</sup> if the analysis is for the presence or absence of corporate philanthropic information in the key reports. Industry affiliation is a significant determinant for the extent of CP Communication<sup>3Groups</sup> if the firms are divided into three categories (Opaque, Translucent and Transparent). Hence, Hypothesis 1 ( $H1$ )<sup>33</sup> is partially supported. Table 5.9 provides a summary of Phase I statistical analysis and results.

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<sup>33</sup>Hypothesis 1 ( $H1$ ) posits that the extent of CP Communication is greater for firms in high profile industry than firms in low profile industry. The results of multinomial logistic regression in Table 5.8 indicates that industry is significant for the difference between: (i) Translucent and Transparent, and (ii) Translucent and Opaque categories. Nevertheless, industry is not significantly different for Transparent and Opaque groups. Specifically, Table 5.8 Panel A shows that there is no significant difference for industry affiliation between Opaque and Transparent. However, comparison between Translucent and Transparent reveals that, (compared to high profile), low profile is less likely to be in Translucent group. As for the comparison between Translucent and Opaque, in relation to high profile, low profile is less likely to be Translucent group (rather than Opaque group).

**Table 5.9:** Summary of statistical analysis for Phase I: CP Communication

Variable	Statistical Test	Reference	CP Communication <sup>2Groups</sup>		Sig.	p-value	Statistical Test	Reference	CP Communication <sup>3Groups</sup>			Sig.	P-value
			Non-CP Comm.	CP Comm.					Opaque	Translucent	Transparent		
n		Figure 5.3	1,287	261				Figure 5.4	1,287	138	123		
$Ind_j$	Crosstab	Table 5.1			NS	0.739	Crosstab	Table 5.3				MS	0.093
$Size_j$	t-test	Table 5.2	Smaller	Larger	HS	0.000	ANOVA	Table 5.4	Smallest	Medium	Largest	HS	0.000
$Profit_j$	t-test	Table 5.2	Lower	Higher	HS	0.000	ANOVA	Table 5.4	Lowest	Medium	Highest	HS	0.000
$Lev_j$	t-test	Table 5.2	Lower	Higher	HS	0.000	ANOVA	Table 5.4	Lowest	Medium	Highest	HS	0.000
$Ind_j$	Binary LR	Table 5.6			NS	0.523	Multi LR	Table 5.8				NS	0.806
$Size_j$	Binary LR	Table 5.6			HS	0.000	Multi LR	Table 5.8	Smaller		Larger	HS	0.000
$Profit_j$	Binary LR	Table 5.6			HS	0.006	Multi LR	Table 5.8	Lower		Higher	HS	0.003
$Lev_j$	Binary LR	Table 5.6			NS	0.956	Multi LR	Table 5.8	Lower		Higher	NS	0.561
$Ind_j$							Multi LR	Table 5.8				S	0.040
$Size_j$							Multi LR	Table 5.8		Smaller	Larger	HS	0.000
$Profit_j$							Multi LR	Table 5.8		Lower	Higher	MS	0.098
$Lev_j$							Multi LR	Table 5.8		Lower	Higher	NS	0.560
$Ind_j$							Multi LR	Table 5.8				MS	0.098
$Size_j$							Multi LR	Table 5.8	Smaller	Larger		HS	0.000
$Profit_j$							Multi LR	Table 5.8	Lower	Higher		S	0.042
$Lev_j$							Multi LR	Table 5.8	Lower	Higher		NS	0.922

Legend:  $Ind_{j,t}$  = the industry classification of firm  $j$  where firm  $j$  is scored zero [0] if operated in a low profile industry or one [1] if operated in a high profile industry;  $Size_{j,t}$  = the logarithmic transformation of the book value of total assets of firm  $j$  at the end of the financial year  $t$  expressed in Australian dollars;  $Profit_{j,t}$  = the proportion of net profit for the year to the book value of total assets of firm  $j$  at time  $t$  expressed as a percentage;  $Lev_{j,t}$  = the proportion of total debts to the book value of total assets of firm  $j$  at time  $t$  expressed as a percentage. Non-CP Comm. = Non-CP Communicator; CP Comm. = CP Communicator; Sig. = Significant; Binary LR = Binary logistic regression; Multi LR = Multinomial logistic regression. NS = Not significant (p-value > 0.10); HS = Highly significant (p-value < 0.01); S = Significant (0.01 ≤ p-value < 0.05); MS = Moderately significant (0.05 ≤ p-value ≤ 0.10). Corporate Philanthropy is defined as “the voluntary business giving of money, time or in-kind goods, without any direct commercial benefit, to one or more organisations whose core purpose is to benefit the community’s welfare” (Madden et al. 2006 p. 49). CP Communication refers to the dissemination of corporate philanthropic information in either annual report and/or stand-alone sustainability report. CP Communication<sup>2Groups</sup> analysis is undertaken to determine the firm-specific factors that influence the *presence* of CP Communication (i.e., CP Communicator on Non-CP Communicator) while analysis of CP Communication<sup>3Groups</sup> is conducted to provide additional insights into the *extent* of CP Communication (Opaque, Translucent or Transparent).

## 5.6 Discussion and Reflection of Phase 1 Findings

Reflecting upon the limited published research with regard to the reporting of social information generally, and corporate philanthropy specifically, this thesis extends prior studies by examining the reporting pattern of CP Communication. Findings reveal firms communicate commitments to corporate philanthropic activities either through annual reports or stand-alone sustainability report. Yet, out of 1,548 Australian public listed firms, only 261 (16.86 percent) firms provide some information on corporate philanthropy. Of these 261 firms, 216 ( $216/1,548 = 13.95$  percent) disclose details solely in the annual reports. Meanwhile, 45 firms ( $45/1,548 = 2.91$  percent) disclose corporate philanthropic information in separate stand-alone sustainability report and annual report. Despite the fact that the annual report represents the main channel of corporate communication (Gray et al. 1995a), it appears stand-alone sustainability reports are also used as a medium to convey information on community philanthropy. This could be because the stand-alone sustainability report is becoming a strategic communication vehicle and publication of this document is strongly encouraged. However, the overall level of philanthropic reporting, regardless of the medium, remains sparse.

Adams et al. (1998b) suggest that the analysis of social information should be considered separately as the intensity of the disclosure varies greatly according to perceived legitimacy. While most of the literature focuses on environmental reporting (see for example Cormier and Magnan 2003; Deegan and Gordon 1996; Harte and Owen 1991; Niskala and Pretes 1995), and other social issues such as health and safety (see for example Adams et al. 1995), and labour issues (see for example Utting 2003), little emphasis has been placed on the disclosure of corporate philanthropy. According to Campbell and Slack (2008), it is perhaps curious and surprising, that the reporting of corporate philanthropy has received so little attention in the literature. This thesis adds to the scant literature by analysing the reporting patterns of corporate philanthropy. Specifically, this study examines the *presence* of CP Communication<sup>2Groups</sup> (two groups) and the *extent* of CP Communication<sup>3Groups</sup> (three groups).

The empirical findings as prescribed in Chapter 5, clearly indicate over 80 percent of the Australian public listed firms studied choose to be opaque, with complete silence on this key societal element. Only a few (i.e., 138) firms provide some descriptive information and/or supported the information with some numeric quantification (Translucent). Only 123 'Transparent' firms provide monetary details of their corporate philanthropic information, rather than supplement the information with monetary amount of donation (Transparent). This could be due to the subjective nature of the corporate giving, or firms strategically being ambiguous about corporate philanthropy issues (such as Sponsorship and Scholarship) to perhaps avoid criticism of the exact amount being donated (further discussion for the types of corporate philanthropy are provided in Chapter 6).

As highlighted in Figure 5.4 and Figure 5.6, of the 1,548 Australian public listed firms surveyed, only 261 communicate any detail about philanthropic contributions (either descriptive only or supplemented with more substantive monetary disclosure). Given the high proportion of non-communication on corporate philanthropy, this thesis enriches the analysis by presenting several arguments to explain this observation. One possible and obvious reason for the non-communication is because of the complete absence of corporate giving by the firms. As non-altruistic firms are not involved in any corporate giving; then it logically follows these firms have no details to disclose. However, in most cases, this scenario is unlikely especially for stock exchange listed companies. Due to size and community standing of publicly listed firms, it is highly unlikely these firms do not undertake some corporate philanthropic activities.

A second more plausible reason is that the Australian public listed firms perceive the corporate philanthropy activities and associated costs to be immaterial in an accounting sense and therefore, do not need to be disclosed. Australian Accounting Standards Board 1031 issued in July 2004 defines materiality as:

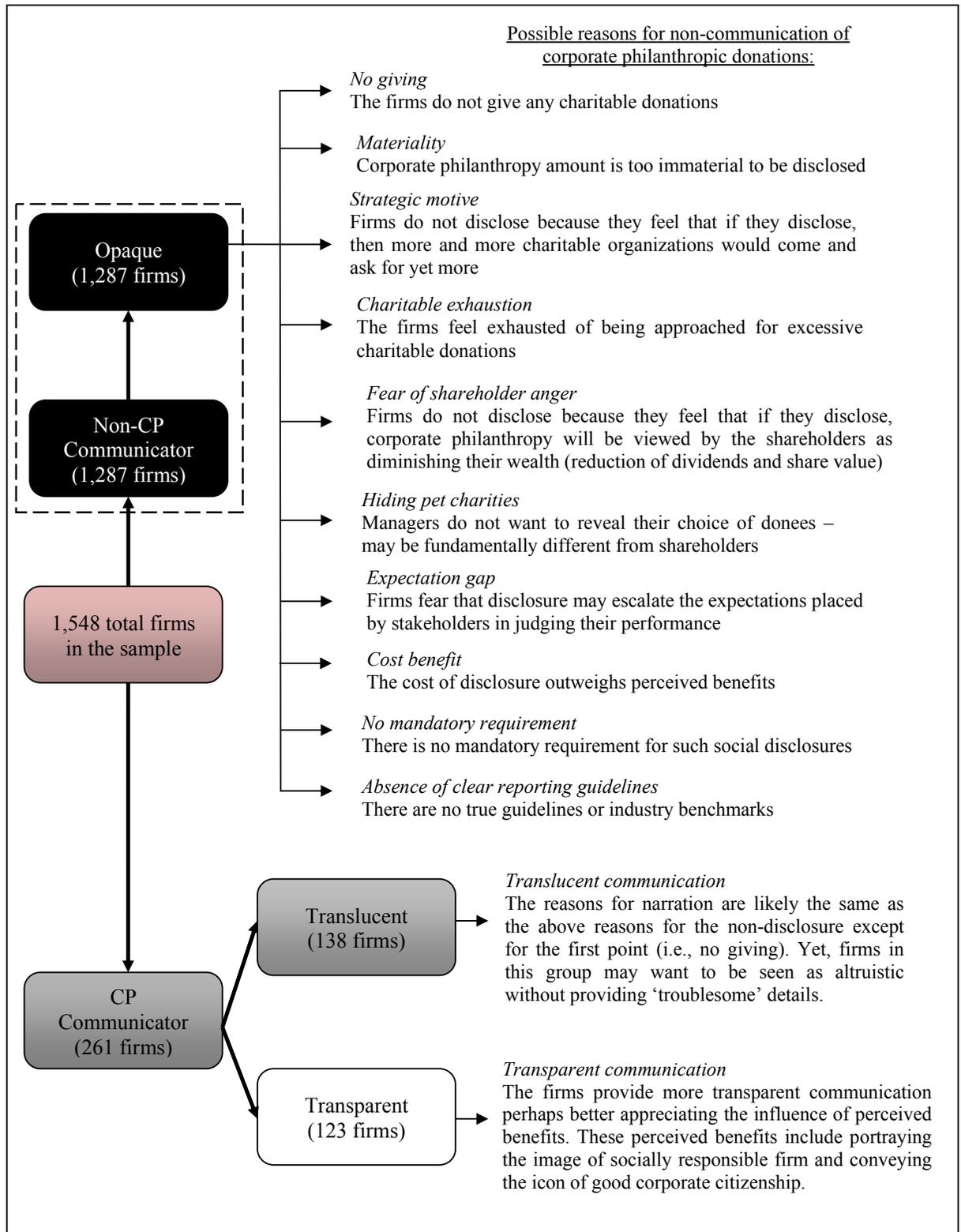
“9. ...Information is material if its omission, misstatement or non-disclosure has the potential, individually or collectively, to:

- (a) influence the economic decisions of users taken on the basis of the financial report; or
  - (b) affect the discharge of accountability by the management or governing body of the entity.
10. The notion of materiality influences whether an item or an aggregate of items is required to be recognised, measured or disclosed in accordance with the requirements of an Australian Accounting Standard. When an item or an aggregate of items is not material, application of the materiality notion does not mean that those items would not be recognised, measured or disclosed, but rather that the entity would not be required to recognise, measure or disclose those items in accordance with the requirements of an Australian Accounting Standard.” (AASB 1031: Materiality para. 9 and 10, pp 6-7)

Further, the AASB recognises that materiality is a matter of professional judgment that is influenced by the characteristics of the entity and the perceptions of user information needs. On these grounds, some firms would consider the information linked to corporate donations as too immaterial to be disclosed, thus, such disclosure may be viewed as unnecessary. However, it alternatively could be argued that the communication of any corporate donation will fundamentally enhance accountability and could influence stakeholders’ attitudes. This is because philanthropic activities are highly valued by society (Bird et al. 2007).

Another possible reason for the non-communication of corporate philanthropy activities is because of strategic incentives. There may be several variants of strategic reasons for thoughtful muting of gift-giving. Communication opens the door for increased scrutiny from innumerable charities leading to constant requests and charitable exhaustion. When firms disclose corporate philanthropy activities these firms may perceive themselves as more viable targets for charitable organisations and non-governmental organisations (NGOs). For instance, if a firm gives to any specific charity for the current year, there is an expectation that this firm will give again in future years. Thus, as a shield from being harassed by the vast myriad of charitable organisations, firms prefer to keep quiet about philanthropic endeavours.

**Figure 5.5:** Communication model for level of corporate philanthropic donations



Legend: Figure 5.6 shows the polarization of CP Communication and the possible reasons for (non-) communication. Source: Adapted from Raja Ahmad et al. (2010).

Another possible reason that could help explain non-communication of corporate philanthropy activities is firms may well be afraid of shareholder anger. This is to say that there may be some trepidation shareholders may view such activities as diminish their (shareholders) wealth and best interests. Whilst some argue that firms are able to improve performance by investing in socially responsible activities (Collins 1994), proponents of Friedman's (1970) stance would assert that spending on corporate philanthropy may lead to a decrease in the firm's value, shareholder wealth and reduced dividend distribution. It is argued that corporate giving diverts the firm's resources unnecessarily on activities that lead to increasing organisational efficiency (Choi and Wang 2007). Additionally, spending on socially responsible activities (such as expenditure on corporate donations) may be viewed as stealing the investors' money, and levies an 'illegal tax' on the firm (Balabanis et al. 1998).

It may also argued that since assets of the firm legally belong to the shareholders, and the fiduciary duty of the managers is to act in the best interest of the shareholders, managers have no right in spending money for charitable causes. Instead, firms should distribute profits as dividends, and let shareholders decide on the distribution (Wulfson 2001). Baron (2007) further argues that shareholders purchase shares in profit maximising firms because they (shareholders) prefer financial returns and would receive satisfaction by making personal gifts to social causes in contrast to the firm contributing on the shareholders behalf. Against the backdrop of this argument, those firms may prefer not to communicate philanthropic involvement to avoid unnecessary negative publicity and shareholder wrath.

Hiding 'pet' charities is another possible reason for non-communication of CP Involvement. The choice of management's donee may be fundamentally different from that of shareholders. As argued by Representative Paul E. Gilmor (R-Ohio) on March 5, 1997, Vice-Chairman of the House Committee on Commerce during the introduction of two bills concerning charitable contributions designed to amend Section 14 of the Securities and Exchange Act of 1934 [cited from Hemphill (1999) and Wulfson (2001)], shareholders have the right to know about corporate philanthropic contributions and disbursement since such transparent disclosure

would discourage contributions to corporate management's 'pet' charities. Hence, managers may opt not to communicate about corporate philanthropy activities for this reason.

The logic underpinning expectancy theory provides another possible explanation for non-disclosure of corporate donations and philanthropy activities. Expectancy theory, explicitly motivational in orientation, is mostly adopted in organisational behaviour and psychological studies. This theoretical perspective explains the process that one undergoes in making conscious choices between alternatives (Klein 1973). The purpose of having choices is to maximise pleasure and minimise pain (Vroom 1964). Expectancy theory proposes that individual's preference for a particular choice of action is based on estimates of how well the expected result of a given action leads to the desired outcome (Vroom 1964). Consequently, firms (or more specifically, corporate managers in charge of the corporate philanthropic disclosure) may choose not to communicate philanthropic initiatives due to a fear that disclosure escalates the expectations of stakeholders when judging the firm's performance.

The information dissemination process is costly with the collection and gathering of information followed by the presentation in an appropriate manner. In some instances, the collection, presentation and dissemination could be viewed by managements as more costly than benefits derived. Consequently, firms may prefer to remain silent about philanthropic expenditure. Furthermore, there is no legal requirement for firms to disclose corporate giving<sup>34</sup> (Brown et al. 2006). Accordingly, there is no mandatory pressure for firms to disclose the giving amount or to elaborate on the firm's policy, management and disbursement of corporate

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<sup>34</sup>An important exception is the United Kingdom firms where they are required by the 1967 Companies Act to disclose the actual amount of cash giving (Bennett 1997; Campbell and Slack 2008; Cowton 1987). According to Campbell and Slack (2008 pp. 209-210), "Section 19, Companies Act (1967) and updated Schedule 7, Companies Act (1985), 'Political and Charitable Gifts.' 'If the money given exceeded £200 in amount there shall be contained in the Directors' Report for the year, the purposes and the amount of money given.' This requirement does not cover donations made in-kind and in noncash terms. If these were also reported at their full value, the overall donations figure would be higher."

philanthropy activities. Linked to this is the related argument that the lack of clear reporting guidelines may discourage firms from reporting philanthropic activities. Although there are some international reporting guidelines such as Global Reporting Initiatives (2006), very insignificant weight is given to the reporting of corporate philanthropic information<sup>35</sup>.

The above arguments in Figure 5.5 outline some possible key reasons for non-communication of corporate philanthropic donations for firms classified in the 'Opaque' category (non-disclosure of philanthropic activities). It is also important to discuss reasons for why firms may be more translucent and transparent.

At the other end of the disclosure continuum, there are also firms that provide more transparent communication. This may be due to the influence of perceived benefits such as portraying the image of socially responsible firm and conveying the icon of good corporate citizenship. An example of this belief in the positive benefits of corporate philanthropy is reflected in the 2008 annual report of The Rock Building Society that states corporate philanthropy "... is mutually beneficial – the community receives a vital service and the Rock receives brand exposure and a heightened corporate image" (p. 15).

Another example for the preference of public disclosure can be seen from the Village Roadshow Limited 2008 annual report where it is asserted that "[w]e believe...making a commitment *to publicly report* will invigorate our businesses to improve our collective economic, environmental and social performance over the longer term" (p. 21) (emphasis added). This portrays the belief that public disclosure of social involvement enables firms to generate positive returns especially in the long run. This is supported by a study conducted by Owen and Scherer (1993) which shows the disclosure of social information is perceived by managers as having the greatest impact on the firm's market share.

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<sup>35</sup>Out of 79 items for GRI (2006) that cover various areas of corporate social responsibility including environmental indicators, human rights, labour practices and decent work, society, product responsibility, and economic, only one item (i.e., SO1) is specifically related to the reporting of corporate community investment.

Firms disclosure of corporate philanthropy could also be explained from a legitimacy theory perspective. Based on legitimacy theory, firms provide social reporting to demonstrate a sense of moral obligation and maintain social legitimacy. The degree of legitimacy varies from one organisation to another depending on the level of its visibility and the reliance on social and political support (Dowling and Pfeffer 1975; Oliver 1991). A legitimacy 'gap' exists when there is a disparity between an entity's value system and the value system of the larger social system of which the entity is a part (Dowling and Pfeffer 1975). As the role and the expectation of business on society escalate (Golob and Bartlett 2007), firms have a wider responsibility and need to consider the impact of their business conduct upon the society. Thus, legitimacy theory posits that firms engage in social reporting with an intention to close the gap between social expectations and organisational activities. In other words, social reporting is made as a signal to the public that the firms have responded to the public concerns (Deegan 2002; Deegan et al. 2002; O'Dwyer 2002).

Stakeholder theory is also a widely used theory to explain corporate social disclosure (Gelb and Strawser 2001; Gray et al. 1995b; Roberts 1992; Ullmann 1985). Stakeholder theory is based on the concept that there are other parties that are affected by the firm's activities besides the shareholders. Other interested parties include government, investors, political groups, customers, suppliers, trade associations, employees, communities and customers (Donaldson and Preston 1995). Balancing the various conflicting stakeholders' expectation is a major objective of a firm (Roberts 1992). Further, according to Gray et al. (1995b), a corporation's continued existence depends on the support and approval of the stakeholders. Social disclosure is thus seen as a response to increased public pressure (Patten 1991, 1992). Providing such extensive and informative disclosure could also be viewed as an incentive to engage in stakeholder management by portraying socially responsible activities (Gelb and Strawser 2001).

Overall, Phase I findings reveal the proportion of publicly listed Australian firms disclosing philanthropic information is still very low. About 83 percent of the firms

are completely silent about corporate philanthropy activities. More efforts, especially with better disclosure of corporate philanthropy, may enhance stakeholders confidence as corporations play a pivotal role in economic development of the economy and the living standards of all Australians (Parliamentary Joint Committee on Corporations and Financial Services 2006). Further, shareholders and society deserve to receive key information inputs with regard to social engagement of firms. Even though the Parliamentary Joint Committee on Corporations and Financial Service (2006) notes that a low level of sustainability reporting does not necessarily correlate to low level of social responsibility awareness, the Committee emphasises that the level of reporting can be seen as an important predictor of the level of interest and commitment of the firms.

Further, the current wave of stakeholder response seeks greater accountability and transparency from corporate management (Owen et al. 2000; Unerman and Bennett 2004). As such, whilst involved in corporate socially responsible activities, firms inevitably need to be aware that communication to the investors, as well as the public, about firm's performance, economically and socially, is very much in demand (Scholes and Clutterbuck 1998). As argued by Barnard (1997), shareholders are entitled to receive information from corporate management. Barnard (1997) further argues that even though there is no mandatory requirement for corporate management to disclose information about corporate philanthropy, they (i.e., corporate management) are accountable to ensure that the disbursement is not in contradiction with the corporate objectives.

Since stakeholders have the right to know about corporate community investment, communication (via the annual report and stand-alone sustainability report) serves an important function. Accordingly, firms need to better communicate social performance (McWilliams et al. 2006). Undoubtedly, corporate communication is inexorably essential in providing key information to stakeholders about the firm's performance. In addition, such disclosure is able to shape a more favourable public opinion by highlighting the firm's commitment towards corporate social responsibility (Hooghiemstra 2000). Disclosure can also act as a unique mechanism

to legitimise the corporate action while conveying the image of good corporate citizenship (Handelman and Arnold 1999).

Phase I findings on CP Communication presented in this thesis provides a fruitful avenue for further research since the level of communication and related philanthropic activity for corporate giving is still murky. There is no clear guideline as to how corporate philanthropy should be reported. As businesses are under increasing pressure to report accurately and transparently about corporate philanthropy activities, it appears that there is an ongoing problem with the lack of clear communication of resources devoted by firms to community relations.

This thesis also examines the factors that could explain the varying levels of CP Communication (and non-communication) for Australian listed firms. Three hypotheses are formulated which are *H1* (industry), *H2* (firm size) and *H3* (profitability). *H1* hypothesised that the extent of CP Communication is greater for firms in high profile industry than firms in low profile industries. However, the analysis of CP Communication<sup>2Groups</sup> indicates that there is no statistically significant difference between industry affiliation ( $Ind_{j,t}$ ) and CP Communication. Nevertheless, if the firms are divided into three categories (Opaque, Translucent and Transparent), then industry affiliation proves to provide some influence. Hence, Hypothesis 1 (*H1*) is partially supported. With regard to the direction, the result of CP Communication<sup>3Groups</sup> is counter-intuitive. Firms in high profile industries do not necessarily communicate a greater level of corporate philanthropic information.

As indicated in Section 2.5.2, *H2* proposes a positive relationship between firm size and the extent of CP Communication. This implies that the larger the firm size, the greater the tendency for the firm to communicate corporate philanthropic information. This finding is consistent with most of the prior literature on the association between firm size and the communication of corporate social responsibility information (Gao et al. 2005; Reverte 2009; Trotman and Bradley 1981). As noted by Trotman and Bradley (1981), larger firms may have more shareholders who are conscious about the firm's social commitment and

philanthropic activities. Hence, increased communication can be seen as a reflection to exhibit greater concern towards social responsibility. Further, Knox et al. (2005) argue that larger firms tend to have better corporate social responsibility communication because these firms are at the vanguard of social responsibility practices and face immediate consequences from stakeholder activism. Thus, better dissemination of corporate philanthropic information is seen as an effort to respond to a wider set of stakeholders.

As for *H3*, as identified in Section 2.5.3, it is proposed that there is a positive relationship between firm profitability and the extent of CP Communication. The findings indicate that there is a significant positive association between firm size and CP Communication. This suggests that the larger the firm size, the greater the tendency for the firm to communicate corporate philanthropic information. This is consistent with prior studies of corporate social responsibility disclosure (Gray et al. 2001; Raffournier 1995; Hackston and Milne 1996). More profitable firms have greater available economic means to voluntarily disseminate information. Further, as argued by Zmijewski and Hagerman (1981), more profitable firms have incentives to portray a good image by disclosing firm's social engagement and commitment in the community well-being to the public. Hence, the more profitable firms are more inclined to communicate corporate philanthropic information than the less profitable counterparts.

In summary, with regard to the factors that explain the varying levels of CP Communication (and non-communication) for Australian listed firms, the findings suggest that the level of CP Communication is influenced by firm size ( $Size_{j,t}$ ) and the level of profitability ( $Profit_{j,t}$ ) (refer Tables 5.6 and 5.8). This indicates that *H2* (firm size) and *H3* (profitability) are fully supported. Meanwhile, *H1* (industry) is partially supported (refer Tables 5.1 and 5.3).

## 5.7 Summary

This chapter reports the research findings for Phase I where discussions on the descriptive statistics, crosstabulation, t-tests, one-way ANOVA, Tukey HSD post-hoc test, and Pearson and Spearman product-moment correlations relating to the variables are presented. The analysis goes further into examining the relationship between the *presence* of CP Communication<sup>2Groups</sup> and a set of firm-specific financial characteristics. The results of binary logistic regression indicate that firm size ( $Size_{j,t}$ ) and profitability ( $Profit_{j,t}$ ) are important determinants of CP Communication<sup>2Groups</sup> at the statistically highly significant 1 percent level while industry ( $Ind_{j,t}$ ) is not a significant determinant for the presence of CP Communication<sup>2Groups</sup>.

Further, analysis on the *extent* of CP Communication<sup>3Groups</sup> is also undertaken. The results of multinomial logistic regression provide additional insights into the reporting practices of corporate philanthropy. Firm size ( $Size_{j,t}$ ) and profitability ( $Profit_{j,t}$ ) are important determinants of CP Communication<sup>3Groups</sup> but the industry ( $Ind_{j,t}$ ) membership is a significant predictor for: (i) Translucent and Transparent, and (ii) Translucent and Opaque. However, industry ( $Ind_{j,t}$ ) membership is not a significant predictor for Opaque and Transparent groups. Overall, the research propositions for firm size ( $Size_{j,t}$ ) (H2) and profitability ( $Profit_{j,t}$ ) (H3) are fully supported but the research proposition for industry ( $Ind_{j,t}$ ) (H1) is only partially supported. Leverage ( $Lev_{j,t}$ ) is not a significant predictor for CP Communication in either of the regression analyses.

The next chapter presents Phase II findings where detailed analyses with regard to actual CP Involvement are examined. This may generate greater understanding into the types of CP Involvement for Australian listed firms as well as the factors that contribute to CP Involvement.

## **Chapter 6. Research Findings: Phase II – Corporate Philanthropic Involvement**

### **6.1 Overview**

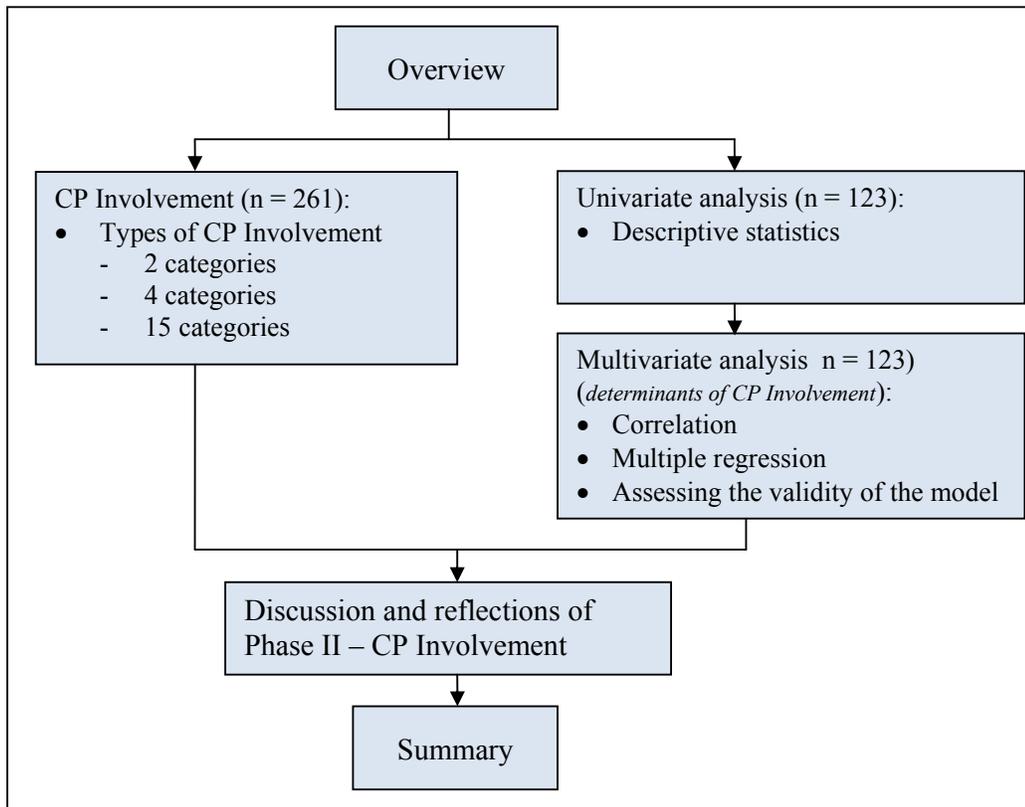
The previous chapter elaborates on Phase I (CP Communication) findings. Initial discussion describes basic descriptive of the extent of CP Communication. This is followed by analysis of factors that help explain varying level of CP Communication. Possible reasons for the communication and non-communication of corporate philanthropy are then advanced.

This chapter concentrates on the major findings of Phase II (CP Involvement). Objectives of this chapter are twofold: (1) to examine the types of actual CP Involvement of Australian listed firms (corresponding to Research Question 3; stated in Section 1.3) and (2) to investigate factors that may explain CP Involvement of Australian listed firms (corresponding to Research Question 4; stated in Section 1.3). While the previous chapter focused on the overall view of CP Communication for all Australian listed firms (i.e., n = 1,548 firms), analysis in this chapter solely concentrates on the firms that disclosed at least some information on corporate philanthropy in key reports (i.e., n = 261 firms). Such an examination assists in developing a better understanding, and additional insights, into CP Involvement such as the type and factors contributing to CP Involvement.

In Section 6.2, CP Involvement is analysed by partitioning disclosure into two broad categories of ‘types of giving’: (i) *Monetary* and (ii) *Non-Monetary*. Analysis of CP Involvement is then undertaken as per the London Benchmarking Group (LBG) model where involvement is divided into four categories (Monetary<sup>Direct</sup>, Management Costs, In-Kind and Time). To provide an extended understanding on CP Involvement, a more detailed classification (fifteen categories) is then used. The remainder of the section then seeks to explain factors that may influence CP Involvement. In Section 6.3, descriptive statistics for the independent variables are presented. Meanwhile, in Section 6.4 factors that may explain CP Involvement are

statistically investigated to highlight whether key predictors (i.e., lagged free cash flow, corporate governance or ownership structure), influence CP Involvement. After presenting sensitivity analysis findings, key implications and reflections of Phase II findings are discussed in the final section. Figure 6.1 outlines the key components of Chapter 6.

**Figure 6.1:** Outline of Chapter 6



Note: Statistical analysis is conducted solely on the 123 firms that disclosed the actual dollar amounts of their CP Involvement.

## 6.2 CP Involvement

The overview analysis of CP Involvement is first conducted for all firms that disclosed some information on CP Involvement (n = 261). This is then followed by specific analysis of the 123 firms that disclosed actual dollar amounts of CP Involvement.

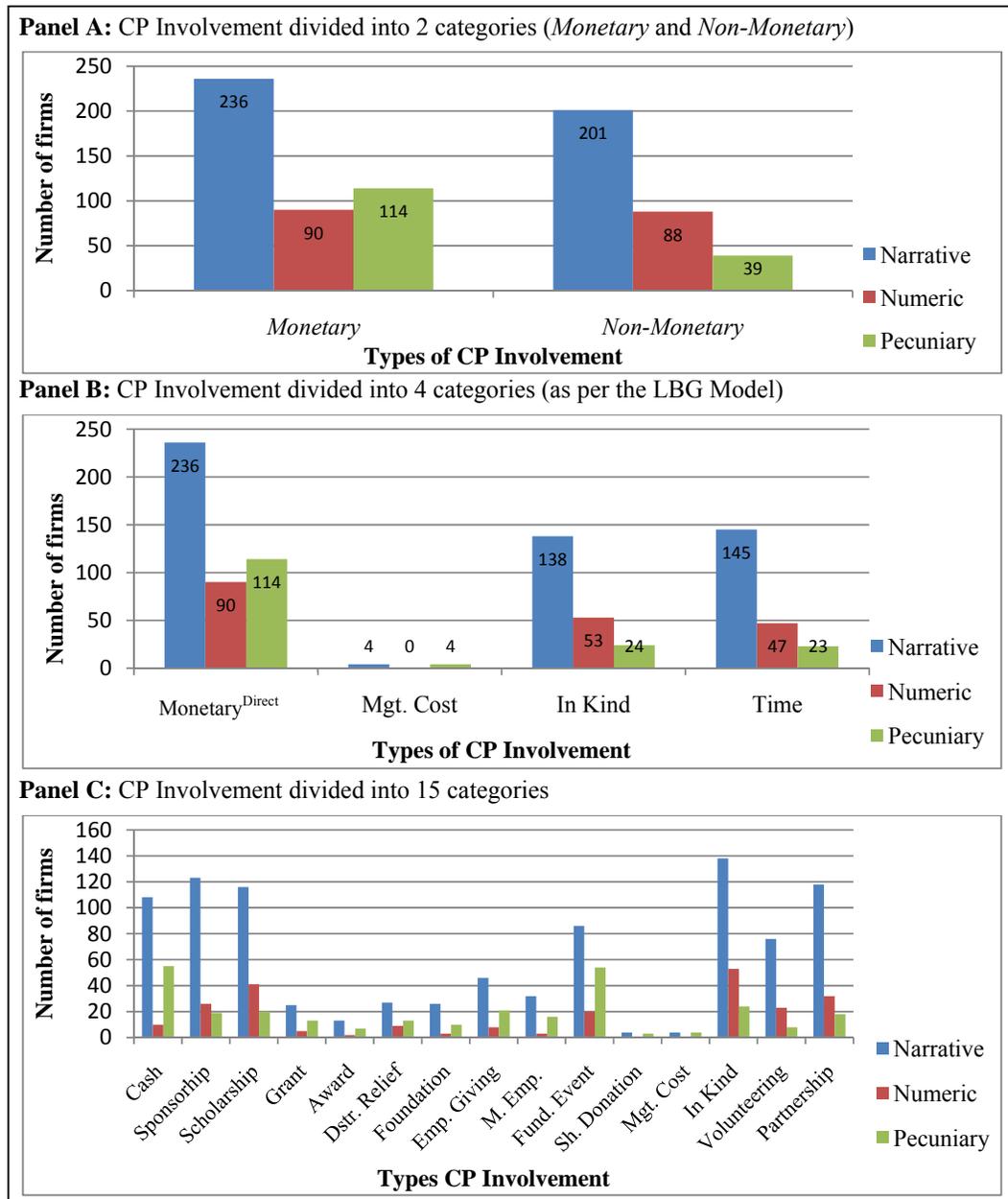
As explained in Section 3.4, this thesis employs the Madden et al. (2006) definition of corporate philanthropy that offered a broader conceptualisation. Madden et al. (2006 p. 49) define corporate philanthropy as “the voluntary business giving of money, time or in-kind goods, without any direct commercial benefit, to one or more organisations whose core purpose is to benefit the community’s welfare”. This definition is closely aligned with definitions of corporate philanthropy offered by the Australian listed firms. For instance, AngloGold Ashanti Limited defines its corporate philanthropy as:

...the voluntary investment of funds in the broader community through programmes spanning a range of development and maintenance activities that seek to complement the work of government, non-governmental organisations (NGOs) and community-based organisations (CBOs), where the target beneficiaries are external to the company. Corporate social investment specifically excludes those activities where the purpose is primarily commercial, for example, marketing, employee benefits or public relations activities.

(AngloGold Ashanti Limited, Annual Report 2008 p. 137)

Types of corporate philanthropy activities are investigated to identify the main themes of CP Involvement undertaken by Australian listed firms. Histograms in Figure 6.2 depict the number of firms that disclosed each category of CP Involvement. Figure 6.2 Panel A shows the broadest categories of CP Involvement (i.e., *Monetary* and *Non-Monetary*). In contrast, Figure 6.2 Panel B details CP Involvement as per the LBG four category model (*Monetary<sup>Direct</sup>*, *Management Costs*, *In-Kind* and *Time*). Finally, Figure 6.2 Panel C expands the LBG model to provide a more extensive fifteen-item categorisation.

**Figure 6.2:** Histograms showing CP Involvement categories.



Legend: Dstr. Relief = Disaster Relief, Foundation = Foundation Giving, Emp. Giving = Employee Giving, M. Emp. = Matched Employee Giving, Fund. Event = Fundraising Event, Sh. Donation = Shareholders Donation, Mgt. Cost = Management Costs. n = 261 firms. Panel A shows the broadest category of CP Involvement (*Monetary* and *Non-Monetary*). Panel B demonstrates the polarisation of CP Involvement as per the LBG model while Panel C describes a more detailed classification of CP Involvement to better reflect the entire range of CP Involvement for the Australian listed firms. Monetary<sup>Direct</sup> (Panel B) is further divided into more extensive categories consist of Cash, Sponsorship, Scholarship, Grant, Award, Disaster Relief, Foundation Giving, Employee Giving, Matched Employee Giving, Fundraising Event while Time (Panel B) is further divided into Volunteering and Partnership as reflected in Panel C. Detailed explanations for each item in Panel C are presented in Table 6.1. The total for each panel does not add up to 261 because one firm may engage in more than a single category of CP Involvement. ‘Narrative’ means firms provide details about CP Involvement descriptively. ‘Numeric’ means firms provide quantification of the CP Involvement in some kind of measurement such as the number of shelters provided, the number of volunteer hours spent and the number of homeless people assisted; but not in monetary terms. ‘Pecuniary’ means firms disclose the actual dollar amounts of the CP Involvement.

Types of CP Involvement in each Panel of Figure 6.2 are analysed based on three different forms of disclosure: (i) narrative; (ii) numeric; and (iii) pecuniary. ‘Narrative’ refers to details about CP Involvement presented in a descriptive format only. Meanwhile, ‘Numeric’ means firms provide quantification of the CP Involvement in some form of numeric measurement (such as the number of shelters provided, the number of volunteer hours spent and the number of homeless people assisted), but without monetary terms. Finally, ‘Pecuniary’ means firms disclose the actual dollar amounts of the CP Involvement. The three forms of disclosure are treated as mutually exclusive.

As shown in Figure 6.2 Panel A, *Monetary* giving has the highest representation of CP Involvement. Of 261 firms, 236 ( $236/261 = 90.42$  percent) are involved in *Monetary* corporate philanthropy. In contrast, 201 firms ( $201/261 = 77.01$  percent) participate in *Non-Monetary* contributions<sup>36</sup>. In terms of overall CP ‘discourse’, it is interesting to note *Monetary* contributions are predominantly communicated via the manner considered least informative; that is, ‘descriptively’ with less disclosure of numeric and monetary values. Similarly, CP Discourse of *Non-Monetary* contributions is mostly expressed in descriptive terms. Only 39 firms quantify the *Non-Monetary* giving in dollar amount.

The observed pattern of disclosure in Figure 6.2 Panel A could be due to the relative objectivity of monetary quantification. Measuring *Monetary* contributions is more straightforward, and the value is readily available, rendering it relatively easy to be quantified in dollar terms. In contrast, *Non-Monetary* elements are arguably more subjective. As such, *Non-Monetary* contributions are less likely to be quantified in dollar terms. Rather, the magnitude may be more easily quantified in non-monetary terms. For example, firms probably find it easier to report the numeric amount of

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<sup>36</sup>Broadly, the sample firms are divided into two categories: (i) *Monetary* and (ii) *Non-Monetary*. ‘*Monetary*’ CP Involvement refers to direct monetary giving including Cash, Sponsorship, Scholarship, Grant, Award, Disaster Relief, Foundation Giving, Employee Giving, Matched Employee Giving, Fundraising Event and Shareholder Donation. Meanwhile, ‘*Non-Monetary*’ CP Involvement refers to non-monetary giving including In-Kind, Volunteering, and Partnership. Detailed explanations for each item are presented in Table 6.1. The total does not necessarily add up to 100.00 percent as a single firm may involve in either solely *Monetary* or *Non-Monetary* categories or both.

shelters provided, volunteer hours spent and homeless people assisted than estimating the monetary value of these *Non-Monetary* contributions.

Consistent with the *Monetary* versus *Non-Monetary* disclosure pattern, a similar pattern is observed when CP Involvement is divided into more detailed categories (Monetary<sup>Direct</sup>, Management Costs, In-Kind and Time) as per the LBG model (see Figure 6.2 Panel B). Quantification in monetary term for the amount of CP Involvement is more likely to be provided for Monetary<sup>Direct</sup> and Management Costs categories than for the In-Kind and Time categories (refer Figure 3.2 for diagrammatic presentation of CP Involvement categories).

To enrich the analysis, Figure 6.2 Panel C presents a more comprehensive examination of CP Involvement. *Monetary* giving is further divided into more extensive categories consisting of Cash, Sponsorship, Scholarship, Grant, Award, Disaster Relief, Foundation Giving, Employee Giving, Matched Employee Giving, Fundraising Event and Shareholder Donation. Meanwhile, the Time category as per the LBG model is further divided into Volunteering and Partnership. Detailed explanations for each item in Figure 6.2 Panel C are presented in Table 6.1.

Figure 6.2 Panel C and Table 6.1 present the types of CP Involvement appearing in the key reports of Australian listed firms. The broader categorisation shown in Figure 6.2 Panel C and Table 6.1 expands the original LBG model to encompass other more specific themes. The four-category LBG model on philanthropic categorisation is expanded because disclosure of corporate philanthropy information by disclosing Australian listed firms does not easily fit with the categorisation schema of the LBG model. Accordingly, the types of corporate philanthropy are divided into far more detailed categories to reflect the wider variety of CP Involvement as disclosed in key reports of Australian listed firms.

A closer examination of corporate philanthropy disclosed in key reports of Australian listed firms clearly highlights the variations of CP Involvement made by

Australian listed firms. If analysis is based on the broader 15 category schema, the In-Kind category had the highest proportion of CP Involvement (i.e., 52.87 percent of sample that disclosed corporate philanthropy information). The second largest category is Sponsorship with the proportion of CP Involvement made by the firms disclosing information on corporate philanthropy (i.e., 47.13 percent). This is followed by Partnership (whereby firms work closely with key community groups for a shared aim) with a proportion of 45.21 percent.

Some Australian firms developed programmes designed to engage employees with the community. These programmes are classified within the Volunteering and Employee Giving (also known as workplace giving) categories. The former (i.e., Volunteering) is where employees, either individually or in groups, engage with the community. Of Australian listed firms disclosing corporate philanthropy information, 76 firms (or 29.12 percent) engage their employees in the giving programme. Meanwhile, Employee Giving is where employees donate to charitable organisations of their choice through automated payroll deductions. This normally provides an automatic tax reduction for employees. Usually firms would engage with a limited number of charitable organisations to simplify administrative and management of payroll. For this category, 46 firms (or 17.62 percent) disclosing corporate philanthropy information provide such giving. Firms normally encouraged staff to provide various forms of assistance and become involved in local events. For example, Hutchison Telecommunications (Australia) Limited states:

We continued to offer staff an employee contribution program, where staff can volunteer their time to a charity, raise funds through employee led-activities or make a donation direct from their pay through workplace giving.

(Hutchison Telecommunications (Australia) Limited  
Annual Report 2008 p. 17)

**Table 6.1:** Australian listed firms' CP Involvement categories

Cat.	Type	Explanation	Number of firms	% <sup>#</sup>
<b>MONETARY</b>	Cash*	Funds (in cash) given to support charitable activities or any support for community-based programmes.	108	41.38
	Sponsorship	Firms may also sponsor some community events and non-profit organisations.	123	47.13
	Scholarship	This is the amount of contribution given to support education program whereby scholarships are given to students to pursue their studies.	116	44.44
	Grant	Donation via a grant to assist specific social or community projects.	25	9.58
	Award	Firms provide awards to recognise individual, group or organisational achievements.	13	4.98
	Disaster Relief	Firms' response to communities affected by storms, floods, fires, and cyclones either locally or abroad. Assistance given to enable quicker victim recovery.	27	10.34
	Foundation Giving	Firms set up a foundation to support and assist in improving the community with support via this foundation.	26	9.96
	Employee Giving	Giving program whereby employees make direct deductions from pay to chosen charitable organisations. Usually firms engage to a limited number of charitable organisations to simplify administration and management of payroll. Usually automatic tax reduction for employees.	46	17.62
	Matched Employee Giving	Program whereby firms match employee contributions, either dollar for dollar or a proportionate amount.	32	12.26
	Fundraising Event	Firm assists in raising money from the public for various community support programmes.	86	32.95
	Shareholders Donation	Some firms would offer shareholders the opportunity to donate all or part of their bi-annual dividend to charity.	4	1.53
Management Cost *	This is the cost incurred in association with the management of corporate philanthropy expenditure.	4	1.53	
<b>NON-MONETARY</b>	In-Kind*	In-kind contributions with firms giving products or provide services to the community (e.g., fee-free banking and management services, distribution of free products).	138	52.87
	Volunteering (Time)*	Programme designed to engage employees with the community. Employees, either individually or groups, work with community organisations or involved in any community projects as volunteers. Some firms give paid leave for staff involvement.	76	29.12
	Partnership	Firms work closely with key community groups for a shared aim. Normally partnership over a long-term period rather than ad hoc.	118	45.21

Legend: Cat. = Categories. n = 261 firms. <sup>#</sup>these are based on the 261 Australian listed firms that provided at least some details of CP Involvement. For example, the percentage for 'Cash' category is calculated as  $108/261 \times 100 = 41.38$  percent. The total does not add up to 100.00 percent because a firm may have more than one type of CP Involvement. \*denotes the four categories as per the LBG (London Benchmarking Group) model.

To demonstrate support toward employee involvement in corporate philanthropy, firms often matched the amount of employee giving. Matched employee is defined as a programme of giving whereby firms match contributions made by employees (e.g., dollar for dollar, two for one dollar contributions). This encouragement is seen in the Chief Executive Officer's report of BHP Billiton:

Through our Matched Giving Program, a proportion of the Company's social investment was directed to organizations for which our employees are passionate. During 2007/08, the Company contributed \$4.8 million to these organisations by matching employee donations, fundraising and personal volunteering. This is a significant increase from the previous year. Recognising and supporting our employees' community activities is one way to continue to attract and retain skilled people, despite tight employment conditions across the resources sector.

(BHP Billiton, Sustainability Report 2008 p. 2)

Analysis shown in Figure 6.2 Panel C related to Volunteering and Employee Giving suggests CP Involvement is dynamic. That is, firms do not necessarily only engage in direct firm giving. Employee involvement is a vital extension to corporate grant making with firms encouraging employees to become a significant part of the CP Involvement process. Such an approach can also act as a platform to attract and retain skilled workers.

In addition to firms encouraging employee activist, firms could also encourage shareholders to be involved in the giving programme. For instance, shareholders are able to make direct deductions from individual dividends to charitable causes. This thesis labels this type of giving as Shareholders Donation. Analysis showed very few firms actually utilise this type of CP Involvement (i.e., 1.53 percent of corporate philanthropy disclosing firms).

A more ad-hoc type of CP Involvement involves giving to disaster relief efforts, whereby, firms provide support to natural disaster victims. Of the 261 Australian publicly listed firms disclosing corporate philanthropic related information, 10.34 percent are involved with giving for natural disasters. Other ad-hoc CP Involvement include the provision of grants and awards. The proportion of CP disclosing firms

associated with providing Grants (refers to corporate giving via grant to assist specific social or community projects) or Awards (when firms provide awards to recognise individual, group or organisational achievements) is 9.58 percent and 4.98 percent respectively. Finally, there are some firms (i.e., 9.96 percent) that set up a separate foundation and made corporate giving via the foundation.

Overall, Figure 6.2 and Table 6.1 findings indicate that there is a wide range of CP Involvement by the Australian listed firms. Detailed analysis using a 15 category schema revealed firms are also inclined to be involved in various types of giving besides Cash including In-Kind, Partnership and Sponsorship. With respect to the pattern of disclosure, firms are more likely to disclose dollar values for *Monetary* giving but are likely to provide narrative and numerical disclosure for *Non-Monetary* giving.

Section 6.2 describes the types of CP Involvement of 261 (of the total listed on the ASX) Australian publicly listed firms disclosing corporate philanthropic related information. The following section first analyses descriptive statistics before proceeding in subsequent sections with the correlation and multivariate analysis to identify factors that influence CP Involvement. Analyses in Sections 6.3, 6.4 and 6.5 are based on only those firms that have disclosed CP Involvement in dollar amounts (i.e., monetary terms) (n = 123 firms).

### **6.3 Univariate Statistics**

This section elaborates on univariate statistics for CP Involvement. The analysis is based on a sample of 123 firms<sup>37</sup> (from original total of 1,548) that formally detailed CP Involvement in monetary terms<sup>38</sup>.

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<sup>37</sup>The same number of firms is used for the correlation analysis in Section 6.4 and multivariate analysis in Section 6.5.

<sup>38</sup>These firms are referred to as 'Transparent' firms in the discussion on CP Communication presented in Chapter 5 (see Section 5.4).

Table 6.2 presents the descriptive statistics for the sample of 123 firms that disclose CP Involvement with an accompanying monetary value. The dollar amount reported forms the underlying proxy measure of the dependent variable in this chapter. For future analysis the dependent variable is denoted by the term  $CP\_Inv_{j,t}$ .

Table 6.2 Panel A summarises descriptive statistics for the 123 firms overall while Table 6.2 Panel B shows the dollar amount of corporate philanthropy where CP Involvement is divided into two broad categories (*Monetary* and *Non-Monetary*). Meanwhile, Table 6.2 Panel C documents the dollar amount of corporate philanthropy where CP Involvement is divided into four categories (*Monetary<sup>Direct</sup>*, *Management Costs*, *In-Kind* and *Time*). Finally, Table 6.2 Panel D reports the dollar amount of corporate philanthropy where CP Involvement is divided into far detailed classification (15 categories).

As shown in Table 6.2 Panel A, the total monetary giving provided by the 123 firms in the sample is \$681,033,511 with the average amount given by each firm totalling \$5,536,858. The maximum value of CP Involvement noted in monetary terms is \$157,683,120 with the lowest being \$3,800. Meanwhile, Table 6.2 Panel B indicates that there are 114 firms that provided dollar amounts in respect to *Monetary* CP Involvement issues with 39 firms reporting dollar amounts associated with *Non-Monetary* defined contributions<sup>39</sup>. The mean (median) dollar amount given total *Monetary* CP Involvement defined activities is \$4,183,155 (\$481,584). In contrast, the mean (median) dollar amount given toward *Non-Monetary* CP Involvement defined activities is \$2,572,979 (\$150,000).

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<sup>39</sup>As indicated in footnote number 36, the total does not necessarily add up to 123 (100.00 percent) as a single firm may be involved in various combinations.

**Table 6.2:** Descriptive statistics for CP Involvement

<b>PANEL A – CP INVOLEMENT – OVERALL (n = 123 FIRMS)</b>							
	Total	Mean	Median	Std Dev.	Min.	Max.	n
Total	681,033,511	5,536,858	549,608	18,437,699	3,800	157,683,120	123
<b>PANEL B – CP INVOLVEMENT - 2 CATEGORIES (n = 123 FIRMS)</b>							
Types of CP	Total	Mean	Median	Std Dev.	Min.	Max.	n
<i>Monetary</i>	476,879,639	4,183,155	481,584	12,825,909	3,800	91,000,000	114
<i>Non-Monetary</i>	100,346,197	2,572,979	150,000	6,282,581	4,600	33,994,800	39
<b>PANEL C – CP INVOLVEMENT - 4 CATEGORIES (n = 123 FIRMS)</b>							
Types of CP	Total	Mean	Median	Std Dev.	Min.	Max.	n
Monetary <sup>Direct</sup>	468,653,362	3,945,743	365,007	12,701,833	3,800	91,000,000	114
Mgt. Cost	8,226,277	2,056,569	1,740,000	1,721,113	385,348	4,360,929	4
In-Kind	50,139,185	2,089,133	153,500	4,322,293	4,600	15,800,000	24
Time	50,207,011	2,182,914	250,000	7,021,441	35,000	33,994,800	23
<b>PANEL D – CP INVOLVEMENT - 15 CATEGORIES (n = 123 FIRMS)</b>							
Types of CP	Total	Mean	Median	Std Dev.	Min.	Max.	n
Cash	251,760,320	4,577,460	230,000	15,073,078	3,800	91,000,000	55
Sponsorship	27,662,373	1,587,888	591,500	2,168,082	9,000	7,500,000	19
Scholarship	8,347,662	417,383	128,410	950,338	4,187	4,000,000	20
Grant	59,309,220	4,562,248	670,992	9,567,554	25,000	31,361,400	13
Award	217,894	31,128	20,000	29,038	1,000	80,000	7
Dstr. Relief	9,580,710	736,978	125,900	1,676,801	1,200	5,856,000	13
Foundation	67,856,800	6,785,680	2,700,000	9,448,722	250,000	29,206,800	10
Emp. Giving	3,517,938	167,521	115,580	231,750	4,200	1,000,000	21
M. Emp.	10,746,750	671,672	106,500	1,412,681	3,000	5,367,936	16
Fund. Event	29,544,629	547,123	192,500	1,000,793	5,000	5,700,000	54
Sh. donation	109,066	36,355	30,000	18,377	22,000	57,066	3
Mgt. cost	8,226,277	2,056,569	1,740,000	1,721,113	385,348	4,360,929	4
In-Kind	50,139,185	2,089,133	153,500	4,322,293	4,600	15,800,000	24
Volunteering	10,547,025	1,318,378	691,900	1,654,059	23,000	4,788,000	8
Partnership	39,659,986	2,203,333	100,000	6,819,458	30,000	29,206,800	18

Legend: All figures are in Australian dollars (\$) except for n where n represents the number of firms in each type of CP Involvement. The total number of firms for the analysis is 123. These are the firms that provide some kind of monetary amount of CP Involvement. Types of CP = Types of CP Involvement, Std Dev. = Standard deviation, Min = Minimum, Max = Maximum, Dstr. Relief = Disaster Relief, Foundation = Foundation Giving, Emp. Giving = Employee Giving, M. Emp. = Matched Employee Giving, Fund. Event = Fundraising Event, Sh. Donation = Shareholders Donation, Mgt. Cost = Management Costs. Panel A presents the descriptive statistics for CP Involvement where CP Involvement is divided into two broad categories (*Monetary* and *Non-Monetary*). Panel B documents the descriptive statistics for CP Involvement where it is divided into four categories (Monetary<sup>Direct</sup>, Management Costs, In-Kind and Time) while Panel C reports the descriptive statistics for CP Involvement where it is divided into far detailed classification (15 categories).

Table 6.2 Panel C shows a breakdown across the four categories of CP Involvement (Monetary<sup>Direct</sup>, Management Costs, In-Kind and Time) based on the LBG model. Approximately 93 percent of the sample report CP Involvement activities associated with Monetary<sup>Direct</sup> issues in dollar amounts, whereas, only just over 3 percent report CP Involvement issues with Management Costs in dollar values. For Monetary<sup>Direct</sup> CP Involvement issues, the mean (median) dollar value is \$3,945,743 (\$365,007). For the other three CP Involvement categories defined by the LBG model, average dollar amounts for each category is slightly in excess of \$2,000,000 with median values varying from a high of \$1,740,000 (Management Costs CP Involvement issues) to a low of \$153,500 (In-Kind CP Involvement issues).

Finally, for the broader 15-category breakdown of CP Involvement, the Cash giving category has the highest proportion (i.e., 55 of 123 sample firms) provide a dollar value for the amount given. This is closely followed by the Fundraising Event category (i.e., 54 of 123 sample firms). In contrast, the Shareholders Donation category has the lowest proportion with only three [3] of the 123 sample firms providing a dollar value. The highest average dollar value (i.e., \$6,785,680) is for CP Involvement issues related to the Foundation Giving category, whereas, the lowest average (i.e., \$31,128) is for the Award Giving category.

## **6.4 Inferential Statistics**

Whilst the previous section focused on descriptive statistics for the dependent variable, this section presents descriptive statistics and correlation analysis for the independent variables.

### **6.4.1 Descriptive Statistics**

Table 6.3 presents the descriptive statistics for the three independent variables (i.e., lagged free cash flow, corporate governance and ownership structure) that are the key predictor variables analysed in this thesis for Phase II (see Chapter 3).

As explained in Section 4.4.2, lagged free cash flow (denoted  $FCF_{j,t-1}$ ) is computed based on the most widely used definition of free cash flow (see Lehn and Poulsen (1989) and Lang et al. (1991)). Table 6.3 indicates that for the 123 firm sample average reported lagged free cash flow is negative (i.e., -\$255,010,257) with a minimum of -\$19,348,000,000 and maximum of \$15,698,126,548. The standard deviation is \$3,340,901,825 suggesting lagged free cash flow ( $FCF_{j,t-1}$ ) is widely dispersed.

The quality of a firm's corporate governance structure (denoted  $CGS_{j,t}$ ) is measured as a percentage of an equally weighted 25-item corporate governance index. This index seeks to capture the strength of the firm's corporate governance structure as tabulated in Table 4.6. As shown in Table 6.3, the average (median) corporate governance score for the 123-firm sample is 86.89 (88.00) percent. The minimum score is 36.00 percent with a maximum score of 100.00 percent.

As for ownership structure (denoted  $OS_{j,t}$ ), this is calculated as the accumulated percentage of shareholdings held by the top twenty [20] shareholder. This measure also provides an indication of ownership concentration. Specially, if the Top 20 score is higher than ownership concentration was greater. The Top 20 mean (median) for 123 firm sample is 67.62 (69.75 percent) percent with a minimum of 17.89 percent and maximum of 100.00 percent<sup>40</sup>.

**Table 6.3:** Descriptive statistics for independent variables

Statistic	$FCF_{j,t-1}$ (AUD\$)	$CGS_{j,t}$ (%)	$OS_{j,t}$ (%)
Mean	-255,010,257	86.89	67.62
Median	30,588,045	88.00	69.75
Std Dev.	3,340,901,825	10.47	18.34
Minimum	-19,348,000,000	36.00	17.89
Maximum	15,698,126,548	100.00	100.00

Legend: n= 123.  $FCF_{j,t-1}$  = the free cash flow for firm  $j$  at time  $t-1$  as defined by Lehn and Poulsen (1989) and Lang et al. (1991);  $CGS_{j,t}$  = the total corporate governance score for firm  $j$  at time  $t$  based on the total sum of scores awarded per item of the twenty five [25] point, expressed as a percentage of the total possible score;  $OS_{j,t}$  = the proportion of top twenty [20] shares for firm  $j$  at the financial year end of period  $t$ . Std Dev. = Standard deviation.

<sup>40</sup>Refer Appendix A for further descriptive statistics analysis.

## 6.4.2 Correlation

Correlation analysis is used to measure the association between variables (Hair et al. 2006). Table 6.4 presents the bivariate correlation matrix for CP Involvement with the upper half reporting Pearson Product Moment correlation coefficient ( $r_p$ ) and the lower half Spearman correlation coefficient ( $r_s$ )<sup>41</sup>. For purposes of the correlation analysis, two control variables for firm size (denoted  $Size_{j,t}$ ) and industry type (denoted  $Ind_{j,t}$ ) are included aside from the dependent and independent variables.

**Table 6.4:** Pearson and Spearman correlation matrix for CP Involvement

	$CP\_Inv_{j,t}$	$FCF_{j,t-1}$	$CGS_{j,t}$	$OS_{j,t}$	$Size_{j,t}$	$Ind_{j,t}$
$CP\_Inv_{j,t}$		0.149	0.214**	-0.096	0.361*	0.101
$FCF_{j,t-1}$	0.277*		-0.079	0.167***	-0.307*	-0.146
$CGS_{j,t}$	0.236*	0.077		-0.171***	0.321*	0.098
$OS_{j,t}$	-0.146	0.254*	-0.213**		-0.186*	-0.161***
$Size_{j,t}$	0.553*	0.307*	0.341*	-0.176***		0.182**
$Ind_{j,t}$	0.018	-0.172***	0.129	-0.144	0.161***	

Legend:  $n = 123$  firms.  $CP\_Inv_{j,t}$  = the aggregate of charitable contributions as reported by firm  $j$  in the key reports for time  $t$ . It includes cash and various other non-cash giving;  $FCF_{j,t-1}$  = the free cash flow for firm  $j$  at time  $t-1$  as defined by Lehn and Poulsen (1989) and Lang et al. (1991);  $CGS_{j,t}$  = the total corporate governance score for firm  $j$  at time  $t$  based on the total sum of scores awarded per item of the twenty five [25] point, expressed as a percentage of the total possible score;  $OS_{j,t}$  = the proportion of top twenty [20] shares for firm  $j$  at the financial year end of period  $t$ ;  $Size_{j,t}$  = the logarithmic transformation of the book value of total assets of firm  $j$  at the end of the financial year  $t$  expressed in Australian dollars;  $Ind_{j,t}$  = firm  $j$  is scored zero [0] if operated in a low profile industry, otherwise one [1] if operated in a high profile industry. \*, \*\*, \*\*\* significant at the 0.01, 0.05 and 0.10 confidence levels respectively (two-tailed).

The Pearson correlation results shown in Table 6.4 indicate no significant correlation between lagged free cash flow ( $FCF_{j,t-1}$ ) and the proxy for CP Involvement ( $r_p = 0.149$ ). The firm's strength of corporate governance structure (as measured by the  $CGS_{j,t}$ ) indicates a positive and statistically significant correlation ( $p < 0.05$ ) with CP Involvement. However, the directionality of the correlation is not consistent with that hypothesised. As for ownership structure (i.e.,  $OS_{j,t}$ ), there is no significant correlation with CP Involvement.

<sup>41</sup>Pearson correlation coefficient ( $r_p$ ) requires interval and normally distributed data for it to be an accurate measure of the linear relationship between two variables while Spearman correlation coefficient ( $r_s$ ) is a non-parametric statistic and can be used for data that have violated parametric assumptions, e.g. non-normally distributed data (Field, 2009).

With regard to the two control variables, as illustrated in Table 6.4, there is a highly significant ( $p < 0.01$ ) positive correlation between the firm size (i.e.,  $Size_{j,t}$ ) and CP Involvement (i.e.,  $CP\_Inv_{j,t}$ ) ( $r_p = 0.361$  and  $r_s = 0.553$ ). This provides some evidence of a univariate association between CP Involvement and firm size such that the larger the firm the greater the likelihood of CP Involvement. The correlation between industry and CP Involvement is positive and not statistically significant.

## **6.5 Multivariate statistics**

Multivariate analysis allows the prediction of the association between CP Involvement and a set of predictor variables (lagged free cash flow, corporate governance and ownership structure). Multiple regression analysis is the technique used to investigate these inter-relationships.

### **6.5.1 Multiple Regression Model**

This section investigates the results of the multiple regression analysis to test the association between CP Involvement and key predictor variables with control variables included to control for cross-sectional differences. Multiple regression model stipulated in Section 4.4.6 is used to test hypothesis  $H4$  (lagged free cash flow),  $H5$  (corporate governance) and  $H6$  (ownership structure).

### **6.5.2 Assessing the Validity of the Model**

Before running the regression analysis, the data is checked to ensure conditions and assumptions underpinning the use of multiple regression analysis were met. This is to ensure that the model is an accurate representation of the actual data.

The first condition is determining the sample size for the use of multiple regression technique. According to Hair et al. (2006), the basic ratio of observations to independent and control variables should at least be 5:1, though the optimal level is

between 15 to 20 observations for each independent and control variable. In applying the optimal level rule, the required number of observations to effectively test the nominated factors outlined in this thesis against CP Involvement is 100 (i.e., 5 independent and control variables times 20 observations). As the total sample size is 123 observations, the basic sample size condition is satisfied.

Another concern is the problem of multicollinearity which is a situation where the independent and/or control variables are highly correlated between one another that may be due to the combined effect of two or more independent variables (Hair et al. 2006). The first indication of substantial multicollinearity can be determined if correlation values exceed 0.7 (Lind et al. 2004). As displayed in Table 6.4, the highest correlation coefficient value between independent and control variables, is between  $Size_{j,t}$  and  $CGS_{j,t}$  ( $r_p = 0.321$  and  $r_s = 0.341$ ). This suggests multicollinearity is not a serious concern as all correlation values between independent and control variables are below the critical limit (Lind et al. 2004).

There are other techniques for assessing the degree of multicollinearity (Kutner et al. 2004) such as tolerance and the variance inflation factor (VIF) (Hair et al. 2006). In respect to tolerance, a high value suggests a small degree of multicollinearity. A commonly applied cut-off threshold for tolerance values is 0.10 with values below considered to indicate multicollinearity (Bowerman and O'Connell 1990; Field 2005; Hair et al. 2006; Myers 1990). Analysis of the tolerance value using the data set of 123 firms indicates all tolerance values are high and above the 0.10 cut-off point (minimum value was 0.798). VIF values the critical cut-off point is 10 with values above suggesting multicollinearity. Analysis shows all VIF values are also below the critical limit (maximum value was 1.252) (see Appendix B for elaboration of this analysis). In sum, multicollinearity is not viewed a detrimental issue based on correlation, tolerance and VIF analysis. Thus, for the multiple regression analysis all nominated independent and control variables are included simultaneously.

Another assumption underlying the use of multiple regression analysis is that errors are independent (Hair et al. 2006, Kutner et al. 2004, Field 2005). A Durbin-Watson

statistical value close to 2 (and between 1 and 3) indicates this assumption is likely met (Field 2009). For the noted data set, the Durbin-Watson statistical value is 2.055, thereby, indicating errors in the regression are independent.

Outliers can have an influential effect on multiple regression results as they (outliers) tend to skew the distribution (Field 2009). Mahalanobis distance and Cook's distance are two common statistical tools for identifying outliers (Ho and Naugher 2000). The former measures the distance of each observation from predictor variable's mean, whilst the latter measures the overall influence of an observation on the model (Field 2009). Mahalanobis distance values above 25 (Field 2009), and Cook's distance values of above 1, are viewed with concern (Cook and Weisberg 1982). A small number of observations are identified with values above critical limits for Mahalanobis distance and Cook's distance. It is argued outliers should be excluded. However, according to Hair et al. (2006 p. 173) outliers should only be discounted or eliminated from the model if they are "inappropriate representations of the population from which the sample is drawn". Detailed analysis of each suspect observation was conducted. Results indicate each observation could not be considered as an inappropriate representations of the population from which the samples are drawn; thus, the observations are not excluded from the analysis (refer Appendix C for further elaboration on Mahalanobis distance and Cook's distance and Appendix D for the result of the main multiple regression with the inclusion and exclusion of the outlier).

Based on this above discussion, the overall diagnostics of the assumptions underpinning the use of multiple regression analysis suggest the model is valid and reliable.

### **6.5.3 Multiple Regression Results**

Table 6.5 presents the main multiple regression results based on the sample of 123 firms that disclosed corporate philanthropic information while also including dollar values. The F-value is 6.581 ( $p < 0.01$ ) indicating that the model is highly

significant. The adjusted R-squared suggests the model explained 18.60 percent of the variation in CP Involvement.

**Table 6.5:** Multiple regression results for CP Involvement

Full regression				
n	123			
F value	6.581			
Significant	0.000			
Adjusted R <sup>2</sup>	0.186			
Variables	Coefficient	Beta	t-value	Sig.
Constant	-79,117,853		-4.029	0.000
$FCF_{j,t-1}$	0.002	0.295	3.403	0.001*
$CGS_{j,t}$	168,030	0.095	1.098	0.138
$OC_{j,t}$	-45,899	-0.046	-0.537	0.296
$Size_{j,t}$	7,578,229	0.403	4.407	0.000*
$Ind_{j,t}$	1,970,848	0.054	0.637	0.525

Legend: Table 6.5 multiple regression equation is stated as:  $CP\_Inv_{j,t} = \alpha_j + \beta_1 FCF_{j,t-1} + \beta_2 CGS_{j,t} + \beta_3 OS_{j,t} + \beta_4 Size_{j,t} + \beta_5 Ind_{j,t} + \varepsilon_j$  Where:  $CP\_Inv_{j,t}$  = the aggregate of charitable contributions as reported by firm  $j$  in the key reports for time  $t$ . It includes cash and various other non-cash giving;  $FCF_{j,t-1}$  = the free cash flow for firm  $j$  at time  $t-1$  as defined by Lehn and Poulsen (1989) and Lang et al. (1991);  $CGS_{j,t}$  = the total corporate governance score for firm  $j$  at time  $t$  based on the total sum of scores awarded per item of the twenty five [25] point, expressed as a percentage of the total possible score;  $OS_{j,t}$  = the proportion of top twenty [20] shares for firm  $j$  at the financial year end of period  $t$ ;  $Size_{j,t}$  = the logarithmic transformation of the book value of total assets of firm  $j$  at the end of the financial year  $t$  expressed in Australian dollars;  $Ind_{j,t}$  = firm  $j$  is scored zero [0] if operated in a low profile industry, otherwise one [1] if operated in a high profile industry;  $\beta$  = the estimated coefficient for each item;  $\alpha_j$  = the intercept; and  $\varepsilon_j$  = the error terms. \* significant at the 0.01 confidence level.

$H4$  posits a positive association between lagged free cash flow ( $FCF_{j,t-1}$ ) and CP Involvement ( $CP\_Inv_{j,t}$ ) (see Section 3.5.1). Multiple regression results presented in Table 6.5 show the coefficient on  $FCF_{j,t-1}$  is positive and statistically significant at conventional levels (i.e.,  $p < 0.01$ ). The results support  $H4$ . That is, as predicted, when lagged free cash flow increases, there appears to be a higher likelihood that this is also associated with the firm having a higher amount of CP Involvement.

With regards to  $H5$ , it is proposed that there is a negative association between a firm's corporate governance structure (denoted as  $CGS_{j,t}$ ) and level of CP Involvement ( $CP\_Inv_{j,t}$ ) (see Section 3.5.2). This prediction is based on the presumption that whilst corporate philanthropy is a desirable corporate objective a more well defined corporate governance structure would be more effective in monitoring amounts given so as to protect the interests of shareholders.

Consequently, firms with strong corporate governance structures are more likely to seek to restrain the giving amount. The multiple regression results reported in Table 6.5, however, do not support *H5*. Specifically, the coefficient on  $CGS_{j,t}$  is positive and insignificant from zero.

For *H6*, it is posited in this study that there is a negative association between a firm's ownership structure (denoted as  $OS_{j,t}$ ) and CP Involvement ( $CP\_Inv_{j,t}$ ) (see Section 3.5.3). Findings presented in Table 6.5 indicate the directionality of the coefficient on  $OS_{j,t}$  is negative as predicted. However, the coefficient is insignificant from zero. Thus, *H6* is not supported.

As for the control variables, Table 6.5 findings indicate firm size (denoted by  $Size_{j,t}$ ) is positively and significantly associated with CP Involvement ( $CP\_Inv_{j,t}$ ) ( $p < 0.01$ ). The result implies larger firm has a higher likelihood of greater CP Involvement. Industry affiliation (denoted by  $Ind_{j,t}$ ) is shown not to be a significant predictor of CP Involvement<sup>42</sup>.

## 6.6 Sensitivity Analysis

Sensitivity analysis is undertaken to check the robustness of the main findings presented in Table 6.5. The sensitivity analysis is also used to determine the extent to which the variables used in the multiple regression analysis (in Section 6.5) are sensitive to other measures of the same variables.

As an initial test, an alternative measure of lagged free cash flow (denoted  $FCF\_SW_{j,t-1}$ ) based on Subramanyam and Wild (2009) is calculated (refer to Section 4.4.7.1 for the mathematical formula). The re-calculated free cash flows are substituted for original values (denoted by  $FCF_{j,t-1}$ ) as per Table 6.5 results. Results

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<sup>42</sup>Refer Appendix E for additional analysis where CP Involvement ( $CP\_Inv_{j,t}$ ) is calculated by excluding Employee Giving. The findings indicate that there is no significant different for the main multiple regression result if Employee Giving is excluded. Thus, for the main analysis, it is retained in the definition of CP Involvement.

of the multiple regression performed using the alternative measure of lagged free cash flows is show in Table 6.6.

As shown in Table 6.6, the coefficient on  $FCF\_SW_{j,t-1}$  is positively associated with  $CP\_Inv_{j,t}$ . Importantly, the coefficient is statistically significant at conventional levels ( $p < 0.01$ ). This result adds confirmation that lagged free cash flow is strongly associated with CP Involvement. Specifically, regardless of the measurement technique used, the lagged free cash flow – CP Involvement linkage persists.

**Table 6.6:** Alternative measure of lagged free cash flow regression

Full regression				
n			123	
F value			10.719	
Significant			0.000	
Adjusted R <sup>2</sup>			0.285	
Variables	Coefficient	Beta	t-value	Sig.
Constant	-45,698,628		-2.462	0.015
$FCF\_SW_{j,t-1}$	0.001	0.435	5.415	0.000 *
$CGS_{j,t}$	163,341	0.093	1.139	0.138
$OC_{j,t}$	-4,987	-0.005	-0.063	0.475
$Size_{j,t}$	3,754,409	0.200	2.338	0.021 **
$Ind_{j,t}$	538,388	0.015	0.186	0.853

Legend: Table 6.6 multiple regression equation is stated as:  $CP\_Inv_{j,t} = \alpha_j + \beta_1 FCF\_SW_{j,t-1} + \beta_2 CGS_{j,t} + \beta_3 OS_{j,t} + \beta_4 Size_{j,t} + \beta_5 Ind_{j,t} + \varepsilon_j$  Where:  $CP\_Inv_{j,t}$  = the aggregate of charitable contributions as reported by firm  $j$  in the key reports for time  $t$ . It includes cash and various other non-cash giving;  $FCF_{j,t-1}$  = the free cash flow for firm  $j$  at time  $t-1$  as defined by Subramanyam and Wild (2009);  $CGS_{j,t}$  = the total corporate governance score for firm  $j$  at time  $t$  based on the total sum of scores awarded per item of the twenty five [25] point, expressed as a percentage of the total possible score;  $OS_{j,t}$  = the proportion of top twenty [20] shares for firm  $j$  at the financial year end of period  $t$ ;  $Size_{j,t}$  = the logarithmic transformation of the book value of total assets of firm  $j$  at the end of the financial year  $t$  expressed in Australian dollars;  $Ind_{j,t}$  = firm  $j$  is scored zero [0] if operated in a low profile industry, otherwise one [1] if operated in a high profile industry;  $\beta$  = the estimated coefficient for each item;  $\alpha_j$  = the intercept; and  $\varepsilon_j$  = the error terms. \*, \*\* significant at the 0.01 and 0.05 confidence levels respectively.

In respect to ownership structure, various measurement proxies are proposed. An alternative measure commonly cited is the proportion of total shares owned by directors of the firm. To this end,  $OS\_do_{j,t}$  is measured the number of shares of firm  $j$  at time  $t$  owned by the directors of firm  $j$  as a proportion of total shares of firm  $j$  at time  $t$  expressed as a percentage. The main regression is then performed again with

the alternative measure of ownership structure ( $OS\_do_{j,t}$ ) used. Results are presented in Table 6.7.

**Table 6.7:** Alternative measure of ownership structure regression

Full regression				
n	123			
F value	6.580			
Significant	0.000			
Adjusted R <sup>2</sup>	0.187			
Variables	Coefficient	Beta	t-value	Sig.
Constant	-89,099,003		-4.653	0.000
$FCF_{j,t-1}$	0.002	0.296	3.401	0.001 *
$CGS_{j,t}$	188,607	0.107	1.231	0.111
$OS\_do_{j,t}$	79,448	0.051	0.564	0.287
$Size_{j,t}$	8,033,403	0.426	4.408	0.000 **
$Ind_{j,t}$	2,260,726	0.061	0.723	0.471

Legend: Table 6.7 multiple regression equation is stated as:  $CP\_Inv_{j,t} = \alpha_j + \beta_1 FCF_{j,t-1} + \beta_2 CGS_{j,t} + \beta_3 OS\_do_{j,t} + \beta_4 Size_{j,t} + \beta_5 Ind_{j,t} + \varepsilon_j$  Where:  $CP\_Inv_{j,t}$  = the aggregate of charitable contributions as reported by firm  $j$  in the key reports for time  $t$ . It includes cash and various other non-cash giving;  $FCF_{j,t-1}$  = the free cash flow for firm  $j$  at time  $t-1$  as defined by Lehn and Poulsen (1989) and Lang et al. (1991);  $CGS_{j,t}$  = the total corporate governance score for firm  $j$  at time  $t$  based on the total sum of scores awarded per item of the twenty five [25] point, expressed as a percentage of the total possible score;  $OS\_do_{j,t}$  = the proportion of ordinary shares owned by directors for firm  $j$  at time  $t$ ;  $Size_{j,t}$  = the logarithmic transformation of the book value of total assets of firm  $j$  at the end of the financial year  $t$  expressed in Australian dollars;  $Ind_{j,t}$  = firm  $j$  is scored zero [0] if operated in a low profile industry, otherwise one [1] if operated in a high profile industry;  $\beta$  = the estimated coefficient for each item;  $\alpha_j$  = the intercept; and  $\varepsilon_j$  = the error terms. \* significant at the 0.01 confidence level.

In contrast to Table 6.5 results, Table 6.7 shows that the directionality of the coefficient on  $OS\_do_{j,t}$  is positive rather than negative when  $OS\_do_{j,t}$  is used to proxy ownership structure. Nonetheless, the coefficient on  $OS\_do_{j,t}$  is statistically insignificant from zero (comparable to results for  $OS_{j,t}$  as reported in Table 6.5). Thus, regardless of whether ownership structure is measured by the top 20 shareholders (the percentage of ordinary shares held by the top 20 shareholdings) or director ownership (the percentage of ordinary shares held by the directors), the relationship between ownership structure and CP Involvement remains insignificant.

By way of further checks of the association between ownership structure and CP Involvement, additional sensitivity analysis is also conducted with different cut-off measures of ownership structure. These include: (a) top one [1] shareholder (the

percentage of ordinary shares held by top [1] shareholder); (b) top five [5] shareholders (the percentage of ordinary shares held by top five [5] shareholders); (c) top ten [10] shareholders (the percentage of ordinary shares held by top ten [10] shareholders); and (d) institutional ownership (the percentage of ordinary shares held by institutions). All findings using the extra measures of ownership structure further support the lack of a significant association between ownership structure and CP Involvement.

## **6.7 Discussion and Reflections of Phase II Findings**

CP Involvement is measured as the aggregate of charitable contributions as reported by firms in their key reports. It includes Monetary (Cash) and various other Non-Monetary (Non-Cash) giving. This thesis examines CP Involvement from two perspectives: (i) types of CP Involvement (n = 261 firms) in Sections 6.2 – 6.4 and (ii) factors that may explain CP Involvement including lagged free cash flow ( $FCF_{j,t-l}$ ), corporate governance ( $CGS_{j,t}$ ) and ownership structure ( $OS_{j,t}$ ) (n = 123 firms) in Sections 6.5 – 6.6.

As depicted in Figure 6.2, there is a lack of clear and transparent reporting of corporate philanthropic information. Over 50 percent of the sample firms do not report the monetary amount of giving. Indeed, the majority of the firms only report ‘narratively’. Analysis of the types of CP Involvement indicates Australian listed firms are involved in various types of giving more than simply Cash giving (refer Table 6.1).

The analysis provides additional insights into the CP Involvement suggesting firms advocate other kinds of CP Involvement as being of importance rather than direct Cash giving alone. Questions arise concerning why firms may pursue more complex methods of CP Involvement. A possible explanation for this could be firms prefer to engage in programmes that create long term benefits (such as Partnership Giving that may enhance reinforcement of relationships with stakeholders) as opposed to giving away direct cash that leads to limited intrinsic rewards. Another reason may

be that the concept of corporate philanthropy in Australia is becoming more dynamic where the donors are seeking a greater role within corporate philanthropy. This belief is portrayed in the following quotation from Trust Company Limited 2008 Annual Report:

Philanthropy is in its most dynamic phase in Australia's history. Individuals, families, corporations and private foundations are now seeking to have a greater role than merely writing a cheque to a charity.

(Trust Company Limited Annual Report 2008 p. 17)

Still further, another possible reason is that firms prefer to be involved in corporate philanthropy where long-term relationships with the host community can be established. This can be seen from the following examples:

Woodside believes long-term relationships with local communities are essential to business success.

(Woodside Sustainable Development Report 2008 p. 25)

...commit to long-term partnerships to manage our impact.

(Transurban Sustainability Report 2008 p. 35)

The Rock has continued to establish and strengthen community partnerships this year, not by simply providing donations and sponsorships, but by partnering with organisations to achieve longer-term visions.

(The Rock Building Society Limited Annual Report 2008 p. 8)

It may also be suggested that firms may be committed to seeking a greater role, and be pleased to participate in corporate philanthropy; that invigorates long-term relationships with the local communities, rather than interacting on just a short-term basis. For instance, firms may prefer to create long-term relationships with local communities on the belief that non-cash giving (such as Partnership Giving) provides a stronger platform to develop and maintain confidence than giving cash, that could be seen as the firm seeking to offer a 'band-aid' solution to certain issues. Further, there is a growing impression that creating long-term relationships with the host communities is essential to the business success. Moreover, sponsoring a certain community event could cultivate relationships, and provide an opportunity to connect and better distinguish the firm with the local communities. In turn, this could increase the firm's visibility, and heighten brand image, as Sponsorships are

able to create an incredible amount of presence and provide optimum exposure (Meijer et al. 2006).

With regard to factors that may explain CP involvement, lagged free cash flow ( $FCF_{j,t-1}$ ) appears to be significant associated with CP Involvement ( $CP\_Inv_{j,t}$ ) (refer Table 6.5). Therefore,  $H4$  is supported. The result is robust when the alternative measure of lagged free cash flow by Subramanyam and Wild (2009) is used ( $FCF\_SW_{j,t-1}$ ). This thesis finding is consistent with Seifert et al. (2004) in which slack resources (as measured by the lagged free cash flow) is positively associated with CP Involvement. The finding from this study supports the tenets of slack resources theory where the availability of slack resources facilitates the pursuit of discretionary activities such as CP Involvement. This finding adds to the understanding of the role played by lagged free cash flow specifically, and slack resources generally, in potentially influencing CP Involvement. As argued by Buchholtz et al. (1999), profit is a crude measure of slack resources, and not solely sufficient to explain uncommitted resources. Consistent with Seifert et al. (2004), this thesis employs lagged free cash flow to represent slack resources as it represents a superior means of uncommitted resources.

Multiple regression results also indicate a significant positive association between firm size ( $Size_{j,t}$ ) and CP Involvement ( $CP\_Inv_{j,t}$ ) (refer Table 6.5). The results imply that the larger the firm size, the greater the CP Involvement. This may be because larger firms have more resources and feel there is an expectation to be more involved in corporate philanthropy having gained economies of scale relative to smaller counterparts (Porter 1985). Further, as suggested by Johnson and Greening (1999), larger firms are better able to donate to community because they have likely to generate more slack resources across time relative to smaller firms.

The main multiple regression findings shown in Table 6.5 (and supported in sensitivity tests) indicate corporate governance ( $CGS_{j,t}$ ) is not significantly associated with CP Involvement ( $CP\_Inv_{j,t}$ ). Therefore,  $H5$  is rejected. This is an interesting finding since this thesis utilises a comprehensive measure of corporate

governance attributes (i.e., an index of twenty five [25] equally weighted items). Results suggest that regardless of the corporate governance structure in place, this is unlikely to have an influence on the extent of CP Involvement.

Finally, the main multiple regression results reveal ownership structure ( $OS_{j,t}$ ) is not significantly associated with CP Involvement. Therefore,  $H6$  is rejected. The main results remain the same even if tests using alternate measures of ownership structure (Top 1, Top 5, Top 10, director's ownership or institutional shareholdings) are conducted.

## 6.8 Summary

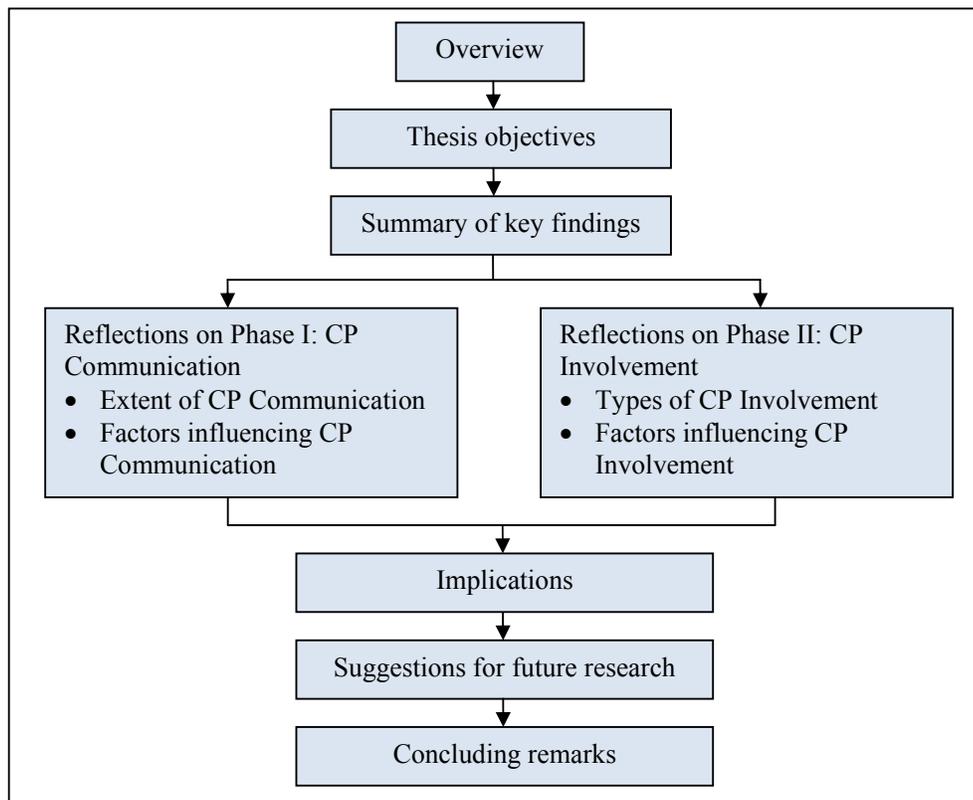
Overall, this chapter provides insights into the CP Involvement of Australian listed firms. Findings clearly highlight a range of positive initiatives including *Monetary* and *Non-Monetary* giving. With regard to factors that could explain CP Involvement ( $CP\_Inv_{j,t}$ ), only lagged free cash flow ( $FCF_{j,t-1}$ ) and firm size ( $Size_{j,t}$ ) are found to be significantly associated with CP Involvement. Surprisingly, corporate governance ( $CGS_{j,t}$ ) and ownership structure ( $OS_{j,t}$ ) do not appear to influence CP Involvement. This suggests firm characteristics seem to be driving the CP Involvement decision, not governance factors. The following chapter presents the concluding insights in CP Discourse where the discussion, implications and suggestions for future research are highlighted.

# Chapter 7. Insights on Corporate Philanthropic Discourse

## 7.1 Overview

The previous chapter documented the results of Phase II (CP Involvement) where the types of CP Involvement are reviewed, and factors that contribute to CP Involvement, examined. This final chapter presents the concluding insights into CP Discourse where the key findings of the thesis are brought in alignment with the research objectives. Reflections on CP Communication (Phase I) and CP Involvement (Phase II) are then discussed. Following that, implications drawn from the empirical results are highlighted and avenues for further research are suggested. Concluding remarks are offered at the end of this thesis. The outline of Chapter 7 is displayed in Figure 7.1.

**Figure 7.1:** Outline of Chapter 7



## 7.2 Thesis Objectives

This thesis derives important insights concerning the CP Discourse of Australian listed firms. For purposes of this thesis, aside from minimal exclusion, the entire population of Australian incorporated firms listed on the ASX as at 2008 is examined. This extensive analysis provides a comprehensive reflection of CP Discourse amongst Australian publicly listed firms.

The primary objective of the study is to examine the CP Discourse of Australian listed firms. A model of philanthropic communication is presented to better understand this (non-) communication, and how such gift-giving is (or is not) communicated, and in what form. To shed additional light on the extent of CP Communication, overarching firm-specific characteristics are examined to identify factors that may explain the level of discourse surrounding its disclosure. To generate important insights, firms that disclose corporate philanthropic information are further analysed to determine the types of CP Involvement and factors (i.e., lagged free cash flow, corporate governance and ownership structure) that influence CP Involvement.

Consequently, this thesis seeks to provide answers to the following key research questions:

1. *What level of communication and ambiguity exists within Australian listed firms' communication of corporate philanthropy?*
2. *What factors explain the varying levels of CP Communication (and non-communication) for Australian listed firms?*
3. *What types of CP Involvement are made by Australian listed firms?*
4. *What are the factors that explain CP Involvement made by Australian listed firms?*

This analysis is important to provide better understanding on the CP Discourse of the Australian listed firms. This is consistent with the emphasis made by the Parliamentary Joint Committee on Corporations and Financial Services (2006) that

the level of reporting can be seen as an important predictor of the level of interest and commitment of the firms on the issue of societal concern. The Committee is also on the strong view that Australian firms should undertake investment in corporate philanthropy as the firms play a pivotal role in the development of the economy and the living standards of all Australians.

### **7.3 Summary of Key Findings**

Corporate discourse is very important to explain material business decisions undertaken by the management that may affect the firm's performance and potential (Balmer and Gray 1999; Lewis 2001). It is suggested that voluntary corporate social communication enable investors to evaluate firm's social performance and would likely assist investors and other stakeholders in making informed judgements and decisions (Sweeney and Coughlan 2008). The discourse of corporate social responsibility information generally, and corporate philanthropy specifically, remains voluntary in the Australian setting.

This thesis investigates CP Discourse in two ways: CP Communication and CP Involvement. Accordingly, this thesis first examines the extent of CP Communication to better understand the level of its disclosure. Based on prior studies, there are a number of firm-specific factors that influence the level of CP Communication. This includes industry, firm size and profitability.

Second, this thesis reflects on the themes of CP Involvement by examining an array of corporate philanthropic activities ranging from Cash to various Non-Cash giving. To generate greater insights on CP Involvement, this thesis evaluates three main attributes that may influence CP involvement. These are lagged free cash flow, corporate governance and ownership structure.

The key research questions and important findings are presented in Table 7.1.

**Table 7.1:** Key research questions and related thesis findings

	Research Questions	Thesis' Findings
Phase I	What level of communication and ambiguity exists within Australian listed firms' communication of corporate philanthropy?	<ul style="list-style-type: none"> <li>• Results of CP Communication<sup>2Groups</sup> indicate a low level CP Communication. Only 16.86 percent (261 firms) of firms communicate some information on corporate philanthropy while the remaining 83.14 percent (1,287 firms) remain silent (Figure 5.3).</li> <li>• Further analysis of CP Communication<sup>3Groups</sup> reveals that Translucent firms (disclose corporate philanthropic information with no details provided about monetary value of giving) accounts for 8.91 percent while Transparent firms (disclose details of corporate philanthropic information with monetary quantification of giving) account for 7.95 percent of the sample firms (Figures 5.4 and 5.5).</li> </ul>
	What factors explain the varying levels of CP Communication (and non-communication) for Australian listed firms?	<ul style="list-style-type: none"> <li>• Firm size (<math>Size_{j,t}</math>) and profitability (<math>Profit_{j,t}</math>) are significant predictors of CP Communication<sup>2Groups</sup>. Larger and more profitable firms have greater corporate philanthropic communication. Industry (<math>Ind_{j,t}</math>) is not a significant predictor for CP Communication<sup>2Groups</sup> (Table 5.6).</li> <li>• Firm size (<math>Size_{j,t}</math>) and profitability (<math>Profit_{j,t}</math>) are significant predictors of CP Communication<sup>3Groups</sup> while industry (<math>Ind_{j,t}</math>) is at times significant (Table 5.8).</li> </ul>
Phase II	What types of CP Involvement are made by Australian listed firms?	<ul style="list-style-type: none"> <li>• Firms involved in various giving types ranging from Monetary to numerous Non-Monetary giving.</li> <li>• Detailed analysis of 15 categories indicate that firms are inclined to engage in other types of giving such as In-Kind (52.87 percent), Sponsorship (47.13 percent) and Partnership (45.21 percent) rather than simply Cash (41.38 percent) giving (Figure 6.2 and Table 6.1).</li> </ul>
	What are the factors that explain CP Involvement made by Australian listed firms?	<ul style="list-style-type: none"> <li>• Lagged free cash flow (<math>FCF_{j,t-1}</math>) and firm size (<math>Size_{j,t}</math>) are significant predictors of CP Involvement (Table 6.5).</li> <li>• The greater the availability of slack resource resources (proxied by lagged free cash flow), the greater the propensity to involve in corporate philanthropy. The result is robust when using the alternate measure of lagged free cash flow of Subramanyam and Wild (2009) (<math>FCF\_SW_{j,t-1}</math>). This finding is consistent with slack resources theory tenets.</li> <li>• Corporate governance (<math>CGS_{j,t}</math>) and ownership structure (<math>OS_{j,t}</math>) do not appear to be significant predictors of CP Involvement.</li> </ul>

While, Table 7.2 presents a summary of hypotheses testing related to Phase I, Table 7.3 provides a summary of conclusions reach from empirical analysis in respect to Phase II hypotheses.

**Table 7.2:** Summary of Phase I key statistical findings

	<b>Independent Variables</b>	<b>Hypotheses</b>	<b>Findings</b>
<i>H1</i>	Industry ( $Ind_{j,t}$ )	The extent of CP Communication is greater for firms in a high profile industry than firms in a low profile industry.	Moderately supported (Tables 5.6 and 5.8)
<i>H2</i>	Firm size ( $Size_{j,t}$ )	There is a positive relationship between firm size and the extent of CP Communication.	Highly supported (Tables 5.6 and 5.8)
<i>H3</i>	Profitability ( $Profit_{j,t}$ )	There is a positive relationship between firm profitability and the extent of CP Communication.	Highly supported (Table 5.6)

Legend: Hypothesis is rejected if p-value > 0.10; moderately supported if  $0.05 \leq$  p-value  $\leq$  0.10; supported if  $0.01 \leq$  p-value < 0.05; highly supported if p-value < 0.01 respectively.

Using a data set of exceeding 1,500 Australian listed firms, Hypotheses 1 to 3 (*H1* to *H3*) are advanced to test the association between the extent of CP Communication and predictor variables (see Section 2.5.1 – 2.5.3). Table 7.2 indicates evidence that firm size ( $Size_{j,t}$ ) and profitability ( $Profit_{j,t}$ ) are significant predictors of CP Communication. The summary table highlights support for the prediction that the larger the firm size and the higher the profitability level, the greater the extent of CP Communication. However, the proposition that industry affiliation is a significant determinant of CP Communication is only partially supported. Industry ( $Ind_{j,t}$ ) is only significant for the difference between (i) Translucent and Transparent, and (ii) Translucent and Opaque categories. However, there is no significant difference between Opaque and Transparent in terms of the industry (see Table 5.8).

**Table 7.3:** Summary of Phase II key statistical findings

	<b>Independent Variables</b>	<b>Hypotheses</b>	<b>Findings</b>
<i>H4</i>	Lagged free cash flow ( $FCF_{j,t-1}$ )	There is a positive relationship between lagged free cash flow and CP Involvement.	Highly supported (Table 6.5)
<i>H5</i>	Corporate governance ( $CGS_{j,t}$ )	There is a negative relationship between corporate governance and CP Involvement.	Rejected (Table 6.5)
<i>H6</i>	Ownership structure ( $OS_{j,t}$ )	There is a negative relationship between ownership structure and CP Involvement.	Rejected (Table 6.5)

Legend: Hypothesis is rejected if p-value > 0.10; moderately supported if  $0.05 \leq$  p-value  $\leq$  0.10; supported if  $0.01 \leq$  p-value < 0.05; highly supported if p-value < 0.01 respectively.

From a the smaller data set of the 123 firms that reported actual CP Involvement, Hypotheses 4 to 6 (*H4* to *H6*) are proposed to test the association between CP Involvement and a set of predictor variables (i.e., lagged free cash flow, corporate governance and ownership structure). Main multiple regression results (see Table 6.5) suggest a significant positive association between lagged free cash flow ( $FCF_{j,t-1}$ ) and CP Involvement. This is consistent with slack resources theory tenets, whereby, the availability of slack resources (proxy with lagged free cash flow) facilitates the pursuit of discretionary activities such as corporate philanthropy. Results are robust for use of an alternate measure of lagged free cash flow per Subramanyam and Wild (2009) ( $FCF\_SW_{j,t-1}$ ). Tests, however, failed to provide sufficient evidence to support the predicted association between corporate governance ( $CGS_{j,t}$ ) and CP Involvement, as well as the association between ownership structure ( $OS_{j,t}$ ) and CP Involvement. This leads to the rejection of *H5* and *H6*.

## **7.4 Reflections on Phase I: CP Communication**

Corporate communication is important as it informs stakeholders about business activities and performance. It can also act as a means to meet stakeholder expectations and address social issues that are of interest to society (Dierkes and Antal 1985; Tee et al. 2007; Ullmann 1985). Voluntary social reporting is one method to foster harmonious relationships with key stakeholders (Tee et al. 2007). In this thesis, CP Communication refers to the extent of the communication of corporate philanthropic information by firms in either the annual report or stand-alone sustainability report, or both. The analysis of CP Communication in this thesis is conducted by, first examining the extent of CP Communication, and second, identifying the factors that influence CP Communication. The data set for Phase I analysis comprises 1,548 firms.

### **7.4.1 Extent of CP Communication**

The extent of CP Communication is investigated by dividing the total sample into two main categories: (i) ‘Non-CP Communicator’ (n = 1,287 firms) and (ii) ‘CP Communicator’ (n = 261 firms). The former refers to a firm that does not communicate any kind of corporate philanthropic information in either the annual report or stand-alone sustainability report. The latter, on the other hand, refers to a firm that communicates some kind of corporate philanthropic information in either the annual report, stand-alone sustainability report or both.

Findings clearly indicate firms are most likely to disclose nothing entirely (Opaque – 83.14 percent), or descriptive information potentially supported with some numeric quantification (Translucent – 8.91 percent). In contrast, few firms are willing to supplement corporate philanthropic information with specific, and clearly communicate, monetary amounts given (Transparent – 7.95 percent). The key question is why the abundance of silence toward corporate philanthropic activities? A number of possible reasons for the observed low level of disclosure include:

- It could be because firms do not provide any giving. However, given the average firm size of more than AUD \$2.5 billion (i.e., logarithmic transformation of 7.72 as shown in Table 5.4), this is an unlikely scenario.
- Muting of corporate philanthropic information could be due to the immateriality of the amount in accounting sense. Defining materiality is a matter of professional judgment. Accordingly, firms could feel that the giving is too immaterial to be disclosed in the key reports.
- Firms could opt not to disclose because of the fear of shareholder anger. This is because increased disclosure heightens the scrutiny from the shareholders as well as the public (Halme and Huse 1997).
- Giving could perhaps be viewed by certain groups of shareholders as unnecessary, and not in the best interests of shareholders. To refrain from this negative perspective, corporate executives may feel that muting of corporate philanthropy activities is the best strategy.
- Equally plausible explanation for the reluctance to disclose corporate philanthropic information is due to the desire to hide executives' 'pet charities' (Bartkus et al. 2002; Hemphill 1999; Wulfson 2001). Corporate executives (in charge of corporate philanthropy) may provide giving to specific donees or charities, or are at the centre of their personal self-interests rather than the firm's best interest. As a motivation to avoid negative publicity, firms may opt not to disclose.
- The desire to shun corporate philanthropic reporting could be explained from a 'strategic silence' viewpoint. That is, as disclosure opens the door for increased scrutiny from the public (Halme and Huse 1997), firms are exposing themselves to constant requests from charitable organisations. To circumvent more charitable organisations asking for yet more, firms would prefer to remain silent.
- The fear of potential negative exposure and the ensuing negative image is also voiced by some corporate executives as the reason for minimal or no reporting (Tee et al. 2007).
- Currently, there are no clear reporting guidelines on corporate philanthropy and an absence of mandatory requirement for such disclosure. Tee et al. (2007) conducted in-depth interviews with corporate executives for their opinion on social reporting. Respondents reveal that the absence of legislative requirements is a primary reason for non-disclosure. This highlights the important role of regulatory bodies and policy-makers in encouraging greater transparency and accountability (which is further discussed in Section 7.6).

To enrich the analysis, and shed additional insights on CP Communication, this thesis expands the examination of CP Communication by modelling a sliding scale of clarity labelled 'Opaque', 'Translucent' and 'Transparent' (see Figure 5.4). Opaque firms are those that fail to disclose any information on charitable involvement in the key reports. This category accounts for the majority of the sample firms (83.14 percent). Transparent firms, on the other hand, are those that

provide qualitative and quantitative (monetary value) information on corporate philanthropy in the key reports (group accounted for 7.95 percent of sample). In between the two extremes are 'Translucent' firms. Translucent firms provide some information on corporate philanthropy in the key reports but the information is not supported with any monetary quantification of the amounts given (group accounted for 8.91 percent of sample) (see Figure 5.4).

The overall low level of *transparent* disclosure implies stakeholders of these firms are not provided with sufficient information regarding the details of corporate philanthropic contributions and its disbursement, specifically, the monetary amount. Further, the low level of transparent disclosure also suggests Australian listed firms are not totally committed to adopting disclosure strategies that enhanced transparency.

The findings are consistent with Milne and Chan (1999) which indicate that voluntary social information are normally presented in qualitative form rather than monetary values. One possible reason is because of the difficulty in quantifying non-cash giving in a monetary value. Firms may indeed be often involved in various types of corporate philanthropy, such as partnership with local communities, in-kind giving and volunteering programmes, which are non-cash based. Thus, firms would probably find it easier to simply describe the non-cash corporate philanthropic information qualitatively rather than attach a monetary value that may require estimates.

However, it could alternatively be argued that more uniform quantitative and transparent disclosure is desirable as it is the nucleus for a more informative approach to reporting. Arguably, it is not only beneficial to the shareholders and other stakeholders, but will also be of assistance to the corporate givers as well. This is because more uniform quantitative reporting (i.e., assigning monetary values to giving) enables more objective assessment and performance evaluation, and provides an important managerial tool for cross-sectoral benchmarking and

international comparison (Tyteca et al. 2002). Therefore, a more proactive role could be taken to ensure adoption of comprehensive corporate social reporting by firms.

## 7.4.2 Factors Influencing CP Communication

Besides examining the extent of CP Communication, this thesis investigates firm-specific variables comprising industry ( $Ind_{j,t}$ ), firm size ( $Size_{j,t}$ ) and profitability ( $Profit_{j,t}$ ), and relates them to CP Communication (see Chapter 5).

### 7.4.2.1 Industry

This thesis classifies the industry proxy into two main categories: high profile and low profile. High profile firms are firms that operate in high profile industries and are more exposed to the political and social environment compared to low profile firms. This thesis recognises Resources and Financials as high profile industry sectors with Manufacturing and Services classified as low profile (see Section 4.3.2 for further explanation).

It is hypothesised that firms in high profile industries are more likely to provide CP communication than firms in low profile industries. However, the analysis of CP Communication<sup>2Groups</sup> indicates that there is no statistically significant difference between industry ( $Ind_{j,t}$ ) affiliation and CP Communication<sup>2Groups</sup> ( $CP\_Comm_{j,t}^{2Groups}$ ) (see Table 5.1). Analysis of CP Communication<sup>3Groups</sup> ( $CP\_Comm_{j,t}^{3Groups}$ ) is counter-intuitive. It is expected that firms in the Transparent category are more likely to be in the high profile industry grouping. Results, however, prove the opposite (see Table 5.3). Said differently, an interesting finding from this thesis is the listed firms considered to be in higher profile industries do not necessarily communicate a greater level of corporate philanthropic information.

Further, multinomial logistic regression results indicate that industry ( $Ind_{j,t}$ ) is a significant predictor for CP Communication of: (i) Translucent and Transparent group, and (ii) Translucent and Opaque group firms. However, CP Communication

is not significantly different for Opaque and Transparent group firms (see Table 5.8). This suggests that if the comparison is made between the two extremes [i.e., Opaque (no disclosure at all) and Transparent (detailed disclosure)], industry is not a significant predictor. However, between those extremes (i.e., communication of some corporate philanthropic information or Translucent), industry is a significant predictor.

#### **7.4.2.2 Firm size**

Firm size ( $Size_{j,t}$ ) is hypothesised to be an important predictor of CP Communication. Thesis findings indicate a significant positive association between firm size and CP Communication (refer Tables 5.6 and 5.8). This implies that the larger the firm size, the greater the tendency for the firm to communicate corporate philanthropic information. The result is consistent with most of the prior literature on the association between firm size and the disclosure of corporate social responsibility (Gao et al. 2005; Reverte 2009; Trotman and Bradley 1981).

As argued by Trotman and Bradley (1981), larger firms tend to receive more attention than smaller firms. Therefore, large firms are under great pressure to demonstrate social concerns to the public (Trotman and Bradley 1981). It could also be argued that larger firms may have more shareholders and employees who are conscious about the firm's social commitment and philanthropic activities. Therefore, enhanced communication can be seen as a medium to provide better information about the firm's social engagement and commitment.

Raffournier (1995) further argues that larger firms are more able to disclose social information than smaller counterparts. This is because larger firms are assumed to have produced such social information for internal purposes. Thus, it may be proportionally less costly for the larger firms to disseminate corporate philanthropic information externally.

Another equally plausible explanation for the positive relationship between firm size and CP Communication is due to the fact that larger firms reside at the vanguard of social responsibility practices, and face more immediate consequences from stakeholder activism (Knox et al. 2005). Therefore, the communication of corporate philanthropy in key reports is a response to demonstrate social responsibility.

### **7.4.2.3 Profitability**

Profitability ( $Profit_{i,t}$ ) is considered an indication of good management and a well-run firm (Belkaoui and Karpik 1989). According to Meek et al. (1995), when the profitability rate is high, there is a propensity for firm to disclose more voluntary information. As corporate philanthropic information is a form of voluntary disclosure, there could be higher propensity for profitable firms to engage in CP Communication.

The findings of this thesis are in alignment with a number of corporate social responsibility disclosure studies in that more profitable firms are more likely to communicate corporate philanthropic information (see Table 5.6 and 5.8). The result supports the proposition that profitability has a positive association with corporate social responsibility disclosure (Gray et al. 2001; Raffournier 1995) (see Tables 5.6 and 5.8).

The significant association between profitability and CP Communication can be explained from the perspective that profitable firms possess extra resources to voluntarily disseminate information. These resources (such as extra financial ability and better management) enable firms to provide voluntary social disclosure (Belkaoui and Karpik 1989).

As argued by Singhvi and Desai (1971), when the rate of return (as measured by the ratio of net profit to net worth) is high, corporate management are inclined to disclose detailed information in order to support the continuance of their positions

and compensation. Therefore, profitable firms tend to communicate their corporate philanthropic information to gain positive support from shareholders and the public.

#### **7.4.2.4 Control variable – Leverage**

Leverage ( $Lev_{j,t}$ ) is included as a control variable in the analysis of CP Communication. This thesis finding indicates that leverage is not a significant predictor for either CP Communication<sup>2Groups</sup> or CP Communication<sup>3Groups</sup>. This suggests that the level of a firm indebtedness does not influence the incentives to communicate corporate philanthropic information.

In summary, there is a very high degree of non-communication of corporate philanthropy with 1,287 out of 1,548 (i.e., 83.14 percent) Australian listed firms surveyed completely silent in key reports. Key reasons may be materiality, managerial fear or strategic silence. The following section highlights key findings in relation to the 261 firms that did provide data on their CP Involvement.

### **7.5 Reflections on Phase II: CP Involvement**

CP Involvement refers to the aggregate of charitable contributions as reported by firms in their key reports. It includes Monetary (Cash) and various other Non-Monetary (Non-Cash) giving. CP Involvement is the focus of the Phase II analysis. This thesis examines CP Involvement from two perspectives: (i) types of CP Involvement and (ii) factors that may explain CP Involvement including lagged free cash flow, corporate governance and ownership structure.

#### **7.5.1 Types of CP Involvement**

Australian listed firms engage in various types of CP Involvement. Broadly, this thesis initially divides CP Involvement into two main categories: *Monetary* and *Non-Monetary*. Subsequently, following the LBG Model, the types of CP Involvement is further divided into four categories labelled as Monetary<sup>Direct</sup>, Management Costs,

In-Kind and Time. Finally, to shed additional light on the various categories of CP Involvement as disclosed by the Australian listed firms, categories are again expanded to better reflect the types of CP Involvement (refer Table 3.4 for further explanation for each of the 15 categories).

The review of CP Involvement in respect to the 15 category schema indicates In-Kind giving accounts for the largest proportional representation with 138 firms of 261 firms in the sample (52.87 percent) involved. Quite a significant number of firms (123 firms) are also involved in Sponsorship. The third largest category of CP Involvement is Partnership giving (118 firms). In addition, firms also encourage employees to be involved in giving programmes such as Volunteering and Employee Giving.

Analysis of CP Involvement indicates Australian listed firms are involved in various types of giving beyond simply giving out cash. This could be because each philanthropic programme may well have its own social objective. For example, firms may engage in Partnership giving because of the belief that such partnerships can be an important platform to pursue long-term relationships with the local communities. This can be seen from the following remark made by Woodside:

Woodside believes long-term relationships with local communities are essential to business success.

(Woodside Sustainable Development Report 2008 p. 25)

Firms may also target certain community programmes that best suit their business activities to engage with the community. For example, Heron, a resource company, believes that community initiative is an important component of its business activities and utilise education programme through the provision of educational support and scholarships as a platform to engage with the community. They state:

The community and stakeholder engagement programmes are a key component of Heron's business activities... and continues to play an active role in the community, through consultation, education and training... Heron is working closely with Curtin University in the development of a new qualification to train indigenous students as geological field assistants.

The aforementioned remarks exemplify the various corporate philanthropic initiatives undertaken by firms to demonstrate their concern towards the community. It also suggests firms may selectively choose certain giving programmes to pursue specific strategic social objectives.

As this subsection elaborated on the various types of CP Involvement, the following subsection explains the factors that determine CP Involvement.

### **7.5.2 Factors Influencing CP Involvement**

Utilising multiple regression analysis, this thesis examines three independent variables (lagged free cash flow, corporate governance and ownership structure) and two control variables (firm size and industry) as predictors of CP Involvement.

#### **7.5.2.1 Lagged Free Cash Flow**

This thesis argues that the availability of slack resources, as measure by lagged free cash flow ( $FCF_{j,t-1}$ ) can potentially influence CP Involvement ( $CP\_Inv_{j,t}$ ). This is because free cash flow represents the available resources that can be used for discretionary purposes such as corporate philanthropy.

The multiple regression results support the prediction of a positive association between lagged free cash flow ( $FCF_{j,t-1}$ ) and CP Involvement ( $CP\_Inv_{j,t}$ ). It is statistically significant at conventional levels (refer Table 6.5). Therefore,  $H4$  is supported. The result is robust when using an alternate measure of lagged free cash flow by Subramanyam and Wild (2009) ( $FCF\_SW_{j,t-1}$ ). In fact, additional analysis of current free cash flows produces the same result. This supports the view that free cash flows (either measured by lagged or current) is a predictor of CP Involvement. Further, this finding is also in line with Johnson and Greening's (1999) suggestion

that firms with slack resources are better able to invest in corporate philanthropy initiatives than firms without such slack resources.

### **7.5.2.2 Corporate Governance**

This thesis captures a comprehensive measure of the strength of a firm's corporate governance structure ( $CGS_{j,t}$ ) by using an equally weighted 25-item index. It is hypothesised that the availability of slack resources enables firms to better provide effective corporate governance mechanisms that prevent unnecessary diversion of resources that conflict with shareholders interests. Contrary to predictions, findings suggest no significant association between corporate governance structure ( $CGS_{j,t}$ ) and CP Involvement ( $CP\_Inv_{j,t}$ ) (refer Table 6.5). Therefore,  $H5$  is rejected.

The insignificant corporate governance structure and CP Involvement association infers that regardless of the level of governance that exists in an Australian listed firm, corporate governance does not influence the level of CP Involvement.

### **7.5.2.3 Ownership Structure**

Ownership structure ( $OS_{j,t}$ ), as measured by its level of concentration, is expected to play an important role in influencing the level of CP Involvement (Atkinson and Galaskiewicz 1988). As high levels of CP Involvement may be viewed as unnecessary, influential shareholders, as measured by the top twenty [20] shareholdings, can potentially act as a governance mechanism to discourage excessive amounts of CP Involvement. Accordingly, this thesis hypothesises a negative relationship between ownership structure ( $OS_{j,t}$ ) and CP Involvement ( $CP\_Inv_{j,t}$ ).

However, this finding is not consistent with the above argument. As documented in Table 6.5, the multiple regression results indicate no significant association between ownership structure ( $OS_{j,t}$ ) and CP Involvement ( $CP\_Inv_{j,t}$ ). Thus,  $H6$  is rejected. This implies that the ownership structure does not play a significant role in

influencing the level of CP Involvement. This finding is consistent with *H5* (i.e., senior management's decision regarding the level of CP Involvement is not influenced by governance mechanisms such as the board).

#### **7.5.2.4 Control Variables – Firm Size and Industry**

The result of multiple regression analysis indicates firm size ( $Size_{j,t}$ ) is a significant positive predictor of CP Involvement ( $CP\_Inv_{j,t}$ ) (refer Table 6.5). This suggests the larger the firm size, the greater the CP Involvement.

This result is consistent with prior studies that examine the impact of firm size and CP Involvement (Adams and Hardwick 1998; Amato and Amato 2007; Boatsman and Gupta 1996; Buchholtz et al. 1999). Larger firms are expected to have gained economies of scale and reduced costs compare to smaller firms (Porter 1985). This in turn gives larger firms more room to become involved in discretionary activities such as corporate philanthropy. Further, according to Johnson and Greening (1999), larger firms have more resources to better fund community initiatives.

As for industry ( $Ind_{j,t}$ ), it is not a significant predictor of CP Involvement. This suggests that the industry affiliation (i.e., whether a firm resides in a low profile industry of a high profile industry) does not influence the aggregate amount of giving.

## **7.6 Implications**

Intriguing aspects of this thesis are the key (somewhat unexpected) findings about CP Discourse. The discussion of the implications is divided into Phase I (CP Communication) and Phase II (CP Involvement).

### **7.6.1 Implications for Phase I: CP Communication**

CP communication in this thesis is examined to identify the level of communication of corporate philanthropic information by Australian listed firms in either the annual report or stand-alone sustainability report, or both. For researchers, this thesis provides a fruitful avenue for further research. This is because most of the previous studies examine other elements of corporate social responsibility (Chapple and Moon 2005; Herremans et al. 1993; Roberts 1992). Even though there are a number of studies that examine specific areas of corporate social responsibility, such as the environment (Clarkson et al. 2008; de Villiers and van Staden 2006; Wiseman 1982), there are very few studies specialising in corporate philanthropy. This thesis provides important preliminary insights into the issue of corporate philanthropic discourse.

The result of this study could also be of interest to the business organisations. The findings indicate that larger firms are more likely to communicate their corporate philanthropic information than the smaller counterparts (refer Tables 5.6 and 5.8).

As for the corporate governance practices, on average, the 'Transparent' communicators (n = 123) level of compliance is 86.89 percent (refer Table 6.3). This implies that the level of corporate governance for the 'Transparent' Australian listed firms approach a high level of 'best practice' guidelines.

The findings indicate a very low level of transparent communication of corporate philanthropy (i.e., 7.95 percent of entire population of Australian listed firms on ASX as at 2008). Specifically, there are only 261 firms that communicate details (including the monetary amount of CP Involvement) whilst 1,287 firms remain silent. As better and more transparent disclosure is desirable, the top management's role in encouraging better communication is very important. Interviews with top management conducted by Tee et al. (2007) reveal that top management initiative is an essential prerequisite towards social reporting. Further, based on Tee's et al (2007) findings, corporate managers believe social reporting training should be

made compulsory for all directors to ensure it is taken seriously. In other words, serious efforts to promote social reporting should be targeted at the top management as they reside at the strategic apex of the firm's decision making.

In addition, enhanced and better communication would assist shareholders and other key stakeholders to make much more informed judgements concerning the appropriateness of senior corporate managers' corporate philanthropic policies. Better communication benefits the firms as it enables the reporting firm to evaluate their donation programme, such as understanding the social impact of their CP Involvement on local communities. Social communication can be an effective means to promote corporate philanthropic initiatives which in turn leads to enhanced social cohesion and spirit of coordination.

In terms of the medium used to channel corporate philanthropic information, the analysis in Section 5.2 shows that *all* of the firms that produce a stand-alone sustainability report (n = 45) employ this medium to publicise corporate philanthropic information. This suggests that an increase in the use of stand-alone sustainability reports in the future may increase corporate philanthropic data dissemination.

The findings of this thesis can also be of use to regulators and policy makers. Regulators could reshape the corporate philanthropic reporting landscape and play a constructive role in ensuring greater transparency and accountability. More efficient and effective guidance and clear reporting guidelines on CP Communication could be developed. This in turn could not only benefit preparers but also benefit the various stakeholders groups. Preparers would gain by having a clear reporting framework that assists in assessing and evaluating giving programmes and to gain a comparative advantage. Stakeholders would benefit by gaining far better understanding of the corporate philanthropy initiatives undertaken by firms, together with related disbursement. Better communication would clearly enable the stakeholders to make better informed decisions.

Though there are a number of overarching global corporate philanthropic reporting guidelines in place worldwide (such as the LBG model), there are no specific guidelines in Australia. Arguably, corporate philanthropic uptake, and its reporting, should be further improved. The existence and need for a clear and systematic external communication framework could cultivate more favourable attitudes towards corporate philanthropic communication.

Some would argue that regulatory measures are necessary to ensure all corporations abide by the agreed standards and ensure that implementation is uniform for all listed firms. Given the absence of specific statutory requirements for Australian listed firms to disclose corporate philanthropic information, regulators should at the very least strongly encourage further voluntary actions to achieve the objectives of transparency and accountability. Government can also play a more proactive role in adopting corporate philanthropic practices by acting as a best practice through government agencies and quasi-government agencies.

Furthermore, a more vigorous intervention by the government, including enactment of an accounting standard with regard to corporate philanthropic reporting could be done. The benefits derived from such standard could include more transparent communication and greater stakeholder confidence. Given the recent world survey, the *World Giving Index 2010*, that ranked Australia (equal with New Zealand) as the most charitable nation in the world, better corporate philanthropic communication can push Australian listed firms toward international benchmarks for responsible business conduct.

In addition, the Australian government could follow the initiatives undertaken by the United Kingdom whereby the United Kingdom listed firms are required by the 1967 Companies Act and updated Schedule 7, Companies Act (1985) to disclose the actual amount of cash giving (Bennett 1997; Campbell and Slack 2008, Cowton 1987). Nevertheless, a major omission of this requirement is that it does not cover in-kind and non-cash donations (Campbell and Slack 2008). This thesis suggests that

the Australian government should adopt a more comprehensive disclosure (i.e., cash and non-cash). This is because such detailed disclosure would assist investors and other stakeholders to make informed decisions. It would also provide a better overview of the firm's social performance. Such improvements in the quality of financial reporting would positively impact on the efficiency of the Australian capital market and potentially advantage the comparability of financial information across firms, whether at home or abroad.

### **7.6.2 Implications for Phase II: CP Involvement**

The findings of Phase II (CP Involvement) indicate there are various types of corporate philanthropy initiatives undertaken by Australian listed firms (though it is acknowledged such participation does not encompass a majority of all Australian listed firms). As for factors that may help explain CP Involvement, lagged free cash flow and firm size are shown to be significant predictors (see Table 6.5).

For business organisations, the understanding of various types of CP Involvement enables firms to better organise, classify and communicate corporate philanthropy programmes. This can also assist firms to strategise corporate philanthropy initiatives to better optimise social benefits to be potentially gained. Findings from the main multiple regression analysis (refer Table 6.5) indicate there is a significant positive association between lagged free cash flow and CP Involvement. This highlights the important of slack resources to facilitate involvement in corporate philanthropy activities. The result is consistent with Seifert et al. (2004) that find support for the relationship between free cash flow and corporate philanthropy.

Finally, from an overarching societal viewpoint, CP Involvement can bring about better improvements in society. This is because the collective impact of CP Involvement is critical to the development of a nation's economic growth, and assists to reduce poverty and inequalities, as well minimising (if not solving) social problems (Campbell et al. 1999). It can also fundamentally strengthen the relationship between the firm and community.

## 7.7 Suggestions for Future Research

This thesis investigated various types of CP Involvement revealing firms are involved in various forms of assistance and community initiatives. Future research could investigate, by means of interviews, focus groups and case studies, how these activities can be better embedded into a firm's strategy, and how firms can effectively best manage community investment to maximise the highest possible impact on the community as well as enhancing firm value. Arguably, there is currently a lack of a clear and proper strategy in place for community investment at the Australian corporate level amongst listed firms. Future research can look at how the various corporate philanthropy programmes can properly be managed to ensure social investments generate reciprocal beneficial outcomes. This position can be seen from the following quotation from Woolworths Limited, Corporate Social Responsibility Report 2008:

...we are currently developing a community investment strategy to address our responsibility to the communities in which we operate. While we already have a range of community programs in place, we realise that we need to review and better understand the broader social issues that may be affected by our business, and tailor our community investment to meet these needs. (Woolworths Limited, Corporate Responsibility Report 2008 p.52)

The quote highlights the view that better management of corporate philanthropic programmes at the micro level is necessary to ensure that the social objective can materialise. It also implies firms are required to take a greater role in managing the philanthropic endeavour to generate reciprocal tangible benefits.

Future research could extend the quantitative approach of this thesis by expanding the timeframe (i.e., conduct a longitudinal study), and consider the impact of the recent 2008-2010 global economic crisis on corporate philanthropy. Such an approach could generate greater insights into the pattern of corporate philanthropic involvement upon different economic cycles.

Additionally, other variables that could explain CP Involvement can be explored. For instance, internationality (Raffournier 1995), where firms are being listed in multiple stock exchange, can be investigated. This enables better understanding of CP Involvement from an international perspective to be generated. Future research could also be expanded by undertaking comparative studies across countries or regional jurisdictions to identify the different jurisdictional influences on corporate philanthropy.

With regard to the low level of corporate philanthropic communication, future research could explore this from the perspective of corporate managers in charge of corporate philanthropy. Again, interview and survey techniques may be used. Such an approach could help to better explain ‘strategic silence’ and other possible explanations discussed in Section 5.6. Such research could generate greater insights into the reasons for the absence, or minimum disclosure, of corporate philanthropy.

In addition, there is a need for more interdisciplinary research on corporate philanthropy such as marketing and management links. It is also interesting to examine corporate philanthropy at the micro level such as the relationship between corporate philanthropy and a firm’s sustainability and competitiveness, the link between corporate philanthropy and the firm’s social, as well as financial performance. At the micro level, the role of corporate philanthropy in enhancing social standards could be explored. This will then enable a better understanding of corporate philanthropy.

## **7.8 Concluding Remarks**

This thesis has provided crucial new insights into the CP Discourse of the Australian listed firms. Such insights greatly add to the collective understanding in terms of CP Communication and CP Involvement. According to Mason (2008), the most obvious manifestation of corporate transparency is voluntary corporate disclosure. Findings presented in this thesis indicate very low levels of CP Communication. Several explanations are advanced such as ‘strategic silence’, hiding ‘pet charities’ and

materiality. Lack of overall CP Communication suggests the Australian government should move away from a traditional *laissez faire* position and instead play a more proactive role. This could be done by encouraging greater awareness, understanding and uptake of CP Communication to create a more informative environment that facilitates better accountability, understanding and decision-making.

As the awareness about corporate social responsibility continues to evolve, greater emphasis should be placed on CP Involvement as it is one of the key items of corporate social responsibility for any society (Carroll 1999). Most firms believe that investing in the community is very important for a firm's continued survival<sup>43</sup>. Therefore, greater CP Involvement should be promoted to ensure reciprocal benefits to the corporations and the society at large.

Finally, this thesis makes important contributions to the CP Discourse by Australian listed firms. Explanations are advanced to better understand the low level of corporate communication of any philanthropic activities. With regard to CP Involvement, the examination of lagged free cash flow, corporate governance and ownership structure (together with firm size and industry) offers new insights for firms and other stakeholders to better understand this important societal activity.

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<sup>43</sup>Support for ongoing CP Discourse can be seen from the following remarks made by the Australian listed firms as disclosed in their key reports: "Sustainability also means ensuring we make a positive and enduring contribution to the communities in which we live and work." (Ausenco Corporate Review 2008 p. 17). "Creating places and contributing to communities is at the heart of what we do. Strengthening our place within the community is one of the key pillars of our Corporate Responsibility and Sustainability strategy" (Stockland Corporate Social Responsibility Report 2008 p. 9). "Jabiru places great importance on good relationships with local communities. The company is committed to being a 'good neighbour' and intends to operate with this in mind at all times." (Jabiru Metals Limited Annual Report 2008 p. 12). "Great Southern prides itself on being a good corporate citizen and a good neighbour to the communities..." (Great Southern Limited Annual Report 2008 p. 24). Yet oddly, the low level of CP Communication found in this thesis raises questions about the true commitments by Australian listed firms.

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## Appendices

### Appendix A

#### Descriptive Statistics

Appendix A further explores the descriptive statistics as depicted in Table 6.3 of Chapter 6.

**Table A.1:** Descriptive statistics

<b>PANEL A: DESCRIPTIVE STATISTICS</b>				
Statistic	$FCF_{j,t-1}$ (AUD\$)	$FCF_{j,t}$ (AUD\$)	$CGS_{j,t}$ (%)	$OS_{j,t}$ (%)
<b>CELL 1 - TOTAL (n = 261 FIRMS)</b>				
Mean	-59,492,248	-156,272,957	82.50	68.53
Median	14,211,000	11,731,000	88.00	70.11
Std. Dev.	2,370,111,139	3,295,010,813	14.42	17.29
Minimum	-19,348,000,000	-26,788,000,000	28.00	8.88
Maximum	15,698,126,548	19,623,267,898	100.00	100.00
<b>CELL 2 - TRANSLUCENT (n = 138 FIRMS)</b>				
Mean	114,773,803	157,694,352	78.58	69.35
Median	8,490,500	5,541,000	84.00	71.09
Std. Dev.	810,154,033	1,690,783,437	16.26	16.32
Minimum	-485,500,000	-2,712,163,300	28.00	8.88
Maximum	9,370,462,796	19,623,267,898	100.00	99.87
<b>CELL 3 - TRANSPARENT (n = 123 FIRMS)</b>				
Mean	-255,010,257	-508,528,962	86.89	67.62
Median	30,588,045	32,958,355	88.00	69.75
Std. Dev.	3,340,901,825	4,437,480,715	10.47	18.34
Minimum	-19,348,000,000	-26,788,000,000	36.00	17.89
Maximum	15,698,126,548	16,089,756,909	100.00	100.00
<b>PANEL B: T-TEST<sup>a</sup></b>				
Statistic	$FCF_{j,t-1}$ (AUD\$)	$FCF_{j,t}$ (AUD\$)	$CGS_{j,t}$ (%)	$OS_{j,t}$ (%)
Mean difference	369,784,060	666,223,314	-8.315	1.731
t-value	1.197	1.567	-4.962	0.807
Sig.	0.234	0.119	0.000*	0.420

Legend:  $FCF_{j,t-1}$  = the free cash flow for firm  $j$  at time  $t-1$  as defined by Lehn and Poulsen (1989) and Lang et al. (1991);  $FCF_{j,t}$  = the free cash flow for firm  $j$  at time  $t$  as defined by Lehn and Poulsen (1989) and Lang et al. (1991);  $CGS_{j,t}$  = the total corporate governance score for firm  $j$  at time  $t$  based on the total sum of scores awarded per item of the twenty five [25] point, expressed as a percentage of the total possible score;  $OS_{j,t}$  = the proportion of top twenty [20] shares for firm  $j$  at the financial year end of period  $t$ . Std Dev. = Standard deviation. Panel A shows the descriptive statistics where the results are presented in three cells. Cell 1 documents the total firms that communicate their CP Involvement while Cell 2 and 3 show the descriptive results for the two sub-categories, Translucent and Transparent respectively. Panel B reports the t-test results. <sup>a</sup> t-test was conducted by comparing the Translucent and Transparent. \* highly significant (p-value < 0.01).

Table A.1 provides further insights into the difference between Translucent (i.e., firms that communicate some information on corporate philanthropy but the information is not supported with monetary quantification of the giving;  $n = 138$ ) and Transparent (i.e., firms that communicate details about corporate philanthropic information including the monetary amount of giving;  $n = 123$ ). The average lagged free cash flow ( $FCF_{j,t-1}$ ) for the sample ( $n = 261$ ) is  $-\$59,492,248$ . Further breakdown of the figure indicates that the average lagged free cash flow ( $FCF_{j,t-1}$ ) for the Translucent is a huge positive of  $\$114,773,803$  and a huge negative for Transparent  $-\$255,010,257$ . The standard deviation for the Transparent firms is much higher ( $\$3,340,901,825$ ) compared to Translucent firms ( $\$810,154,033$ ). This suggests that lagged free cash flow ( $FCF_{j,t-1}$ ) for Transparent firms is more dispersed compared to Translucent firms.

In addition to lagged free cash flow ( $FCF_{j,t-1}$ ), the current free cash flow ( $FCF_{j,t}$ ) is also computed. The same pattern appears for the current free cash flow ( $FCF_{j,t}$ ). As can be seen from Table A.1, the Translucent firms report a huge positive of average free cash flow ( $FCF_{j,t}$ ) ( $\$157,694,352$ ) while a huge negative is reported by the Transparent firms ( $-\$508,528,962$ ).

However, t-test results (Table A.1 Panel A) indicate that there is no statistically significant difference between Transparent and Translucent firms in terms of lagged ( $FCF_{j,t-1}$ ) or current free cash flow ( $FCF_{j,t}$ ) (p-values = 0.234 and 0.119 respectively).

## Appendix B

### Variance Inflation Factor and Tolerance

As discussed in Section 6.5.2 of the main text, there are no multicollinearity issues encountered in this thesis data set. Table B.1 presents the values of the tolerance and variance inflation factor (VIF).

**Table B.1:** Values of tolerance and variance inflation factor (VIF) for the multiple regression results of CP Involvement

Variables	Collinearity Statistics	
	Tolerance	VIF
$FCF_{t-1}$	0.886	1.129
$CGS_{j,t}$	0.882	1.133
$OS_{j,t}$	0.925	1.082
$Size_{j,t}$	0.798	1.252
$Ind_{j,t}$	0.943	1.061

Legend: The dependent variable is  $CP\_Inv_{j,t}$  = the aggregate of charitable contributions as reported by firm  $j$  in the key reports for time  $t$ . It includes cash and various other non-cash giving;  $FCF_{j,t-1}$  = the free cash flow for firm  $j$  at time  $t-1$  as defined by Lehn and Poulsen (1989) and Lang et al. (1991);  $CGS_{j,t}$  = the total corporate governance score for firm  $j$  at time  $t$  based on the total sum of scores awarded per item of the twenty five [25] point, expressed as a percentage of the total possible score;  $OS_{j,t}$  = the proportion of top twenty [20] shares for firm  $j$  at the financial year end of period  $t$ ;  $Size_{j,t}$  = the logarithmic transformation of the book value of total assets of firm  $j$  at the end of the financial year  $t$  expressed in Australian dollars;  $Ind_{j,t}$  = firm  $j$  is scored zero [0] if operated in a low profile industry, otherwise one [1] if operated in a high profile industry.

## Appendix C

### Mahalanobis Distance and Cook's Distance

**Table C.1:** Mahalanobis distance for the multiple regression results of CP Involvement

	Minimum	Maximum	Mean	Standard Deviation
Mahalanobis Distance	1.229	35.671	4.959	5.845

Legend: n = 123.

Table C.1 illustrates Mahalanobis distance score with a minimum score of 1.229 and a maximum score of 35.671. As the maximum value exceeds the critical limit of 25 (quote), this suggests that possible outliers exist in the model. A close examination of the data set highlights three cases where the values are greater than 25. Of these three cases, further analysis of the Cook's distance uncovers a case with a Cook's distance value of 4.518. In theory, this case can be eliminated from the sample set. The remaining two cases have a Cook's distance of less than 1. Table D.1 below shows the results of Cook's Distance score for the multiple regression results of CP Involvement.

**Table C.2:** Cook's distance for the multiple regression results of CP Involvement

	Minimum	Maximum	Mean	Standard Deviation
Cook's Distance	0.000	4.518	0.048	0.411

Legend: n = 123.

Therefore, additional multiple regressions to test the association between CP Involvement and a set of predictors are conducted with and without this sole outlier. Table C.3 (which is similar to Table 6.5 of the main text) reports the result with the outlier. Meanwhile, Table C.4 presents the multiple regression result when the outlier is removed.

## Appendix D

### Multiple regression results with and without outlier

**Table D.1:** Multiple regression results for CP Involvement (if retain outlier)

Full regression				
N	123			
F value	6.581			
Significant	0.000			
Adjusted R <sup>2</sup>	0.186			
Variables	Coefficient	Beta	t-value	Sig.
Constant	-79,117,853		-4.029	0.000
<i>FCF<sub>t-1</sub></i>	0.002	0.295	3.403	0.001*
<i>CGS<sub>j,t</sub></i>	168,030	0.095	1.098	0.138
<i>OS<sub>j,t</sub></i>	-45,899	-0.046	0.537	0.296
<i>Size<sub>j,t</sub></i>	7,578,229	0.403	4.407	0.000*
<i>Ind<sub>j,t</sub></i>	1,970,848	0.054	0.637	0.525

Legend: n = 123. Table D.1 multiple regression equation is stated as:  $CP\_Inv_{j,t} = \alpha_j + \beta_1 FCF_{j,t-1} + \beta_2 CGS_{j,t} + \beta_3 OS_{j,t} + \beta_4 Size_{j,t} + \beta_5 Ind_{j,t} + \varepsilon_j$  Where:  $CP\_Inv_{j,t}$  = the aggregate of charitable contributions as reported by firm  $j$  in the key reports for time  $t$ . It includes Cash and various other Non-Cash giving;  $FCF_{j,t-1}$  = the free cash flow for firm  $j$  at time  $t-1$  as defined by Lehn and Poulsen (1989) and Lang et al. (1991);  $CGS_{j,t}$  = the total corporate governance score for firm  $j$  at time  $t$  based on the total sum of scores awarded per item of the twenty five [25] point, expressed as a percentage of the total possible score;  $OS_{j,t}$  = the proportion of top twenty [20] shares for firm  $j$  at the financial year end of period  $t$ ;  $Size_{j,t}$  = the logarithmic transformation of the book value of total assets of firm  $j$  at the end of the financial year  $t$  expressed in Australian dollars;  $Ind_{j,t}$  = firm  $j$  is scored zero [0] if operated in a low profile industry, otherwise one [1] if operated in a high profile industry;  $\beta$  = the estimated coefficient for each item;  $\alpha_j$  = the intercept; and  $\varepsilon_j$  = the error terms. \* significant at the 0.01 confidence level.

**Table D.2:** Multiple regression results for CP Involvement (if remove outlier)

Full regression				
n	122			
F value	5.016			
Significant	0.000			
Adjusted R <sup>2</sup>	0.142			

Variables	Coefficient	Beta	t-value	Sig.
Constant	-38,280,299		-2.767	0.007
<i>FCF<sub>t-1</sub></i>	0.001	-0.173	-1.832	0.018 **
<i>CGS<sub>j,t</sub></i>	101,498	0.087	0.971	0.167
<i>OS<sub>j,t</sub></i>	8,596	0.013	0.147	0.442
<i>Size<sub>j,t</sub></i>	3,688,521	0.293	3.026	0.002*
<i>Ind<sub>j,t</sub></i>	-919,810	-0.038	-0.433	0.665

Legend: n = 122. Table D.2 multiple regression equation is stated as:  $CP\_Inv_{j,t} = \alpha_j + \beta_1 FCF_{j,t-1} + \beta_2 CGS_{j,t} + \beta_3 OS_{j,t} + \beta_4 Size_{j,t} + \beta_5 Ind_{j,t} + \varepsilon_j$  Where:  $CP\_Inv_{j,t}$  = the aggregate of charitable contributions as reported by firm  $j$  in the key reports for time  $t$ . It includes Cash and various other Non-Cash giving;  $FCF_{j,t-1}$  = the free cash flow for firm  $j$  at time  $t-1$  as defined by Lehn and Poulsen (1989) and Lang et al. (1991);  $CGS_{j,t}$  = the total corporate governance score for firm  $j$  at time  $t$  based on the total sum of scores awarded per item of the twenty five [25] point, expressed as a percentage of the total possible score;  $OS_{j,t}$  = the proportion of top twenty [20] shares for firm  $j$  at the financial year end of period  $t$ ;  $Size_{j,t}$  = the logarithmic transformation of the book value of total assets of firm  $j$  at the end of the financial year  $t$  expressed in Australian dollars;  $Ind_{j,t}$  = firm  $j$  is scored zero [0] if operated in a low profile industry, otherwise one [1] if operated in a high profile industry;  $\beta$  = the estimated coefficient for each item;  $\alpha_j$  = the intercept; and  $\varepsilon_j$  = the error terms. \*, \*\* significant at the 0.01 and 0.05 confidence levels respectively.

As can be seen from Table D.1 and D.2, the results remain the same if the outlier is retained or removed (except for a slight change in the level of significance for lagged free cash flow). Thus, for the main analysis, the 'potential outlier' is retained.

**Appendix E**  
**Additional Analysis**

**Table E.1:** Multiple regression result (excluding Employee Giving category)

<b>Full regression</b>				
n	123			
F value	6.599			
Significant	0.000			
Adjusted R <sup>2</sup>	0.187			
<b>Variables</b>	<b>Coefficient</b>	<b>Beta</b>	<b>t-value</b>	<b>Sig.</b>
Constant	-78,783,147		-4.019	0.000
$FCF_{j,t-1}$	0.002	0.299	3.446	0.001*
$CGS_{j,t}$	166,869	0.095	1.092	0.277
$OC_{j,t}$	-46,290	-0.046	-0.543	0.588
$Size_{j,t}$	7,553,023	0.402	4.400	0.000*
$Ind_{j,t}$	1,973,055	0.054	0.639	0.524

Legend: n = 123. Table E.1 multiple regression equation is stated as:  $CP\_Inv_{j,t} = \alpha_j + \beta_1 FCF_{j,t-1} + \beta_2 CGS_{j,t} + \beta_3 OS_{j,t} + \beta_4 Size_{j,t} + \beta_5 Ind_{j,t} + \varepsilon_j$  Where:  $CP\_Inv_{j,t}$  = the aggregate of charitable contributions as reported by firm  $j$  in the key reports for time  $t$  (Note: For Table E.1, the  $CP\_Inv_{j,t}$  is calculated by excluding the Employee Giving category). It includes Cash and various other Non-Cash giving;  $FCF_{j,t-1}$  = the free cash flow for firm  $j$  at time  $t-1$  as defined by Lehn and Poulsen (1989) and Lang et al. (1991);  $CGS_{j,t}$  = the total corporate governance score for firm  $j$  at time  $t$  based on the total sum of scores awarded per item of the twenty five [25] point, expressed as a percentage of the total possible score;  $OS_{j,t}$  = the proportion of top twenty [20] shares for firm  $j$  at the financial year end of period  $t$ ;  $Size_{j,t}$  = the logarithmic transformation of the book value of total assets of firm  $j$  at the end of the financial year  $t$  expressed in Australian dollars;  $Ind_{j,t}$  = firm  $j$  is scored zero [0] if operated in a low profile industry, otherwise one [1] if operated in a high profile industry;  $\beta$  = the estimated coefficient for each item;  $\alpha_j$  = the intercept; and  $\varepsilon_j$  = the error terms. ns = not significant. \* significant at the 0.01 confidence level.

Additional analysis is also conducted to identify the effect if the Employee Giving is excluded from the definition of CP Involvement. Some might argue that Employee Giving does not form a part of CP Involvement. This is because it is viewed as the cost to individual employee and not the giving firm. Yet, this thesis considers Employee Giving as a part of CP Involvement. This is because it is assumed to represent a cost to the firm where payments are made through the firm rather than the individual employee makes direct contribution to the charitable organisation. This inclusion is consistent with Hill et al. (2003) and Zappalà and Cronin (2002).

The result shown in Table E.1 indicates that there is no significant difference from the main multiple regression results as reported in Table 6.5. Thus, for the main analysis, Employee Giving is included for CP Involvement calculation and definition.