# Determinants of Corporate Philanthropy in Pakistan

Muhammad Abdul Majid Makki (Corresponding author)
Lecturer Dept. of Commerce, The Islamia University of Bahawalpur, Pakistan
abdul7896@yahoo.com.au

Dr. Suleman Aziz Lodhi
Assistant Professor, National College of Business Administration & Economics Lahore, Pakistan
sulemanlodhi@yahoo.com

**Abstract**

The importance of corporate philanthropy and its related philosophy of corporate social responsibility have captured the attention of researchers and humanitarian groups in WTO era. Corporate donations have been considered as a critical tool to improve corporate image in a highly competitive environment. This paper explores the determinants of corporate donations based on LSE-25 index companies over the five year period 2002-06. Multiple regression techniques have been used for gauging the determinants of corporate philanthropy after collecting data from audited financial reports of companies. The study is a pioneering attempt in measuring the determinants of philanthropy in corporate sector of Pakistan.

**Keywords:** corporate philanthropy, charitable contributions, LSE-25, corporate donations.

## 1. Introduction

After independence in 1947, Pakistan started corporate journey with fewer and weaker industrial units and infrastructure but achieved a considerable development in industry & trade until 1960s. During Ayub regime Pakistani corporate sector was widely criticized on the basis of accumulating wealth within 22 families and not contributing towards social betterment of society. Until that time there was no research on corporate philanthropy to reveal the truth. After the end of 2nd world war 1945, most of the agriculture based economies were transformed to corporate industrial economies in majority of European countries and U.S.A. As a result, international and multinational companies were evolved around the globe and were not paying proper attention towards environment, education, health and social issues. But with the passage of time stakeholders in collaboration with humanitarian, social and environmental groups started to pressurize corporate powerhouses to pay attention to their social responsibilities. Even until the mid of 1950s, legal view was corporate philanthropy is beyond the power of corporations and contributions not directly related to the purpose of the corporation were illegal (Kahn, 1997).

Routes of corporate social responsibility go back to religions of the world. Islam, Christianity, Judaism and Buddhism emphasize on philanthropy explicitly. Religious charity like Zakat, Ushr, Sadqa and Fitrana provide strong foundations to compulsory and optional donations for social causes. Zakat and Ushr Ordinance 1980 is also an example of religious corporate philanthropy in Pakistan. The present study focuses on LSE-25 index companies and measures the impact of earnings before tax, firm size and advertising intensity on corporate philanthropy through multiple regression techniques.

## 2. Literature review

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

Strategic use of corporate donations has widely been important for academic researchers and business professionals in the late 1990s and in the beginning of 21st century. Many business managers engage their firms in philanthropic activities to enhance customer relations and build a positive corporate image, which leads to long term financial success. Companies having more contact with general public are more tending towards corporate giving. Porter and Cramer (2002) detected that Philip Morris spent $100 million to publicize their $75 million contributions towards charitable causes to create better stakeholders relations.

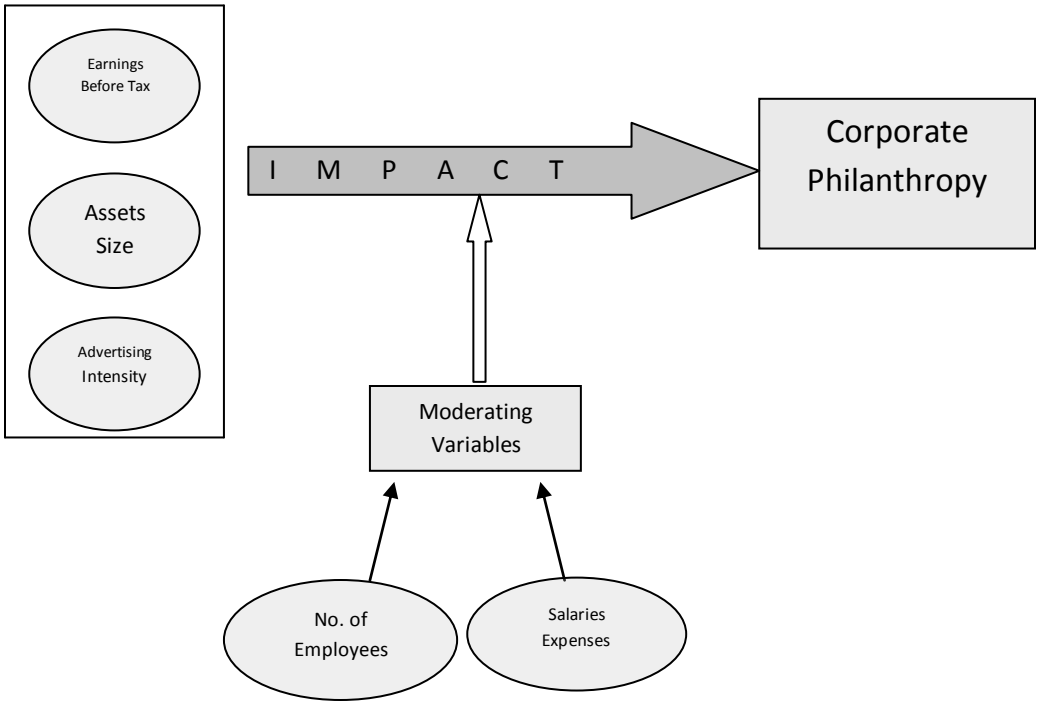
Maignan et al. (1999) while conducting a research on business benefits of corporate citizenship found that 88% of consumers like to buy from socially responsible corporations while 76% showed their willingness to switch-over to those brands which belong to socially responsible organizations. Hess et al. (2002) in a survey of 1000 consumers in USA found that 43% of respondents were impressed by corporations which donate more towards social development. Saiia et al. (2003) highlight the corporate philanthropy the perceptions of firm in the eyes of customers, suppliers, investors, employees, volunteering groups and regulators.

After a number of research studies, relationship between profitability and humanitarian contributions remain generally mixed and inconclusive. Waddox and Graves (1997) found strong link between corporate social performance and financial performance. Neiheisel (1994), while analyzing political issues of corporate philanthropy in USA ended that profit has significantly positive association with corporate donations. Seifert et al. (2003) found weaker positive correlation between available cash and corporate giving. On the other side of the fence are Kedia and Kuntz (1981) who have found negative correlation between assets size and contributions as a percent of net income during an empirical study of Texas banks. Brown et al. (2006) analyzes the corporate philanthropic practices and concludes that larger board of directors is associated with more corporate giving.

Slack resources theory can be matched while studying the relationship between earnings and corporate philanthropy. It can be argued that high earnings provide slack resources to set aside for charitable purposes. Roberts (1992) while determining the corporate social disclosures give argument that firms involve themselves more in corporate philanthropic activities when slack resources are available.

**3. Conceptual model and hypotheses development:** This paper measures the influence of earnings before tax, assets size and advertising intensity on corporate philanthropy. The empirical model to be developed here hypothesizes that corporate donations are effected by firm's profitability in terms of earnings before tax, size of the firm in terms of total assets, advertising intensity in terms of annual advertising expenses, whereas number of employees and their salaries are taken as moderating variables.

**Figure 1: Conceptual framework of the study**



**3.1 Dependent variable**

Following the previous studies and considering the limitations of data availability only contributions shown under the head 'donations' whether cash or kind are considered as corporate philanthropy for the purpose of this research. Data was available from the audited annual reports of LSE-25 index companies. As, Securities and Exchange Commission of Pakistan requires all listed companies to disclose corporate donations in their profit & loss accounts in compliance with part III, E-1 of schedule 4 of Companies Ordinance 1984.

**3.2 Independent variables**

1) Earnings before tax: Corporations usually contribute donations from their pretax earnings in order to minimize the after tax cost of contributions. They like to donate to those charitable organizations that have been registered with federal board of revenue in order to gain tax deductibility from their donations. Otherwise they have to make personal donations out of after tax dividend or net profit after tax (Maddox, 1981). That's why earnings before tax were selected as independent variable rather than earnings after tax.
2) Firm size: Literature review shows that firm size significantly affects corporate giving. Botsman and Gupta (1996) while studying relationship between tax and corporate charity examined large companies donate more than small enterprises. In the same way, Useem (1988) while exploring the factors of corporate contributions concluded that large firms contribute more donations regardless of their profits. Amato and Amato (2007) study a broad range of firm size and charitable contributions and find evidence of cubic relationship between charitable giving and firm size. He concluded that small and large firms give more as compare to medium firms. Considering the importance of firm size in charitable giving, it can be taken as independent variable.
3) Advertising intensity: Some corporations view strategic management of corporate philanthropy increasing corporate images same like advertising and public relation expenses. Fry et al. (1982) found the charitable giving level was related to advertising because donations play important role in creating favorable corporate image partly.

**3.3 Moderating variables**

After a thorough study of literature, it can be argued that number of employees and their salaries & wage expenses can be treated as proxy for size of the firm in a labor intensive economy like Pakistan. Majority of companies in LSE-25 employ thousands of workforce and paying billions of rupees as salaries and wages. More employees in an organization make the company more visible in the society. An organization with high number of employees faces ethical pressure from its employees as well as from general public to contribute for humanitarian and social cause. Millington and Brammer (2006) concludes that more visible is an organization higher would be corporate philanthropic expenditure. Organization theory suggests that larger organizations are generally expected to assist social programs not only by cash but also through sparing its employees for humanitarian cause. So, they can be taken as moderating variables.

**4. Population**

The study focuses on LSE-25 public listed companies as there was very lesser possibility of collecting data from non listed public limited and private limited firms. Data were collected from the head offices & websites of LSE-25 companies of relevant companies and Lahore Stock Exchange and represents more than 5 industrial sectors. Table I shows the sector wise profile of LSE-25 companies:

**Table I : Sector wise profile of LSE-25 (2006)**

| Sector | Firms | Firm-years |
|---|---|---|
| Banks | 7 | 35 |
| Oil/Gas/Power | 7 | 35 |
| Cement | 5 | 25 |
| Chemical/Fertilizer | 2 | 10 |
| Others | 4 | 20 |
| Total | 25 | 125 |

Almost 90% of trading by investors is done in LSE-25 index companies shows more interest of investors in these companies due to their profitability, solvency, dividend expectations and corporate image. They ultimately like to see, how their favorite firms contribute towards humanitarian and social cause. Considering the limitations of the availability of data and concern of investors with social performance of index companies, it was decided to focus the study on LSE-25 index companies for the year 2002-06. Listing of the LSE-25 changes each year. That was adjusted with the same level of company within the same industrial sector subject to the availability of data.

**5. Analysis and results:**

Determinants of corporate philanthropy were measured through multiple regression techniques with two moderating variables for each of the 5 years period. SPSS was used for analysis and results in whole of this study.

**TABLE II : DESCRIPTIVE STATISTICS (2006)**

| VARIABLES | N | MINIMUM | MAXIMUM | MEAN | STAND. |
|---|---|---|---|---|---|
| DONATION | 25 | 0 | 107819000 | 17168944 | 25825508 |
| EARNBTAX | 25 | -13215157000 | 65910000000 | 7635267619 | 15540202147 |
| ASSETS | 25 | 6198107892 | 635133000000 | 105055583010 | 138976317658 |
| ADVERTIS | 25 | 1102000 | 1737797000 | 150765785 | 359968706 |
| NUMEREMP | 25 | 16 | 61840 | 9696 | 15492 |
| SALARIES | 25 | 12130438 | 14700167000 | 2725801922 | 3689127196 |

*All variables stated in Pakistani Rupees other than number of employees.

Table II illustrates mean, minimum, maximum standard deviation for different dependent and independent variables. The mean of donations contributed by LSE-25 companies is Rs.17,168,944 with a range from zero to Rs.107,819,000 deposited by National Bank of Pakistan for President's Disaster Relief Fund for 2006 earthquake victims. That means LSE-25 companies contributed Rs.23 for every one thousand rupees gained through earnings before tax. Average earnings before tax and number of employees remained Rs.7,635,267,619 and 9696 respectively.

**5.1 Regression assumptions**

Regression assumptions were checked before running the model. Although time series data was not used during study, even then, Durbin Watson (D-W) test was applied to diagnose first order autocorrelation problem. D-W values trapped 1.34 to 2.82 using SPSS. As, D-W is considered closer to 2 in all situations, which concludes regression model is appropriate and there is no question to search alternative methods other than regression (Neter, 1996).

Problem of high correlation among independent variables was captured through drawing correlation matrix, which remained 0.2 to 0.66 among different variables and was treated below the harmful limits. Tabachnick and Fidell (1996) explain that 0.90 or greater bivariate correlation among independent variables indicates harmful multicollinearity. Table III, IV, V, VI and VII depict Variance Inflationary Factor (VIF), lesser than 8.0 in all cases indicating no multicollinearity. As, Snee (1973) suggests, lesser than 10.0 VIF does not require searching alternatives for regression. Variances at each level of independent variables were found homogeneous indicating no hetroscedasticity problem.

**Table III: Multiple regression results for the year 2006**

| $Y_{DON} = \beta_0 + \beta_1(EBT) + \beta_2(ASSET) + \beta_3(ADVERTISING) + \beta_4(NO.\ OF\ EMPLOYEES) + \beta_5(SALARIES\ EXP) + \varepsilon_i$ | | | | | |
|---|---|---|---|---|---|
| | **Beta** | **St. Error** | **t-Value** | **Sig.** | **VIF** |
| Intercept | 1008812 | 4691522.470 | | | |
| EARNBTAX | 0.0007231929363234 | 0.000 | 2.553 | 0.019** | 1.523 |
| ASSETS | 0.0000518048290516 | 0.000 | 1.646 | 0.116 | 1.534 |
| ADVERTIS | -0.01221642285881 | 0.015 | -0.817 | 0.424 | 2.245 |
| SALARIES | 0.002321207776519 | 0.002 | 1.413 | 0.174 | 2.967 |
| $R^2$ = 0.637 | Durbin-Watson=2.669 | | | | |
| F = 8.329 | Significance = 0.000*** | | | | |

** Significant at 0.05 level
*** Significant at 0.01 level
{ $\beta_4$(NO. OF EMPLOYEES) was dropped due to potential multicollinearity problem, having >10 VIF}

**Table IV : Multiple regression results for the year 2005**

| $Y_{DON} = \beta_0 + \beta_1(EBT) + \beta_2(ASSET) + \beta_3(ADVERTISING) + \beta_4(NO.\ OF\ EMPLOYEES) + \beta_5(SALARIES\ EXP) + \varepsilon_i$ | | | | | |
|---|---|---|---|---|---|
| | **Beta** | **St. Error** | **t-Value** | **Sig.** | **VIF** |
| Intercept | 604043 | 6805117.112 | | | |
| EARNBTAX | -0.000744396699757 | 0.001 | -0.619 | 0.547 | 5.536 |
| ASSETS | 0.0002508470222013 | 0.000 | 3.726 | 0.003 | 1.357 |
| ADVERTIS | 0.003722220694342 | 0.025 | 0.152 | 0.882 | 2.370 |
| NUMEREMP | -173.3981298883 | 888.210 | -0.195 | 0.848 | 6.095 |
| $R^2$ = 0.572 | Durbin-Watson = 1.982 | | | | |
| F = 4.351 | Significance = 0.019** | | | | |

** Significant at 0.05 level
{ $\beta_5$(SALARIES EXP) was dropped due to potential multicollinearity problem, having >10 VIF}

**Table V: Multiple regression results for the year 2004**

| $Y_{DON} = \beta_0 + \beta_1(EBT) + \beta_2(ASSET) + \beta_3(ADVERTISING) + \beta_4(NO.\ OF\ EMPLOYEES) + \beta_5(SALARIES\ EXP) + \varepsilon_i$ | | | | | |
|---|---|---|---|---|---|
| | **Beta** | **St. Error** | **t-Value** | **Sig.** | **VIF** |
| Intercept | 431422 | 741099 | | | |
| EARNBTAX | 0.0002108191708985 | 0.000 | 2.031 | 0.056* | 3.368 |
| ASSETS | -0.0000210222 | 0.000 | -3.943 | 0.001*** | 1.149 |
| ADVERTIS | 0.06994318198065 | 0.004 | 15.819 | 0.000*** | 1.269 |
| NUMEREMP | 209.35 | 94 | 2.216 | 0.038** | 3.431 |
| $R^2$ = 0.948 | Durbin-Watson = 2.380 | | | | |
| F = 90.968 | Significance = 0.000*** | | | | |

* Significant at 0.10 level
** Significant at 0.05 level
*** Significant at 0.01 level
{ $\beta_5$(SALARIES EXP) was dropped due to potential multicollinearity problem, having >10 VIF}

**Table VI : Multiple regression results for the year 2003**

| $Y_{DON} = \beta_0 + \beta_1(EBT) + \beta_2(ASSET) + \beta_3(ADVERTISING) + \beta_4(NO.\ OF\ EMPLOYEES) + \beta_5(SALARIES\ EXP) + \varepsilon_i$ | | | | | |
|---|---|---|---|---|---|
| | **Beta** | **St. Error** | **t-Value** | **Sig.** | **VIF** |
| Intercept | -1749227 | 1593205.638 | | | |
| EARNBTAX | -0.0001121934874019 | .000 | -.391 | .700 | 3.684 |
| ASSETS | -0.0000016019 | .000 | -.128 | .900 | 1.147 |
| ADVERTIS | .104 | .009 | 11.294 | .000*** | 1.153 |
| NUMEREMP | 258.22 | 211.553 | 1.221 | .238 | 3.972 |
| $R^2$ = 0.902 | Durbin-Watson = 2.828 | | | | |
| F = 41.437 | Significance = 0.000*** | | | | |

******* Significant at 0.01 level

{ $\beta_5$(SALARIES EXP) was dropped due to potential multicollinearity problem, having >10 VIF}

**Table VII : Multiple regression results for the year 2002**

| $Y_{DON} = \beta_0 + \beta_1(EBT) + \beta_2(ASSET) + \beta_3(ADVERTISING) + \beta_4(NO.\ OF\ EMPLOYEES) + \beta_5(SALARIES\ EXP) + \varepsilon_i$ | | | | | |
|---|---|---|---|---|---|
| | **Beta** | **St. Error** | **t-Value** | **Sig.** | **VIF** |
| Intercept | 1044263 | 1613176 | | | |
| ADVERTIS | 0.04029481373646 | .017 | 2.383 | .033** | 1.780 |
| NUMEREMP | 489.50 | 236.438 | 2.070 | .059* | 5.642 |
| SALARIES | -0.002014508734924 | .001 | -1.601 | .133 | 7.235 |
| $R^2$ = 0.427 | Durbin-Watson = 1.345 | | | | |
| F = 3.232 | Significance = 0.058* | | | | |

***** Significant at 0.10 level

****** Significant at 0.05 level

{ $\beta_1$(EBT) and $\beta_2$(ASSET) were dropped due to potential multicollinearity problem, having >10 VIF}

Table III, IV, V, VI and VII present the regression model summaries run for 2006-05-04-03-02. High coefficient of determination ($R^2$) in all 5 years shows strong power of intellectual capital in predicting the dependent variable, i.e. profitability of a firm. Explanatory power of regression equation over the 5 year period was 63.7%, 57.2%, 94.8%, 90.2% and 42.7%. The results are much significant than the study done by Williams (2003) who found explanatory power of 11%, and 27% while conducting the research on influence of women board members on corporate philanthropy. Further, Amato and Amato (2007) found $R^2$ 30% and 27% only through linear and cubic regression models while measuring the effect of firm size and industry on corporate giving. Significant and positive t-value of advertising expenses is consistent with Frey et al. (1982) who argue that advertising and corporate giving could be the part of strategic efforts by a firm to enhance its goodwill. Overall results although mixed but support the argument that all four determinants of corporate philanthropy used in this study have strong impact on donations of a firm suggesting a firm with high advertising expense, number of employees and earnings before tax would be more contributive in philanthropic activities.

**6. Findings and usefulness of the study:**

LSE-25 index companies are small in numbers but attract 90% trading of Lahore Stock Exchange. Most of the existing and potential investors in Lahore Stock Exchange would be interested to see the humanitarian performance of their favorite companies. Results show that more than 90% of LSE-25 index companies contribute to health, education and social initiatives and total philanthropic contributions are increasing over the 5 years period. Being a pioneering attempt to measure the determinants of corporate philanthropy, this paper would be a good source of reference for future research in Pakistani corporate sector. Managers of charitable institutions can find the determinants of corporate donations useful for target setting and fund raising campaign.

**7. Limitations**

Research is limited to LSE-25 index companies, which is important but small segment of corporate sector of Pakistan. LSE-25 companies are also structurally different than firms with lesser revenue. They have strong corporate structure which may truss them to contribute more in philanthropic activities which may reduce representativeness of the sample and generalization of findings. This study is limited to listed companies; because the data for non listed and private limited companies is not available publicly, it was not possible to include them in the study. Therefore the results of this study cannot be generalized to non-listed and private sector.

**8. Recommendations**

To enhance the corporate image in the eyes of stakeholders companies should have clear policy on corporate philanthropy. Secondly, Pakistani corporate sector should allocate at least 1% of their earnings before tax for education, health and social causes as practiced by many companies in USA and UK (Campbell et. al. 2002). Finally, to motivate the corporate sector towards social involvement, Federation of Pakistan Chamber of Commerce & Industry and Ministry of Social Welfare should recognize highest corporate philanthropists with awards and appreciations at national level.

**9. Future study**

Future study may include all listed companies of Pakistan to make the findings more robust. Possible correlation of size and advertising expenses with corporate donations should be further explored keeping in view the potential use of donations for corporate image building and competitive advantage.

## References


1. Amato, L.H. and Christie H. A. (2007). The effects of firm size and industry on corporate giving. *Journal of Business Ethics,* 72, 229-241.
2. Boatsman, J.R. and Gupta S. (1996). Taxes and Corporate Charity: Empirical Evidence from Micro Level Panel Data. *National Tax Journal*, 42(2), 193-213.
3. Brown, W.O., Helland. E. and Smith J.K. (2006). Corporate philanthropic practices. *Journal of Corporate Finance*, 12, 855-877.
4. Cambell, D., G. and Moore, M. M. (2002). Corporate Philanthropy in the U.K. 1985-2000: Some Empirical Findings. *Journal of Business Ethics*, 39, 29-41.
5. Fry, L.F., Keim G.D. and Meiners R.E. (1982). Corporate contributions: altruistic or for profit? *Academy of Management Journal*, 25(1), 94-106.
6. Govekar, M.A., Govekar, P.L., and Rishi, M. (2003). The effect of macroeconomic shocks on local corporate philanthropy, *Journal of Economics and Politics*, 15(1), 15-26.
7. Hess, D., Rogovsky N. and Dunmfee T.W. (2002). The Next Wave of Corporate Community Involvement: Corporate Social Initiatives. *California management Review*, 44(2), 110-125.
8. Kahn, F.S., (1997). Pandora's box; managerial discretion and the problem of corporate philanthropy. *UCLA Law Review*, 44, 579-676.
9. Kedia, B.L. and Kuntz E.C. (1981). The Context of Social Performance: An Empirical Study of Texas Banks. *Research in Corporate Social Performance & Policy* (3rd edition). Greenwich, JAI Press.
10. Maddox, K.E. (1981). Corporate Philanthropy (Unpublished Ph.D. Dissertation). USA: Vanderbilt University.
11. Maignan, I., Ferrell O.C. and Hunt G.T.M. (1999.) Corporate Citizenship: Cultural Antecedents and Business Benefits. *Journal of the Academy of Marketing Sciences,* 27(4), 455-469.
12. Millington, A., and Brammer, S., (2006). Firm Size, organizational visibility and corporate philanthropy: an empirical analysis. *Business Ethics: A European View*, 15(1), 6-18.
13. Neiheisel, S.R. (1994). *Corporate Strategy and the Politics of Goodwill*: A Political Analysis of Corporate Philanthropy in America (1st edition). New York: Peter Lang Publishing Inc.

14. Neter, J., Kutner, M.H., Nachtsheim, C.J. and Wasserman, W. (1996). *Applied Statistical Models* (4th edition). Illinois Homewood: Irwin Publishing Company.

15. Porter, M.E. and Kramer M.R. (2002). The Competitive Advantage of Corporate Philanthropy. *Harvard Business Review*, 80(12), 57-68

16. Roberts, R.W. (1992). Determinants of Corporate Social Responsibility Disclosure: An Application of Stakeholder Theory. *Accounting, Organization & Society*, 17(6), 595-612.

17. Saiia, D.H., Carroll, A.B. and Buchholtz, A.K. (2003). Philanthropy as strategy: when corporate chairyt begins at home. *Business and Society* 42(2), 169-202.

18. Seifert, B., Morris S.A. and Bartkus B.R. (2003). Comparing Big Givers and Small Givers: Financial Correlates of Corporate Philanthropy. *Journal of Business Ethics*, 45(3), 195-211

19. Snee, R.D. (1973). Some Aspects of Nonorthogonal Data Analysis: Developing Prediction Equations. *Journal of Quality Technology*, 5.

20. Tabachnick, B.G. and Fidell, LS. (1996). *Using Multiple Statistics* (1st edition), New York: Harper Collins Publishers.

21. Useem, M. (1988). Market and Institutional Factors in Corporate Contributions. *California Management Review*, 30(2), 77-88.

22. Waddock, S.A and Graves S.B. (1997). The Corporate Social Performance-Financial Performance Link. *Strategic Management Journal*, 18(4), 303-319.

23. Williams, R.J. (2003). Women on Corporate Boards of Directors and their Influence on Corporate Philanthropy. *Journal of Business Ethics*, 42, 1-10.

## Annexure I : List of companies included in the study

| Sr. | Company Name |
|---|---|
| 1 | Askari Commercial Bank Limited |
| 2 | Bank Alfalah Limited |
| 3 | Bosicor Pakistan Limited |
| 4 | D.G.Khan Cement Company Limited |
| 5 | Dewan Salman Fibres Limited |
| 6 | Fauji Cement Company Limited |
| 7 | Fauji Fetilizer Bin Qasim Limited |
| 8 | Faysal Bank Limited |
| 9 | Karachi Electricity Corporation Limited |
| 10 | Lucky Cement Limited |
| 11 | Maple Leaf Cement Factory Limited |
| 12 | MCB Bank Limited |
| 13 | National Bank of Pakistan Limited |
| 14 | Nishat Mills Limited |
| 15 | Oil and Gas Devlopment Corporation Limited |
| 16 | Pakistan Petroleum Limited |
| 17 | Pakistan State Oil Company Limited |
| 18 | Pakistan Telecommunication Corporation Limited |
| 19 | Pakistan Cement Company Limited |
| 20 | Pakistan PTA Limited |
| 21 | Pakistan International Airlines Corporation Limited (A) |
| 22 | PICIC Bank Limited |
| 23 | Sui Northern Gas Pipeline Limited |
| 24 | Sui Southern Gas Company Limited |
| 25 | The Bank of Punjab Limited |