

The Impact of Corporate Philanthropy on Firm Reputation A Comparative Study of GSK and Schazoo Zaka Pharmaceuticals, Peshawar

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Abstract

This research examines the relationship of firm reputation, sales and customers loyalty with the philanthropic practices. This study has focused on two pharmaceutical firms i.e. GSK and Schazoo Zaka from Peshawar, Pakistan. Research analyzed the involvement of these two pharmaceutical firms in philanthropic practices i.e. health and education. Results show that there is significant relationship between philanthropic practices and Schazoo Zaka reputation, sales and customers loyalty. The investments made by Schazoo Zaka in philanthropic practices i.e. health and education have brought positive effects on their company reputation, good financial performance and attracted customers loyalty. On the other hand, there is an insignificant relationship between philanthropic practices and GSK reputation, sales and customers loyalty. In addition, the charitable contributions made by GSK have not brought enough good effects on their image in the eyes of stake holders. Furthermore, a neutral effect is founded on GSK revenue and customers loyalty.

Key Words: Corporate Philanthropy, Sale, Reputation, Customer Loyalty

Introduction

Philanthropy is very old concept which has been derived from the Greek language. Later on this concept is adopted by the corporate firms and business. Corporate philanthropy has an imported role in business environment and help firm to achieve strategic goals and objectives. According to the concept of corporate philanthropy, the businesses sacrifice its part of its wealth from the profit to serve the humanity. An

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attempt is made to help societies and provide benefits in different ways by corporation i.e. providing free education, helping the people in natural disasters, free health facilities etc are the areas where the societies are benefited.

According to Marx (1998) corporate philanthropy is the process by which contributions are targeted to meet both business objectives and recipient needs.

Studies claim that corporate charitable contributions are significantly associated with future revenue, and also a positive relationship is documented between the corporate spending and customer satisfaction (Lev et al. 2008). It is also reported that the role of corporate philanthropy is getting high especially in low developed countries because of high poverty and unemployment exist, the corporations improve their life standard by contributing in charity (Baskin, 2008).

According to Crane et al, (1905) corporations have been addressing the issue of philanthropy for the past two hundred years, but it was not until the twentieth century that the nature of corporate philanthropy came under close scrutiny. In 1970 Friedman wrote that the only “social responsibility of business is to increase its profits, the corporation is an instrument of the stockholders who own it. If the corporation makes a contribution, it prevents the individual stockholder himself deciding how he should dispose of his funds.” Friedman views reflect what has become known as the shareholder model, which argues that firms must either direct all funds to profit-maximizing ventures or return excess funds to shareholders. When a company takes the prerogative to engage in philanthropy, it uses money that should be returned to shareholders to decide how to distribute that money (if at all). That company’s management is “spending someone else’s money.” It is the shareholders who should individually decide whether or not to use their funds to contribute to a particular entity.

Brown et al, (2006) discussed different philanthropic practices and on the basis of those practices, they concluded different effects of corporate giving firms. The first conclusion they draw that is corporate giving increases shareholders value. Furthermore, they believe that investment in charity will result good firms reputation, it will also create goodwill with customers, employees and other regulatory bodies. Which means that the more you will invest in philanthropy, the more you will get good image in the eyes of stakeholders.

Bae and Cameron (2006) described in their study that companies or its public relations professionals should re-establish and maintain good image before investing in any public relations campaign. It is important for a company and its public relation management to have a good image,

good reputation in eyes of public. Furthermore, it is also stated that if the company is having bad image in the eyes of public and still the company is investing in philanthropy, the investments is useless. If the company is having bad image in the eyes of public, public relations professional of a respective company should conduct reputation audit in order to know about the reasons of poor reputation. Furthermore, their results show that investing in public relations campaign is an effective communication strategy with aim to accomplish good feedback from the public Godfrey, P. C. (2005).

Elfenbein et al (2011) conduct a survey on eBay sellers and find a significant relationship between charity and reputation. Consumers respond more to those products which are tied to charity. It is stated in their research that linking product sales to charitable contributions have resulted more benefits for the eBay sellers. Furthermore, it is also concluded that yet those consumers who are not getting any return of making donations in charity, such customers still prefer to purchase goods from charitable tied products or charitable tied sellers.

Corporate philanthropy is used as a tool by the firms in order to achieve the economic goals and objectives. Some company uses this tool to achieve the growth revenue and some uses it to achieve the good reputation in the eyes of stake holders. (Levy et al, 2008) concluded in his research that charitable contributions are significantly associated with the future revenue. The association between charitable contributions as at its best. Furthermore, a positive relation is documented between the charitable giving and customer satisfaction. The analysis supported conclusion that charitable contribution by US companies enhance future revenue growth. The corporate giving is more effective in the consumers sector i.e. retailers and financial sectors. Meaning to say if the charitable contribution is spend on the consumer sector it will be more beneficial for the revenue growth Miller, J. I. (2011).

Baskin (2008) reported in his research about the CSR level and its extent in the global market Customer relationship is getting high in developing countries as compared to the developed countries further more, the over all take up of CR is not less in emerging markets then there is the developed market economies.

Methodology

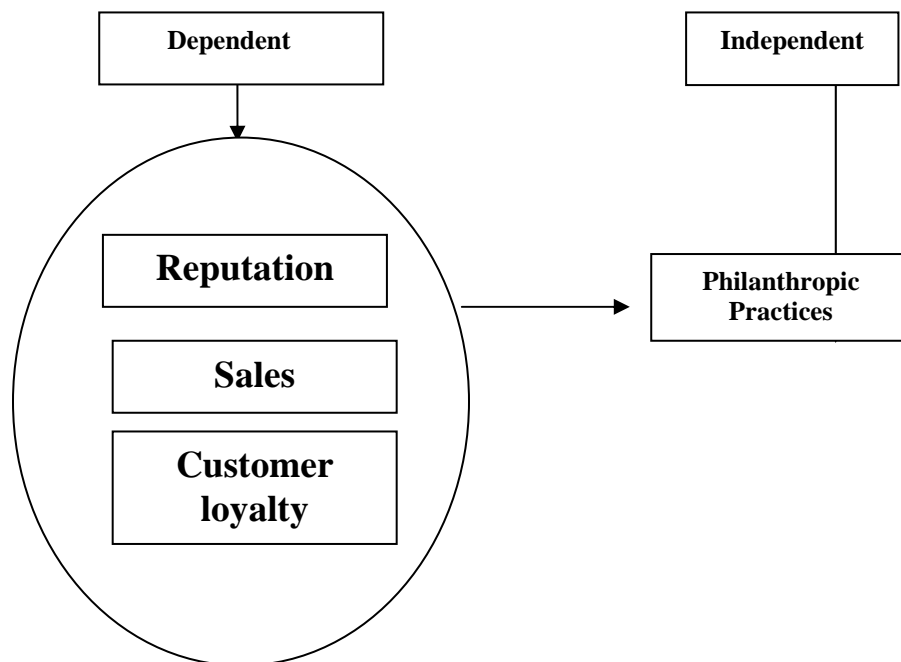
As this research is focused on the GSK Peshawar and Schazoo Zaka Peshawar, which is a pharmaceutical company. So GSK Peshawar and Schazoo Zaka Peshawar is the sample size, from where through probability sampling 80 employees are selected randomly for data collection.

The Likert scale questionnaire is designed for collecting the data from the mentioned organizations i.e. GSK Peshawar and Schazoo Zaka Peshawar, Pakistan. Furthermore, this questionnaire is distributed among the employees of both organizations.

The number of participants who contacted was 80. For data collection 40 employees of GSK and 40 employees of Schazoo Zaka were contacted. The response from respondent was 100% and regression and correlation analysis is conducted on mentioned sample size.

Theoretical Frame work of the study

There are two variables discussed in this study, i.e. independent and dependent variables. The below figure shows the variables inside the figure i.e. sale, reputation, and customer loyalty are dependent upon Philanthropic practices.



The theoretical frame work of the study includes all those variables that are identified along with co-relation after applying the statistical tools. The sales, reputation and customer loyalty of GSK and Schazoo Zaka, are the dependent variables of this study. In contrast the independent variable is the philanthropic practices of GSK and Schazoo Zaka. Study identified the relationship among above variables. On the basis of these variables

comparison was made for the contributions of both firm. Finally, on these grounds a conclusion and recommendations is provided. .

Reliability of Scale (GSK and Schazoo Zaka):

The below table shows the reliability of the data collected from the both firms. The following scales show that the data collected GSK and Schazoo Zaka is reliable and respondents answered accurately. Because the variables are exceeding from 70% which is the standard of acceptance for reliability.

Table I-A:

GSK		
S.No	Variables	Cronbach's Alpha
1	Philanthropic Practices	0.725
2	Reputation	0.797
3	Sales	0.959
4	Customers Loyalty	0.823
Schazoo Zaka		
1	Philanthropic Practices	0.845
2	Reputation	0.792
3	Sales	0.875
4	Customers Loyalty	0.730

The above table calculations suggest that the responses given by GSK and Schazoo Zaka employees are reliable.

Hypotheses of the study and Regression Analysis

An overview of the hypothesis related to the relationship among philanthropic practices with firms reputation, sale and customer loyalty. In order to test the hypothesis of the study three regression equations were developed along with three hypotheses for each firm. In case of GSK there is insignificant relationship between the philanthropy and following hypothesis. On the other hand in case of Schazoo Zaka there is significant relationship between the philanthropy and following hypothesis.

Hypothesis 1:

Ho: There is no effect of corporate philanthropy on GSK and Schazoo Zaka reputation.

H1: Effects of corporate philanthropy exists on the GSK and Schazoo Zaka firm reputation.

Hypothesis 2:

Ho: Corporate philanthropy does not enhance the sale of GSK and Schazoo Zaka.

H1: Corporate philanthropy enhances the sale of GSK and Schazoo Zaka.

Hypothesis 3:

Ho: Corporate philanthropy does not create loyalty with customers.

H1: Corporate philanthropy creates loyalty with customers.

Table 1 Regression Results for Variables of the study

GSK								
S.No	Dependent Variables	Independent variable	Adjusted R square	F	B	St. Error	T	P. Value
1	Reputation	Philanthropic Practices	-0.49	0.118	0.86	0.250	0.343	0.735
2	Sale	Philanthropic Practices	-0.08	0.849	0.270	0.293	0.922	0.369
3	Customer Loyalty	Philanthropic Practices	0.110	3.360	0.448	0.244	1.833	0.83
Schazoo Zaka								
1	Reputation	Philanthropic Practices	0.407	9.913	0.897	0.285	3.149	0.008
2	Sale	Philanthropic Practices	0.402	11.801	1.048	0.315	3.329	0.005
3	Customers Loyalty	Philanthropic Practices	0.540	17.439	0.514	0.123	4.176	0.001

Table 1 above shows significance and insignificance relationship between the dependent and independent variables. It explains that the GSK data has an insignificant relationship between philanthropic practices and reputation, sale and customer loyalty. On the other hand the Schazoo Zaka has the significant relationship between philanthropic practices and reputation, sale and customer loyalty.

Table 1 shows that the overall model is highly insignificant for GSK pharmaceuticals. There is a insignificant relationships exists between GSK Philanthropic Practices and reputation (t-statistic = 0.343 and P-value= 0.735) which means Philanthropic Practices don't have any impact on GSK reputation. There is insignificant relationship between GSK Philanthropic Practices and sale (t-statistic = 0.922 and P-value=

0.369). An insignificant relationship exists between GSK Philanthropic Practices and customer loyalty (t-statistic = 4.176 and P-value= 0.83). Table 1 above shows that the overall model for Schazoo Zaka pharmaceuticals is highly significant. There is a significant relationship between Schazoo Zaka Philanthropic Practices and reputation (t-statistic = 3.149 and P-value= 0.008) which mean Schazoo Zaka Philanthropic Practices increase its reputation. There is a positive relationship between Schazoo Zaka Philanthropic Practices and sale (t-statistic = 3.329 and P-value= 0.005). Similarly Schazoo Zaka Philanthropic Practices increase customer loyalty. There is a positive relationship between Schazoo Zaka Philanthropic Practices and customer loyalty (t-statistic = 4.176 and P-value= 0.001).

Hence the above result shows that the Schazoo Zaka invest more in philanthropy therefore Schazoo zaka believe on philanthropic practices and using it as a tool for gaining customer loyalty, increasing sale and enhancing the firm reputation in the eyes of stake holders.

Correlation Analysis

To check the presence of relationship amongst the explanatory variables and explore the strength of associations between the variables, different guidelines have been suggested by statistician and they classify the strength of association between variables.

Table 2 Correlation Analysis for Variables of the study

GSK				
S.No	Dependent Variables	Independent variable	r	R Square
1	Reputation	Philanthropic Practices	0.081	0.007
2	Sale	Philanthropic Practices	0.212	0.45
3	Customers Loyalty	Philanthropic Practices	0.397	0.157
Schazoo Zaka				
1	Reputation	Philanthropic Practices	0.673	0.452
2	Sale	Philanthropic Practices	0.665	0.442
3	Customers Loyalty	Philanthropic Practices	0.757	0.573

As shown in table 2, there is weak association between GSK Philanthropic Practices and reputation with correlation coefficient ($r = 0.081$).

Survey demonstrates that there is a weak relationship between GSK Philanthropic Practices and sale with Correlation coefficient ($r = 0.212$).

For GSK Philanthropic Practices and customer loyalty correlation coefficient is ($r = .397$) which is low. Which mean that Philanthropic Practices of GSK has a lesser influence on customer loyalty.

As shown in table 2, there is moderate association between Schazoo Zaka Philanthropic Practices and reputation with correlation coefficient ($r = .673$).

Survey demonstrates that there is a moderate relationship between Schazoo Zaka Philanthropic Practices and sale Correlation coefficient ($r = .665$).

For Schazoo Zaka Philanthropic Practices and customer loyalty correlation coefficient is ($r = .757$) which is high in comparison of other two variables. Which mean that Philanthropic Practices of Schazoo Zaka has a greater influence on customer loyalty.

Conclusion

To achieve the economic objectives, enhance positive image in the eyes of stake holders is the integral part of every profitable firm. (Levy et al, 2008) concluded in his research that charitable contributions are significantly associated with the future revenue. Keeping the view of Levy this statement which he stated in his research, therefore it is important for the management to invest in the philanthropy to achieve the desired economic, social image objectives in the market.

Research finds that there is an insignificant relationship between the dependent variables and independent variables in GSK. Meaning to say that the dependent variables i.e. sales, reputation and customer's loyalty are not affected by the philanthropic practices i.e. On the other hand research finds a significant relationship between the dependent variables and independent variables in Schazoo Zaka. This mean that Schazoo Zaka is getting positive response of what they are contributing in the field of philanthropy. Furthermore, on the basis of research calculation, it has been found that the most prominent variable which is contributing most for the Schazoo Zaka that is Customer loyalty and the second most prominent variable is Reputation.

Furthermore, this research also assessed the philanthropic practices of both the firms. Both companies were claiming that they are contributing in the philanthropy. But when research conducted, it is

analyzed co-relationship between philanthropic practices and the dependent variables, shows different picture. On paper GSK management is claiming that yes they are contributing in philanthropy but here the results are totally different. It is concluded that GSK is not contributing in philanthropy and therefore, they are not getting reward in terms of revenues, image and customers loyalty. On the other hand, Schazoo Zaka management seems satisfied of their philanthropic investments. They are getting the benefit of their investments in the field of firm revenues, image and customers loyalty.

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